NAVIGANT CONSULTING INC
Form 10-K
February 14, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

Commission File No. 1-12173

Navigant Consulting, Inc.

(*Exact name of Registrant as specified in its charter*)

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

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

(*Address of principal executive offices, including zip code*)

(312) 573-5600

(*Registrant s telephone number, including area code*)

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 þ NO ¨

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

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

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

As of February 10, 2014, 49,074,534 shares of the registrant s common stock, par value $0.001 per share (Common Stock), were outstanding. The aggregate market value of shares of the Common Stock held by non-affiliates, based upon the closing sale price per share of the Common Stock on the New York Stock Exchange on June 28, 2013, was approximately $590.9 million.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information from the registrant s definitive Proxy Statement for its Annual Meeting of Shareholders, scheduled to be held on May 15, 2014, is incorporated by reference into Part III of this report. The registrant intends to file the Proxy Statement with the Securities and Exchange Commission within 120 days of December 31, 2013.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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Forward-Looking Statements

Statements included in this report and its exhibits which are not historical in nature are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as anticipate, believe, intend, estimate, expect, plan, outlook and similar 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 sections entitled Item 1A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report. We cannot guarantee any future results, levels of activity, performance or achievement, and we undertake no obligation to update any of the forward-looking statements contained in this report and its exhibits.

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Item 1. ***Business.***

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 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 highly technical, complex and legal issues affecting our clients that result from these transformations. Our business is organized in four reporting segments Disputes, Investigations & Economics; Financial, Risk & Compliance; Healthcare; and Energy, which were realigned during the second quarter of 2012.

We are a Delaware corporation incorporated in 1996 and headquartered in Chicago, Illinois. Our executive office is located at 30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606. Our telephone number is (312) 573-5600. Our common stock is traded on the New York Stock Exchange under the symbol NCI.

General Development of the Business

Since our inception, we have grown through the recruitment of new consultants and development of new solutions and services combined with acquisition investments of select firms that are complementary to our business. Some of our more significant acquisitions over the past five years include:

- the 2009 acquisition of Summit Blue within our Energy segment specializing in energy efficiency, demand-side management, Smart Grid and renewable energy strategies;

- the 2010 acquisitions of Daylight within our Financial, Risk & Compliance segment specializing in the anti-money laundering, regulatory compliance and anti-corruption markets; and EthosPartners within our Healthcare segment specializing in physician practice operations and revenue cycle management; and

- the 2012 acquisitions of AFE Consulting within our Disputes, Investigations & Economics segment broadening our economics expertise; and Easton within our Healthcare segment expanding our advisory services to life sciences and pharmaceutical industries.

We focus our growth efforts on expanding and strengthening our team of recognized consultants, experts and thought leaders across various industries, both through the addition of new professionals and through on-going training and development of our junior level consultants. We also intend to grow through the creation and development of new technology, data, and process solutions, including managed services. We believe the combination of these human capital and technology investments will create new opportunities to provide value to clients, which will lead to deeper relationships with those clients. We seek innovative solutions that combine our traditional expert-based consulting services, which are often event driven, with complementary solutions that deliver on-going value to our clients and provide more recurring revenue streams.

We plan to continue our growth strategy by focusing on the following key drivers: capitalizing on macro trends in highly regulated markets; investing in growing markets; extending skills and expertise into new sectors; and broadening geographic scope. We intend to execute on this growth strategy by enhancing our internal collaboration efforts and through a more enhanced focus on our sales process, including improved sales effectiveness. We believe collaborative sales efforts will improve our ability to deepen our relationships with clients and to introduce our complementary services to those same clients, which we expect to help us expand the services we perform for our existing and future clients.

In addition to investing in recruitment, mentoring, talent management, acquisitions and technology, our strong cash flows have contributed to strengthening our financial position. Over the past five years, we have reduced our bank debt balance from $233 million as of December 31, 2008 to $57 million as of December 31, 2013. In addition, in 2011 we began a stock repurchase program and through December 31, 2013 have repurchased 3.9 million shares at an average cost of $12.77 per share, effectively returning capital to our shareholders.

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Human Capital Resources

At December 31, 2013, we had 2,743 employees. After adjusting total employees for part-time status, we had 2,678 full-time equivalent (FTE) employees. These FTE employees were comprised of the following:

- 1,516 consultants in businesses that deliver professional services who record time to client engagements.

- 524 Technology, Data & Process professionals in businesses that are comprised of technology-enabled professional services, including e-discovery services and data analytics, technology solutions, invoice and insurance claims processing, market research and benchmarking. These individuals may record time to client engagements (in professional services engagements), though many do not record time to specific engagements.

- 104 project employees who perform client services on a contractual basis. Project employee levels vary from period to period based on staffing and resource requirements.

- 534 non-billable employees who are assigned to administrative and support functions, including office services, corporate functions, and certain practice support functions. The majority of costs related to these employees are recorded in general and administrative expense while the costs directly relating to practice support functions are recorded as costs of services before reimbursements.

Our revenues are primarily generated from services performed by our consultants; therefore, our success depends in large part on attracting, retaining and motivating talented, creative and experienced consultants at all levels and across various geographies. We have acquired and seek to acquire consultants through both recruitment and acquisitions of businesses. In connection with recruiting, we employ internal recruiters, retain executive search firms, and utilize personal and business contacts. Our consultants are drawn from a variety of sources, including the industries we serve, accounting and other consulting organizations, and top rated colleges and universities. Our consultants include, but are not limited to, PhDs, MDs, MBAs, JDs, CPAs, CFEs (certified fraud examiners), ASAs (accredited senior appraisers), engineers, nurses and former government officials. In addition to recruiting consultants, we have acquired and seek to acquire certain consulting businesses to add highly skilled consultants to enhance our service offerings and to expand our geographical footprint. We believe that the strategy of selectively acquiring consulting businesses, hiring additional consulting capabilities and investing in technology to support our consultants and enhance our service offerings strengthens our platform, market share and overall operating results.

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

We regularly evaluate consultant resource levels and utilization against future demand expectations and historical trends. From time to time, we may reduce or add resources in certain areas in an effort to align with changing demands. In connection with these changing demands, we also utilize project employees and engage independent contractors to supplement our full-time consultants on certain engagements. We find that retaining project employees and/or independent contractors on a per-engagement basis from time to time allows us to quickly adjust staffing in response to changes in demand for our services.

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 or more beyond the termination of employment. We utilize these contractual agreements and other agreements to reduce the risk of attrition and to provide stability to our existing clients, staff and projects.

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

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Industry Sectors

We provide services to and focus on industries undergoing substantial regulatory or structural change. Our legal and compliance based service offerings are relevant to law firms and clients in most industries including federal and state agencies within the public sector. We also have significant industry-specific knowledge and a large client base in the energy, healthcare and financial services industries.

Competition

The market for consulting services is highly competitive, highly fragmented and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including general management and information technology consulting firms, strategy firms, global accounting firms, and other local, regional, national and international consulting firms. Many of these companies are international in scope and have larger teams of personnel and greater financial, technical and marketing resources than we do. In particular, the Big Four accounting firms (PwC, Deloitte, EY and KPMG) are highly competitive in the consulting industry. However, we believe that industry focus, deep industry expertise, reputation, and broad range of service offerings enable us to compete effectively in the consulting marketplace.

Developing Client Relationships

We market our services directly to corporate counsel, law firms, governmental agencies, corporate boards, corporate executives and special committees. We use a variety of business development and marketing channels to communicate directly with current and prospective clients, including on-site presentations, industry seminars, and industry-specific articles. In addition, we have strengthened our market presence by developing our brand name. New engagements are sought and won by our senior and mid-level consultants working together with our business development team that supports all of our business segments. We seek to leverage our client relationships in one business segment to cross-sell service offerings provided by other business segments. Clients frequently expand the scope of engagements during delivery to include follow-on, complementary services. Our future performance will continue to depend upon our ability to win new engagements, retain consultants, develop and continue client relationships and maintain our reputation.

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

2012 Business Segments Realignment

During the year ended December 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. The segment leaders each report to Lee A. Spirer, Executive Vice President and Global Business Leader. Our performance is assessed and resources are allocated by the CODM based on the following four reportable segments:

- Disputes, Investigations & Economics
- Financial, Risk & Compliance
- Healthcare
- Energy

The realignment combined practices that serve comparable client types and address similar business issues and industry dynamics. We believe this segment reporting structure provides shareholders and other users of our financial statements with more useful information about several of our key growth businesses, particularly Healthcare and Energy. This segment realignment also represented 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 performance.

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	CURRENT			
	Disputes, Investigations & Economics	**Financial, Risk & Compliance**	**Healthcare**	**Energy**
Dispute & Investigative Services	Disputes & Investigations	Global Investigations & Compliance		
Business Consulting Services	Construction Claims Management	Financial Services Valuation & Financial Risk Management Restructuring	Healthcare	Energy
Economic Consulting	Economics			
International Consulting	Disputes & Investigations Construction Public Services	Financial Services*		Energy

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** 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 solutions, anti-money laundering, valuation and restructuring consulting to clients in a broad variety of industries.

The **Healthcare** segment provides strategy consulting, revenue cycle management, performance improvement, program management, physician practice management and outsourcing, technology solutions to health systems, physician practice groups, health insurance providers, governmental agencies and life sciences companies.

The **Energy** segment provides management advisory services to existing and prospective owners of energy supply and delivery assets which allows them to evaluate, plan, develop, and enhance the value of their investments within evolving market and regulatory structures. In addition, the segment provides energy efficiency and energy related market research services. Clients include utilities, independent power producers, financial entities, law firms, regulators, and energy equipment providers.

* *On July 8, 2013, we sold the United Kingdom financial services advisory business, see Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements. As such, results from this business have been reclassified to discontinued operations within the consolidated statements of comprehensive income for all periods presented.*

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Financial Information about our Business Segments

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 attributable to certain retention incentives (see Note 9 Share-based Compensation Expense and Note 10 Supplemental Consolidated Balance Sheet Information to the notes to our consolidated financial statements).

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.

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

	For the year ended December 31,		
	2013	2012	2011
Revenues before reimbursements:			
Disputes, Investigations & Economics	$ 301,545	$ 340,036	$ 338,965
Financial, Risk & Compliance	155,656	141,421	112,047
Healthcare	182,783	151,065	134,611
Energy	94,449	89,668	85,666
Total revenues before reimbursements	$ 734,433	$ 722,190	$ 671,289
Total revenues:			
Disputes, Investigations & Economics	$ 326,130	$ 364,426	$ 370,850
Financial, Risk & Compliance	190,116	177,722	129,693
Healthcare	205,215	170,150	151,841
Energy	114,124	105,899	102,330
Total revenues	$ 835,585	$ 818,197	$ 754,714
Segment operating profit:			
Disputes, Investigations & Economics	$ 99,828	$ 123,288	$ 122,672
Financial, Risk & Compliance	62,487	55,926	38,079
Healthcare	67,696	50,959	42,739
Energy	31,280	31,721	32,882
Total segment operating profit	261,291	261,894	236,372
Segment reconciliation to income from continuing operations before income tax expense:			
Unallocated:			
General and administrative expenses	127,079	141,195	130,430
Depreciation expense	16,180	14,986	13,303
Amortization expense	6,826	6,767	8,658
Other operating costs (benefit), net	(6,766)	1,645	
Long-term compensation expense attributable to consultants (including share-based compensation expense)	14,825	16,048	14,500
Operating income	103,147	81,253	69,481
Interest and other expense, net	4,145	4,503	5,566
Income from continuing operations before income tax expense	$ 99,002	$ 76,750	$ 63,915

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

	December 31, 2013	December 31, 2012
Disputes, Investigations & Economics	$ 443,417	$ 476,640
Financial, Risk & Compliance	89,498	99,269
Healthcare	173,066	175,430
Energy	101,851	102,487
Unallocated assets	96,365	100,624
Total assets	$ 904,197	$ 954,450

How Our Income is Derived

We derive our revenues from fees and reimbursable expenses for professional services. A majority of our revenues are generated under hourly or daily rates billed on a time and materials basis. Clients are typically invoiced on a monthly basis, with revenues recognized as the services are provided. There are also client engagements for which we are paid a fixed amount for our services, often referred to as fixed fee billings; the vast majority of the engagements within our Healthcare segment utilize fixed fee billing arrangements. This may be one single amount covering the whole engagement or several amounts for various phases or functions of the engagement. From time to time, we may earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent on the attainment of certain contractual milestones or objectives. We also recognize revenues from business referral fees or commissions on certain contractual outcomes. In addition, some of our technology, data & process businesses also generate revenue on a per unit or subscription basis. The performance based and referral related revenues we earn may cause unusual variations in our quarterly revenues and results of operations.

Our most significant expenses are labor costs, which consist of consultant salaries, incentive compensation, amortization of sign-on and retention incentive payments, share-based compensation and benefits. Labor costs are reported in cost of services before reimbursable expenses, which also includes 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 that indirectly support client engagements. Office-related expenses primarily consist of rent for our offices. Other overhead costs include bad debt expense, marketing, technology, finance and human capital management.

Concentration of Revenues

Revenues earned from our top 20 clients amounted to 30%, 31% and 26% of our total revenues for 2013, 2012 and 2011, respectively. Revenues earned from our top 10 clients amounted to 23%, 24% and 19% of our total revenues for 2013, 2012 and 2011, respectively. No single client accounted for more than 10% of our total revenues during 2013, 2012 or 2011. The mix of our largest clients typically changes from year to year.

Non-U.S. Operations

We have offices in the United Kingdom, Canada, China, United Arab Emirates and other countries outside the U.S. and conduct business in several other countries. The United Kingdom accounted for 5% of our total revenues for 2013, 6% of our total revenues for 2012, and 6% of our total revenues for 2011. No country, other than the United States and the United Kingdom, accounted for more than 10% of our total revenues during 2013, 2012 or 2011. Our non-U.S. subsidiaries, in the aggregate, represented approximately 7%, or $58.5 million, of our total revenues in 2013 compared to 8%, or $63.3 million, in 2012 and 9%, or $67.1 million, in 2011.

Available Information

We maintain a corporate website at www.navigant.com. The content of our website is not incorporated by reference into this report or any other reports we file with, or furnish to, the SEC. Investors may access our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K free of charge (as soon as reasonably practicable after these materials are electronically filed with, or furnished to, the SEC) by going to the Investor Relations section of our website (www.navigant.com/investor_relations) and searching under SEC Filings. These materials are also available in printed form free of charge upon request. Requests should be submitted to: Navigant Consulting, Inc., 30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606, Attention: Investor Relations.

Item 1A. *Risk Factors*

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

Risks Related to the Market

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

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

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

The market for consulting services is highly competitive, highly fragmented, and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including general management and information technology consulting firms, strategy firms, the global accounting firms and other local, regional, national, and international consulting firms. Many of these firms are international in scope and have larger teams of personnel and greater financial, technical and marketing resources than we do. Some firms may have lower overhead and other operating costs and, therefore, may be able to more effectively compete through lower cost service offerings. Many of our clients operate in highly regulated industries such as healthcare, energy, financial services and insurance. Regulatory and legislative changes in these industries could potentially render certain of our service offerings obsolete and decrease our competitive position. If we cannot compete effectively, our results of operations and financial condition could be adversely impacted.

Our inability to successfully recruit, retain and incentivize our senior-level consultants will affect our ability to win new client engagements and compete effectively.

We rely heavily on a group of senior-level consultants and business development professionals. We believe our future success is dependent on our ability to successfully recruit and retain their services. Competition for skilled consultants is intense, and compensation and retention related issues are a continuing challenge. The consulting industry has low barriers to entry making it easy for consultants to start their own businesses or work independently. In addition, it is relatively easy for consultants to change employers. Although we offer various incentive compensation programs, including share-based compensation designed to retain and incentivize our senior-level consultants, there can be no assurance that these programs will be effective. Further, limitations on available shares under our equity compensation plans or a sustained decline in our stock price could also affect our ability to offer adequate share-based compensation as incentives to our senior-level consultants.

Our inability to successfully recruit, retain and incentivize our senior-level consultants could have an adverse effect on our ability to win new client engagements or meet client needs in our current engagements, and our results of operations could be adversely affected. Further, our failure to realize the expected financial returns from our recruiting or incentive investments could adversely impact our results of operations.

Risks Related to Capital and Financing

We cannot be assured that we will have access to sufficient sources of capital to meet our working capital needs or the future needs of our business.

We rely on our current cash and cash equivalents, cash flows from operations and borrowings under our credit agreement to fund our short-term and anticipated long-term operating activities. Our credit agreement provides a $400.0 million revolving credit facility. At our option, subject to the terms and conditions in the credit agreement, we may elect to increase commitments under the credit facility up to an aggregate amount of $500.0 million. The credit facility becomes due and payable in full upon maturity in September 2018. At December 31, 2013, we had $56.7 million in borrowings outstanding under the credit facility and approximately $325.0 million available for future borrowings. There can be no assurance that the credit facility will continue to be sufficient to meet the future needs of our business, particularly if a decline in our financial performance occurs. If this occurs, and we are unable to otherwise increase our operating cash flows or raise additional capital or obtain other debt financing, we may be unable to meet our future working capital needs, including, for example, funding our acquisitions. Furthermore, if our clients financial condition were to deteriorate, impairing their ability to make payments due to us, our operating cash flows would be adversely impacted which could require us to fund a greater portion of our working capital needs with borrowings under our credit facility. Lastly, certain financial institutions that are lenders under our credit facility could be adversely impacted by significant economic turmoil or financial market disruptions and therefore could become unable to meet their commitments under our credit facility, which in turn would reduce the amounts available to us under that facility.

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

Our credit agreement contains financial covenants requiring that we maintain, among other things, certain levels of fixed charge and debt coverage. Poor financial performance could cause us to be in default of these covenants. While we were in compliance with these covenants at December 31, 2013, there can be no assurance that we will remain in compliance in the future. Our borrowings under the credit facility tend to be higher during the first half of the year to fund annual incentive payments, and as a result, our consolidated leverage ratio is expected to increase from December 31, 2013 levels. If we fail to comply with the covenants in our credit agreement, this could result in our having to seek an amendment or waiver from our lenders to avoid the termination of their commitments and/or the acceleration of the maturity of outstanding amounts under the credit facility. The cost of our obtaining an amendment or waiver could be significant, and further, there can be no assurance that we would be able to obtain an amendment or waiver. If our lenders were unwilling to enter into an

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amendment or provide a waiver, all amounts outstanding under our credit facility would become immediately due and payable.

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

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

Risks Related to our Business Operations

Our results of operations and consequently our business may suffer if we are not able to maintain current bill rates, compensation costs and/or utilization rates.

