NAVIGANT CONSULTING INC
Form 10-Q
July 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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

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

(Address of principal executive offices, including zip code)

(312) 573-5600

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 26, 2012, 51,595,695 shares of the registrant s common stock, par value $.001 per share, were outstanding.

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NAVIGANT CONSULTING, INC.

AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2012

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Forward-Looking Statements

Statements included in this report which are not historical in nature are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as anticipate, believe, intend, estimate, expect, outlook and similar expressions. We caution readers that there may be events in the future that we are not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the factors described in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report. We cannot guarantee any future results, levels of activity, performance or achievement, and we undertake no obligation to update any of the forward-looking statements contained in this report.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$	$ 2,969
Accounts receivable, net	205,213	179,041
Prepaid expenses and other current assets	30,538	22,766
Deferred income tax assets	13,008	16,229
Total current assets	248,759	221,005
Non-current assets:		
Property and equipment, net	42,472	41,138
Intangible assets, net	13,490	16,825
Goodwill	570,872	570,280
Other assets	25,513	25,953
Total assets	$ 901,106	$ 875,201
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,719	$ 16,261
Accrued liabilities	10,555	8,432
Accrued compensation-related costs	57,889	95,451
Income tax payable		3,558
Other current liabilities	34,130	32,622
Total current liabilities	119,293	156,324
Non-current liabilities:		
Deferred income tax liabilities	62,633	52,964
Other non-current liabilities	17,116	20,445
Bank debt non-current	167,656	131,790
Total non-current liabilities	247,405	205,199
Total liabilities	366,698	361,523
Stockholders equity:		
Common stock	62	61
Additional paid-in capital	575,895	567,627
Treasury stock	(207,112)	(197,602)
Retained earnings	177,571	156,373

Accumulated other comprehensive loss	(12,008)	(12,781)
Total stockholders equity	534,408	513,678
Total liabilities and stockholders equity	$ 901,106	$ 875,201

See accompanying notes to the unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Revenues before reimbursements	$ 181,529	$ 173,293	$ 367,909	$ 342,897
Reimbursements	23,071	21,115	43,312	40,310
Total revenues	204,600	194,408	411,221	383,207
Cost of services before reimbursable expenses	122,243	116,822	246,203	231,637
Reimbursable expenses	23,071	21,115	43,312	40,310
Total costs of services	145,314	137,937	289,515	271,947
General and administrative expenses	35,848	31,143	71,405	63,552
Depreciation expense	3,740	3,206	7,256	6,583
Amortization expense	1,650	2,163	3,375	4,464
Other operating costs:				
Contingent acquisition liability adjustment	620		620	
Operating income	17,428	19,959	39,050	36,661
Interest expense	1,426	1,911	2,889	3,751
Interest income	(181)	(429)	(419)	(796)
Other expense (income), net	(144)	72	(39)	36
Income before income tax expense	16,327	18,405	36,619	33,670
Income tax expense	6,771	7,645	15,421	14,132
Net income	$ 9,556	$ 10,760	$ 21,198	$ 19,538
Basic net income per share	$ 0.19	$ 0.21	$ 0.42	$ 0.39
Shares used in computing net income per basic share	51,112	50,820	51,072	50,498
Diluted net income per share	$ 0.18	$ 0.21	$ 0.41	$ 0.38
Shares used in computing net income per diluted share	51,685	51,270	51,741	51,153
Other comprehensive income, net of tax				
Net income	$ 9,556	$ 10,760	$ 21,198	$ 19,538
Unrealized (loss) gain, foreign currency translation	(2,560)	(2)	712	3,591
Unrealized net (loss) gain on interest rate derivatives, net of income taxes	(12)	80	61	212
Comprehensive income	$ 6,984	$ 10,838	$ 21,971	$ 23,341

See accompanying notes to the unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 21,198	$ 19,538
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	7,256	6,583
Amortization expense	3,375	4,464
Share-based compensation expense	4,939	4,133
Accretion of interest expense	274	529
Deferred income taxes	11,484	11,313
Allowance for uncollectible accounts receivable	3,053	3,028
Contingent acquisition liability adjustment	620	
Changes in assets and liabilities (net of acquisitions):		
Accounts receivable	(29,134)	(13,962)
Prepaid expenses and other assets	(5,196)	(4,745)
Accounts payable	449	889
Accrued liabilities	2,121	(217)
Accrued compensation-related costs	(37,544)	(11,751)
Income taxes payable	(2,852)	(2,266)
Other liabilities	3,292	(3,577)
Net cash (used in) provided by operating activities	(16,665)	13,959
Cash flows from investing activities:		
Purchases of property and equipment	(10,979)	(3,401)
Acquisitions of businesses, net of cash acquired		(1,046)
Payments of acquisition liabilities	(1,106)	(10,217)
Other, net	(1,211)	(225)
Net cash used in investing activities	(13,296)	(14,889)
Cash flows from financing activities:		
Issuances of common stock	2,127	1,050
Repurchase of common stock	(7,260)	
Payments of contingent acquisition liabilities	(2,801)	
Payment upon termination of credit agreement		(250,613)
Proceeds from new credit agreement		250,613
Net borrowings from banks	36,000	6,432
Payments of term loan		(4,599)
Payments of debt issuance costs		(2,814)
Other, net	(1,039)	(839)
Net cash provided by (used in) financing activities	27,027	(770)
Effect of exchange rate changes on cash and cash equivalents	(35)	103
Net decrease in cash and cash equivalents	(2,969)	(1,597)
Cash and cash equivalents at beginning of the period	2,969	1,981

Cash and cash equivalents at end of the period	$	0	$	384

See accompanying notes to the unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Navigant Consulting, Inc. (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. Our professional service offerings include dispute, investigative, economic, operational, risk management and financial and regulatory advisory solutions. We provide our services to companies, legal counsel and governmental agencies facing the challenges of uncertainty, risk, distress and significant change. We provide services to and focus on industries undergoing substantial regulatory or structural change and on the issues driving these transformations. Our business is organized in four reporting segments Disputes, Investigations & Economics; Financial, Risk & Compliance Advisory; Healthcare; and Energy; which were realigned in the second quarter of 2012. See Note 3 Segment Information.

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

The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2012.

These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2011 included in our Annual Report on Form 10-K filed with the SEC on February 17, 2012.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and the related notes. Actual results could differ from those estimates and may affect future results of operations and cash flows. We have evaluated events and transactions occurring after the balance sheet date and prior to the date of this filing. We believe there are no such events or transactions that require disclosure for this filing.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance which requires public entities to increase the prominence of other comprehensive income in financial statements. Under FASB Topic 220 Presentation of Comprehensive Income, an entity will have the option to present the components of net income and comprehensive income in either one continuous or two financial statements. This update eliminates the option to present other comprehensive income in the statement of changes in equity. This update is effective for fiscal years and interim periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012 and elected to present the components of net income and comprehensive income in one continuous financial statement.

2. ACQUISITIONS

2011 Acquisitions

On July 15, 2011, we acquired the assets of Ignited Solutions, LLC to expand our technology advisory solutions services. Ignited was a discovery services consulting group specializing in electronic discovery data collection, data processing and data hosting. This acquisition included 27 professionals and has been integrated into our Disputes, Investigations & Economics segment. We paid $6.3 million in cash at closing, and Ignited can earn up to $3.0 million of additional payments based on the business achieving certain performance targets over the 30 months after closing. We estimated the fair value of the contingent consideration on the date of purchase to be $2.6 million. The liability was recorded as other current and non-current liabilities. During the six months ended June 30, 2012, we settled $1.0 million of the contingent consideration and recorded $0.4 million of other operating costs reflecting a fair value adjustment of the contingent consideration. At June 30, 2012 the deferred contingent acquisition liability balance was $2.0 million (See Note 8 Supplemental Consolidated Balance Sheet Information). As part of the purchase price allocation, we recorded $1.2 million in accounts receivable, $0.5 million in property and equipment, $1.5 million in identifiable intangible assets and $5.8 million in goodwill. The purchase price paid in cash at closing was funded with borrowings under our credit facility.

Also, during 2011, we acquired two small businesses, one in May 2011 and one in October 2011, for an aggregate purchase price of $4.6 million, of which $2.9 million was paid in cash at closing. One of the acquired businesses was integrated into our Disputes, Investigations &

Economics segment and the other was integrated into our Healthcare segment.