Our revenues and profitability are largely based on the bill rates charged to our clients, compensation costs and the number of hours our consultants work on client engagements, which we define as the utilization of our consultants. Accordingly, if we are not able to maintain adequate bill rates for our services, maintain compensation costs or obtain appropriate utilization rates from our consultants, our results of operations may suffer. Bill rates, compensation costs and consultant utilization rates are affected by a number of factors, including:

- Our ability to predict future demand for our services and maintain the appropriate staffing levels without significant underutilized consultants;
- Our ability to transition consultants from completed client engagements to new client engagements;
- Our clients perceptions of our ability to add value through our services;
- Our competitors pricing of services and compensation levels;
- The market demand for our services;
- The market rate for consultant compensation;
- Our ability to manage our human capital resources particularly as we increase the size and diversity of our workforce and expand into new service offerings as part of our growth strategies;
- The economic, political and regulatory environment as noted above; and
- Our ability to accurately estimate and appropriately manage the costs of fixed fee client engagements.

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

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

- Interim management engagements, including those for hospitals and other healthcare providers;
- Engagements where we assist clients in complying with healthcare-related regulatory requirements;
- Corporate restructuring engagements, both inside and outside of bankruptcy proceedings;
- Engagements where we deliver a fairness opinion;

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- Engagements where we deliver project management services for large construction projects;
- Engagements where we receive or process or host sensitive data, including personal consumer or private health information;
- Engagements where we deliver a compliance effectiveness opinion;
- Engagements involving independent consultants reports in support of financings; and
- Engagements for governmental clients.

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

We have offices in the United Kingdom, Canada, China, United Arab Emirates and other countries outside of the U.S. and conduct business in several other countries. We expect to continue to expand globally and our international revenues may account for an increasing portion of our revenues in the future. Our international operations carry special financial, business and legal risks, including:

- Cultural and language differences;
- Employment laws and related factors that could result in lower utilization, higher compensation costs, and cyclical fluctuations of utilization and revenues;
- Currency fluctuations that could adversely affect our financial position and operating results;
- Differing regulatory requirements and other barriers to conducting business;
- Impact on consulting spend from international firms and global economies impacted by the European sovereign debt crisis and related government and economic response;
- Risks associated with engagements performed by employees and independent contractors with foreign officials and governmental agencies, including the risks arising from the anti-bribery and corruption regulations;
- Greater difficulties in managing and staffing foreign operations, including in high risk geographies;
- Successful entry and execution in new markets;
- Restrictions on the repatriation of earnings; and
- Potentially adverse tax consequences, such as net operating loss carry forwards that cannot be realized or higher effective tax rates.

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

Our inability to effectively execute on long-term growth objectives could adversely affect our results of operations and our share value.

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

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

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

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

Many of our engagements can be terminated as a result of factors beyond our control, therefore, our inability to successfully maintain a sales pipeline and to attract business from new or existing clients could have a material adverse effect on our results of operations.

Many of our client engagement agreements are short term in nature (less than one year) or can be terminated by our clients with little or no notice and without penalty. For example, in our litigation-related engagements, if the litigation is settled, our services usually are no longer necessary and our engagement is promptly terminated. Some of our services involve multiple engagements or stages. In those engagements, there is a risk that a client may choose not to retain us for the additional stages of an engagement or that a client will cancel or delay additional planned engagements. Our client engagements are usually relatively short term in comparison to our office-related expenses and other infrastructure commitments. Therefore, we rely heavily on our senior-level consultants ability to develop new business opportunities for our services.

In the past, we have derived significant revenues from events as inherently unpredictable as the California energy crisis, the Sarbanes-Oxley Act of 2002, healthcare reform, the credit crisis and significant natural disasters including major hurricanes and earthquakes. Those events, in addition to being unpredictable, often have impacts that decline over time as clients adjust to and compensate for the challenges they face. These factors also limit our ability to predict future revenues and human capital resource needs especially for large engagements that may end abruptly due to factors beyond our control which in turn could adversely impact our results of operations.

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

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

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

We believe that the Navigant brand is an important part of our overall effort to attract and retain clients and that the importance of brand recognition will increase as competition for our services increases. We may expand our marketing activities to promote and strengthen our brand and may need to increase our marketing budget, hire additional marketing personnel or expend additional amounts to protect our brand and otherwise to create and maintain client brand loyalty. If we fail to effectively promote and maintain the Navigant brand, or incur excessive expenses in doing so, our business and results of operations could be adversely impacted.

We encounter professional conflicts of interest.

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

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

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

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

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

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

Because we have acquired a significant number of businesses, goodwill and other intangible assets represent a significant portion of our total assets. Under generally accepted accounting principles, we are required to perform an annual impairment test at the reporting unit level on our goodwill and, on a quarterly basis, we are required to assess the recoverability of both our goodwill and long-lived intangible assets. We consider our operating segments to be our reporting units. We may need to perform an impairment test more frequently if events occur or circumstances indicate that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business climate, attrition of key personnel, a prolonged decline in our stock price and market capitalization, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of one of our businesses, and other factors. If the fair market value of one of our reporting units or other long-lived intangible assets is less than the carrying amount of the related assets, we could be required to record an impairment charge in the future. The valuation of our reporting units requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial health of our reporting units, including such factors as market performance, changes in our client base and projected growth rates. Because these factors are ever changing, due to market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be impaired in future periods. At December 31, 2013, we had goodwill of $615.3 million and net intangible assets of $10.8 million. The amount of any future impairment could be significant and

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could have a material adverse effect on our financial results. See Note 6 Goodwill and Intangible Assets, Net to the notes to our consolidated financial statements.

We are subject to unpredictable risks of litigation.

Although we seek to avoid litigation whenever possible, from time to time we are party to various lawsuits and claims. Disputes may arise, for example, from client engagements, employment issues, regulatory actions, business acquisitions and real estate and other commercial transactions. There can be no assurances that any lawsuits or claims will be immaterial in the future. Any material lawsuits or claims could adversely affect our business and reputation.

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

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

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

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

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

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

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

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

Risks Related to Technology

We have invested in specialized technology and other intellectual property for which we may fail to fully recover our investment or which may become obsolete.

We have invested in developing specialized technology and intellectual property, including proprietary systems, processes and methodologies, that we believe provide us a competitive advantage in serving our current

clients and winning new client engagements. Many of our service offerings rely on specialized technology or intellectual property that is subject to rapid change, and to the extent that this technology and intellectual property is rendered obsolete and of no further use to us or our clients, our ability to continue offering these services, and grow our revenues, could be adversely affected. There is no assurance that we will be able to develop new, innovative or improved technology or intellectual property or that our technology and intellectual property will effectively compete with the intellectual property developed by our competitors. If we are unable to develop new technology and intellectual property or if our competitors develop better technology or intellectual property, our revenues and results of operations could be adversely affected.

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

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

Our organization works on engagements globally. Our technology infrastructure and operating systems allow us to operate in a virtual environment as well as provide the tools necessary to offer technology, data and process services to our clients. We may be subject to disruption to our operating systems from technology events that are beyond our control, including but not limited to the possibility of failures at third-party data centers, disruptions to the internet, natural disasters or malicious attacks. While we have taken steps to prevent such events and have developed disaster recovery processes, there can be no assurance that these steps will be effective in every situation. Such disruptions could adversely affect our ability to fulfill client engagements and as a result may damage our reputation and adversely affect our business and results of operations.

If the integrity of our information systems is compromised or our information systems are inadequate to keep up with the needs of our business, our reputation, business and results of operations could be adversely affected.

We depend on information systems to manage and run our business. Additionally, certain services we provide require us to store, transmit or process sensitive or confidential client information, including personal consumer information and health or other personally identifiable information. If any person, including any of our employees or third-party vendors with whom we contract for data hosting services, negligently disregards or intentionally breaches the information security controls we have implemented to protect our clients data, or those security controls prove to be ineffective against intrusion, we could incur legal liability and may also be subject to regulatory enforcement actions, fines and/or criminal prosecution in multiple jurisdictions. Our potential liability in the event of a security breach of client data could be significant and depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit of liability or an exclusion of consequential or indirect damages. Any unauthorized disclosure of sensitive or confidential client information, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems, including an intentional attack by any person who may develop and deploy viruses, worms or other malicious software programs, could result in negative publicity, legal liability and damage to our reputation and could have a material adverse effect on our business and results of operations.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our principal executive offices are leased and are located in Chicago, Illinois. We have approximately 60 other operating leases for office facilities, principally in the United States. Our office space needs in certain geographic areas may change as our business expands or contracts in those areas. Due to the nature of consulting

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work, we strive to keep our office workspace flexible and promote a virtual work environment, where appropriate, in order to minimize office facility costs.

Item 3. ***Legal Proceedings.***

On November 27, 2013, United States Attorney s Office for the Eastern District of New York (USAO) informed us that it had closed its investigation into the matters outlined in a report by the Moreland Commission on Utility Storm Preparation and Response (the Commission). The USAO investigation did not indicate any findings of wrongdoing on our part or any of the individual employees referenced in the Commission s report.

We are not party to any material legal proceedings.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

Executive Officers of the Registrant

The following are our executive officers at February 14, 2014:

Name	Title	Age
Julie M. Howard	Chief Executive Officer	51
William M. Goodyear	Executive Chairman of the Board	65
Lee A. Spirer	Executive Vice President and Global Business Leader	47
Lucinda M. Baier	Executive Vice President and Chief Financial Officer	49
Monica M. Weed	Executive Vice President, General Counsel and Secretary	53

Julie M. Howard, 51, has served as our Chief Executive Officer and a member of our board of directors since March 2012. Ms. Howard served as our President from 2006 to March 2012 and our Chief Operating Officer from 2003 to March 2012. From 2001 to 2003, Ms. Howard was our Vice President and Human Capital Officer. Prior to 2001, Ms. Howard held a variety of consulting and operational positions with several professional services firms, including the Company. Ms. Howard is currently a member of the board of directors of Innerworkings Inc. and Kemper Corporation (formerly Unitrin, Inc.) and a member of the Foundation Board for Lurie Children s Hospital of Chicago. Ms. Howard is a founding member of the Women s Leadership and Mentoring Alliance (WLMA). Ms. Howard is a graduate of the University of Wisconsin, with a Bachelor of Science degree in Finance. She has also completed several post-graduate courses within the Harvard Business School Executive Education program, focusing in finance and management.

William M. Goodyear, 65, has served as Chairman of our board of directors since May 2000. He served as Chief Executive Officer from May 2000 through February 2012. He has been a member of our board of directors since December 1999. Prior to December 1999, he served as Chairman and Chief Executive Officer of Bank of America Illinois and was President of Bank of America s Global Private Bank. From 1972 to 1999, Mr. Goodyear held a variety of assignments with Continental Bank, subsequently Bank of America, including corporate finance, corporate lending, trading and distribution. During this 28-year period, Mr. Goodyear was stationed in London for five years (1986 to 1991) to manage Continental Bank s European and Asian Operations. He was Vice Chairman and a member of the Board of Directors of Continental Bank prior to the 1994 merger between Continental Bank and BankAmerica Corporation. Mr. Goodyear is currently a member of the board of directors of Exterran Holdings, Inc. and Chairman of the Board of Trustees of Rush University Medical Center and a member of its Executive Committee. He also serves as a trustee and member of the Executive Committee of the Board of Trustees for the Museum of Science and Industry and a member of the Board of Trustees of the University of Notre Dame. Mr. Goodyear received a Master s degree in Business Administration, with Honors, from the Amos Tuck School of Business at Dartmouth College, and a Bachelor s degree in Business Administration, with Honors, from the University of Notre Dame.

Lee A. Spirer, 47, has served as our Executive Vice President and Global Business Leader since November 2012. Mr. Spirer has served in a variety of strategic and operational roles in a range of professional and business services organizations. From April 2009 to May 2012, Mr. Spirer served as Senior Vice President and Global Business Head of Kroll Risk & Compliance Solutions, and prior to that, from September 2005 to February 2008, Mr. Spirer served as Senior Vice President and Global Leader of Corporate Strategy and Development for Dun & Bradstreet Corporation. From June 2001 to September 2005, Mr. Spirer held several senior management roles at IBM Business Consulting Services, last serving as General Manager, Global Financial Markets. In addition, from March 2008 to April 2009 and again from June 2012 to October 2012, Mr. Spirer served as Managing Partner of LAS Advisory Services, advising private equity and venture capital firms on a variety of strategic and operational issues. Mr. Spirer is a graduate of The Wharton School with a Masters of Business Administration and Brandeis University with a Bachelor s degree in Economics, with high honors and Phi Beta Kappa.

Lucinda M. Baier, 49, has served as our Executive Vice President since February 2013 and Chief Financial Officer since March 2013. Previously, Ms. Baier served as Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Central Parking System, Inc., a leading firm in parking management and marketing, from August 2011 to October 2012, having previously served as Senior Vice President and Chief Financial Officer since September 2010. Prior to that, Ms. Baier was Executive Vice President and Chief Financial Officer of Movie Gallery, Inc., a home entertainment specialty retailer, from July 2008 to February 2010. In February 2010, Movie Gallery, Inc. filed for reorganization under Chapter 11 of the Bankruptcy code. From 2006 to July 2008, Ms. Baier served as Chief Financial Officer of World Kitchen, LLC. Ms. Baier is a member of the Board of Directors and Audit Committee of The Bon-Ton Stores, Inc. Ms. Baier is a graduate of Illinois State University, with Bachelor and Master of Science degrees in Accounting and is a Certified Public Accountant.

Monica M. Weed, 53, has served as our Executive Vice President since October 2013 and General Counsel and Secretary since November 2008. Previously, Ms. Weed served as Associate General Counsel for Baxter Healthcare Corporation from March 2006 to October 2008. From March 2004 to March 2006, Ms. Weed served as Special Counsel, Rights Agent and Litigation Trustee to Information Resources, Inc. Litigation Contingent Payment Rights Trust, a publicly traded litigation trust. From 1991 through 2004, Ms. Weed served in a variety of legal roles, including Executive Vice President, General Counsel and Corporate Secretary, for Information Resources, Inc., an international market research provider to the consumer packaged goods industry. She started her legal career at the law firm of Sonnenschein Nath & Rosenthal (now Dentons). Ms. Weed received a Bachelor of Arts in Classics from Northwestern University, a law degree from the Northwestern University School of Law and a Master s degree in Business Administration from the Kellogg Graduate School of Management, Northwestern University.

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PART II

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

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol NCI. The following table sets forth, for the periods indicated, the high and low closing sale prices per share of our common stock.

	High	Low
2013		
Fourth quarter	$ 19.78	$ 15.07
Third quarter	$ 15.91	$ 12.00
Second quarter	$ 14.00	$ 10.91
First quarter	$ 13.60	$ 10.84
2012		
Fourth quarter	$ 11.38	$ 9.47
Third quarter	$ 13.45	$ 10.70
Second quarter	$ 14.62	$ 11.12
First quarter	$ 14.48	$ 11.60

Holders

At February 12, 2014, there were 243 holders of record of our shares of our common stock.

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

Dividends

We did not declare or pay any dividends during the years ended December 31, 2013 or December 31, 2012. Dividend and other capital structure policy issues are reviewed on a periodic basis by our board of directors. In addition, the covenants in our credit agreement may limit our ability to pay dividends in the future.

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Shareholder Return Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return on our common stock against the New York Stock Exchange Market Index (the NYSE Index) and the peer group described below. The graph assumes that $100 was invested on December 31, 2008 in each of our common stock, the NYSE Index and the peer group. The graph also assumes that all dividends, if paid, were reinvested.

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

Measurement Period	Navigant Consulting, Inc.	NYSE Index	Peer Group(a)
FYE 12/31/08	$ 100.00	$ 100.00	$ 100.00
FYE 12/31/09	93.64	128.95	114.14
FYE 12/31/10	57.97	146.69	140.94
FYE 12/31/11	71.90	141.46	146.80
FYE 12/31/12	70.32	164.45	163.74
FYE 12/31/13	120.98	207.85	231.26

a) The Peer Group consists of the following companies: The Advisory Board Company, CBIZ Inc., The Corporate Executive Board Company, CRA International Inc. (formerly known as Charles River Associates, Inc.), Duff & Phelps Corporation (delisted on May 2, 2013), Exponent, Inc., FTI Consulting, Inc., Gartner Group, Inc., Heidrick & Struggles International Inc., Hill International, Inc., Huron Consulting Group Inc., ICF International, Inc., HIS, Inc., Korn/Ferry International, MAXIMUS, Inc., Resources Connection, Inc., Sapient Corporation, Tetra Tech, Inc., TRC Companies and VSE Corporation. The Peer Group is weighted by market capitalization. The Peer Group is the same as the current peer group used by the compensation committee of our board of directors (except for Duff & Phelps Corporation which is no longer part of the peer group as a result of its delisting) to make executive compensation decisions.

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Issuance of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth repurchases of our common stock during the fourth quarter of 2013:

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)
Oct 1 - 31, 2013	89,527	$ 15.51	83,815	$ 54,953,487
Nov 1 - 30, 2013	122,200	$ 17.90	122,200	$ 52,766,630
Dec 1 - 31, 2013	135,124	$ 18.91	133,300	$ 50,246,628
Total	346,851	$ 17.68	339,315	

(a) Includes 7,536 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. On February 11, 2014, our board of directors increased the stock repurchase authorization by approximately $50 million and extended the authorization to December 31, 2015. As increased and extended, we are authorized to repurchase up to $100 million in shares of our common stock during the two year period ending December 31, 2015.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information with respect to shares of our common stock that may be issued under our equity compensation plans as of December 31, 2013:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Further Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	771,112	$ 12.28	4,170,288
Equity compensation plans not approved by security holders	8,900	$ 20.56	

Total	780,012	$ 12.37	4,170,288

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Item 6. ***Selected Financial Data.***

The following five year financial and operating data should be read in conjunction with the information set forth under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto appearing elsewhere in this report. During the year ended December 31, 2013 we sold the United Kingdom financial services advisory business, as such, the results have been reclassified to discontinued operations to reflect this transaction. The amounts are shown in thousands, except for per share data.