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Pro Forma Information

The following supplemental unaudited pro forma financial information was prepared as if the 2011 acquisitions noted above had occurred as of the beginning of the periods presented. The following table was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future (amounts shown in thousands, except per share data).

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Total revenues	$ 204,600	$ 197,417	$ 411,221	$ 389,773
Net income	$ 9,556	$ 11,105	$ 21,198	$ 20,319
Basic net income per share	$ 0.19	$ 0.22	$ 0.42	$ 0.40
Diluted net income per share	$ 0.18	$ 0.22	$ 0.41	$ 0.40

3. SEGMENT INFORMATION

During the three months ended March 31, 2012, Julie M. Howard was named our Chief Executive Officer (CEO). As CEO, Ms. Howard fills the role of chief operating decision maker (CODM). Under her direction, a strategic realignment of the firm s practices occurred during the second quarter of 2012, establishing four new operating and reportable segments that each report to a newly created Executive Vice President position. Our performance will be assessed and resources will be allocated by the CODM based on the following four reportable segments:

Disputes, Investigations & Economics

Financial, Risk & Compliance Advisory

Healthcare

Energy

The changes combine practices that serve comparable client types and address similar business issues and industry dynamics. The new segment reporting structure provides shareholders and other users of our financial statements with more useful information about several of our key growth businesses, particularly Energy and Healthcare. Finally, the segment realignment represents a shift in overall management of the practices to a global management model, positioning practice leaders to be accountable for the operations and performance of their teams across borders while leveraging local leadership to drive effectiveness.

	CURRENT			
	Disputes, Investigations & Economics	**Financial, Risk & Compliance Advisory**	**Healthcare**	**Energy**
Dispute & Investigative Services	Disputes & Investigations	Global		
		Investigations & Compliance		
	Construction			
		Financial	Healthcare	Energy

Business Consulting Services	Claims management	Services	
		Valuation & Financial Risk Management	
		Restructuring	
Economic Consulting	Economics		
International Consulting	Disputes & Investigations	Financial Services	Energy
	Construction		
	Public Services		

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The **Disputes, Investigations & Economics** segment provides accounting, financial and economic analysis, as well as discovery support, data management and analytics, on a wide range of legal and business issues including disputes, investigations and regulatory matters. The clients of this segment are principally companies, along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

The **Financial, Risk & Compliance Advisory** segment provides strategic, operational, valuation, risk management, investigative and compliance consulting to clients in the highly regulated financial services industry, including major financial and insurance institutions. This segment also provides anti-corruption and restructuring consulting to clients in a broad variety of industries.

The **Healthcare** segment provides strategic, operational, management and financial advisory services to health systems, physician practice groups, payers and life sciences companies.

The **Energy** segment provides existing and prospective owners of energy supply and delivery assets with the ability to evaluate, plan, develop, and enhance their entities in concert with evolving market and regulatory structures. Clients include utilities, independent power producers, financial entities, law firms, regulators, and energy equipment providers.

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 costs of services excluding long-term compensation expense attributable to consultants. Long-term compensation expense attributable to consultants includes share-based compensation expense and compensation expense attributed to retention incentives (see Note 7 Share-based Compensation Expense and Note 8 Supplemental Consolidated Balance Sheet Information).

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Prior period segment data has been recast to be consistent with the current presentation.

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

	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011	
Revenues before reimbursements:					
Disputes, Investigations & Economics	$ 81,350	$ 86,140	$ 172,569	$ 170,937	
Financial, Risk & Compliance Advisory	42,800	33,134	80,030	63,969	
Healthcare	36,022	32,041	72,564	65,597	
Energy	21,357	21,978	42,746	42,394	
Total revenues before reimbursements	$ 181,529	$ 173,293	$ 367,909	$ 342,897	
Total Revenues:					
Disputes, Investigations & Economics	$ 86,894	$ 95,472	$ 183,983	$ 186,945	
Financial, Risk & Compliance Advisory	52,847	37,408	96,675	73,565	
Healthcare	40,839	36,102	81,765	73,270	
Energy	24,020	25,426	48,798	49,427	
Total revenues	$ 204,600	$ 194,408	$ 411,221	$ 383,207	
Segment operating profit:					
Disputes, Investigations & Economics	$ 27,995	$ 31,191	$ 62,163	$ 60,499	
Financial, Risk & Compliance Advisory	15,402	11,136	29,157	21,378	2/14 at 100.00 N/R 758,158

	Lien Bonds, Series 2001A, 7.875%, 7/01/25			
1,500	Goodyear, Arizona, Community Facilities General District 1, Arizona, General Obligation Refunding Bonds, Series 2013,	No Opt. Call	A–	1,643,400

	5.000%, 7/15/23			
	Government of Guam, Business Privilege Tax Bonds, Series 2011A:			
510	5.000%, 1/01/31	1/22 at 100.00	A	522,934
200	5.125%, 1/01/42	1/22 at 100.00	A	199,548
1,500	Government of Guam, Business Privilege Tax Bonds, Series 2012B-1, 5.000%, 1/01/37	1/22 at 100.00	A	1,473,720
2,280	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006-1, 5.000%, 8/01/22 – NPFG Insured	8/16 at 100.00	AA–	2,514,179
1,550	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 – NPFG Insured	8/16 at 100.00	A1	1,692,445
250	La Paz County, Arizona, Excise Tax Revenue Bonds, Judgement Series 2011A, 4.750%, 7/01/36	7/17 at 100.00	AA–	251,628
1,425	Marana, Arizona, Pledged Excise Tax Revenue Bonds, Refunding Series 2013, 5.000%, 7/01/33	7/23 at 100.00	AA	1,477,697
3,069	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006,	7/16 at 100.00	A2	3,083,915

	4.600%, 1/01/26			
680	Marley Park Community Facilities District, City of Surprise, Arizona, Limited Tax General Obligation Bonds, Series 2008 (Bank Qualified), 6.100%, 7/15/32	7/17 at 100.00	N/R	626,715
1,160	Merrill Ranch Community Facilities District 1, Florence, Arizona, General Obligation Bonds, Series 2008A, 7.400%, 7/15/33	7/18 at 100.00	N/R	1,210,228
2,175	Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 – AMBAC Insured	7/14 at 100.00	N/R	2,202,536
300	Page, Arizona, Pledged Revenue Bonds, Refunding Series 2011, 5.000%, 7/01/26	7/21 at 100.00	AA–	323,742
1,500	Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31	7/16 at 100.00	N/R	1,297,065
1,000	Palm Valley Community Facility District 3, Goodyear, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.800%, 7/15/32	7/17 at 100.00	N/R	890,340
400	Parkway Community Facilities District 1, Prescott Valley,	7/16 at 100.00	N/R	340,548

	Arizona, General Obligation Bonds, Series 2006, 5.350%, 7/15/31			
1,000	Phoenix Civic Improvment Corporation, Arizona, Transit Excise Tax Revenue Refunding Bonds, Light Rail Project, Series 2013, 5.000%, 7/01/20	No Opt. Call	AA	1,179,270
2,500	Phoenix Industrial Development Authority, Arizona, Education Facility Revenue Bonds, JMF-Higley 2012 LLC Project, Series 2012, 5.000%, 12/01/36	No Opt. Call	A+	2,516,200
580	Phoenix Mesa Gateway Airport Authority, Arizona, Special Facility Revenue Bonds, Mesa Project, Series 2012, 5.000%, 7/01/38 (Alternative Minimum Tax)	7/22 at 100.00	AA+	552,386
2,560	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 – ACA Insured	2/14 at 100.00	BBB–	2,562,022
1,140	Pinetop Fire District of Navajo County, Arizona, Certificates of Participation, Series 2008,	6/16 at 102.00	A3	1,173,516

	7.750%, 6/15/29			
300	Pronghorn Ranch Community Facilities District, Prescott Valley, Arizona, General Obligation Bonds, Series 2004, 6.400%, 7/15/29	7/14 at 100.00	N/R	300,336
275	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24	2/14 at 100.00	BBB–	205,791
2,000	Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue Bonds, First Subordinate Series 2009A, 0.000%, 8/01/32	8/26 at 100.00	A+	1,483,040
500	Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue Bonds, First Subordinate Series 2010A, 5.375%, 8/01/39	2/20 at 100.00	A+	378,305
4,300	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 – SYNCORA GTY Insured	7/15 at 100.00	A+	4,392,364
3,000	Scottsdale Municipal Property Corporation, Arizona, Excise Tax Revenue Bonds, Refunding	No Opt. Call	AAA	3,558,810

	Series 2006, 5.000%, 7/01/24			
5,000	Scottsdale Municipal Property Corporation, Arizona, Excise Tax Revenue Bonds, Water & Sewer Improvements Project, Series 2010, 5.000%, 7/01/36	7/20 at 100.00	AAA	5,310,699
1,570	Tartesso West Community Facility District, Buckeye, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.900%, 7/15/32	7/17 at 100.00	N/R	1,399,090
2,000	Tempe, Arizona, Transit Excise Tax Revenue Obligation Bonds, Refunding Series 2012, 5.000%, 7/01/37	7/22 at 100.00	AAA	2,087,900
1,750	Virgin Islands Public Finance Authority, Matching Fund Loan Notes Revenue Bonds, Senior Lien Series 2010A, 5.000%, 10/01/29	10/20 at 100.00	BBB	1,746,098
3,145	Vistancia Community Facilities District, Peoria, Arizona, General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100.00	A1	3,225,449
1,597	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds,	7/16 at 100.00	N/R	1,586,955

	Series 2005, 6.000%, 7/01/30			
1,000	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100.00	N/R	864,230
61,271	Total Tax Obligation/Limited			61,583,411
	Transportation – 2.7% (1.8% of Total Investments)			
180	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Airport Revenue Bonds, Series 2010A, 5.000%, 7/01/40	7/20 at 100.00	A+	181,499
	Phoenix Civic Improvement Corporation, Arizona, Senior Lien Airport Revenue Bonds, Refunding Series 2013:			
1,785	5.000%, 7/01/30 (Alternative Minimum Tax)	7/23 at 100.00	AA–	1,855,222
2,215	5.000%, 7/01/32 (Alternative Minimum Tax)	7/23 at 100.00	AA–	2,276,068
4,180	Total Transportation			4,312,789
	U.S. Guaranteed – 8.9% (6.0% of Total Investments) (5)			
3,000	Glendale Western Loop 101 Public Facilities Corporation, Arizona, Third Lien Excise Tax	1/14 at 100.00	AA (5)	3,016,200

	Revenue Bonds, Series 2008B, 6.250%, 7/01/38 (Pre-refunded 1/01/14)			
1,250	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Refunding Bonds, Samaritan Health Services, Series 1990A, 7.000%, 12/01/16 – NPFG Insured (ETM)	No Opt. Call	N/R (5)	1,381,838
1,000	Maricopa County Unified School District 11, Peoria, Arizona, General Obligation Bonds, Second Series 2005, 5.000%, 7/01/20 (Pre-refunded 7/01/15) – FGIC Insured	7/15 at 100.00	AA– (5)	1,074,860
100	Maricopa County Unified School District 89, Dysart, Arizona, General Obligation Bonds, Series 2004B, 5.250%, 7/01/20 (Pre-refunded 7/01/14) – AGM Insured	7/14 at 100.00	AA– (5)	103,010
615	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 (Pre-refunded 7/01/16) – NPFG Insured	7/16 at 100.00	AA (5)	686,857
1,575	Maricopa County Union High School	7/14 at 100.00	AA (5)	1,620,092

	District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 (Pre-refunded 7/01/14) – AGM Insured			
655	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16 (Pre-refunded 4/01/15)	4/15 at 100.00	N/R (5)	696,468
3,400	Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2005, 5.000%, 7/01/24 (Pre-refunded 7/01/15) – AGM Insured	7/15 at 100.00	AA (5)	3,651,124
630	Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 – FGIC Insured (ETM)	No Opt. Call	Aa2 (5)	731,550
1,335	Puerto Rico Electric Power Authority, Power Revenue Refunding Bonds, Series 1989O, 0.000%, 7/01/17 – NPFG Insured (ETM)	No Opt. Call	A (5)	1,187,256
13,560	Total U.S. Guaranteed			14,149,255
	Utilities – 19.7% (13.3% of Total Investments)			
1,495	Apache County Industrial Development Authority, Arizona, Pollution Control	3/22 at 100.00	BBB	1,390,320

	Revenue Bonds, Tucson Electric Power Company, Series 20102A, 4.500%, 3/01/30			
	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001:			
1,000	5.250%, 10/01/15	No Opt. Call	AA	1,088,570
1,500	5.250%, 10/01/17	No Opt. Call	AA	1,741,020
4,310	Maricopa County Pollution Control Corporation, Arizona, Pollution Control Revenue Refunding Bonds, Southern California Edison Company, Series 2000A, 5.000%, 6/01/35	6/20 at 100.00	A1	4,420,594
370	Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 – FGIC Insured	No Opt. Call	Aa2	427,927
3,335	Pima County Industrial Development Authority, Arizona, Revenue Bonds, Tucson Electric Power Company, Refunding Series 2008, 5.750%, 9/01/29	1/15 at 100.00	BBB	3,393,329
1,800	Pinal County Electrical District 3, Arizona, Electric System Revenue	7/21 at 100.00	A	1,863,666

	Bonds, Refunding Series 2011, 5.250%, 7/01/36			
2,170	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 – SYNCORA GTY Insured	7/15 at 100.00	BBB	1,574,400
2,000	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2005A, 5.000%, 1/01/35	No Opt. Call	Aa1	2,075,460
2,500	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Tender Option Bond Trust 09-9W, 17.677%, 1/01/38 (IF) (4)	1/18 at 100.00	Aa1	2,940,900
	Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Citigroup Energy Inc Prepay Contract Obligations, Series 2007:			
4,500	5.500%, 12/01/29	No Opt. Call	A–	4,756,140
5,665	5.000%, 12/01/37	No Opt. Call	A–	5,463,269
30,645	Total Utilities			31,135,595
	Water and Sewer – 10.7% (7.3% of			

	Total Investments)			
500	City of Goodyear, Arizona Subordinate Lien Water and Sewer Revenue Obligations, Series 2011, 5.500%, 7/01/41	7/21 at 100.00	AA–	523,315
1,005	Cottonwood, Arizona, Senior Lien Water System Revenue Bonds, Municipal Property Corporation, Series 2004, 5.000%, 7/01/24 – SYNCORA GTY Insured	7/14 at 100.00	BBB+	1,010,558
500	Glendale, Arizona, Water and Sewer Revenue Bonds, Refunding Series 2012, 5.000%, 7/01/28	7/22 at 100.00	AA	537,720
2,855	Goodyear, Arizona, Water and Sewer Revenue Obligations, Series 2010, 5.625%, 7/01/39	7/20 at 100.00	A+	2,976,737
420	Maricopa County Industrial Development Authority, Arizona, Water System Improvement Revenue Bonds, Chaparral City Water Company, Series 1997A, 5.400%, 12/01/22 – AMBAC Insured (Alternative Minimum Tax)	6/14 at 100.00	N/R	420,370
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater	7/14 at 100.00	AA+	1,027,750

	System Revenue Bonds, Series 2004, 5.000%, 7/01/24 – NPFG Insured			
	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001:			
1,250	5.500%, 7/01/21 – FGIC Insured	No Opt. Call	AAA	1,520,313
1,040	5.500%, 7/01/22 – FGIC Insured	No Opt. Call	AAA	1,264,130
1,500	Pima County, Arizona, Sewer System Revenue Obligations, Series 2012A, 5.000%, 7/01/26	No Opt. Call	AA–	1,648,140
	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:			
1,600	4.700%, 4/01/22	4/14 at 100.00	A–	1,603,280
1,970	4.900%, 4/01/32	4/17 at 100.00	A–	1,886,511
500	Tucson, Arizona, Water System Revenue Bonds, Refunding Series 2013A, 5.000%, 7/01/23	No Opt. Call	AA	586,895
2,370	Yuma County Industrial Development Authority, Arizona, Exempt Revenue Bonds, Far West Water & Sewer Inc. Refunding, Series 2007A, 6.375%,	12/17 at 100.00	N/R	2,010,495

	12/01/37 (Alternative Minimum Tax)	
16,510	Total Water and Sewer	17,016,214
$ 229,566	Total Long-Term Investments (cost $230,361,302)	234,516,366
	Floating Rate Obligations – (1.7)%	(2,755,000)
	MuniFund Term Preferred Shares, at Liquidation Value – (32.0)% (6)	(50,671,000)
	Variable Rate MuniFund Term Preferred Shares, at Liquidation Value – (17.7)% (6)	(28,000,000)
	Other Assets Less Liabilities – 3.4%	5,350,799
	Net Assets Applicable to Common Shares – 100%	$ 158,441,165

Fair Value Measurements

Fair value is defined as the price that the Fund would receive upon selling an investment or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. A three-tier hierarchy is used to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are based on the best information available in the circumstances. The following is a summary of the three-tiered hierarchy of valuation input levels.