	For the year ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Revenues before reimbursements	$ 734,433	$ 722,190	$ 671,289	$ 604,273	$ 615,461
Reimbursements	101,152	96,007	83,425	75,860	64,849
Total revenues	835,585	818,197	754,714	680,133	680,310
Cost of services before reimbursable expenses	487,967	476,344	449,417	404,603	401,693
Reimbursable expenses	101,152	96,007	83,425	75,860	64,849
Total costs of services	589,119	572,351	532,842	480,463	466,542
General and administrative expenses	127,079	141,195	130,430	121,568	128,947
Depreciation expense	16,180	14,986	13,303	14,457	17,600
Amortization expense	6,826	6,767	8,658	6,125	11,357
Other operating costs (benefit):					
Intangible assets impairment				7,307	
Contingent acquisition liability adjustments, net	(5,399)	1,065			
Office consolidation	348	580		(900)	8,810
Gain on disposition of assets	(1,715)				
Operating income	103,147	81,253	69,481	51,113	47,054
Interest expense	4,433	5,453	7,292	10,704	15,076
Interest income	(463)	(872)	(1,447)	(1,309)	(1,211)
Other expense (income), net	175	(78)	(279)	(567)	(182)
Income from continuing operations before income tax expense	99,002	76,750	63,915	42,285	33,371
Income tax expense	43,890	32,518	27,770	17,433	14,786
Net income from continuing operations	55,112	44,232	36,145	24,852	18,585
(Loss) income from discontinued operations, net of tax	(2,919)	1,937	4,985	(795)	3,362
Net income	$ 52,193	$ 46,169	$ 41,130	$ 24,057	$ 21,947
Basic per share data					
Net income from continuing operations	$ 1.11	$ 0.87	$ 0.71	$ 0.50	$ 0.39
(Loss) income from discontinued operations, net of tax	(0.06)	0.04	0.10	(0.02)	0.07
Net income	1.05	0.91	0.81	0.49	0.46
Shares used in computing per basic share data	49,771	50,894	50,820	49,405	48,184
Diluted per share data					
Net income from continuing operations	$ 1.08	$ 0.86	$ 0.70	$ 0.49	$ 0.37
(Loss) income from discontinued operations, net of tax	(0.06)	0.04	0.10	(0.02)	0.07
Net income	1.02	0.90	0.80	0.48	0.44
Shares used in computing per diluted share data	50,951	51,572	51,371	50,447	49,795

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	At December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data					
Cash and cash equivalents	$ 1,968	$ 1,052	$ 2,969	$ 1,981	$ 49,144
Working capital	73,040	85,341	64,681	63,906	114,744
Total assets	904,197	954,450	875,201	869,035	820,245
Total non-current liabilities	169,260	237,412	205,199	252,735	268,019
Total stockholders equity	597,075	559,743	513,678	460,721	418,792

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

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

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). 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. Revenue is also earned on a per unit or subscription basis. 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 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 that indirectly support client engagements. Office-related expenses primarily consist of rent for our offices. Other administrative costs include bad debt expense, marketing, technology, finance and human capital management.

Because our ability to derive fees is largely reliant on the hiring and retention of personnel, the average number of full-time equivalents (FTE) and our ability to keep consultants utilized are important drivers of the business. The average number of FTE 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 FTE s in response to changing demand.

While hiring and retention of personnel are key to driving revenues, FTE levels and related consultant compensation in excess of demand drive additional costs that can negatively impact margin. From time to time, we hire independent contractors 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. Costs relating to these employees are recorded as reimbursable expenses with the corresponding reimbursement from the client recorded as reimbursements. Margins associated with the use of these contractors are recorded as revenues before reimbursements. Consequently changes in the contractor usage levels will impact our segment operating profit margins from period to period.

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 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.

Additional information about our operations is included in Item 1 Business of this report.

Acquisitions

For details of our acquisitions, see Note 3 Acquisitions to the notes to our consolidated financial statements.

Dispositions and Discontinued Operations

During the year ended December 31, 2013, we had two dispositions. We sold a portion of the economics business within our Disputes, Investigations & Economics segment. In accordance with ASC Topic 205 Presentation of Financial Statements (ASC Topic 205), we consider the economics business within this segment to be continuing. In addition, we sold the United Kingdom financial services advisory business within our Financial, Risk & Compliance segment. All significant cash flows from this business have been eliminated, and we will have no continuing involvement in the operations of this business. As such, in accordance with ASC Topic 205, all operations of this disposed business have been reclassified as discontinued operations.

Additional information regarding these dispositions, including the required disclosures under ASC Topic 205, may be found in Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements.

Prior period results have been reclassified to reflect continuing operations only unless otherwise stated.

Key Operating Metrics

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

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

Client Service FTE combination of Consulting FTE and Technology, Data & Process FTE defined as follows:

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

Technology, Data & Process FTE individuals in businesses primarily dedicated to maintaining and delivering the services described above and are not included in average bill rate and average utilization metrics described below.

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

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

Average bill rate is calculated by dividing fee revenues before certain adjustments such as discounts and markups, by the number of hours associated with the fee revenues. Fee revenues and hours billed on performance-based services and related to Technology, Data & Process FTE are excluded from average bill rate.

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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).

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 attributable 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 exclude the impact of independent contractors and project employees.

Results of Operations

	For the Year Ended December 31,			2013 over 2012 Increase (Decrease) Percentage	2012 over 2011 Increase (Decrease) Percentage
	2013	2012	2011		
Key operating metrics:					
Average FTE					
Consulting	1,523	1,506	1,509	1.1	(0.2)
Technology, Data & Process	451	361	247	24.9	46.2
Non-billable	534	539	527	(0.9)	2.3
Period end FTE					
Consulting	1,516	1,560	1,513	(2.8)	3.1
Technology, Data & Process	524	400	304	31.0	31.6
Non-billable	534	546	527	(2.2)	3.6
Average bill rate	$ 277	$ 280	$ 281	(1.1)	(0.4)
Utilization	75%	75%	77%		(2.6)

Results for the year ended December 31, 2013 compared to the year ended December 31, 2012

Overview. We reported a $10.9 million, or 24.6%, increase in net income from continuing operations in 2013 compared to 2012. This increase was driven mainly by:

Revenue before reimbursements (RBR) increased 1.7% for the period as increases within our Healthcare, Energy and Financial, Risk & Compliance segments were partially offset by lower RBR from our Disputes, Investigations & Economics segment (see segment results below for further detail).

Cost of services before reimbursable expenses increased 2.4% primarily due to higher wages mainly as a result of higher client servicing FTE levels and higher information technology related costs partially offset by lower retention-based incentive compensation expense and lower training costs.

General and administrative expenses decreased 10.0% due to lower bad debt expense, information technology and facilities expenses partially offset by higher performance-based incentive compensation expense and wages expense.

A $5.4 million other operating benefit in 2013 compared to a $1.1 million other operating cost in 2012 relating to fair value adjustments to our estimated deferred contingent acquisition liabilities.

A $1.7 million gain on disposition of assets relating to the sale of a portion of our economics business within our Disputes, Investigations & Economics segment (see Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements for further information on the sale).

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Revenues before Reimbursements. For 2013, RBR increased 1.7% compared to 2012. Including the impact of our acquisitions on a pro forma basis, RBR decreased 3.1% for 2013 compared to 2012. Our Healthcare segment s RBR increased 21.0% both organically and through acquisitions for 2013 compared to 2012 as a result of growing demand for services due to transformational changes in the healthcare industry. For the same period, our Energy segment s RBR grew 5.3% mainly due to growth in energy efficiency service offerings. The Financial, Risk & Compliance segment contributed an increase of 10.1% to RBR growth in 2013 compared to 2012 reflecting increased activity in regulatory compliance, including anti-money laundering consulting, partially offset by reduced RBR from the mortgage servicing review engagements during 2013. Our Disputes, Investigations & Economics segment s RBR decreased 11.3% mainly due to the January 2013 sale of a portion of the economics business partially offset by RBR contributions from our December 2012 AFE acquisition and overall lower demand for general litigation and forensic accounting. Further detail on RBR can be found in the segment results discussion below.

RBR included performance-based fees of $7.2 million and $10.7 million for the years ended December 31, 2013 and 2012, respectively. The year-over-year decrease was primarily associated with our Healthcare segment.

Utilization levels for 2013 were flat at 75% compared to 2012. Average bill rate decreased 1.1% to $277. Average FTE Consulting for 2013 increased 1.1% compared to 2012 reflecting an increase within the Healthcare segment, partially a result of the Easton acquisition, offset by a decrease in our Disputes, Investigations & Economics FTE, which was mainly a result of the disposition of a portion of the economics business. Average FTE Technology, Data & Process increased 24.9% to support technology related engagements including: technology solutions and financial services engagements within our Disputes, Investigations & Economics segment and technology solutions engagements and revenue cycle outsourcing engagements within our Healthcare segment. In addition, our acquisition of Pike Research in July 2012 added additional headcount. These additions were offset by a decrease in claims and billing related FTE s within our Disputes, Investigations & Economics segment due to a decrease in demand.

Cost of Services Before Reimbursable Expenses. Cost of services before reimbursable expenses increased 2.4% for 2013 compared to 2012. The increase in cost of services was mainly due to higher wages associated with the increase in FTE levels, annual wage increases and higher severance partially offset by lower compensation as a result of the sale of a portion of the economics business and lower retention-based incentive compensation. Higher information technology expenses as a result of the increase in technology related engagements also contributed to the increase. These were partially offset by lower training expenses and benefit expenses attributable to lower medical claims. Severance expense relating to client service FTE s for 2013 and 2012 was $4.1 million and $3.1 million, respectively.

General and Administrative Expenses. General and administrative expenses decreased 10.0% for 2013 compared to 2012. The decrease was driven by significantly lower bad debt expense, lower facilities expense, lower technology expense and lower training costs due to a reduction in programs in 2013. These decreases were partially offset by higher performance-based incentive compensation and share-based compensation expense due to new hires and 2012 grants.

General and administrative expenses were 17.3% and 19.6% of RBR for 2013 and 2012, respectively. Cost management and lower bad debt expense contributed to the year-over-year improvement. The decrease in bad debt expense was a result of collections of previously reserved accounts receivable balances. Bad debt expense was $0.1 million and $6.4 million for 2013 and 2012, respectively. Improved collections are reflected in our days sales outstanding (DSO) which improved to 65 days at December 31, 2013 compared to 72 days at December 31, 2012.

Depreciation Expense. The increase in depreciation expense of 8.0% for 2013 compared to 2012 was primarily due to increased technology infrastructure spending.

Amortization Expense. Amortization expense increased 0.9% for 2013 compared to 2012. The increase was due mainly to amortization relating to recent acquisitions partially offset by reduced amortization associated with certain intangible assets which became fully amortized as their useful lives came to term.

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Other Operating Costs (Benefit)

Contingent acquisition liability adjustment. During 2013 and 2012, we recorded a benefit of $5.4 million and an expense of $1.1 million, respectively, relating to fair value adjustments to our estimated deferred contingent acquisition liabilities.

Office consolidation. During 2013 and 2012, we recorded a cost of $0.3 million and $0.6 million, respectively, as we recorded a $0.5 million of additional depreciation expense relating to the consolidation of two office spaces and a benefit of $0.2 million for earlier-than-anticipated sublease income related to one previously vacated office space in 2013. In 2012, we recorded an expense relating to office space abandoned with our December 2012 AFE acquisition.

Gain on disposition of assets. During 2013, we recorded a $1.7 million gain relating to the January 31, 2013 sale of a portion of our economics business within our Disputes, Investigations & Economics segment. The gain reflected proceeds of $15.6 million in cash, net of selling expenses, $6.5 million of working capital and $7.4 million of goodwill.

Interest Expense. Interest expense decreased 18.7% for 2013 compared to 2012. This decrease was due to lower average borrowings for 2013 compared to 2012. In addition, our average borrowing rate was lower for 2013 compared to 2012. Our average borrowing rates under our credit facility, including the impact of our interest rate derivatives (see Note 11 Derivatives and Hedging Activity to the notes to our consolidated financial statements), were 2.5% and 2.7% for 2013 and 2012, respectively. See Note 12 Bank Debt to the notes to our consolidated financial statements for further information on borrowings under our credit facility.

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

Our effective income tax rate for 2013 and 2012 was 44.3% and 42.4%, respectively. In comparison to our 2012 effective tax rate, we generated net losses from continuing operations in certain foreign jurisdictions, and based on management s judgment of future earnings in these respective jurisdictions, it was determined that the tax benefit associated with these losses from continuing operations are currently unrealizable, resulting in the recording of a valuation allowance against the losses of approximately $2.1 million.

(*Loss) Income from Discontinued Operations, net of tax*. During 2013, we sold the United Kingdom financial services advisory business within our Financial, Risk & Compliance segment. In connection with the sale, we recorded a loss of $3.7 million in discontinued operations. We did not realize any tax benefit from the loss generated on the sale. Refer to Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements for further details on our discontinued operations.

(Loss) income from discontinued operations, net of tax for 2013, excluding the loss on sale discussed above, was income of $0.8 million compared to income of $1.9 million in 2012. The decrease was mainly a result of the departure of similar consulting professionals and a decrease in general demand for financial advisory services within the international retail banking sector.

Results for the year ended December 31, 2012 compared to the year ended December 31, 2011

Revenues before Reimbursements. For 2012, RBR increased 7.6% compared to 2011. Including the impact of our acquisitions on a pro forma basis, RBR increased 4.7% for 2012 compared to 2011, mainly due to large mortgage servicing review engagements and increased service demand related to changes relating to the U.S. healthcare market. The Financial, Risk & Compliance and Healthcare segment s RBR each increased by 26.2% and 12.2%, respectively, for 2012 compared to 2011. Our Energy segment also increased 4.7% for the same periods, mainly driven by our acquisition of Pike Research. RBR in our Disputes, Investigations & Economics segment remained virtually flat for 2012 compared to 2011 as significantly higher technology revenues were largely offset by weaker general litigation and forensic accounting revenues.

RBR included performance-based fees of $10.7 million for 2012 compared to $17.7 million in 2011. The decrease was mainly a result of fewer restructuring related performance-based fees within our Financial, Risk & Compliance segment.

Utilization levels for 2012 ran at 75%, down from a 77% utilization rate in 2011. The decrease in utilization was offset by an increase in our utilization of independent contractor and project employee resources, whose billable hours contributed to the RBR increase but were not captured in our utilization metric. Average bill rate was relatively flat at $280 for 2012 compared to $281 in 2011. Average FTE Consulting also remained flat as staffing reductions within our Disputes, Investigations & Economics segment were offset by increases within our remaining segments due to new hires and acquisitions. Average FTE Technology, Data & Process increased 46.2% to support continued growth relating to: technology solutions and financial services litigation related technology engagements within our Disputes, Investigations & Economics segment; claims and billing and technology solutions engagements within our Healthcare segment; and our acquisition of Pike Research within our Energy segment.

Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased 6.0% in 2012 compared to 2011. The increased cost of services was mainly due to higher wages associated with increased FTE client service, annual wage increases and increase in use of project based staffing levels offset by lower compensation relating to the departures in the economics business. In addition, medical expenses increased 23.0%. Higher training, practice development and information technology costs also contributed to the increase. Severance expense for 2012 compared to 2011 was $3.1 million and $2.6 million, respectively. These increases were partially offset by lower performance-based incentives mainly driven by our lower restructuring related performance-based fees.

General and Administrative Expenses. General and administrative expenses increased by 8.3% for 2012 compared to 2011. The increase was driven by increased wages and benefits and other operating costs primarily relating to employee development, communications and information technology. These increases were partially offset by lower bad debt expense, which decreased $0.6 million for 2012 compared to 2011. Our days sales outstanding at December 31, 2012 improved to 72 days from 76 at December 31, 2011 due to strong fourth quarter collections. Our allowance for doubtful 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 19.6% and 19.4% of RBR for 2012 and 2011, respectively.

Depreciation Expense. The increase in depreciation expense of 12.7% for 2012 compared to 2011 was primarily due to increased technology infrastructure spending.

Amortization Expense. Amortization expense decreased 21.8% for 2012 compared to 2011. The decrease was due mainly to reduced amortization associated with certain intangible assets which became fully amortized as their useful lives came to term, partially offset by amortization relating to recent acquisitions.

Other Operating Costs:

Contingent Acquisition Liability Adjustment. During 2012, we recorded a $1.1 million expense relating to a fair value adjustment for our deferred contingent acquisition liabilities (see Note 10 Supplemental Consolidated Balance Sheet Information to the notes to our consolidated financial statements) based on the related businesses exceeding their original performance expectations.

Office Consolidation. During 2012, we recorded a $0.6 million expense relating to office space abandoned with our December 2012 AFE acquisition. The expense included assumptions of expected sublease income.

Interest Expense. Interest expense decreased 25.2% for 2012 compared to 2011 due primarily to lower average borrowings during the periods in addition to lower borrowing rates. Our average borrowing rate under our credit facility, including the impact of our interest rate swap agreements (see Note 11 Derivatives and Hedging Activity to the notes to our consolidated financial statements), was 2.7% and 3.0% for 2012 and 2011, respectively. See Note 12 Bank Debt to the notes to our consolidated financial statements for further information on borrowings under our credit facility.

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Income Tax Expense. Our effective income tax rate for 2012 and 2011 was 42.4% and 43.4% respectively. 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.

Income from Discontinued Operations, net of tax. During 2013, we sold the United Kingdom financial services advisory business within our Financial, Risk & Compliance segment. Refer to Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements for further details on our discontinued operations. Income from discontinued operations, net of tax was $1.9 million and $5.0 million in 2012 and 2011, respectively. The decrease was mainly a result of the departure of similar consulting professionals and a decrease in general demand for financial advisory services within our international market.

Segment Results

Based on their size and importance, our operating segments are the same as our reporting segments. Our performance is assessed and resources are allocated based on the following four reporting segments:

Disputes, Investigations & Economics

Financial, Risk & Compliance

Healthcare

Energy

The following information includes segment RBR, segment total revenues and segment operating profit all on a continuing basis. Certain unallocated expense amounts related to specific reporting segments have been excluded from the calculation of segment operating profit to be consistent with the information used by management to evaluate segment performance (see Note 5 Segment Information to the notes to our consolidated financial statements). Segment operating profit represents total revenues less cost of services excluding long-term compensation expense related to consultants. Long-term compensation expense attributable to consultants includes share-based compensation expense and compensation expense attributed to retention incentives (see Note 10 Supplemental Consolidated Balance Sheet Information to the notes to our 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 reclassified to be consistent with the presentation in the current year.

Disputes, Investigations & Economics

	For the Year Ended December 31,			2013 over 2012 Increase (Decrease) Percentage	2012 over 2011 Increase (Decrease) Percentage
	2013	**2012**	**2011**		
Revenues before reimbursements (in 000s)	$ 301,545	$ 340,036	$ 338,965	(11.3)	0.3
Total revenues (in 000s)	$ 326,130	$ 364,426	$ 370,850	(10.5)	(1.7)
Segment operating profit (in 000s)	$ 99,828	$ 123,288	$ 122,672	(19.0)	0.5
Key segment operating metrics:					
Segment operating profit margin	33.1%	36.3%	36.2%	(8.8)	0.3
Average FTE Consulting	548	611	668	(10.3)	(8.5)

Average FTE Technology, Data & Process	192	181	126	6.1	43.7
Average utilization rates based on 1,850 hours	71%	74%	75%	(4.1)	(1.3)
Average bill rate	$ 351	$ 343	$ 326	2.3	5.2

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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.

RBR for this segment decreased 11.3% in 2013 compared to 2012. The decrease was partially driven by the January 2013 sale of a portion of the economics business within the segment (see Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements for further information on the sale). In addition, lower demand for our general litigation and forensic accounting services and a general decline in our international businesses within this segment contributed to the decrease in RBR. The decrease was partially offset by new business from our December 2012 acquisition of AFE and increased activity in healthcare disputes partially driven by a third quarter 2013 acquisition (see Note 3 Acquisitions to the notes to our consolidated financial statements). Including the impact of our acquisitions on a pro forma basis, RBR decreased 17.1% for 2013 compared to 2012. Average FTE Consulting decreased 10.3% for 2013 compared to 2012, mainly due to planned and unplanned attrition. For the same period average FTE Technology, Data & Process increased 6.1% due to the increased staffing associated with technology-related services. Average bill rate increased 2.3% and utilization decreased 4.1% for 2013 compared to 2012. For 2013, segment operating profit decreased $23.5 million and segment operating profit margins decreased 3.2 percentage points compared to 2012. Margins for 2013 compared to 2012 were impacted in part by the decreased utilization across the segment. In addition, slightly higher severance costs which were $2.4 million and $1.9 million for 2013 and 2012, respectively, contributed to the lower margin. Our Technology, Data & Process business also had lower margins due to lower contract rates for certain high volume customers, higher wages and incremental data storage costs. In addition, we have incurred certain costs relating to projects for which revenues may be recorded in future periods as contingencies are resolved.

RBR for this segment was flat between 2012 and 2011. The demand for our general litigation, economics, forensic accounting, and U.S. construction services declined, but was offset by continued strength in financial services litigation and significant growth in our technology related services, international arbitration engagements, and non-U.S. construction practice. Average FTE Consulting decreased by 8.5% in 2012 compared to 2011 due to attrition and headcount reductions in response to lower demand in our general litigation and economics work. For the same period FTE Technology, Data & Process increased 43.7% due to the higher demand for technology related services. Average bill rates increased 5.2% during 2012 compared to 2011, due to planned rate increases and project and consultant mix. Utilization decreased by 1.3% during 2012 compared to 2011. Including the impact of our acquisitions on a pro forma basis, RBR decreased 1.4% for 2012 compared to 2011. Segment operating profit increased by $0.6 million and segment operating profit margins remained relatively flat for 2012 compared to 2011, mainly a result of higher information technology costs incurred to support growth in technology services offset by lower wages related to reduced FTE-Consulting. Severance expense for 2012 and 2011 was $1.9 million and $1.8 million, respectively.

Financial, Risk & Compliance

	For the Year Ended December 31,			2013 over 2012 Increase (Decrease) Percentage	2012 over 2011 Increase (Decrease) Percentage
	2013	**2012**	**2011**		
Revenues before reimbursements (in 000s)	$ 155,656	$ 141,421	$ 112,047	10.1	26.2
Total revenues (in 000s)	$ 190,116	$ 177,722	$ 129,693	7.0	37.0
Segment operating profit (in 000s)	$ 62,487	$ 55,926	$ 38,079	11.7	46.9
Key segment operating metrics:					
Segment operating profit margin	40.1%	39.5%	34.0%	1.5	16.2
Average FTE Consulting	226	212	186	6.6	14.0
Average utilization rates based on 1,850 hours	82%	71%	81%	15.5	(12.3)
Average bill rate	$ 271	$ 292	$ 333	(7.2)	(12.3)

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The Financial, Risk & Compliance 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 solutions, anti-money laundering, valuation and restructuring consulting to clients in a broad variety of industries.

RBR for this segment increased 10.1% for 2013 compared to 2012. RBR reflected increased activity in regulatory compliance, including a large anti-money laundering engagement and financial services engagements partially offset by lower RBR for restructuring related services and mortgage servicing review engagements. The United Kingdom financial services advisory business was sold on July 8, 2013 (see Note 4 Dispositions and Discontinued Operations to the notes to our audited consolidated financial statements), and as such, the results of this disposed business are now presented as discontinued operations. This segment had $4.6 million of performance-based fees for 2013 compared to $5.9 million for 2012. Average FTE Consulting increased 6.6% for 2013 compared to 2012 due to increased demand for the financial services engagements and the conversion of certain project employees to full-time employee status. Average bill rate decreased 7.2% and utilization increased 15.5% for 2013 compared to 2012, which reflected the impact of a recent increase in regulatory compliance activity, including a large anti-money laundering engagement, and activity relating to financial services engagements offset by lower restructuring-related advisory services. Segment operating profit increased $6.6 million and segment operating profit margins increased 0.6 percentage points mainly reflecting the increase in utilization and lower performance-based incentive compensation expense offset by an increase in commissions expense.

RBR for this segment increased 26.2% for 2012 compared to 2011. This segment achieved significant growth, due to several large engagements in the mortgage servicing review area, which was partially offset by a decline in revenues from restructuring, investigation, anti-money laundering, anti-bribery, and corruption areas. Lower performance-based fees added to the decline, totaling $5.9 million and $11.5 million for 2012 and 2011, respectively, which mainly related to our restructuring business. Average FTE Consulting increased 14.0% for 2012 compared to 2011, mainly due to ramp-up of the mortgage servicing review engagements in 2012. For 2012 compared to 2011, average bill rate decreased 12.3% due to leverage and project mix. Utilization decreased 12.3% for the same period. However, this metric is not as meaningful for this segment due to the utilization of a large number of contract and temporary staff, primarily for the labor-intensive mortgage servicing review engagements, who are not reflected in the utilization or FTE metrics. For 2012, segment operating profit increased $17.8 million, and segment operating profit margins increased 5.5 percentage points compared to 2011, mainly due to project mix, margins on contract and temporary staff offset by an increase in wages and benefits related to additional headcount and lower performance-based incentives in 2012.

Healthcare

	For the Year Ended December 31,			2013 over 2012 Increase (Decrease)	2012 over 2011 Increase (Decrease)
	2013	**2012**	**2011**	**Percentage**	**Percentage**
Revenues before reimbursements (in 000s)	$ 182,783	$ 151,065	$ 134,611	21.0	12.2
Total revenues (in 000s)	$ 205,215	$ 170,150	$ 151,841	20.6	12.1
Segment operating profit (in 000s)	$ 67,696	$ 50,959	$ 42,739	32.8	19.2
Key segment operating metrics:					
Segment operating profit margin	37.0%	33.7%	31.8%	9.8	6.0
Average FTE Consulting	435	376	361	15.7	4.2
Average FTE Technology, Data & Process	212	155	121	36.8	28.1
Average utilization rates based on 1,850 hours	76%	79%	77%	(3.8)	2.6
Average bill rate	$ 257	$ 247	$ 243	4.0	1.6

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The Healthcare segment provides strategy consulting, revenue cycle management, performance improvement, program management, physician practice management and outsourcing and technology solutions to health systems, physician practice groups, health insurance providers, governmental agencies and life sciences companies.

RBR for this segment increased 21.0% for 2013 compared to 2012. Demand continues to be strong for our service offerings in helping clients address ongoing changes in the U.S. healthcare landscape. Higher demand for revenue cycle consulting and outsourcing services contributed to the increase. In addition, the life sciences team continued to perform well with the 2012 acquisition of Easton Associates. Utilization decreased 3.8% to 76% for 2013 compared to 2012 due to changes in project mix and new hiring. Average FTE Consulting increased 15.7% for 2013 compared to 2012 due to new hires and acquisitions. Average bill rate increased 4.0% for the same period due to rate increases and change in project mix. Including the impact of our acquisitions on a pro forma basis, RBR increased 13.6% for 2013 compared to 2012. For 2013, segment operating profit increased $16.7 million, and segment operating profit margin increased 3.3 percentage points compared to 2012 due to high RBR growth and cost benefits of scaling the business.

RBR for this segment increased 12.2% for 2012 compared to 2011. The increase was due to consulting services driven by the Affordable Care Act and strong demand in the life sciences consulting area, which resulted in the acquisition of Easton Associates in the fourth quarter of 2012. Utilization increased 2.6% to 79% for 2012 from 2011. Average FTE Consulting increased 4.2% as a result of recent hires and our acquisitions. Average FTE Technology, Data & Process increased 28.1% for 2012 compared to 2011 to support our growing revenue cycle outsourcing and technology solutions services. Average bill rate increased 1.6% for the same period. Including the impact of our acquisitions on a pro forma basis, RBR increased 6.8% for 2012 compared to 2011. For 2012, segment operating profit increased $8.2 million, and segment operating profit margin increased 1.9 percentage points compared to 2011 due to higher revenue and improved expense management which were partially offset by increased performance-based incentive compensation expense.

Energy

	For the Year Ended December 31,			2013 over 2012 Increase (Decrease) Percentage	2012 over 2011 Increase (Decrease) Percentage
	2013	2012	2011		
Revenues before reimbursements (in 000s)	$ 94,449	$ 89,668	$ 85,666	5.3	4.7
Total revenues (in 000s)	$ 114,124	$ 105,899	$ 102,330	7.8	3.5
Segment operating profit (in 000s)	$ 31,280	$ 31,721	$ 32,882	(1.4)	(3.5)
Key segment operating metrics:					
Segment operating profit margin	33.1%	35.4%	38.4%	(6.5)	(7.8)
Average FTE Consulting	314	307	294	2.3	4.4
Average FTE Technology, Data & Process	47	25		88.0	
Average utilization rates based on 1,850 hours	75%	77%	80%	(2.6)	(3.8)
Average bill rate	$ 190	$ 190	$ 189		0.5

The Energy segment provides management advisory services to existing and prospective owners of energy supply and delivery assets which allow them to evaluate, plan, develop, and enhance the value of their investments within evolving market and regulatory structures. In addition, the segment provides energy efficiency and energy related market research services. Clients include utilities, independent power producers, financial entities, law firms, regulators, governmental agencies and energy equipment providers.

RBR for this segment increased 5.3% for 2013 compared to 2012. The increase was partially driven by our acquisition of Pike Research in July 2012. Additionally, RBR increased due to continued demand for energy efficiency and smart meter related engagements. These increases were partially offset by the negative impact resulting from the report issued by the Moreland Commission in New York State in late June 2013. On November 27, 2013, we reported that the United States Attorney s Office closed its investigation into the issues raised by the Moreland Commission Report with no indication of wrongdoing by us or any of our employees.

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Utilization decreased 2.6% for 2013 compared to 2012. Average FTE Consulting increased 2.3% for 2013 compared to 2012 mainly due to new hires to support the energy efficiency demand while average FTE Technology, Data & Process increased mainly due to the acquisition of Pike Research. Including the impact of our acquisition of Pike Research on a pro forma basis, RBR increased 3.4% for 2013 compared to 2012. For 2013, segment operating profit decreased $0.4 million, and segment operating profit margin decreased 2.3 percentage points compared to 2012. Margins decreased due to additional investing in the energy market research area, decrease in utilization as a result of the Moreland Commission Report mentioned above, and severance expenses which were $1.3 million for 2013 compared to nominal severance expenses for 2012.

RBR for this segment increased 4.7% for 2012 compared to 2011. The increase was driven by our acquisition of Pike Research in July 2012, as well as increased demand for our energy efficiency services, partially offset by decreased demand in operational consulting for utilities. Utilization decreased 3.8% for 2012 compared to 2011. Average FTE Consulting increased 4.4% for 2012 compared to 2011 mainly due to increases in energy efficiency while average FTE Technology, Data & Process grew mainly due to our acquisition of Pike Research. Including the impact of our acquisition of Pike Research on a pro forma basis, RBR increased 2.5% for 2012 compared to 2011. Despite higher RBR for 2012, segment operating profit decreased $1.2 million, and segment operating profit margin decreased 3.0 percentage points for 2012 compared to 2011 due to higher wages as well as lower margins relating to the Pike Research acquisition in 2012.

Unaudited Quarterly Results

The following table sets forth certain unaudited quarterly financial information. The unaudited quarterly financial information was prepared on the same basis as the audited consolidated financial statements contained elsewhere in this report. The data includes all normal recurring adjustments necessary for the fair presentation of the information for the periods presented, when read in conjunction with our consolidated financial statements and related notes thereto. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter. Discontinued operations have been reclassified to (loss) income from discontinued operations, net of tax for all periods (see Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements)

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

	Dec. 31, 2013	Sep. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	June 30, 2012	Mar. 31, 2012
Revenues before reimbursements	$ 177,789	$ 186,444	$ 187,066	$ 183,134	$ 189,326	$ 176,365	$ 175,697	$ 180,802
Reimbursements	27,035	25,163	22,589	26,365	29,586	25,765	21,705	18,951
Total revenues	204,824	211,607	209,655	209,499	218,912	202,130	197,402	199,753
Cost of services before reimbursable expenses	120,390	122,165	122,360	123,052	121,867	117,910	117,062	119,505
Reimbursable expenses	27,035	25,163	22,589	26,365	29,586	25,765	21,705	18,951
Total costs of services	147,425	147,328	144,949	149,417	151,453	143,675	138,767	138,456
General and administrative expenses	28,043	33,914	32,556	32,566	36,661	33,100	35,754	35,680
Depreciation expense	4,228	4,122	4,100	3,730	4,112	3,618	3,740	3,516
Amortization expense	1,600	1,815	1,713	1,698	1,888	1,504	1,650	1,725
Other operating costs:								
Contingent acquisition liability adjustment	(3,399)	(2,000)			445		620	
Office consolidation		(150)	290	208	580			
Gain on disposition of assets				(1,715)				
Operating income	26,927	26,578	26,047	23,595	23,773	20,233	16,871	20,376
Interest expense	942	1,094	1,172	1,225	1,267	1,297	1,426	1,463
Interest income	(92)	(96)	(112)	(163)	(286)	(167)	(181)	(238)
Other expense (income), net	218	99	6	(148)	(134)	95	(144)	105
Income from continuing operations before income tax expense	25,859	25,481	24,981	22,681	22,926	19,008	15,770	19,046
Income tax expense	11,640	11,952	10,732	9,566	9,774	7,797	6,614	8,333
Net income from continuing operations	14,219	13,529	14,249	13,115	13,152	11,211	9,156	10,713
(Loss) income from discontinued operations, net of tax		(3,303)	(299)	683	375	233	400	929
Net income	$ 14,219	$ 10,226	$ 13,950	$ 13,798	$ 13,527	$ 11,444	$ 9,556	$ 11,642
Basic per share data								
Net income from continuing operations	$ 0.29	$ 0.27	$ 0.28	$ 0.26	$ 0.26	$ 0.22	$ 0.18	$ 0.21
(Loss) income from discontinued operations, net of tax		(0.07)	(0.01)	0.01	0.01		0.01	0.02
Net income	0.29	0.21	0.28	0.27	0.27	0.22	0.19	0.23
Shares used in computing per basic share data	49,174	49,573	50,041	50,295	50,568	50,863	51,112	51,032
Diluted per share data								
Net income from continuing operations	$ 0.28	$ 0.27	$ 0.28	$ 0.26	$ 0.26	$ 0.22	$ 0.18	$ 0.21
(Loss) income from discontinued operations, net of tax		(0.07)	(0.01)	0.01	0.01		0.01	0.02
Net income	0.28	0.20	0.27	0.27	0.26	0.22	0.18	0.22
	50,603	50,762	51,022	51,360	51,340	51,460	51,685	51,797

Shares used in computing per diluted share data

Operating results fluctuate from quarter to quarter as a result of a number of factors, including the significance of client engagements commenced and completed during a quarter, timing of acquisitions, the number of business days in a quarter, employee hiring and utilization rates. The timing of revenues varies from quarter to quarter due to various factors, including the ability of clients to terminate engagements without penalty, attaining certain contractual objectives, the size and scope of assignments, and general economic conditions. Because a significant percentage of our expenses are relatively fixed, a variation in the number of client assignments, or the timing of the initiation or the completion of client assignments, can cause significant variations in operating results from quarter to quarter. Operating results are also impacted by other operating costs. In addition, interest expense and interest income fluctuate from quarter to quarter as a result of balance changes in cash and debt.

Liquidity and Capital Resources

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

	2013	2012	2011
Net cash provided by operating activities	$ 119,769	$ 75,962	$ 111,367
Net cash used in investing activities	$ (10,384)	$ (54,621)	(34,813)
Net cash used in financing activities	$ (108,437)	$ (23,386)	(75,391)

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 cash requirements are generally lower. During the year ended December 31, 2013, we continued our share repurchase program initiated in the fourth quarter of 2011, and received proceeds of $17.0 million, net of selling costs from two dispositions (see Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements). 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 DSO by dividing the accounts receivable balance, net of reserves and deferred revenue credits, at the end of the quarter, by daily revenue. Daily revenues are calculated by taking quarterly revenue divided by 90 days, approximately equal to the number of days in a quarter. DSO was 65 days at December 31, 2013, compared to 72 days at December 31, 2012. DSO is reported on a historical basis and is inclusive of discontinued operations.

Operating Activities

Net cash provided by operating activities was $119.8 million for the year ended December 31, 2013 compared to $76.0 million for the corresponding period in 2012. The increase in cash provided by operating activities was primarily due to lower incentive bonus payments for the 2012 performance year paid in 2013 compared to the incentive bonus payments for the 2011 performance year paid in 2012, higher net income, increased accounts receivable collections and a decrease in cash used for incentive loans, retention and sign-on bonuses. The decrease in net cash provided by operating activities for 2012 compared to 2011 related to higher incentive bonus payments for the 2011 performance year paid in 2012 and lower accounts receivable collections in 2012 compared to 2011.

Investing Activities

Net cash used in investing activities was $10.4 million for the year ended December 31, 2013 compared to $54.6 million and $34.8 million in 2012 and 2011, respectively. Cash used in investing activities was lower in 2013 compared to 2012 due in part to proceeds of $17.0 million from two dispositions in 2013 (see Note 4 Dispositions and Discontinued Operations to the notes to our consolidated financial statements). In addition, lower capital expenditures primarily associated with reduced technology infrastructure spending, lower investments in office facilities and lower acquisition spending during 2013 compared to 2012 contributed to the decrease in cash

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used in investing activities. Cash used in investing activities was higher in 2012 compared to 2011 due to higher acquisition activity, higher capital expenditures relating to technology infrastructure and higher office facility expenditures offset by lower deferred acquisition liability payments in 2012 compared to 2011.

Financing Activities

Net cash used in financing activities was $108.4 million for the year ended December 31, 2013 compared to cash used in financing activities of $23.4 million and $75.4 million in 2012 and 2011, respectively. The increase in cash used in financing activities was primarily due to higher debt repayments, net of borrowings, as a result of higher cash provided by operations and lower investing activity in 2013 compared to 2012. In addition, during the years ended December 31, 2013, we purchased 2,059,220 shares of our common stock in the open market for $28.3 million compared to 1,601,906 shares for $18.9 million and 234,300 shares of our common stock for $2.6 million during the year, ended December 31, 2012 and 2011, respectively. The decrease in cash used in financing activities in 2012 was primarily due to lower debt repayments, net of borrowings, due to higher investment spending, an increase in stock repurchases which began in 2011 and lower cash flow from operations.

Debt, Commitments and Capital

For further information regarding our debt, see Note 12 Bank Debt to the notes to our consolidated financial statements.