Level 1 – Inputs are unadjusted and prices are determined using quoted prices in active markets for identical securities.

Level 2 – Prices are determined using other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – Prices are determined using significant unobservable inputs (including management's assumptions in determining the fair value of investments).

The inputs or methodologies used for valuing securities are not an indication of the risks associated with investing in those securities. The following is a summary of the Fund's fair value measurements as of the end of the reporting period:

	Level 1	Level 2	Level 3	Total
Long-Term Investments:				
Municipal Bonds	$ —	$234,516,366	$ —	$234,516,366

Income Tax Information

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to timing differences in recognizing taxable market discount, timing differences in recognizing certain gains and losses on investment transactions and the treatment of investments in inverse floating rate securities reflected as financing transactions, if any. To the extent that differences arise that are permanent in nature, such amounts are reclassified within the capital accounts on the Statement of Assets and Liabilities presented in the annual report, based on their federal tax basis treatment; temporary differences do not require reclassification. Temporary and permanent differences do not impact the net asset value of the Fund.

As of November 30, 2013, the cost of investments was $229,434,167.

Gross unrealized appreciation and gross unrealized depreciation of investments as of November 30, 2013, were as follows:

Gross unrealized:	
Appreciation	$ 11,544,407
Depreciation	(9,217,216)
Net unrealized appreciation (depreciation) of investments	$ 2,327,191

(1) All percentages shown in the Portfolio of Investments are based on net assets applicable to common shares unless otherwise noted.

(2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.

(3) Ratings: Using the highest of Standard & Poor's Group ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's") or Fitch, Inc. ("Fitch") rating. Ratings below BBB by Standard & Poor's, Baa by Moody's or BBB by Fitch are considered to be below investment grade. Holdings designated N/R are not rated by any of these national rating agencies.

(4) Investment, or portion of investment, has been pledged to collateralize the net payment obligations for investments in inverse floating rate transactions.

(5) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities, which ensure the timely payment of principal and interest. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities.

(6) MuniFund Term Preferred Shares and Variable Rate MuniFund Term Preferred Shares, at Liquidation Value as a percentage of Total Investments are 21.6% and 11.9%, respectively.

(ETM) Escrowed to maturity.

(IF) Inverse floating rate investment.

(UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction.

Item 2. Controls and Procedures.

a. The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (17 CFR 240.13a-15(b) or 240.15d-15(b)).

b. There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)), exactly as set forth below: See EX-99 CERT attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Nuveen Arizona Premium Income Municipal Fund

By (Signature and Title) /s/ Kevin J. McCarthy
Kevin J. McCarthy
Vice President and Secretary

Date: January 29, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ Gifford R. Zimmerman
Gifford R. Zimmerman
Chief Administrative Officer (principal executive officer)

Date: January 29, 2014

By (Signature and Title) /s/ Stephen D. Foy
Stephen D. Foy
Vice President and Controller (principal financial officer)

Date: January 29, 2014

illion was available in additional borrowings under the credit facility.

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 will vary depending upon our consolidated leverage ratio (the ratio of total funded debt to adjusted EBITDA, as defined in the credit agreement). At June

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30, 2012, the applicable margins on LIBOR and base rate loans were 1.25% and 0.25%, 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 will have applicable margins varying between zero and 1.00%. Our average borrowing rate (including the impact of our interest rate swap agreements; see Note 10 Derivatives and Hedging Activity) was 2.6% and 2.8% for the three months ended June 30, 2012 and 2011, respectively, and 2.9% and 2.8% for the six months ended June 30, 2012 and 2011, respectively.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.25:1 (except for the first quarter of each calendar year when the covenant requires us to maintain a consolidated leverage ratio of not greater than 3.5:1) and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBITDA, as defined in the credit agreement) and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1. At June 30, 2012, under the definitions in the credit agreement, our consolidated leverage ratio was 1.6 and our consolidated interest coverage ratio was 4.2. In addition, the credit agreement contains customary affirmative and negative covenants (subject to customary exceptions), including covenants that limit our ability to incur liens or other encumbrances, make investments, incur indebtedness, enter into mergers, consolidations and asset sales, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the terms of our credit agreement at June 30, 2012; however, there can be no assurances that we will remain in compliance in the future.

12. FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3: Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our interest rate derivatives (see Note 10 Derivatives and Hedging Activity) are valued using counterparty quotations in over-the-counter markets. In addition, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk. The credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. However, at June 30, 2012, we assessed the significance of the impact on the overall valuation and believe that these adjustments are not significant. As such, our interest rate derivatives are classified within Level 2.

At June 30, 2012, the carrying value of our bank debt approximated fair value. We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2012 based upon the short-term nature of the assets and liabilities.

The following table summarizes the financial liabilities measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011 (shown in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At June 30, 2012				
Interest rate swaps, net (recorded in other non-current liabilities)		$ 355		$ 355
At December 31, 2011				

Interest rate swaps, net (recorded in other current/non-current liabilities)	$	459	$ 459

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This Management s Discussion and Analysis of Financial Condition and Results of Operations relates to, and should be read in conjunction with, our consolidated financial statements included elsewhere in this report.

Overview

We are an independent specialty consulting firm that combines deep industry knowledge with broad technical expertise. We focus on industries that typically undergo substantial regulatory or structural change and provide services to enable clients to manage the uncertainty, risk and distress caused by those changes. The nature of our services, as well as our clients demand for our services, are impacted not only by these regulatory and structural changes, but also by the United States and global economies and other significant events specific to our clients.

Our clients demand for our services ultimately drives our revenues and expenses. We derive our revenues from fees on services provided. The majority of our revenues are generated on a time and materials basis, though we also have engagements where fees are a fixed amount (either in total or for a period of time) and others where fees are earned based on data processed or hosted. From time to time, we may also earn incremental revenues, in addition to hourly or fixed fees, which are contingent on the attainment of certain contractual milestones or objectives. We also recognize revenues from business referral fees or commissions on certain contractual outcomes. These performance based and referral revenues may cause unusual variations in our quarterly revenues and results of operations. Regardless of the terms of our fee arrangements, our ability to earn those fees is reliant on deploying consultants with the experience and expertise to deliver services.

Our most significant expense is consultant compensation, which includes salaries, incentive compensation, amortization of sign-on and retention incentive payments, share-based compensation and benefits. Consultant compensation is included in cost of services before reimbursable expenses, in addition to practice specific sales and marketing expenses and the direct costs of recruiting and training consultants.

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

Because our ability to derive fees is largely reliant on the hiring and retention of personnel, the average number of full-time equivalents (FTEs) and their utilization levels are important drivers of our business. The average number of FTEs is adjusted for part-time status and takes into account hiring and attrition which occurred during the reporting period. Our average utilization rate as defined below provides a benchmark for how well we are managing our FTEs in response to changing demand.

While hiring and retention of personnel is key to driving revenues, excessive FTE levels and related consultant compensation costs may negatively impact margin. From time to time, we utilize independent contractors and project employees to supplement our consultants 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 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.

In addition to managing the number of employees and utilization of consultants, we also continually review and adjust, if necessary, our consultants total compensation (including 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 according to then-current market conditions for our service offerings and within the various industries we serve.

Acquisitions

2011 Acquisitions

On July 15, 2011, we acquired the assets of Ignited Solutions, LLC to expand our technology advisory solutions services. Ignited was a discovery services consulting group specializing in electronic discovery data collection, data processing and data hosting. This acquisition included 27 professionals and has been integrated into our Disputes, Investigations & Economics segment. We paid $6.3 million in cash at closing, and Ignited can earn up to $3.0 million of additional payments based on the business achieving certain performance targets over the 30 months after closing. We estimated the fair value of the contingent consideration on the date of

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purchase to be $2.6 million. The liability was recorded as other current and non-current liabilities. During the six months ended June 30, 2012, we settled $1.0 million of the contingent consideration and recorded $0.4 million of other operating costs reflecting a fair value adjustment of the contingent consideration. At June 30, 2012 the contingent liability balance was $2.0 million (See Note 8 Supplemental Consolidated Balance Sheet Information). As part of the purchase price allocation, we recorded $1.2 million in accounts receivable, $0.5 million in property and equipment, $1.5 million in identifiable intangible assets and $5.8 million in goodwill. The purchase price paid in cash at closing was funded with borrowings under our credit facility.