At December 31, 2013, we had total contractual obligations of $167.9 million. The following table shows the components of our significant commitments at December 31, 2013 by the scheduled years of payments (in thousands):

Contractual Obligations	**Total**	**2014**	**2015 to 2016**	**2017 to 2018**	**Thereafter**
Deferred acquisition liabilities(a)	$ 13,811	$ 5,773	$ 5,472	$ 2,566	$
Purchase agreements(b)	6,739	4,415	2,324		
Revolving credit facility(c)	56,673			56,673	
Lease commitments(d)	90,709	21,146	32,877	20,010	16,676
Total contractual obligations	$ 167,932	$ 31,334	$ 40,673	$ 79,249	$ 16,676

a) At December 31, 2013, we had $13.8 million in liabilities relating to deferred acquisition liability obligations (reflected in the table above). Of this balance, $6.3 million is in the form of contingent acquisition liability obligations which were recorded at estimated fair value and discounted to present value. Settlement of the liabilities is contingent upon certain acquisitions meeting performance targets. Assuming each of these acquisitions reach their maximum target, our maximum deferred acquisition liability would be $21.5 million at December 31, 2013.

b) We have obligations recorded in other current liabilities and other non-current liabilities of approximately $6.7 million (reflected in the table above) primarily relating to costs associated with information technology purchases associated with our technology, data & process businesses. 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 to terminate these contracts under which we expect to pay approximately $11.7 million over the next four years through 2018. These potential payments are not reflected in the table above.

c) Interest incurred on amounts we borrow under the credit facility varies based on relative borrowing levels, fluctuations in the variable interest rates and the spread we pay over those interest rates. As such, we are unable to quantify our future obligations relating to interest on the credit facility. See Note 12 Bank Debt to the notes to our consolidated financial statements for further information on our credit facility.

d) Lease commitments at December 31, 2013 include $1.8 million relating to offices we have abandoned or reduced excess space within, which have been subleased or are available for sublease. At December 31, 2013, we had contractual subleases of $2.0 million, which is not reflected in the commitment table above. Sublease income would offset our base-rent related cash outlays.

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. On February 11, 2014, our board of directors increased the stock repurchase authorization by approximately $50 million and extended the authorization to December 31, 2015. As increased and extended, we are authorized to repurchase up to $100 million in shares of our common stock during the two year period ending December 31, 2015. During the year ended December 31, 2013, we repurchased 2,059,220 shares for $28.3 million. Through December 31, 2013, we have repurchased an aggregate of 3,895,426 shares for approximately $49.8 million under this program.

We believe that our current cash and cash equivalents, future cash flows from operations and borrowings under our credit facility will provide adequate liquidity to fund anticipated short-term and long-term operating activities. However, in the event we make significant cash expenditures in the future for major acquisitions or other unanticipated activities, we may require more liquidity than is currently available to us under our credit facility and may need to raise additional funds through debt or equity financing, as appropriate. In addition, if our lenders are not able to fund their commitments due to disruptions in the financial markets or otherwise, our liquidity could be negatively impacted.

As we further develop our margin improvement goals, we anticipate taking certain actions which may include compensation and staffing alignment, improved practice cost management and targeted general and administrative cost reductions. Such actions may result in additional severance expense. We continue to evaluate under-performing practice areas and are considering various options to improve our overall financial results.

Off-balance Sheet Arrangements

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

Critical Accounting Policies

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

Revenue Recognition

We recognize revenues when evidence of an arrangement exists, the price of work is fixed or determinable, work is performed and collectability is reasonably assured. We generate the majority of our revenues from providing services under the following types of billing arrangements: time and material, fixed-fee and transaction/event-based.

For our time and material billing arrangements, clients are invoiced based on the number of hours worked by our consultants at the contracted bill rates or units of service delivered, which are reviewed on a periodic basis. Revenue is recognized as work is performed on our time and material engagements. Additionally, revenue is recognized on our units of production engagements in a similar manner based on measures such as the number of items processed at agreed-upon rates.

With our fixed-fee billing engagements, we are contracted to complete a pre-determined set of professional services for a pre-determined fee. However, the fee and engagement scope can be adjusted based on a mutual agreement between us and the client. In many cases, the recording of fixed revenue amounts requires us to make an estimate of the total amount of work to be performed, and revenues are then recognized as efforts are expended based on (i) objectively determinable output measures, (ii) input measures if output measures are not reliable or (iii) the straight-line method over the term of the arrangement.

In transaction or event-based billing arrangements, fees are tied to the completion of contractually defined requirements. In many cases, this contingent fee is earned in addition to an hourly or fixed-fee, but is not recognized until certain milestones or objectives are met. We also recognize revenue from business referral fees

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or commissions on certain contractual outcomes. Revenue recognized by transaction or event-based billing arrangements may cause unusual variations in quarterly revenues and operating results.

In connection with recording revenues, estimates and assumptions are required in determining the expected conversion of the revenues to cash. We may provide multiple services under the terms of an arrangement and are required to assess whether one or more units of accounting are present.

Reimbursable expenses for our engagements include travel, out-of-pocket and independent contractor costs. Such expenses are included in our revenue as applicable and are passed through to other cost of services. Typically, reimbursable expenses are recognized as revenue during the period in which the expenses are incurred.

Revenues recognized for services performed but not yet billed are recorded as unbilled receivables on our consolidated balance sheet. Advance payments and retainers are recorded as deferred revenue and are recognized as services are provided. Any taxes assessed on revenues relating to services provided to our clients are recorded on a net basis.

Accounts Receivable Realization

We maintain allowances for doubtful accounts for estimated losses resulting from our clients inability to make required cash payments of amounts due to us or for disputes that affect our ability to fully collect our billed accounts receivable or for potential fee reductions negotiated by clients. Our estimation is based on historical collection and our review and assessment of our clients likelihood to make required cash payments of amounts due to us. Estimated losses may vary from actual results. If our clients financial condition were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Notes Receivable and Prepaid Sign-on and Retention Bonuses

We grant and pay sign-on and retention bonuses to attract and retain certain senior-level consultants and administrative personnel. Generally, we require grantees to sign incentive recovery agreements, which obligate the grantees to fulfill a service term, typically between one to five years. If this service term is not fulfilled, the monetary equivalent of the uncompleted service term is required to be paid back to us. We record paid sign-on and retention bonuses to current and non-current other assets, and the bonuses are amortized as compensation expense over the service period as defined by the incentive recovery agreements. Certain sign-on and retention bonuses of relatively low amounts are expensed to compensation expense when paid.

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

We maintain a reserve based on our historical forfeiture rate of our sign-on and retention bonuses. The collectability of the incentive loans is reviewed on a quarterly basis based on our assessment of the employee s ability to repay the loan should the contractual requirements of the loan not be fulfilled.

Business Combinations

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

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Goodwill and Intangible Assets

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

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

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

The goodwill impairment test is performed at a reporting unit level. A reporting unit, as defined by Accounting Standards Codification 350 (ASC 350), is an operating segment of a business one level below if discrete financial information is available and regularly reviewed by segment management. At December 31, 2013, we had four operating segments which are also considered to be our reporting units, as follows: Disputes, Investigations & Economics, Financial, Risk & Compliance, Healthcare and Energy.

On January 1, 2012, we adopted the principles prescribed in Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU Topic 350) which 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 a two-step goodwill impairment test. This step is referred to as step zero. If an entity concludes that it is not likely that the fair value of the reporting unit is less than its carrying amount, we would not be required to perform a two-step impairment test for that reporting unit. The guidance lists certain factors to consider when making the qualitative assessment. In the event that the conclusion requires the two-step test, the first step compares the fair value of a reporting unit to its carrying value. The fair value is determined using a discounted cash flow analysis (income approach) and a comparable company analysis (market approach). The second step is performed only if the carrying value exceeds the fair value determined in step one.

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

The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other things.

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If the carrying value exceeds the fair value determined in step one, step two is performed. Step two requires us to calculate the implied fair value of a reporting unit s goodwill. This is accomplished by performing a hypothetical purchase price allocation for the reporting unit as of the measurement date, similar to the purchase price allocation used when purchasing a new business. We estimate the fair value of the reporting unit s assets and liabilities and deem the residual fair value of the reporting unit as the implied fair value of the reporting unit s goodwill. To the extent that the implied fair value of goodwill is below our carrying value, an impairment charge is recorded to reduce the carrying value to the implied fair value. The resulting impairment charge may be significantly higher than the difference between the carrying value and fair value determined in step one as a result of fair value assigned to other assets and liabilities in the hypothetical purchase price allocation completed in step two.

Our annual goodwill impairment test was completed in the second quarter of 2013 and was completed for each of our four reporting units. At that time, we completed the first step of the goodwill impairment test and determined that the estimated fair value of each reporting unit exceeded its net asset carrying value. Accordingly, there was no indication of impairment and the second step was not performed.

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

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

Share-Based Compensation

We recognize the cost resulting from all share-based compensation arrangements, including stock options, restricted stock and restricted stock units that we grant under our long-term incentive plans in the financial statements based on their grant date fair value. Management judgment is required in order to (i) estimate the fair value of certain share-based payments, (ii) determine the expected attribution period and (iii) assess expected future forfeitures. Additionally, certain share-based awards are granted and vest based on the achievement of certain performance goals which requires us to estimate the probability of whether or not the goals will be achieved.

Income Taxes

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. When appropriate, we evaluate the need for a valuation allowance to reduce deferred tax assets. The evaluation of the need for a valuation allowance requires management judgment and could impact our financial results and effective tax rate.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02 Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income (Topic 220). This ASU requires disclosure of significant reclassifications out of accumulated other comprehensive income. The ASU is to be applied prospectively and is effective for fiscal years beginning after December 15, 2012. We adopted this guidance effective January 1, 2013 and have presented all significant reclassifications in the Consolidated Statements of Comprehensive Income.

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In March 2013, the FASB issued Accounting Standards Update (ASU) 2013-05 Foreign Currency Matters (Topic 830). This update clarifies when to release the cumulative translation adjustment into net income when a parent of a foreign subsidiary sells a portion or all of its investment in a foreign entity. This guidance becomes effective for year end and interim periods beginning after December 15, 2013 and early adoption was permitted. In connection with our sale of the financial services business in the United Kingdom and as permitted, we elected to adopt this standard as of January 1, 2013. In accordance with the ASU, no cumulative translation adjustment was recognized as a result of the disposition during the year ended December 31, 2013.

In July 2013, the FASB issued ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (Topic 740). This update requires an entity to present unrecognized tax benefits as a reduction to deferred tax assets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, with limited exceptions. This guidance becomes effective for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. We are currently evaluating the effect this pronouncement will have on our consolidated statements of financial position, however, we do not expect the effect to be material.

Item 7A. ***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 December 31, 2013, 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 December 31, 2013, our interest rate derivatives effectively fixed our LIBOR base rate on $30.0 million of our debt. Based on borrowings under the credit facility at December 31, 2013 and after giving effect to the impact of our interest rate derivatives, our interest rate exposure was limited to $26.7 million of debt, and each quarter point change in market interest rates would result in approximately a $0.1 million change in annual interest expense.

At December 31, 2013, our cash equivalents were primarily limited to money market accounts or A rated securities, with maturity dates of 90 days or less. These financial instruments are subject to interest rate risk and will decline in value if interest rates rise. Because of the short periods to maturity of these instruments, an increase in interest rates would not have a material effect on our financial position or results of operations.

We operate in various foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations. At December 31, 2013, we had net assets of approximately $72.9 million with a functional currency of the United Kingdom Pound Sterling and $22.7 million with a functional currency of the Canadian Dollar related to our operations in the United Kingdom and Canada, respectively. At December 31, 2013, we had net liabilities denominated in the non-functional currency of approximately $1.8 million. As such, a ten percent change in the value of the local currency would result in $0.2 million foreign currency gain or loss in our results of operations. Excess cash balances held outside the United States are immaterial to our overall financial position, and therefore, we have limited exposure to repatriating funds back to the United States.

Item 8. ***Financial Statements and Supplementary Data.***

Our consolidated financial statements are in this report as pages F-3 through F-37. An index to such information appears on page F-1.

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

None.

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Item 9A. ***Controls and Procedures.***

(1) Evaluation of Disclosure Controls and Procedures
We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (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.

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

Management conducted an evaluation of the effectiveness of our internal control over financial reporting at December 31, 2013 based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, Internal Control Integrated Framework (1992). In the course of its evaluation, management concluded that we maintained effective control over financial reporting at December 31, 2013.

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

(3) Changes in Internal Control over Financial Reporting
There has been no change in our internal control over financial reporting during the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information.***
None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Navigant Consulting, Inc.:

We have audited Navigant Consulting, Inc. s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

In our opinion, Navigant Consulting, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Navigant Consulting, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and the financial statement schedule as listed in the accompanying index, and our report dated February 14, 2014 expressed an unqualified opinion on those consolidated financial statements and accompanying schedule.

/s/ KPMG LLP

Chicago, Illinois

February 14, 2014

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***
Certain information required by this Item will be included under the headings Election of Directors , Corporate Governance and Section 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement for our annual meeting of shareholders scheduled to be held on May 15, 2014 (the 2014 Proxy Statement) and is incorporated herein by reference.

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

Item 11. ***Executive Compensation.***
The information under the headings Compensation Discussion and Analysis , Compensation Committee Report , Executive Compensation , Director Compensation and Compensation Committee Interlocks and Insider Participation in the 2014 Proxy Statement is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***
Certain information required by this Item will be included under the headings Stock Ownership of Directors, Executive Officers and Principal Holders in the 2014 Proxy Statement and is incorporated herein by reference.

See Securities Authorized for Issuance Under Equity Compensation Plans in Item 5 of this report for information regarding securities authorized for issuance under our equity compensation plans.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***
The information under the headings Corporate Governance and Certain Relationships and Related Party Transactions in the 2014 Proxy Statement is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services.***
The information under the heading Independent Registered Public Accounting Firm in the 2014 Proxy Statement is incorporated herein by reference.

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Item 15. ***Exhibits and Financial Statement Schedules***

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

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

Exhibits:

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Navigant Consulting, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on May 23, 2012).
3.2	By-Laws of Navigant Consulting, Inc., as amended on July 25, 2007 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on July 26, 2007).
3.3	Amendment to By-Laws of Navigant Consulting, Inc., effective as of December 16, 2010 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on December 21, 2010).
10.1	Navigant Consulting, Inc. 2005 Long-Term Incentive Plan, as amended (incorporated by reference to Appendix C to our Definitive Notice and Proxy Statement filed with the SEC on March 28, 2007).
10.2	First Amendment to the Navigant Consulting, Inc. 2005 Long-Term Incentive Plan, as amended, effective as of April 22, 2008 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 24, 2008).
10.3	Second Amendment to the Navigant Consulting, Inc. 2005 Long-Term Incentive Plan, as amended, effective as of December 18, 2009 (incorporated by reference to Exhibit 10.4 to our Annual Report on Form 10-K for the year ended December 31, 2009).
10.4	Navigant Consulting, Inc. 2001 Supplemental Equity Incentive Plan (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form S-8 (Registration No. 333-81680) filed with the SEC on January 30, 2002).
10.5	First Amendment of the Navigant Consulting, Inc. 2001 Supplemental Equity Incentive Plan, effective as of April 16, 2007 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 17, 2007).
10.6	Navigant Consulting, Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on May 23, 2012).
10.7	Navigant Consulting, Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 23, 2012).
10.8	Navigant Consulting, Inc. Employee Stock Purchase Plan, effective January 1, 2007 (incorporated by reference to Exhibit A to our Definitive Notice and Proxy Statement filed with the SEC on March 27, 2006).
10.9	First Amendment to the Navigant Consulting, Inc. Employee Stock Purchase Plan, effective as of April 1, 2009 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on December 24, 2008).
10.10	Second Amendment to the Navigant Consulting, Inc. Employee Stock Purchase Plan, effective as of December 31, 2009 (incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the year ended December 31, 2009).
10.11	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on March 15, 2007).
10.12	Form of Amendment No. 1 to Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 1, 2011).

Exhibit No.	Description
10.13	Form of Non-Qualified Stock Option Award (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on March 15, 2007).
10.14	Form of Non-Qualified Stock Option Award Agreement (March 2012 Grants) (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012).
10.15	Form of Performance-Based Restricted Stock Unit Agreement (2005 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012).
10.16	Form of Non-Employee Director Stock Option Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012).
10.17	Form of Non-Employee Director Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012).
10.18	Form of Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on October 26, 2012).
10.19	Form of Executive Officer Stock Option Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013).
10.20	Form of Performance-Based Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013).
10.21	Form of Non-Employee Director Restricted Stock Unit Award Agreement (Settlement Upon Vesting) (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013).
10.22	Form of Non-Employee Director Restricted Stock Unit Award Agreement (Settlement Upon Separation From Service) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013).
10.23	Navigant Consulting, Inc. Directors Deferred Fees Plan (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on March 15, 2007).
10.24	Amendment Number One to the Navigant Consulting, Inc. Directors Deferred Fees Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on December 24, 2008).
10.25	Amended and Restated Employment Agreement, effective as of January 1, 2009, between Navigant Consulting, Inc. and William M. Goodyear (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed with the SEC on December 24, 2008).
10.26	First Amendment to Amended and Restated Employment Agreement, effective as of March 1, 2012, between Navigant Consulting, Inc. and William M. Goodyear (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on February 28, 2012).
10.27	Second Amendment to Employment Agreement, effective as of May 11, 2012, between Navigant Consulting, Inc. and William M. Goodyear (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012).
10.28	Letter Agreement, dated June 28, 2012, between Navigant Consulting, Inc. and William M. Goodyear Regarding Grants of Restricted Stock Units (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012).

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Exhibit No.	Description
10.29	Amended and Restated Employment Agreement, effective as of March 1, 2012, between Navigant Consulting, Inc. and Julie M. Howard (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 28, 2012).
10.30	Employment Agreement, dated as of November 10, 2008, between Navigant Consulting, Inc. and Thomas A. Nardi (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on October 31, 2008).
10.31	First Amendment to Employment Agreement between Thomas A. Nardi and Navigant Consulting, Inc., effective as of January 1, 2009 (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed with the SEC on December 24, 2008).
10.32	Amended and Restated Employment Agreement, effective as of October 1, 2013, between Navigant Consulting, Inc. and Monica M. Weed (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on October 4, 2013).
10.33	Employment Agreement, dated as of October 23, 2012, between Navigant Consulting, Inc. and Lee A. Spirer (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on October 26, 2012).
10.34	Employment Agreement, dated as of February 22, 2013, between Navigant Consulting, Inc. and Lucinda M. Baier (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 28, 2013).
10.35	Credit Agreement, dated as of May 27, 2011, among Navigant Consulting, Inc., the other Borrowers party thereto, the Guarantors party thereto, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011).
10.36	First Amendment to Credit Agreement, dated as of September 19, 2013, among Navigant Consulting, Inc., the other Borrowers party thereto, the Guarantors party thereto and the Lenders from time to time party thereto, including Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 24, 2013).
21.1	Significant Subsidiaries of Navigant Consulting, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) of the 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.

Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Navigant Consulting, Inc.