Also, during 2011, we acquired two small businesses, one in May 2011 and one in October 2011, for an aggregate purchase price of $4.6 million, of which $2.9 million was paid in cash at closing. One of the acquired businesses was integrated into our Disputes, Investigations & Economics segment and the other was integrated into our Healthcare segment.

Key Operating Metrics

We include the following metrics in order to provide additional operating information related to our business and reporting segments. These key operating metrics may not be comparable to similarly-titled metrics at other companies. During the three months ended June 30, 2012, in connection with our realignment (see Note 3 Segment Information to the notes to our unaudited consolidated financial statements), we revised the definition of our technology businesses. Our Technology, Data & Process business is composed of technology solutions, invoice and insurance claims processing, market research and benchmarking businesses. Prior period operating metrics have been revised to reflect all changes made to the following definitions.

Average FTE is our average headcount during the reporting period adjusted for part-time status. Average FTE is further split between the following categories:

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

Technology, Data & Process FTE individuals in businesses primarily dedicated to maintaining and delivering the services described above, who do not generally record time to specific client projects; and therefore, are not included in average bill rate and average utilization metrics described below;

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

Period-end FTE represents our headcount at the last day of the reporting period adjusted for part-time status. Consulting, Technology, Data & Process and non-billable criteria also apply to period-end FTE.

Average bill rate is calculated by dividing fee revenues before certain adjustments, such as discounts and markups, by the number of hours associated with the fee revenues. Fee revenues and hours billed on performance based services and related to Technology, Data & Process FTE are excluded from average bill rate. As discussed above, changes in our definition of our Technology, Data & Process business resulted in changes to previously reported 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). As discussed above, changes in our definition of our Technology, Data & Process business resulted in changes to previously reported average utilization.

Billable hours are the number of hours our consulting FTE recorded time to client engagements during the reporting period.

Segment operating profit represents total revenues less costs of services excluding long-term compensation expense attributable to consultants. Long-term compensation expense related to consultants includes share-based compensation expense and compensation expense attributable to retention incentives.

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

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Results for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage	For the six months ended June 30, 2012	For the six months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage
Key operating metrics:						
Average FTE						
-Consulting	1,550	1,542	0.5	1,560	1,555	0.3
-Technology, Data & Process	342	222	54.1	334	218	53.2
-Non-billable	532	527	0.9	528	527	0.2
Period end FTE						
-Consulting	1,522	1,546	(1.6)	1,522	1,546	(1.6)
-Technology, Data & Process	351	222	58.1	351	222	58.1
-Non-billable	542	526	3.0	542	526	3.0
Average bill rate	$ 281	$ 283	(0.7)	$ 285	$ 282	1.1
Utilization	73 %	80 %	(8.8)	75 %	79 %	(5.1)

During the three months ended June 30, 2012 compared to the corresponding period in 2011, we reported a $1.2 million decrease in net income. A 4.8% increase in revenues before reimbursements was more than offset by higher costs of services as well as higher general and administrative expenses and higher depreciation expense.

During the six months ended June 30, 2012 compared to the corresponding period in 2011, we reported a $1.7 million, or 8.5%, increase in net income. Revenues before reimbursements increased by 7.3% over the corresponding period in 2011 and were partially offset by increased costs of services, general and administrative expenses and depreciation expense.

Revenues before Reimbursements. For the three months ended June 30, 2012, revenues before reimbursements increased 4.8% compared to the corresponding period in 2011. The growth was aided by the Financial, Risk & Compliance Advisory and Healthcare segments, which saw their revenues before reimbursements increase by 29.2% and 12.4%, respectively, over the corresponding period in 2011. The revenue decline in our Disputes, Investigations & Economics and Energy segments was more than offset by stronger contributions from the other two segments.

Revenues before reimbursements included performance-based fees of $4.8 million for the three months ended June 30, 2012, compared to $1.5 million in the corresponding period in 2011. Currency impacts were minimal for the three months ended June 30, 2012 compared to the corresponding period in 2011.

Utilization levels for the three months ended June 30, 2012 ran at 73%, lower than the 80% utilization rate for the corresponding period in 2011. The decrease in utilization was offset by an increase in contractor and project employee resources, whose billable hours contributed to revenue before reimbursements increase and were not captured in our utilization metric. Average bill rate decreased marginally to $281. Average FTE (Consulting plus Technology) increased by approximately 130 FTEs, or about 7.3% over the prior year the majority of that increase occurred in our Healthcare segment as well as in our Disputes, Investigations & Economics technology services group.

For the six months ended June 30, 2012, revenues before reimbursements increased 7.3% compared to the corresponding period in 2011. The growth was driven by the Financial, Risk & Compliance Advisory and Healthcare segments, where revenues before reimbursements increased by 25.1% and 10.6%, respectively, over the corresponding period in 2011. Revenues before reimbursements in our Disputes, Investigations & Economics and Energy segments remained virtually flat over the corresponding period in 2011.

Revenues before reimbursements included performance-based fees of $6.7 million for the six months ended June 30, 2012, compared to $5.0 million in the corresponding period in 2011. Currency impacts were minimal for the six months ended June 30, 2012 compared to the corresponding period in 2011.

Utilization levels for the six months ended June 30, 2012 ran at 75%, down from the 79% utilization rate for the corresponding period in 2011. Average bill rate increased to $285 for the six months ended June 30, 2012 compared to $282 for the corresponding period in 2011. Average FTE (Consulting plus Technology, Data & Process) increased by approximately 120 FTEs, or about 6.8% over the prior year.

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Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased 4.6% for the three months ended June 30, 2012 compared to the corresponding period in 2011. The increased cost of services was mainly due to wages and benefits associated with both increased full time, as well as higher project based, staffing levels and sales and marketing expenses.

Cost of services before reimbursable expenses increased 6.3% for the six months ended June 30, 2012 compared to the corresponding period in 2011. The increased cost of services was mainly due to higher wages and benefits associated with increased full time, as well as higher project based, staffing levels.

General and Administrative Expenses. General and administrative expenses increased by $4.7 million, or 15.1%, for the three months ended June 30, 2012 compared to the corresponding period in 2011. The increase was driven by higher costs related to growth, information technology investments, increased wages and benefits and employee and client development expenses. Also contributing to the increase was higher bad debt expense, which increased $0.9 million for the three months ended June 30, 2012 compared to the corresponding period in 2011. Our days sales outstanding at June 30, 2012 and 2011 were 84 and 82 days, respectively. Our allowance for uncollectible accounts receivable is based on historical experience and management judgment and may change based on market conditions or specific client circumstances.

General and administrative expenses were 19.7% and 18.0% of revenues before reimbursements for the three months ended June 30, 2012 and 2011, respectively. The increase was mainly a result of an increase in information technology, wages and medical costs.

General and administrative expenses increased by $7.9 million, or 12.4%, for the six months ended June 30, 2012 compared to the corresponding period in 2011. The increase was driven by higher costs related to growth, increased wages and benefits, information technology investments and employee and client development expenses. Bad debt expense was mostly flat for the six months ended June 30, 2012 compared to the corresponding period in 2011.

General and administrative expenses were 19.4% and 18.5% of revenues before reimbursements for the six months ended June, 2012 and 2011, respectively, for the reasons discussed above.

Depreciation Expense. The increase in depreciation expense of 16.7% and 10.2% for the three and six months ended June 30, 2012, respectively, compared to the corresponding periods in 2011 was primarily due to recent technology infrastructure spending.

Amortization Expense. Amortization expense decreased 23.7% and 24.4% for the three and six months ended June 30, 2012, respectively, compared to the corresponding periods in 2011. This was due to reduced amortization associated with certain intangible assets which became fully amortized as their useful lives came to term, partially offset by increased amortization relating to recent acquisitions.

Other Operating Costs Contingent Acquisition Liability Adjustment. During the three months ended June 30, 2012, we recorded a $0.6 million expense relating to a fair value adjustment for our contingent acquisition liabilities (see Note 8 Supplemental Balance Sheet Information to the notes to our unaudited consolidated financial statements).

Interest Expense. Interest expense decreased 25.4% for the three months ended June 30, 2012 compared to the corresponding period in 2011. This was primarily due to lower average borrowings for the three months ended June 30, 2012 compared to the corresponding period in 2011, partially offset by higher amortization of financing fees due to the debt refinancing in 2011. Our average borrowing rate under our credit facility, including the impact of our interest rate swap agreements (see Note 10 Derivatives and Hedging Activity to the notes to our unaudited consolidated financial statements), was 2.6% and 2.8% for the three months ended June 30, 2012 and 2011, respectively. (See Note 11 Bank Debt to the notes to our unaudited consolidated financial statements for further information on our bank debt.)

Interest expense decreased 23.0% for the six months ended June 30, 2012 compared to the corresponding period in 2011, for the reasons discussed above. Our average borrowing rate under our credit facility, including the impact of our interest rate swap agreements (see Note 10 Derivatives and Hedging Activity to the notes to our unaudited consolidated financial statements), was 2.9% and 2.8% for the six months ended June 30, 2012 and 2011, respectively. (See Note 11 Bank Debt to the notes to our unaudited consolidated financial statements for further information on our bank debt.)

Income Tax Expense. Our effective income tax rate is attributable to the mix of income earned in various tax jurisdictions, including state and foreign jurisdictions, which have different income tax rates as well as various permanent book/tax differences. Our effective income tax rate was 41.5% for each of the three months ended June 30, 2012 and 2011. Our effective income tax rate for the six months ended June 30, 2012 was 42.1% compared to 42.0% for the corresponding period in 2011.

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Segment Results

During the three months ended March 31, 2012, Julie M. Howard was named our CEO. As CEO, Ms. Howard fills the role of CODM. Under her direction, a realignment of the firm s practices occurred during second quarter 2012, establishing four new operating and reportable segments that each report to a newly created Executive Vice President position.

The changes combine practices that serve comparable client types and address similar business issues and industry dynamics. The new segment reporting structure provides shareholders and other users of our financial statements with more useful information about several of our key growth businesses, particularly Energy and Healthcare. Finally, the segment realignment represents a shift in overall management of the practices to a global management model, positioning practice leaders to be accountable for the operations and performance of their teams across borders while leveraging local leadership to drive effectiveness. Further information can be found in Note 3 Segment Information to the notes to our unaudited consolidated financial statements.

Our operating segments will be the same as our reporting segments. Our performance will be assessed and resources are allocated by our CODM based on the following four reportable segments:

Disputes, Investigations & Economics

Financial, Risk & Compliance Advisory

Healthcare

Energy

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 the calculation of segment operating profit to be consistent with the information used by management to evaluate segment performance (see Note 3 Segment Information to the notes to our unaudited consolidated financial statements). Segment operating profit represents total revenues less cost of services excluding long-term compensation expense related to consultants. Long-term compensation expense attributable to consultants includes share-based compensation expense and compensation expense attributed to retention incentives (see Note 8 Supplemental Consolidated Balance Sheet Information to the notes to our unaudited consolidated financial statements). Key operating metric definitions are provided above.

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Prior year segment data has been recast to be consistent with the current presentation.

Disputes, Investigations & Economics

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage	For the six months ended June 30, 2012	For the six months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage
Revenues before reimbursements (in 000 s)	$ 81,350	$ 86,140	(5.6)	$ 172,569	$ 170,937	1.0
Total revenues (in 000 s)	$ 86,894	$ 95,472	(9.0)	$ 183,983	$ 186,945	(1.6)
Segment operating profit (in 000 s)	$ 27,995	$ 31,191	(10.2)	$ 62,163	$ 60,499	2.8
Key segment operating metrics:						
Segment operating profit margin	34.4%	36.2%	(5.0)	36.0%	35.4%	1.7
Average FTE Consulting	617	664	(7.1)	625	677	(7.7)
Average FTE Technology, Data & Process	177	109	62.4	169	110	53.6

Average utilization rates based on 1,850 hours		69%		79%	(12.7)		73%		77%	(5.2)
Average bill rate	$	340	$	326	4.3	$	340	$	325	4.6

The Disputes, Investigations & Economics segment provides accounting, financial and economic analysis, as well as discovery support, data management and analytics, on a wide range of legal and business issues including disputes, investigations and regulatory matters. The clients of this segment are principally companies, along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

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Revenues before reimbursements for this segment decreased 5.6% for the three months ended June 30, 2012 compared to the corresponding period in 2011. The decrease was driven mainly by the wind down of a few large engagements, and lower demand related to general litigation. Credit crisis related engagements and continued strength in our technology-related services partially mitigated this decline. Average FTE Consulting decreased 7.1% for the three months ended June 30, 2012 compared to the corresponding period in 2011 due to attrition in non-critical areas while our technology based staffing levels grew significantly with growing demand and our acquisition of Ignited Solutions in July of 2011, which added 27 FTE s at the time. Average bill rate increased 4.3% for the three months ended June 30, 2012 compared to the corresponding period in 2011, due to staffing mix. Utilization decreased 12.7% for the same period, reflecting softness in demand. Including the impact of our acquisition of Ignited Solutions on a pro forma basis, revenues before reimbursements decreased 7.5% for the three months ended June 30, 2012 compared to the corresponding period in 2011. For the three months ended June 30, 2012, segment operating profit decreased $3.2 million, and segment operating profit margins decreased 1.8 percentage points compared to the corresponding period in 2011, mainly as a result of decreased revenue and higher segment-related marketing costs.

Revenues before reimbursements for this segment increased 1.0% for the six months ended June 30, 2012 compared to the corresponding period in 2011 as a result of our strong first quarter partially offset by lower second quarter results. The increase was mainly a result of continued demand in our credit crisis engagements and strength in our technology services partially offset by the lower demand related to general litigation and a wind down of a few large engagements. For the six months ended June 30, 2012 compared to the corresponding period in 2011, Average FTE Consulting decreased 7.7% for the reasons discussed above. Average bill rate increased 4.6% for the six months ended June 30, 2012 compared to the corresponding period in 2011, and utilization decreased 5.2% for the same period. Including the impact of our acquisition of Ignited Solutions on a pro forma basis, revenues before reimbursements decreased 1.5% for the six months ended June 30, 2012 compared to the corresponding period in 2011. Segment operating profit increased $1.7 million, and segment operating profit margins increased 0.6 percentage points mainly as a result of increased revenue partially offset by higher segment related marketing costs.

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Financial, Risk & Compliance Advisory

	For the three months ended June 30, 2012	2011	2012 over 2011 Increase (Decrease) Percentage	For the six months ended June 30, 2012	2011	2012 over 2011 Increase (Decrease) Percentage
Revenues before reimbursements (in 000 s)	$ 42,800	$ 33,134	29.2	$ 80,030	$ 63,969	25.1
Total revenues (in 000 s)	$ 52,847	$ 37,408	41.3	$ 96,675	$ 73,565	31.4
Segment operating profit (in 000 s)	$ 15,402	$ 11,136	38.3	$ 29,157	$ 21,378	36.4
Key segment operating metrics:						
Segment operating profit margin	36.0%	33.6%	7.1	36.4%	33.4%	9.0
Average FTE Consulting	276	242	14.0	274	241	13.7
Average utilization rates based on 1,850 hours	70%	79%	(11.4)	72%	79%	(8.9)
Average bill rate	$ 299	$ 340	(12.1)	$ 303	$ 329	(7.9)

The Financial, Risk & Compliance Advisory segment provides strategic, operational, valuation, risk management, investigative and compliance consulting to clients in the highly regulated financial services industry, including major financial and insurance institutions. This segment also provides anti-corruption and restructuring consulting to clients in a broad variety of industries.

Revenues before reimbursements for this segment increased 29.2% for the three months ended June 30, 2012 compared to the corresponding period in 2011. The increase was mainly a result of ongoing success of several major engagements in the mortgage servicing review area. Also, contributing to the increase were performance based fees which totaled $3.9 million and $1.1 million for the three months ended June 30, 2012 and 2011, respectively. Average FTE Consulting increased 14.0% for the three months ended June 30, 2012 compared to the corresponding period in 2011 mainly due to increased demand for mortgage reviews and demand for compliance services during 2011 and early 2012. Average bill rate decreased 12.1% for the three months ended June 30, 2012 compared to the corresponding period in 2011, mainly due to increased leverage. Utilization decreased 11.4% for the same period. This segment utilizes a large number of contractors and project employees, which are not captured in the utilization or FTE metrics. The actual hours generating margin exceeds the hours worked by our FTE employees. Segment operating profit increased $4.3 million and segment operating profit margins increased 2.4 percentage points mainly as a result of project mix, performance based fees and staffing mix offset by an increase in wages and benefits as a result of the additional headcount and higher segment-related marketing costs.