/s/ JULIE M. HOWARD
Julie M. Howard
Chief Executive Officer

Date: February 14, 2014

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

Signature	Title	Date
/s/ JULIE M. HOWARD	Chief Executive Officer and Director	February 14, 2014
Julie M. Howard	(Principal Executive Officer)	
/s/ LUCINDA M. BAIER	Executive Vice President and Chief Financial	February 14, 2014
Lucinda M. Baier	Officer (Principal Financial Officer)	
/s/ SCOTT S. HARPER	Executive Director and Controller (Principal	February 14, 2014
Scott S. Harper	Accounting Officer)	
/s/ WILLIAM M. GOODYEAR	Executive Chairman	February 14, 2014
William M. Goodyear		
/s/ THOMAS A. GILDEHAUS	Director	February 14, 2014
Thomas A. Gildehaus		
/s/ CYNTHIA A. GLASSMAN	Director	February 14, 2014
Hon. Cynthia A. Glassman		
/s/ STEPHAN A. JAMES	Director	February 14, 2014
Stephan A. James		
/s/ PETER B. POND	Director	February 14, 2014

Peter B. Pond		
/s/ SAMUEL K. SKINNER	Director	February 14, 2014
Samuel K. Skinner		
/s/ GOVERNOR JAMES R. THOMPSON	Director	February 14, 2014
Governor James R. Thompson		
/s/ MICHAEL L. TIPSORD	Director	February 14, 2014
Michael L. Tipsord		

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Navigant Consulting, Inc.:

We have audited the accompanying consolidated balance sheets of Navigant Consulting, Inc. (the Company) and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Navigant Consulting, Inc. and subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 14, 2014 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois

February 14, 2014

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,968	$ 1,052
Accounts receivable, net	167,066	198,709
Prepaid expenses and other current assets	24,554	25,054
Deferred income tax assets	17,314	17,821
Total current assets	210,902	242,636
Non-current assets:		
Property and equipment, net	44,338	45,342
Intangible assets, net	10,778	16,123
Goodwill	615,343	619,932
Other assets	22,836	30,417
Total assets	$ 904,197	$ 954,450
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 13,415	$ 18,042
Accrued liabilities	12,691	11,557
Accrued compensation-related costs	78,610	84,813
Income tax payable	1,137	7,129
Other current liabilities	32,009	35,754
Total current liabilities	137,862	157,295
Non-current liabilities:		
Deferred income tax liabilities	86,571	67,623
Other non-current liabilities	26,016	35,606
Bank debt non-current	56,673	134,183
Total non-current liabilities	169,260	237,412
Total liabilities	307,122	394,707
Stockholders equity:		
Common stock, $0.001 par value per share; 150,000 shares authorized; 62,802 and 62,104 issued as of December 31, 2013 and 2012, respectively	63	62
Additional paid-in capital	598,724	582,363
Treasury stock, 13,770 and 11,587 shares as of December 31, 2013 and 2012, respectively	(247,106)	(216,500)
Retained earnings	254,735	202,542
Accumulated other comprehensive loss	(9,341)	(8,724)
Total stockholders equity	597,075	559,743

Total liabilities and stockholders equity	$ 904,197	$ 954,450

See accompanying notes to consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	For the year ended December 31, 2013	2012	2011
Revenues before reimbursements	$ 734,433	$ 722,190	$ 671,289
Reimbursements	101,152	96,007	83,425
Total revenues	835,585	818,197	754,714
Cost of services before reimbursable expenses	487,967	476,344	449,417
Reimbursable expenses	101,152	96,007	83,425
Total costs of services	589,119	572,351	532,842
General and administrative expenses	127,079	141,195	130,430
Depreciation expense	16,180	14,986	13,303
Amortization expense	6,826	6,767	8,658
Other operating costs (benefit):			
Contingent acquisition liability adjustments, net	(5,399)	1,065	
Office consolidation, net	348	580	
Gain on disposition of assets	(1,715)		
Operating income	103,147	81,253	69,481
Interest expense	4,433	5,453	7,292
Interest income	(463)	(872)	(1,447)
Other (income) expense, net	175	(78)	(279)
Income from continuing operations before income tax expense	99,002	76,750	63,915
Income tax expense	43,890	32,518	27,770
Net income from continuing operations	55,112	44,232	36,145
(Loss) income from discontinued operations, net of tax	(2,919)	1,937	4,985
Net income	$ 52,193	$ 46,169	$ 41,130
Basic per share data			
Net income from continuing operations	$ 1.11	$ 0.87	$ 0.71
(Loss) income from discontinued operations, net of tax	(0.06)	0.04	0.10
Net income	$ 1.05	$ 0.91	$ 0.81
Shares used in computing per basic share data	49,771	50,894	50,820
Diluted per share data			
Net income from continuing operations	$ 1.08	$ 0.86	$ 0.70
(Loss) income from discontinued operations, net of tax	(0.06)	0.04	0.10
Net income	$ 1.02	$ 0.90	$ 0.80
Shares used in computing diluted per share data	50,951	51,572	51,371
Net income	$ 52,193	$ 46,169	$ 41,130
Other comprehensive income (loss), net of tax			

Unrealized net gain (loss), foreign currency translation	(711)	4,088	(750)
Unrealized net loss on interest rate derivatives	(39)	(339)	(159)
Reclassification adjustment on interest rate derivatives included in interest expense and income tax expense	133	308	763
Other comprehensive income (loss), net of tax	(617)	4,057	(146)
Total comprehensive income, net of tax	$ 51,576	$ 50,226	$ 40,984

See accompanying notes to consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Common Stock Shares	Treasury Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stock -holders Equity
Balance at December 31, 2010	60,606	(10,469)	$ 61	$ 564,214	$ (206,162)	$ (12,635)	$ 115,243	$ 460,721
Comprehensive income						(146)	41,130	40,984
Issuances of common stock related to business combinations		591		(5,630)	11,642			6,012
Other issuances of common stock	261	17		1,534	331			1,865
Tax benefits (deficits) on stock options exercised and restricted stock vested				(943)				(943)
Vesting of restricted stock, net of forfeitures and tax withholdings	365	(43)		(340)	(855)			(1,195)
Share-based compensation expense				8,792				8,792
Repurchases of common stock		(234)			(2,558)			(2,558)
Balance at December 31, 2011	61,232	(10,138)	$ 61	$ 567,627	$ (197,602)	$ (12,781)	$ 156,373	$ 513,678
Comprehensive income						4,057	46,169	50,226
Issuances of common stock related to business combinations		289			2,551			2,551
Other issuances of common stock	385	14	1	3,001	281			3,283
Tax benefits (deficits) on stock options exercised and restricted stock vested				(99)				(99)
Vesting of restricted stock, net of forfeitures and tax withholdings	458	(121)		503	(2,306)			(1,803)
Share-based compensation expense	29	(29)		10,581	(554)			10,027
Additional paid-in capital recorded through compensation expense				750				750
Repurchases of common stock								

In 2014, EDC and LSB were named as defendants, together with other AN manufacturers and brokers that arranged the transport and delivery of AN to West Fertilizer, in the case styled City of West, Texas vs. CF Industries, Inc., et al., in the District Court of McLennan County, Texas. The plaintiffs allege, among other things, that LSB and EDC were negligent in the production and marketing of fertilizer products sold to West Fertilizer, resulting in death, personal injury and property damage. EDC retained a firm specializing in cause and origin investigations with particular experience with fertilizer facilities, to assist EDC in its own investigation. LSB and EDC placed its liability insurance carrier on notice, and the carrier is handling the defense for LSB and EDC concerning this matter. Our product liability insurance policies have aggregate limits of general liability totaling $100 million, with a self-insured retention of $250,000, which retention limit has been met relating to this matter. In August 2015, the trial court dismissed plaintiff's negligence claims against us and EDC based on a duty to inspect but allowed the plaintiffs to proceed on claims for design defect and failure to warn.

Subsequently, we and EDC have entered into confidential settlement agreements (with approval of our insurance carriers) with several plaintiffs that had claimed wrongful death and bodily injury and insurance companies asserting subrogation claims for damages from the explosion. A portion of these settlements have been paid by the insurer as of March 31, 2018. While these settlements resolve the claims of a number of the claimants in this matter for us, we continue to be party to litigation related to this explosion by other plaintiffs, in addition to indemnification or defense obligations we may have to other defendants. We intend to continue to defend these lawsuits vigorously and we are unable to estimate a possible range of loss at this time if there is an adverse outcome in this matter as to EDC. As of March 31, 2018, no liability reserve has been established in connection with this matter, except for the unpaid portion of the settlement agreements that are covered by insurance as discussed above.

In May 2015, our subsidiary, EDC, was sued in the matter styled BAE Systems Ordinance Systems, Inc. (“BAE”), et al. vs. El Dorado Chemical Company, in the United States District Court, Western District of Arkansas, for an alleged breach of a supply agreement to provide BAE certain products. In March 2018, the Court granted our motion for summary judgment and dismissed BAE’s claims against the Company.

In September 2015, a case styled Dennis Wilson vs. LSB Industries, Inc., et al., was filed in the United States District Court for the Southern District of New York. The plaintiff purports to represent a class of our shareholders and asserts that we violated federal securities laws by allegedly making material misstatements and omissions about delays and cost overruns at our El Dorado Chemical Company manufacturing facility and about our financial well-being and prospects. The lawsuit, which also names certain current and former officers, seeks an unspecified amount of damages. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 7: Commitments and Contingencies (continued)

In September 2015, we and EDA received formal written notice from Global Industrial, Inc. (“Global”) of Global’s intention to assert mechanic liens for labor, service, or materials furnished under certain subcontract agreements for the improvement of the new ammonia plant at our El Dorado Facility. Global is a subcontractor of Leidos Constructors, LLC (“Leidos”), the general contractor for EDA for the construction for the ammonia plant. Leidos terminated the services of Global with respect to their work performed at our El Dorado Facility in July 2015 and Global claims it is entitled to payment for certain work prior to its termination in the sum of approximately $18 million. Leidos reports that it made an estimated $6 million payment to Global on or about September 11, 2015, and EDA paid Leidos approximately $3.5 million relating to work performed by subcontractors of Global. Leidos has not approved certain payments to Global pending the result of on-going audits and investigation undertaken to quantify the financial impact of Global’s work.

EDA intends to monitor the Leidos audit, and conduct its own investigation, in an effort to determine whether any additional payment should be released to Global for any work not in dispute. LSB and EDA intend to pursue recovery of any damage or loss caused by Global’s work performed at our El Dorado Facility. In January 2016, El Dorado, Leidos and Global reached an agreement whereby the approximately $3.6 million claims of Leidos’ remaining unpaid subcontracts, vendors and suppliers will be paid (and these suppliers and subcontractors will in turn issue releases of their respective claims and liens). In addition, Global will reduce the value of its claim as against Leidos, and its lien amount as against the project by a similar amount. After all such lower tier supplier and subcontractors are satisfied, the Global claim and lien amount will be reduced to approximately $5 million. In March 2016, EDC and we were served a summons in a case styled Global Industrial, Inc. d/b/a Global Turnaround vs. Leidos Constructors, LLC et al., where in Global seeks damages under breach of contract and other claims. We have requested indemnifications from Leidos under the terms of our contracts and we intend to vigorously defend against the allegation made by Global. No liability has been established in connection with the remaining $5 million claim. In addition, LSB and EDA intend to pursue recovery of any damage or loss caused by Global’s work performed at our El Dorado Facility.

We are also involved in various other claims and legal actions. It is possible that the actual future development of claims could be different from our estimates but, after consultation with legal counsel, we believe that changes in our estimates will not have a material effect on our business, financial condition, results of operations or cash flows.

Note 8: Derivatives, Hedges, Financial Instruments and Carbon Credits

For the periods presented, the following significant instruments are accounted for on a fair value basis:

Carbon Credits and Associated Contractual Obligation

Periodically, we are issued climate reserve tonnes (“carbon credits”) by the Climate Action Reserve in relation to a greenhouse gas reduction project (“Project”) performed at the Baytown Facility. Pursuant to the terms of the agreement with Covestro, a certain portion of the carbon credits are to be sold and the proceeds given to Covestro to recover the costs of the Project, and any balance thereafter to be allocated between Covestro and EDN. We have no obligation to reimburse Covestro for their costs associated with the Project, except through the transfer or sale of the carbon credits when such credits are issued to us. The assets for carbon credits are accounted for on a fair value basis and the contractual obligations associated with these carbon credits are also accounted for on a fair value basis (unless we enter into a sales commitment to sell the carbon credits). At March 31, 2018 we had approximately 227,000 carbon credits (none at December 31, 2017), all of which were subject to contractual obligations.

Embedded Derivative

Certain embedded features ("embedded derivative") relating to the redemption of the Series E Redeemable Preferred, which includes certain contingent redemption features and the participation rights value have been bifurcated from the Series E Redeemable Preferred and recorded as a liability. As the result of the Indenture Amendments in connection with the previously reported redemption of a portion of our Senior Secured Notes and the redemption of the portion of Series E Redeemable Preferred, we estimate that the contingent redemption feature has no fair value at March 31, 2018 based on low probability that the remaining shares of Series E Redeemable Preferred would be redeemed prior to August 2, 2019. At March 31, 2018 and December 31, 2017, the fair value of the participation rights was based on the equivalent of 303,646 shares of our common stock at $6.13 and $8.76 per share, respectively.

The following is a summary of the classifications of valuations of fair value:

Level 1 - The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. At March 31, 2018 and December 31, 2017, we did not have any contracts classified as Level 1.

LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 8: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

Level 2 - The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At March 31, 2018 and December 31, 2017, we did not have any significant contracts classified as Level 2.

Level 3 - The valuations of assets and liabilities classified as Level 3 are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. At March 31, 2018, the valuation ($2.35 per carbon credit) of the carbon credits and the contractual obligations associated with these carbon credits is classified as Level 3 and is based on the most recent sales transaction and reevaluated for market changes, if any, and on the range of ask/bid prices obtained from a broker adjusted for minimal market volume activity. At December 31, 2017, we did not have any carbon credits or related contractual obligations associated with carbon credits. The valuation is using undiscounted cash flows based on management’s assumption that the carbon credits would be sold, and the associated contractual obligations would be extinguished in the near term. At March 31, 2018 and December 31, 2017, the valuations of the embedded derivative are classified as Level 3.

This derivative is valued using market information, management’s redemption assumptions, the underlying number of shares as defined in the terms of the Series E Redeemable Preferred, and the market price of our common stock. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for the embedded derivative.

The following details our assets and liabilities that are measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017:

		Fair Value Measurements at March 31, 2018 Using			
Description	Total Fair Value at March 31, 2018	Quoted Prices in Active Markets for Identical Contracts (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at December 31, 2017
	(In Thousands)				

Assets - Supplies, prepaid items and other:					
Carbon credits	$534	$—	$ —	$ 534	$ —
Total	$534	$—	$ —	$ 534	$ —
Liabilities - Current and noncurrent accrued and other liabilities:					
Contractual obligations - carbon credits	$(534)	$—	$ —	$ (534)	$ —
Embedded derivative	(1,861)	—	—	(1,861)	(2,660)
Total	$(2,395)	$—	$ —	$ (2,395)	$ (2,660)

LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 8: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

None of our liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications for the periods presented below. The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Assets		Liabilities	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2018	2017	2018	2017
	(In Thousands)			
Beginning balance	$—	$—	$ (2,660)	$ (2,557)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total realized and unrealized gains (losses) included in operating results	534	867	265	(1,158)
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	—	—	—	—
Ending balance	$534	$867	$ (2,395)	$ (3,715)
Total gains (losses) for the period included in operating results attributed to the change in unrealized gains or losses on assets and liabilities still held at the reporting date	$534	$867	$ 265	$ (1,158)

Net gains (losses) included in operating results and the statement of operations classifications are as follows:

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Total net gains (losses) included in operating results:		
Other income - Carbon credits	$534	$867
Other expense - Contractual obligations relating to carbon credits	(534)	(867)
Non-operating other income (expense) - embedded derivative	799	(291)
Total net gains (losses) included in operating results	$799	$(291)

At March 31, 2018 and December 31, 2017, we did not have any financial instruments with fair values significantly different from their carrying amounts. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities.

Note 9: Income Taxes

In December 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017 (the "Act"), making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate of 21%, additional limitations on executive compensation, and limitations on the deductibility of interest.

LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 9: Income Taxes (continued)

The FASB issued ASU 2018-05, Income Taxes (Topic 740): "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act.

At March 31, 2018, the Company has not completed its accounting for all of the tax effects of the Act and has not made an adjustment to the provisional tax benefit recorded under SAB 118 at December 31, 2017. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing. Our estimated annual effective tax rate may be adjusted in subsequent interim periods, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, and additional regulatory guidance that may be issued.

Benefit for income taxes is as follows:

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Current:		
Federal	$—	$—
State	(12)	(40)
Total Current	$(12)	$(40)
Deferred:		
Federal	$(785)	$(1,212)
State	(125)	(30)
Total Deferred	$(910)	$(1,242)
Benefit for income taxes	$(922)	$(1,282)

For the three months ended March 31, 2018 and 2017, the current benefit for state income taxes shown above includes regular state income tax and provisions for uncertain state income tax positions.

Our estimated annual effective rate for 2018 includes the impact of permanent tax differences, limits on deductible compensation, valuation allowances, and other permanent items.

We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more-likely-than-not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, the availability of deferred tax liabilities and tax carrybacks, as well as an evaluation of currently available information about future years. We determined it was more-likely-than-not that a portion of the state NOL carryforwards would not be able to be utilized before expiration and we estimate the valuation allowance associated with these state NOL carryforwards to be recorded during 2018 will be approximately $4.1 million.

We will continue to evaluate both the positive and negative evidence on a quarterly basis in determining the need for a valuation allowance with respect to our deferred tax assets. Changes in positive and negative evidence, including differences between estimated and actual results, could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated financial statements. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

The tax benefit for the three months ended March 31, 2018 was $0.9 million (14% of pre-tax loss) and the tax benefit for the three months ended March 31, 2017 was $1.3 million (18% of pre-tax loss). For the first quarter of 2018, the effective tax rate is less than the statutory tax rate primarily due to the impact of the valuation allowances associated with the state NOL carryforwards.

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2014-2017 years remain open for all purposes of examination by the U.S. Internal Revenue Service and other major tax jurisdictions. We are currently under examination by the IRS for the tax year 2015.

LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 10. Securities Financing Including Redeemable Preferred Stocks

Series E Redeemable Preferred

The Series E Redeemable Preferred has a 14% annual dividend rate and a participating right in dividends and liquidating distributions equal to 303,646 shares of common stock as of March 31, 2018. Dividends accrue semi-annually in arrears and are compounded. Also see discussion in Note 13 – Subsequent Events.

As discussed in Note 8, the embedded derivative, which includes certain contingent redemption features and the participation rights value, relating to the redemption of the Series E Redeemable Preferred has been bifurcated from the Series E Redeemable Preferred and recorded as a liability.

Series F Redeemable Preferred

As of March 31, 2018, the Series F Redeemable Preferred has voting rights (the "Series F Voting Rights") to vote as a single class on all matters which the common stock have the right to vote and is entitled to a number of votes equal to 456,225 shares of our common stock.

Changes in our Series E and Series F Redeemable Preferred are as follows:

	Series E Redeemable Preferred	
	Shares	Amount
	(Dollars In Thousands)	
Balance at December 31, 2017	139,768	$ 174,959
Accretion relating to liquidation preference on preferred stock	—	1,124
Accretion for discount and issuance costs on preferred stock	—	475
Accumulated dividends	—	6,338
Balance at March 31, 2018	139,768	$ 182,896

Note 11: Related Party Transactions

No dividends were declared during the first quarter of 2018 or 2017. At March 31, 2018, accumulated dividends on the Series B and Series D Preferred totaled approximately $753,000. The Series B Preferred and Series D Preferred are non-redeemable preferred stocks issued in 1986 and 2001, respectively, of which all outstanding shares are owned by the Golsen Holders.

During the first quarter of 2017, a death benefit agreement with Jack E. Golsen was terminated pursuant to the terms of the agreement that allowed us to terminate at any time and for any reason prior to the death of the employee. As a result, the liability of approximately $1,400,000 for the estimated death benefit associated with this agreement was extinguished and derecognized with the offset classified as operating other income in the first quarter of 2017.

Note 12: Supplemental Cash Flow Information

The following provides additional information relating to cash flow activities:

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Cash refunds for:		
Income taxes, net	$(851)	$(115)
Noncash continuing investing and financing activities:		
Accounts payable associated with additions of property, plant and equipment	$13,859	$8,844
Dividends accrued on Series E Redeemable Preferred	$6,338	$5,536
Accretion of Series E Redeemable Preferred	$1,599	$1,599

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LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 13: Subsequent Events

On April 25, 2018, we issued $400 million aggregate principal amount of 9.625% Senior Secured Notes due 2023 (the “Notes”). The Notes were issued at a price equal to 99.509% of their face value. The Notes rank senior in right of payment to all of our debt that is expressly subordinated in right of payment to the Notes, and rank pari passu in right of payment with all of our liabilities that are not so subordinated, including our Working Capital Revolver Loan. Interest on the Notes accrues at a rate of 9.625% per annum and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2018. We used a portion of the net proceeds of this offering to repurchase, on April 25, 2018, all of our Senior Secured Notes due 2019 that were validly tendered and not validly withdrawn pursuant to a tender offer that expired on April 20, 2018. In the near term, we also intend to redeem in full all of the outstanding Senior Secured Notes due 2019 that were not validly tendered in the tender offer.

In connection with the above-referenced refinancing transactions related to our Senior Secured Notes due 2019 (the “Refinancing Transactions”), we entered into a letter agreement with the holder of our Series E Redeemable Preferred to extend the date upon which a holder of Series E Redeemable Preferred has the right to elect to have such holder’s shares of Series E Redeemable Preferred redeemed by us from August 2, 2019 to October 25, 2023. The letter agreement also provides for the amendment of certain other terms relating to the Series E Redeemable Preferred, including an increase in the per annum dividend rate payable in respect of the Series E Redeemable Preferred (a) by 0.50% on the third anniversary of the Refinancing Transactions, (b) by an additional 0.50% on the fourth anniversary of the Refinancing Transactions and (c) by an additional 1.0% on the fifth anniversary of the Refinancing Transactions.

We are currently evaluating the impact on our financial statements as the result of the transactions discussed above.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with a review of the other Items included in this Form 10-Q and our March 31, 2018 condensed consolidated financial statements included elsewhere in this report. This MD&A reflects our operating results, unless otherwise noted. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See “Special Note Regarding Forward-Looking Statements.”

Overview

General

LSB is headquartered in Oklahoma City, Oklahoma and through its subsidiaries, manufactures and sells chemical products for the agricultural, mining, and industrial markets. We own and operate facilities in Cherokee, Alabama, El Dorado, Arkansas and Pryor, Oklahoma, and operate a facility for Covestro in Baytown, Texas. Our products are sold through distributors and directly to end customers throughout the U.S.

Key Initiatives for 2018

We believe our future results of operations and financial condition will depend significantly on our ability to successfully implement the following key initiatives:

- Improving the on-stream rates of our chemical plants. We have several initiatives underway that we believe will assist us in improving the reliability of our plants and allow us to produce more products for sale while lowering our cost of production. In 2017, we made the decision to upgrade our existing maintenance management system through technology enhancements and work processes to improve our predictive and preventative maintenance programs at our facilities. At that time, we also made the decision to engage outside maintenance experts to assist us in expediting its implementation and in its overall use. We expect that the system will be implemented by the end of the second quarter of 2018 and we will begin to see the benefits in the second half of 2018.

Additionally, specific to our Pryor Facility, we engaged several outside engineering firms to assist us in an overall plant reliability study which will be used to enhance our reliability improvement plan for that facility. We expect the study to be completed during the second quarter of 2018.

- Focus on the Continued Improvement of Our Safety Performance. We believe that high safety standards are critical to improved plant performance. With that in mind, we implemented enhanced safety programs at our facilities that focus on reducing risks and improving our safety culture in 2017. The implementation and training of these programs will continue in 2018 and we expect these will benefit our on-stream rates.
- Continue Broadening of the distribution of our AN and Nitric Acid products. We increased our overall sales volume of HDAN in 2017 by approximately 26% through various marketing initiatives which include: (1) storing and distributing HDAN at our Pryor and Cherokee Facilities which allows us to sell to new markets and customers out of those facilities and; (2) educating growers on the additional applications for HDAN. In 2018, we expect to continue to focus on those initiatives and other initiatives in an effort to continue to grow our annual sales volumes as compared to 2017.

In addition, through increased marketing efforts, we increased our sales volumes of nitric acid by approximately 22% in 2017. We expect to continue to focus on increasing our marketing efforts in order to expand our market for our nitric acid products in North America.

- Improving the Margins on Sales of Our Products. Over the last several years, we have focused on increasing our sales volumes to produce at optimal on-stream rates and lower our manufacturing costs per ton of product. Beginning in 2018, we expect to undertake a review of all sales to customers to determine if there are opportunities to improve the margins on sales to those customers and to explore if there are further product upgrading opportunities.

- Reducing and controlling our cost structure. We have engaged outside experts to assist us in centralizing and expanding our Company-wide procurement efforts. We expect this to be implemented by the end of the second quarter of 2018 and believe that these efforts will result in a reduction in expenses and capital spend in the aggregate of between $3 million to $5 million on an annualized basis.

Since mid-2016 and through the end of 2017, we have reduced our annual SG&A and plant expenses over $12 million. In addition to the procurement initiative discussed above, we believe there is still an opportunity to further reduce those expenses.

- Focus on Improving Our Capital Structure and Overall Cost of Capital. We are actively seeking ways to improve our capital structure and reduce our overall cost of capital. We believe that the improving end markets for our products combined with our improved operating performance will be a benefit. See discussion below under Recent Developments

We may not successfully implement any or all of these initiatives. Even if we successfully implement the initiatives, they may not achieve the results that we expect or desire.

Recent Developments

As discussed in Note 13 in the accompanying notes to the condensed consolidated financial statements, on April 25, 2018, we issued $400 million aggregate principal amount of 9.625% Senior Secured Notes due 2023 (the “Notes”). The Notes were issued at a price equal to 99.509% of their face value. The Notes rank senior in right of payment to all of our debt that is expressly subordinated in right of payment to the Notes, and rank pari passu in right of payment with all of our liabilities that are not so subordinated, including our Working Capital Revolver Loan. Interest on the Notes accrues at a rate of 9.625% per annum and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2018. We used a portion of the net proceeds of this offering to repurchase, on April 25, 2018, all of our Senior Secured Notes due 2019 that were validly tendered and not validly withdrawn pursuant to a tender offer that expired on April 20, 2018. On April 25, 2018, we also announced that we intend to redeem in full all of the outstanding Senior Secured Notes due 2019 that were not validly tendered in the tender offer.

In connection with the above-referenced refinancing transactions related to our Senior Secured Notes due 2019 (the “Refinancing Transactions”), we entered into a letter agreement with the holder of our Series E Redeemable Preferred to extend the date upon which a holder of Series E Redeemable Preferred has the right to elect to have such holder’s shares of Series E Redeemable Preferred redeemed by us from August 2, 2019 to October 25, 2023. The letter agreement also provides for the amendment of certain other terms relating to the Series E Redeemable Preferred, including an increase in the per annum dividend rate payable in respect of the Series E Redeemable Preferred (a) by 0.50% on the third anniversary of the Refinancing Transactions, (b) by an additional 0.50% on the fourth anniversary of the Refinancing Transactions and (c) by an additional 1.0% on the fifth anniversary of the Refinancing Transactions.

Key Industry Factors

Supply and Demand

Agricultural

Sales of our agricultural products were approximately 52% of our total net sales for the first quarter of 2018. The price at which our agricultural products are ultimately sold depends on numerous factors, including the supply and demand for nitrogen fertilizers which, in turn, depends upon world grain demand and production levels, the cost and availability of transportation and storage, weather conditions, competitive pricing and the availability of imports. Additionally, expansions or upgrades of competitors’ facilities and international and domestic political and economic developments, including tariffs, continue to play an important role in the global nitrogen fertilizer industry economics. These factors can affect, in addition to selling prices, the level of inventories in the market which can cause price volatility and affect product margins.

Additionally, changes in corn prices can affect the number of acres of corn planted in a given year, and the number of acres planted will drive the level of nitrogen fertilizer consumption, likely effecting prices. The following estimates are associated with the corn market:

	2018 Crop April Report (1)	2018 Crop February Report (1)	2017 Crop April Report (1)	Percentage Change (2)	Percentage Change (3)
U.S. Area Planted (Million acres)	90.2	90.2	94.0	—%	(4.0)%
U.S. Yield per Acre (Bushels)	176.6	176.6	174.6	—%	1.1%
U.S. Production (Million bushels)	14,604	14,604	15,148	—%	(3.6)%
U.S. Ending Stocks (Million bushels)	55.4	59.8	58.3	(7.4)%	(5.0)%
World Ending Stocks (Million bushels)	197.8	203.1	230.9	(2.6)%	(14.3)%

(1) Information obtained from WASDE reports dated April 10, 2018 (April Report) and February 8, 2018 (February Report) for the 2017/2018 ("2018 Crop") and 2016/2017 ("2017 Crop") corn marketing years.

(2) Represents the percentage change between the 2018 Crop amounts from the April Report compared to the February Report.

(3) Represents the percentage change between the 2018 Crop amounts from the April Report compared to the 2017 Crop amounts from the April Report.

On the supply side, given the low price of natural gas in North America over the last several years, North American fertilizer producers have become the global low-cost producers for delivered fertilizer products to the Midwest U.S. Several years ago, the market believed that low natural gas prices would continue. That belief, combined with favorable fertilizer pricing, stimulated investment in numerous expansions of existing nitrogen chemical facilities and the construction of new nitrogen chemical facilities. Since those announcements, global nitrogen fertilizer supply has outpaced global nitrogen fertilizer demand causing oversupply in the global and North American markets. The increased fertilizer supply led to lower nitrogen fertilizer sale prices during most of 2017. Also, additional domestic supply of ammonia will change the physical flow of ammonia in North America placing pressure on ammonia and other fertilizer prices until the distribution system accepts the new supply. Beginning in the fourth quarter of 2017, we have seen an increase in fertilizer prices as the imports of fertilizers has decreased significantly and the distribution of the new domestic supply has been established. That trend has continued into the first quarter of 2018.

Industrial

Sales of our industrial products were approximately 38% of our total net sales for the first quarter of 2018. Our industrial products sales volumes are dependent upon general economic conditions primarily in the housing, automotive, and paper industries. According to the American Chemistry Council, the U.S. economic indicators continue to be mostly positive for these sectors domestically. However, trade tension with China over recent import tariffs could lead to negative effects in these sectors. Our sales prices generally vary with the market price of our feedstock (ammonia or natural gas, as applicable) in our pricing arrangements with customers.

Mining

Sales of our mining products were approximately 10% of our total net sales for the first quarter of 2018. Our mining products are LDAN and AN Solutions, which are primary used as AN fuel oil and specialty emulsions for surface mining of coal and for usage in quarries and the construction industry. As reported by the EIA, annual coal production in the U.S. for the full year of 2017 is up 6.3% from 2016 due to increased export demand. EIA is forecasting a 4.6% decrease in U.S. coal production in 2018 and another 1.3% decrease in 2019. U.S. coal consumption is also expected to decline over the next two years due to low natural gas prices reducing demand for coal for coal-fired electricity generation (down 4% in 2018). EIA also expects U.S. coal export demand to decline in 2018 and 2019. We believe that coal production in the U.S. continues to face significant challenges from competition from natural gas and renewable sources of energy. While we believe, our plants are well-located to support the more stable coal-producing regions in the upcoming years, our current mining sales volumes are being affected by overall lower customer demand for LDAN. We do not expect a significant increase in our mining business in the near term.

Farmer Economics

The demand for fertilizer is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers. Individual farmers make planting decisions based largely on prospective profitability of a harvest, while the specific varieties and amounts of fertilizer they apply depend on factors such as their financial resources, soil conditions, weather patterns and the types of crops planted.

Natural Gas Prices

Natural gas is the primary feedstock used to produce nitrogen fertilizers at our manufacturing facilities. In recent years, U.S. natural gas reserves have increased significantly due to, among other factors, advances in extracting shale gas, which has reduced and stabilized natural gas prices, providing North America with a cost advantage over certain imports. As a result, our competitive position and that of other North American nitrogen fertilizer producers has been positively affected.

We historically have purchased natural gas in the spot market, using forward purchase contracts, or through a combination of both, and have used forward purchase contracts to lock in pricing for a portion of our natural gas requirements. These forward purchase contracts are generally either fixed-price or index-price, short-term in nature and for a fixed supply quantity. We are able to purchase natural gas at competitive prices due to our connections to large distribution systems and their proximity to interstate pipeline systems. The following table shows the annual volume of natural gas we purchased and the average cost per MMBtu:

	Three Months Ended March 31,	
	2018	2017
Natural gas volumes (MMBtu in millions)	8	7
Natural gas average cost per MMBtu	$2.79	$3.15

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Transportation Costs

Costs for transporting nitrogen-based products can be significant relative to their selling price. For example, ammonia is a hazardous gas at ambient temperatures and must be transported in specialized equipment, which is more expensive than other forms of nitrogen fertilizers. In recent years, a significant amount of the ammonia consumed annually in the U.S was imported. Therefore, nitrogen fertilizers prices in the U.S. are influenced by the cost to transport product from exporting countries, giving domestic producers who transport shorter distances an advantage.

Key Operational Factors

Facility Reliability

Consistent, reliable and safe operations at our chemical plants are critical to our financial performance and results of operations. The financial effects of planned downtime at our plants, including Turnarounds are mitigated through a diligent planning process that considers the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Unplanned downtime of our plants typically results in lost contribution margin from lost sales of our products, lost fixed cost absorption from lower production of our products and increased costs related to repairs and maintenance. All Turnarounds result in lost contribution margin from lost sales of our products, lost fixed cost absorption from lower production of our products, and increased costs related to repairs and maintenance, which repair, and maintenance costs are expensed as incurred.

Prepay Contracts

We use forward sales of our fertilizer products to optimize our asset utilization, planning process and production scheduling. These sales are made by offering customers the opportunity to purchase product on a forward basis at prices and delivery dates that are agreed upon. We use this program to varying degrees during the year depending on market conditions and our view of changing price environments. Fixing the selling prices of our products months in advance of their ultimate delivery to customers typically causes our reported selling prices and margins to differ from spot market prices and margins available at the time of shipment.

Consolidated Results of the First Quarter of 2018

Our consolidated net sales for the first quarter of 2018 were $100.5 million compared to $123.3 million for the same period in 2017. Our consolidated operating income was $1.9 million compared to $2.3 million for the same period in 2017. The items impacting our operating results are discussed in more detail below and under “Results of Operations.”

Items Affecting Comparability of Results of the First Quarter

On-Stream Rates and Additional Ammonia Sales Volume

The on-stream rates of our plants affect our production, the absorption of fixed costs of each plant and sales of our products. It is a key operating metric that we use to manage our business. In particular, we closely monitor the on-stream rates of our ammonia plants as that is the basic product used to produce all upgraded products. At our Cherokee Facility, the ammonia plant on-stream rate for the first quarter of 2018 was 85% compared to 99% for the same period of 2017. The ammonia plant’s on-stream rate was impacted by maintenance completed on its primary reformer. We believe that the ammonia plant will have a minimum on-stream rate for 2018 of 95%, excluding the planned Turnaround days out of service.

At our El Dorado Facility, the ammonia plant's on-stream rate for the first quarter of 2018 increased to 100% from 90% for the same period of 2017. We believe that the ammonia plant will operate at a minimum of 95% on-stream rate for 2018, excluding the planned Turnaround days out of service.

At our Pryor Facility, the on-stream rate for the first quarter of 2018 for our ammonia plant was 91% compared to 96% for the same period of 2017. We believe that our focus on improving on-stream rates as discussed in key initiatives for 2018 and the capital investments made to the ammonia plant to date, will improve the on-stream rate for 2018.

Because of the improved ammonia production at the El Dorado Facility, we sold approximately 13,000 tons more of ammonia that were in excess of our internal needs at this facility compared to the same period of 2017.

Selling Prices

During the first quarter of 2018, average agricultural selling prices for our HDAN and ammonia, increased 11% and 3% respectively, while the selling price for our UAN decreased 7% and compared to 2017 average selling prices for the same period. The increase in HDAN and ammonia selling prices was due to improved commodity pricing overall during the current quarter, with ammonia pricing in particular improving as excess inventory in the distribution channel from new capacity brought online by several of our competitors is being absorbed. Our UAN selling prices were negatively impacted by lower priced orders taken during the fall fill program in late 2017 but fulfilled during the first quarter of 2018. This situation was caused by the unplanned downtime at our Pryor Facility during the last half of 2017.

In addition, average industrial selling prices for our nitric acid and ammonia also improved compared to the same period of 2017.

Adoption of ASC 606

See discussion concerning the impact from the adoption of ASC 606 in Note 2 in the accompanying notes to the condensed consolidated financial statements.

Results of Operations

The following Results of Operations should be read in conjunction with our condensed consolidated financial statements for the three months ended March 31, 2018 and 2017 and accompanying notes and the discussions under "Overview" and "Liquidity and Capital Resources" included in this MD&A.

We present the following information about our results of operations. Net sales to unaffiliated customers are reported in the condensed consolidated financial statements and gross profit represents net sales less cost of sales. Net sales are reported on a gross basis with the cost of freight being recorded in cost of sales.