Revenues before reimbursements for this segment increased 25.1% for the six months ended June 30, 2012 compared to the corresponding period in 2011. This segment achieved significant growth, mainly as a result of the ongoing success of several major engagements in the mortgage servicing area. Also, performance based fees totaled $5.3 million and $1.9 million for the six months ended June 30, 2012 and 2011, respectively. Average FTE Consulting increased 13.7% for the six months ended June 30, 2012 compared to the corresponding period in 2011 for reasons discussed above. Average bill rate decreased 7.9% and utilization decreased 8.9% for the six months ended June 30, 2012 compared to the corresponding period in 2011 for similar reasons discussed above. For the six months ended June 30, 2012, segment operating profit increased $7.8 million and segment operating profit margins increased 3.0 percentage points compared to the corresponding period in 2011, mainly a result of project and staffing mix offset by an increase in wages and benefits as a result of the additional headcount and higher segment-related marketing costs.

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Healthcare

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage	For the six months ended June 30, 2012	For the six months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage
Revenues before reimbursements (in 000 s)	$ 36,022	$ 32,041	12.4	$ 72,564	$ 65,597	10.6
Total revenues (in 000 s)	$ 40,839	$ 36,102	13.1	$ 81,765	$ 73,270	11.6
Segment operating profit (in 000 s)	$ 11,463	$ 9,659	18.7	$ 22,933	$ 20,373	12.6
Key segment operating metrics:						
Segment operating profit margin	31.8%	30.1%	5.6	31.6%	31.1%	1.6
Average FTE Consulting	355	346	2.6	360	351	2.6
Average FTE Technology, Data & Process	155	113	37.2	155	108	43.5
Average utilization rates based on 1,850 hours	79%	79%		79%	78%	1.3
Average bill rate	$ 250	$ 241	3.7	$ 251	$ 242	3.7

The Healthcare segment provides strategic, operational, management and financial advisory services to health systems, physician practice groups, payers and life sciences companies.

Revenues before reimbursements for this segment increased 12.4% for the three months ended June 30, 2012 compared to the corresponding period in 2011. The U.S. healthcare industry continues to drive change for our payer, provider and physician clients, resulting in our revenue growth. Additionally, our life sciences market continues to gain traction. Utilization was a strong 79% for the three months ended June 30, 2012, remaining flat with the corresponding period in 2011. Average FTE Technology, Data & Process increased 37.2% for the three months ended June 30, 2012 compared to the corresponding period in 2011 to support our growing claims and billing processing and technology solutions clients. Average bill rate increased 3.7% for the same period. For the three months ended June 30, 2012, segment operating profit increased $1.8 million, and segment operating profit margin increased 1.7 percentage points compared to the corresponding period in 2011, due to higher revenue partially offset by increased wages and benefits as a result of the higher headcount.

Revenues before reimbursements for this segment increased 10.6% for the six months ended June 30, 2012 compared to the corresponding period in 2011. Utilization increased slightly while average FTE Consulting increased 2.6% and average FTE Technology, Data & Process increased 43.5% for the six months ended June 30, 2012 compared to the corresponding period in 2011 for the reasons discussed above. For the six months ended June 30, 2012, segment operating profit increased $2.6 million, and segment operating profit margins increased 0.5 percentage points compared to the corresponding period in 2011.

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Energy

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage	For the six months ended June 30, 2012	For the six months ended June 30, 2011	2012 over 2011 Increase (Decrease) Percentage
Revenues before reimbursements (in 000 s)	$ 21,357	$ 21,978	(2.8)	$ 42,746	$ 42,394	0.8
Total revenues (in 000 s)	$ 24,020	$ 25,426	(5.5)	$ 48,798	$ 49,427	(1.3)
Segment operating profit (in 000 s)	$ 7,475	$ 8,324	(10.2)	$ 14,729	$ 16,058	(8.3)
Key segment operating metrics:						
Segment operating profit margin	35.0%	37.9%	(7.7)	34.5%	37.9%	(9.0)
Average FTE Consulting	302	290	4.1	301	286	5.2
Average FTE Technology, Data & Process	10		n/a	10		n/a
Average utilization rates based on 1,850 hours	76%	83%	(8.4)	76%	82%	(7.3)
Average bill rate	$ 192	$ 189	1.6	$ 193	$ 190	1.6

The Energy segment provides existing and prospective owners of energy supply and delivery assets with the ability to evaluate, plan, develop and enhance the value of their entities in concert with evolving market and regulatory structures. Clients include utilities, independent power producers, financial entities, law firms, regulators and energy equipment providers.

Revenues before reimbursements for this segment decreased 2.8% for the three months ended June 30, 2012 compared to the corresponding period in 2011. The decrease relates to delayed initiation of a few significant engagements. Utilization decreased 8.4% for the three months ended June 30, 2012 compared to the corresponding period in 2011 due to the delayed start of a few engagements, as discussed above. Average FTE Consulting increased 4.1% for the three months ended June 30, 2012 compared to the corresponding period in 2011, primarily in the energy efficiency group. For the three months ended June 30, 2012, segment operating profit decreased $0.8 million, and segment operating profit margin decreased 2.9 percentage points compared to the corresponding period in 2011 due to lower utilization and higher wages and benefits costs. In July 2012, we announced the acquisition of Pike Research, which is expected to complement the segment with its subscription revenues.

Revenues before reimbursements for this segment increased 0.8% for the six months ended June 30, 2012 compared to the corresponding period in 2011. Utilization decreased 7.3% for the six months ended June 30, 2012 compared to the corresponding period in 2011. Average FTE Consulting increased 5.2% for the six months ended June 30, 2012 compared to the corresponding period in 2011. For the six months ended June 30, 2012, segment operating profit decreased $1.3 million, and segment operating profit margin decreased 3.4 percentage points compared to the corresponding period in 2011, due to lower utilization and higher wages and benefits costs.

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Liquidity and Capital Resources

Our cash flow activities were as follows (shown in thousands) for the six months ended June 30,

	2012	2011
Net cash (used in) provided by operating activities	$ (16,665)	$ 13,959
Net cash used in investing activities	(13,296)	(14,889)
Net cash provided by (used in) financing activities	27,027	(770)

Generally, our net cash provided by operating activities is used to fund our day to day operating activities, augmented by borrowings under our credit facility. First quarter operating cash requirements are generally higher due to payment of our annual incentive bonuses while subsequent quarters net cash from operations are expected to be positive. We continued with our share repurchase program initiated in the fourth quarter of 2011 and continued to support our Technology, Data & Process businesses with capital expenditures relating to software development and data capacity. 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 net revenues. Daily net revenues are calculated by taking quarterly net revenues divided by 90 days, approximately equal to the number of days in a quarter. Calculated as such, DSO was 84 days at June 30, 2012, compared to 82 days at June 30, 2011.

Operating Activities

Net cash used in operating activities was $16.7 million for the six months ended June 30, 2012 compared to $14.0 million net cash provided by operating activities for the corresponding period in 2011. The decrease in cash provided by operating activities was primarily due to higher incentive bonus payments for the 2011 performance year paid in 2012 and a higher accounts receivable balance.

Investing Activities

Net cash used in investing activities was $13.3 million for the six months ended June 30, 2012 compared to $14.9 million for the corresponding period in 2011. Higher capital expenditures as we invest in our technology infrastructure and higher furniture and fixture spending relating to new office space in Washington, D.C. was offset by lower acquisition liability payments in 2012.

In July 2012, we acquired Pike Research, an energy market intelligence and industry report firm, for which $1.9 million was paid in cash at closing, $1.0 million in deferred purchase price obligations are payable a year from closing and $4.0 million in contingent earn-out obligations, if earned, will be payable over three years from closing.

Financing Activities

Net cash provided by financing activities increased to $27.0 million for the six months ended June 30, 2012 compared to net cash used in financing activities of $0.8 million for the corresponding period in 2011. The increase was primarily due to borrowings under our credit facility used to pay increased incentive bonus payments which were higher in 2012 due to a strong 2011 performance year. In addition, during the six months ended June 30, 2012, we purchased 563,906 shares of our common stock in the open market for $7.3 million. Also during the six months ended June 30, 2012, certain contingent acquisition liabilities were paid relating to prior year acquisitions.

Debt, Commitments and Capital

We currently have an unsecured credit agreement with a syndicate of banks which provides a five-year, $400.0 million revolving credit facility. At our option, subject to the terms and conditions specified in the credit agreement, we may elect to increase the commitments under the credit facility up to an aggregate amount of $500.0 million. The credit facility matures on May 27, 2016, at which time borrowings will be payable in full. Borrowings and repayments may be made in multiple currencies including U.S. Dollars, Canadian Dollars, UK Pound Sterling and Euro. At June 30, 2012, we had aggregate borrowings of $167.7 million, compared to $131.8 million at December 31, 2011 and $205.2 million at June 30, 2011. Based on our financial covenant restrictions at June 30, 2012, a maximum of approximately $180.0 million was available in additional borrowings under the credit facility. For further details and terms of the agreement, see Note 11- Bank Debt to the notes to our unaudited consolidated financial statements.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio (the ratio of total funded debt to adjusted EBITDA, as defined in the credit agreement) of not greater than 3.25:1 (except for the first quarter of each calendar year when the covenant requires us to maintain a consolidated leverage ratio of not greater than 3.5:1) and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBITDA (as defined in the credit agreement) and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1.

At June 30, 2012, under the definitions in the credit agreement, our consolidated leverage ratio was 1.6 and our consolidated interest coverage ratio was 4.2. In addition, the credit agreement contains customary affirmative and negative covenants (subject to customary exceptions), including covenants that limit our ability to incur liens or other encumbrances, make investments, incur indebtedness, enter into mergers, consolidations and asset sales, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the terms of our credit agreement as of June 30, 2012; however, there can be no assurances that we will remain in compliance in the future.

At June 30, 2012, including the above mentioned credit facility, we had total contractual obligations of $297.4 million. The following table shows the components of our significant commitments at June 30, 2012 and the scheduled years of payments (shown in thousands):

Contractual Obligations	Total	2012	2013 to 2014	2015 to 2016	Thereafter
Deferred acquisition liability	$ 12,950	$ 9,637	$ 3,313	$ 0	$ 0
Purchase agreements	4,165	0	4,165	0	0
Revolving credit facility	167,656	0	0	167,656	0
Lease commitments	112,675	13,721	39,794	26,763	32,397
	$ 297,446	$ 23,358	$ 47,272	$ 194,419	$ 32,397

We have commitments recorded in other current and non-current liabilities of approximately $4.2 million (reflected in table above) relating to costs associated with an information technology infrastructure project that we commenced during the quarter ended December 31, 2011 to support our corporate technology needs in addition to the needs of our expanding technology business. In addition, we have various contracts with information technology related vendors to support our enterprise reporting system which contain termination clauses allowing us to terminate the contracts for a penalty. Currently, we do not expect, however, to terminate these contracts and expect to pay approximately $4.0 million over the next three years through 2014. At June 30, 2012, we had $13.0 million in liabilities relating to deferred acquisition liability obligations (reflected in the table above). Of this balance, $8.5 million is in the form of contingent acquisition liability obligations which was recorded at estimated fair value and discounted to present value. Settlement of the liabilities is contingent upon certain acquisitions meeting performance targets. Should each of these acquisitions reach their maximum target, our maximum payout would be $10.4 million.

On October 25, 2011, our board of directors extended until December 31, 2014 its previous authorization to repurchase up to $100.0 million of our common stock, in open market or private transactions. During the six months ended June 30, 2012, we repurchased 563,906 shares for $7.3 million. Through June 30, 2012, we have repurchased 798,206 shares for approximately $9.8 million.

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 financings, as appropriate. In addition, if our lenders are not able to fund their commitments due to disruptions in the financial markets or otherwise, our liquidity could be negatively impacted.

Off-balance Sheet Arrangements

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

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2011.

Recent Accounting Pronouncements

Recently Adopted Standards

In September 2011, the Financial Accounting Standards Board issued guidance which adds an optional qualitative assessment to goodwill impairment testing under Topic 350 Intangibles goodwill and other. The new guidance permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not likely that the fair value of the reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The guidance lists certain factors to consider when making the qualitative assessment. The guidance is effective for annual or interim goodwill tests performed for fiscal years beginning after December 15, 2011. We adopted this guidance effective January 1, 2012. The adoption of this guidance did not have any impact on our financial statements.

In June 2011, the Financial Accounting Standards Board issued guidance which requires public entities to increase the prominence of other comprehensive income in financial statements. Under Topic 220 Presentation of Comprehensive Income, an entity will have the option to present the components of net income and comprehensive income in either one or two financial statements. This update eliminates the option to present other comprehensive income in the statement of changes in equity. This update is effective for fiscal years and interim periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012. The adoption of this guidance impacted our disclosures only.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

At June 30, 2012, borrowings under our credit facility bear interest, in general, based on a variable rate equal to an applicable base rate (equal to the higher of a reference prime rate or one half of one percent above the federal funds rate) or LIBOR, in each case plus an applicable margin. We are exposed to interest rate risk relating to the fluctuations in LIBOR. We use interest rate swap agreements to manage our exposure to fluctuations in LIBOR.

At June 30, 2012, our interest rate swaps effectively fixed our LIBOR base rate on $15.0 million of our debt. Based on borrowings under the credit facility at June 30, 2012 and after giving effect to the impact of our interest rate swap agreements, our interest rate exposure is limited to $152.7 million of debt, and each quarter point change in market interest rates would result in approximately a $0.4 million change in annual interest expense.

At June 30, 2012, 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 expose us to market risk associated with foreign currency exchange rate fluctuations. At June 30, 2012, we had net assets of approximately $75.4 million with a functional currency of the UK Pound Sterling and $26.4 million with a functional currency of the Canadian Dollar related to our operations in the United Kingdom and Canada, respectively. At June 30, 2012, we had net assets denominated in the non-functional currency of approximately $1.3 million. As such, a ten percent change in the value of the local currency would result in $0.1 million currency gain or loss in our results of operations. Excess cash held outside the United States is immaterial and therefore we have limited exposure to repatriating funds back to the United States.

Item 4. Controls and Procedures.

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are not party to any material legal proceedings.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

The following table sets forth repurchases of our common stock during the second quarter of 2012:

Period	Total Number of Shares Purchased(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(b)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs(b)
April 1-30, 2012	91,369	$ 14.13	80,000	$ 93,277,264
May 1-31, 2012	127,227	$ 12.95	125,900	$ 91,646,494
June 1-30, 2012	127,792	$ 11.62	126,000	$ 90,182,337
Total	346,388	$ 12.77	331,900	$ 90,182,337

(a) Includes 14,488 shares of our common stock withheld by us to satisfy individual tax withholding obligations in connection with the vesting of restricted stock during the period.

(b) On October 25, 2011, our board of directors extended until December 31, 2014 its previous authorization to repurchase up to $100 million of our common stock in open market or private transactions.

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Item 6. Exhibits

The following exhibits are filed with this report:

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Navigant Consulting, Inc., effective May 22, 2012 (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed with the SEC on May 23, 2012).
10.1	Second Amendment to Employment Agreement, effective as of May 11, 2012, by and between Navigant Consulting, Inc. and William M. Goodyear.
10.2	Letter Agreement, dated June 28, 2012, between Navigant Consulting, Inc. and William M. Goodyear Regarding Grants of Restricted Stock Units.
10.3	Form of Performance-Based Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan).
10.4	Navigant Consulting, Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on May 23, 2012).
10.5	Navigant Consulting, Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on May 23, 2012).
10.6	Form of Non-Employee Director Stock Option Agreement (2012 Long-Term Incentive Plan).
10.7	Form of Non-Employee Director Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan).
31.1	Certification of Chief Executive Officer required by Rule 13a-14 of the Securities Exchange Act.
31.2	Certification of Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
101*	Interactive Data File.

* As provided in Rule 406T of Regulation S-T, this information is furnished not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

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

Navigant Consulting, Inc.

By: /S/ JULIE M. HOWARD
Julie M. Howard

Chief Executive Officer

By: /S/ THOMAS A. NARDI
Thomas A. Nardi

Executive Vice President and

Chief Financial Officer

Date: July 27, 2012