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

The following table contains certain financial information:

	Three Months Ended			
	March 31, 2018 (1)	2017	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$52,269	$63,263	$(10,994)	(17)%
Industrial acids and other chemical products	38,137	48,880	(10,743)	(22)%
Mining products	10,044	7,616	2,428	32 %
Other products	—	3,585	(3,585)	(100)%
Total net sales	$100,450	$123,344	$(22,894)	(19)%
Gross profit	$10,093	$11,615	$(1,522)	(13)%
Gross profit percentage (2)	10.0 %	9.4 %	0.6 %	
Selling, general and administrative expense	8,303	10,545	(2,242)	(21)%
Other income, net	(94)	(1,251)	1,157	(92)%
Operating income	1,884	2,321	(437)	(19)%
Interest expense, net	9,306	9,358	(52)	(1)%
Non-operating other expense (income), net	(909)	231	(1,140)	
Benefit for income taxes	(922)	(1,282)	360	(28)%
Net loss	(5,591)	(5,986)	395	7 %
Property, plant and equipment improvements:	$3,003	$7,628	$(4,625)	(61)%
Depreciation, depletion and amortization of property, plant	$17,736	$17,115	$621	4 %

and equipment:

(1) See discussion concerning the impact from the adoption of ASC 606 in Note 2 in the accompanying notes to the condensed consolidated financial statements

(2) As a percentage of net sales

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The following tables provide key operating metrics for the Agricultural Products:

Product (tons sold)	Three Months Ended March 31, 2018	2017	Change	Percentage Change
UAN	102,202	157,784	(55,582)	(35)%
HDAN	92,713	91,171	1,542	2%
Ammonia	32,996	44,242	(11,246)	(25)%
Other	4,183	4,911	(728)	(15)%
Total	232,094	298,108	(66,014)	(22)%

Average Selling Prices (price per ton)	Three Months Ended March 31, 2018	2017	Change	Percentage Change
UAN	$150	$161	$ (11)	(7)%
HDAN	$247	$222	$ 25	11%
Ammonia	$326	$317	$ 9	3%

With respect to sales of Industrial Products, the following table indicates the volumes sold of our major products:

Product (tons sold)	Three Months Ended March 31, 2018	2017	Change	Percentage Change
Ammonia	68,098	43,924	24,174	55%
Nitric Acid, excluding Baytown	20,213	29,128	(8,915)	(31)%
AN Solution	5,088	3,899	1,189	30%
Total	93,399	76,951	16,448	21%

With respect to sales of Mining Products, the following table indicates the volumes sold of our major products:

	Three Months Ended	Percentage

Product (tons sold)	March 31, 2018	2017	Change	Change
LDAN/HDAN	33,513	20,214	13,299	66 %
AN Solution	4,666	8,405	(3,739)	(44)%
Total	38,179	28,619	9,560	33 %

Net Sales

Our first quarter 2018 agricultural and industrial sales were lower compared to the first quarter of 2017. Agricultural sales decreased in volume partially offset by increased overall average selling prices. Excluding the impact from the adoption of ASC 606 discussed below, industrial sales increased due to both improved overall volume and average selling sales prices. Mining sales increased due primarily to increased overall sales volume.

- Agricultural products sales decreased primarily from lower sales volume for all of our agricultural products except HDAN, which had a slight increase in sales volume. The decrease in sales volume primarily relates to the timing of barge shipments of UAN (3,000 tons and 24,000 tons in first quarter of 2018 and 2017, respectively), weather-driven planting delays for the spring application season, rail and truck transportation shortages and the lower on-stream rate experienced at the Cherokee and Pryor facilities. In addition, agricultural ammonia sales volume decreased due to a shift to additional ammonia sales volume to our industrial market discussed below. This decrease was partially offset by higher overall average sales prices primarily relating to HDAN as the result of improved commodity pricing, partially offset by lower UAN selling prices because of lower priced orders taken during the fall fill program in late 2017 were filled during the first quarter of 2018 from our Pryor Facility.

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- As noted in the table above, industrial acids and other industrial chemical products sales decreased approximately 22%, primarily due to the impact from adopting ASC 606 as discussed in Note 2 in the accompanying notes to our condensed consolidated financial statements. Since we adopted ASC 606 using the “modified retrospective” method, the prior periods were not restated. If we had applied ASC 606 to these specific arrangements during the first quarter of 2017, net sales for these products would have been reduced by approximately $17.7 million. Excluding this impact, sales increased due to higher sales volume of industrial ammonia sales, including the impact from higher on-stream rates at our El Dorado Facility partially offset by lower sales volume of nitric acid as we were able to benefit from competitor downtime during the first quarter of 2017. In addition, average selling prices improved primarily for nitric acid and ammonia.
- Mining products sales increased primarily as the result of higher sales volume of LDAN from our El Dorado Facility partially offset by lower sales of AN Solution.
- Other products consisted of minimal natural gas sales from our former working interests in certain natural gas properties that were sold during the second quarter of 2017 and sales from our former business that sold industrial machinery and related components, which business was sold in October 2017.

Gross Profit

As noted in the table above, our gross profit decreased $1.5 million compared to the first quarter of 2017, which primarily relates to:

- lost absorption of fixed costs from lower on-stream rates and increased repair expenses at our Cherokee and Pryor Facilities;
- expenses incurred relating to certain key initiatives associated with improving the reliability of our plants and our overall procurement processes, partially offset by;
- lower average natural gas prices; and
- lower transportation costs.

In addition, the first quarter of 2017 included gross profit associated with our former working interests in certain natural gas properties and industrial machinery business, both sold in 2017 as discussed above.

Selling General and Administrative

Our SG&A expenses were $8.3 million for the first quarter of 2018, a decrease of $2.2 million compared to the same period in 2017. The decrease was primarily driven by a $0.7 million reduction in professional fees, $0.6 million reduction in compensation-related costs, $0.6 million of SG&A expenses related to former working interests in certain natural gas properties and our former business that sold industrial machinery and related components discussed above.

Other Income, net

Other income, net for the first quarter of 2018 was $0.1 million compared to $1.3 million for the same period in 2017. During the first quarter of 2017, a liability of approximately $1.4 million was extinguished and derecognized associated with a death benefit agreement.

Non-operating Other Expense (Income), net

Non-operating other income for the first quarter of 2018 was $0.9 million compared to non-operating expense of $0.2 million for the same period in 2017, which primarily relates to the change in fair value of the embedded derivative included in the Series E Preferred.

Benefit for Income Taxes

The benefit for income taxes for the first quarter of 2018 was $0.9 million compared to $1.3 million for the same period in 2017. The resulting effective tax rate for the first quarters of 2018 and 2017 was 14% and 18%, respectively. For the first quarter of 2018, the effective tax rate is less than the statutory tax rate primarily due to the impact of the valuation allowances associated with state NOL carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our continuing cash flow activities for three months ended March 31:

	2018	2017	Change
	(In Thousands)		
Net cash flows from continuing operating activities	$1,217	$7,787	$(6,570)
Net cash flows from continuing investing activities	$(1,891)	$(13,392)	$11,501
Net cash flows from continuing financing activities	$(4,278)	$(8,098)	$3,820

Cash Flow from Continuing Operating Activities

Net cash provided by continuing operating activities was $1.2 million for the first quarter of 2018 compared to net cash provided of $7.8 million for the first quarter of 2017, a change of $6.6 million.

For the first quarter of 2018, the net cash provided is the result of a net loss of $5.6 million plus adjustments of $17.7 million for depreciation and amortization of PP&E and other adjustments of $0.3 million and net cash used of $11.2 million primarily from our working capital, including a decrease in accrued interest and an increase in our trade accounts receivable.

For the first quarter of 2017, the net cash provided is the result of a net loss of $6.0 million plus adjustments of $17.1 million for depreciation, depletion and amortization of PP&E less other adjustments of $1.5 million and net cash used of $1.8 million primarily from our working capital.

Cash Flow from Continuing Investing Activities

Net cash used by continuing investing activities was $1.9 million for the first quarter of 2018 compared to net cash used of $13.4 million in the prior period, a change of $11.5 million.

For the first quarter of 2018, the net cash used is primarily the result of $6.2 million for expenditures for PP&E partially offset by $2.7 million representing the remaining proceeds from an indemnity escrow account associated with the sale of the Climate Control business in 2016 and $1.5 million relating to a recovery from a property insurance claim.

For the first quarter of 2017, the net cash used was $13.4 million primarily for expenditures for PP&E.

Cash Flow from Continuing Financing Activities

Net cash used by continuing financing activities was $4.3 million for the first quarter of 2018 compared to $8.1 million for the first quarter of 2017, a change of $3.8 million.

For the first quarter of 2018, the net cash used consists primarily of payments on long-term debt and short-term financing of $4.1 million.

For the first quarter of 2017, the net cash used consists primarily of payments on long-term debt and short-term financing of $7.9 million.

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Capitalization

The following is our total current cash, long-term debt, redeemable preferred stock and stockholders' equity:

	March 31, 2018	December 31, 2017
	(In Millions)	
Cash and cash equivalents	$28.7	$ 33.6
Long-term debt:		
Working Capital Revolver Loan	$—	$ —
Senior Secured Notes due 2019 (1)	375.0	375.0
Secured Promissory Note due 2019	7.9	8.2
Secured Promissory Note due 2021	10.5	11.2
Secured Promissory Note due 2023	16.2	16.7
Other	2.9	3.0
Unamortized discount and debt issuance costs	(4.0)	(4.7)
Total long-term debt, including current portion, net	$408.5	$ 409.4
Series E and F redeemable preferred stock (1) (2)	$182.9	$ 175.0
Total stockholders' equity	$425.9	$ 438.2

(1) See discussion under "Overview-Recent Developments," "Loan Agreements and Redeemable Preferred Stock" and Note 13.
(2) Liquidation preference of $192 million as of March 31, 2018.

We currently have a revolving credit facility, our Working Capital Revolver Loan, with a borrowing base of $50 million. As of March 31, 2018, our Working Capital Revolver Loan was undrawn and had approximately $46.3 million of availability.

We have planned capital improvements of approximately $32.0 million for the remainder of 2018 for a total in 2018 of approximately $35.0 million. They do not include any capital spending to increase capacity.

As discussed above under "Overview-Recent Developments" and Note 13, on April 25, 2018, we used a portion of the net proceeds from the Notes to repurchase all of our Senior Secured Notes due 2019 that were validly tendered and not validly withdrawn. We also intend to redeem in full all of the outstanding Senior Secured Notes due 2019 that were not validly tendered in the tender offer. Also, from the net proceeds, we paid or will pay related transaction fees, expenses and premiums. Any remaining net proceeds will be used for general corporate purposes.

We believe that the combination of our cash on hand, the availability on our revolving credit facility, and our cash flow from operations will be sufficient to fund our anticipated liquidity needs for the next twelve months.

Compliance with Long - Term Debt Covenants

As discussed below under "Loan Agreements" and in Notes 6 and 13 in the accompanying notes to the condensed consolidated financial statements, the Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants. The Working Capital Revolver Loan does not include financial covenant requirements unless a defined covenant trigger event has occurred and is continuing. As of March 31, 2018, no trigger event had occurred.

Loan Agreements and Redeemable Preferred Stock

Senior Secured Notes due 2019 - See discussion above under “Overview-Recent Developments” and in Note 13 in the accompanying notes to the condensed consolidated financial statements.

Secured Promissory Note due 2019 - EDC is party to a secured promissory note due June 29, 2019. This promissory note bears interest at the annual rate of 5.73%. Principal and interest are payable in equal monthly installments with a final balloon payment of approximately $6.7 million. This promissory note is secured by the cogeneration facility equipment and is guaranteed by LSB.

Secured Promissory Note due 2021 - EDC is party to a secured promissory note due March 26, 2021. This promissory note bears interest at the annual rate of 5.25%. Principal and interest are payable in monthly installments. This promissory note is secured by a natural gas pipeline at the El Dorado Facility and is guaranteed by LSB.

Secured Promissory Note due 2023 - EDA is party to a secured promissory note due in May 2023. Principal and interest are payable in equal monthly installments with a final balloon payment of approximately $6.1 million. This promissory note bears interest at a rate that is based on the monthly LIBOR rate plus a base rate for a total of 5.92%. This promissory note is secured by the ammonia storage tank and related systems and is guaranteed by LSB.

Working Capital Revolver Loan - At March 31, 2018, there were no outstanding borrowings under the Working Capital Revolver Loan and the net credit available for borrowings under our Working Capital Revolver Loan was approximately $46.3 million, based on our eligible collateral, less outstanding letters of credit as of that date. Also see discussion above under “Compliance with Long-Term Debt Covenants.

Redemption of Series E Redeemable Preferred – At March 31, 2018, there were 139,768 outstanding shares of Series E Redeemable Preferred and the aggregate liquidation preference (par value plus accrued dividends) was $192 million.

At any time on or after October 25, 2023, each Series E holder has the right to elect to have such holder’s shares redeemed by us at a redemption price per share equal to the liquidation preference per share of $1,000 plus accrued and unpaid dividends plus the participation rights value (the “Liquidation Preference”). Additionally, at our option, we may redeem the Series E Redeemable Preferred at any time at a redemption price per share equal to the Liquidation Preference of such share as of the redemption date. Lastly, with receipt of (i) prior consent of the electing Series E holder or a majority of shares of Series E Redeemable Preferred and (ii) all other required approvals, including under any principal U.S. securities exchange on which our common stock is then listed for trading, we can redeem the Series E Redeemable Preferred by the issuance of shares of common stock having an aggregate common stock price equal to the amount of the aggregate Liquidation Preference of such shares being redeemed in shares of common stock in lieu of cash at the redemption date.

In the event of liquidation, the Series E Redeemable Preferred is entitled to receive its Liquidation Preference before any such distribution of assets or proceeds is made to or set aside for the holders of our common stock and any other junior stock. In the event of a change of control, we must make an offer to purchase all of the shares of Series E Redeemable Preferred outstanding at the Liquidation Preference.

Capital Improvements – First Quarter of 2018

For the first quarter of 2018, capital improvements relating to PP&E were $3.0 million, which improvements include approximately $0.4 million associated with maintaining compliance with environmental laws, regulations and guidelines. The capital improvements were funded primarily from cash and working capital.

See discussion above under “Capitalization” for our expected capital improvements for the remainder of 2018.

Expenses Associated with Environmental Regulatory Compliance

We are subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, we incurred expenses of $0.8 million during the first quarter of 2018 in connection with environmental projects. For the remainder of 2018, we expect to incur expenses ranging from $2.9 million to $3.3 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates.

Dividends

We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future.

Dividends on the Series E Redeemable Preferred are cumulative and payable semi-annually (May 1 and November 1) in arrears at the current annual rate of 14% of the liquidation value of $1,000 per share, but such annual rate will increase beginning on the third anniversary of the Refinancing Transactions as discussed above under “Overview-Recent Developments and Note 13. Each share of Series E Redeemable Preferred is entitled to receive a semi-annual dividend, only when declared by our Board. In addition, dividends in arrears at the dividend date, until paid, shall compound additional dividends at the current annual rate of 14%, but such annual rate will increase beginning on the third anniversary of the Refinancing Transactions as discussed above under "Overview-Recent Developments and Note 13. The current semi-annual compounded dividend is approximately $90.69 per share for the current aggregate semi-annual dividend of $12.7 million. We also must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with our common stock. As long as the Purchaser holds at least 10% of the Series E Redeemable Preferred, we may not declare dividends on our common stock and other preferred stocks unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. As of March 31, 2018, the amount of accumulated dividends on the Series E Redeemable Preferred was approximately $51.8 million.

Dividends on the Series D 6% cumulative convertible Class C preferred stock (the "Series D Preferred") and Series B 12% cumulative convertible Class C Preferred Stock (the "Series B Preferred") are payable annually, only when declared by our Board, as follows:

- $0.06 per share on our outstanding non-redeemable Series D Preferred for an aggregate dividend of $60,000, and
- $12.00 per share on our outstanding non-redeemable Series B Preferred for an aggregate dividend of $240,000.

As of March 31, 2018, the amount of accumulated dividends on the Series D Preferred and Series B Preferred totaled approximately $0.8 million. All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Holders. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

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Seasonality

We believe fertilizer products sold to the agricultural industry are seasonal while sales into the industrial and mining sectors generally are less susceptible. The selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets we distribute the majority of our agricultural products. As a result, we typically increase our inventory of fertilizer products prior to the beginning of each planting season in order to meet the demand for our products. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

Performance and Payment Bonds

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of March 31, 2018, we have agreed to indemnify the sureties for payments, up to $10 million, made by them in respect of such bonds. These insurance bonds are expected to expire or be renewed in 2018.

New Accounting Pronouncements

Refer to Notes 1 and 2 for recently adopted and issued accounting standards.

Critical Accounting Policies and Estimates

See "Critical Accounting Policies and Estimates," Item 7 of our 2017 Form 10-K. In addition, the preparation of financial statements requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies and fair values, including, but not limited to, various environmental and legal matters that require us to make estimates and assumptions, including costs relating to a corrective action study work plan approved by the KDHE discussed under footnote 2 – Other Environmental Matters of Note 7 included in this Form 10-Q and the lawsuits styled City of West, Texas vs. CF Industries, Inc., et al., discussed under "Other Pending, Threatened or Settled Litigation" of Note 7.

The carrying values of the redeemable preferred stocks are being increased by periodic accretions (recorded to retained earnings and included in determining income or loss per share) using the interest method so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder, under the existing agreement at March 31, 2018. However, as the result of certain changes to the terms of our Series E Redeemable Preferred as discussed above under "Overview-Recent Developments" and Note 13, we are currently evaluating the impact on our financial statements as the result of these changes, including the impact on the carrying values of the redeemable preferred stocks and periodic accretions.

It is also reasonably possible that the estimates and assumptions utilized as of March 31, 2018 could change in the near term.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Exchange Act.

Aggregate Contractual Obligations

In the operation of our businesses, we enter into contracts, leases and borrowing arrangements. As discussed in our 2017 Form 10-K, we had certain contractual obligations as of December 31, 2017, with various maturity dates, showing payments due for the next five years and thereafter related to the following:

- long-term debt,
- Series E Redeemable Preferred,
- dividends accrued on Series E Redeemable Preferred,
- interest payments on long-term debt,
- other capital expenditures,
- operating leases,
- natural gas pipeline commitment,
- firm purchase commitments and,
- other contractual obligations.

See discussion above under “Overview-Recent Developments and Note 13.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

General

Our results of operations and operating cash flows are impacted by changes in market prices of ammonia and natural gas and changes in market interest rates.

Forward Sales Commitments Risk

Periodically, we enter into forward firm sales commitments for products to be delivered in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At March 31, 2018, we had no embedded losses associated with sales commitments with firm sales prices.

Commodity Price Risk

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. We are exposed to commodity price risk as we generally do not use derivative financial instruments to manage risks related to changes in prices of commodities. We periodically enter into contracts to purchase natural gas for anticipated production needs. Generally, these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At March 31, 2018, we did not have any natural gas derivatives not meeting the definition of a normal purchase and sale.

Interest Rate Risk

Generally, we are exposed to variable interest rate risk with respect to our revolving credit facility. As of March 31, 2018, we did not have any outstanding borrowings on this credit facility. We are also exposed to interest rate risk on variable rate borrowings for certain commercial loans in the amount of approximately $16.2 million. We currently do not hedge our interest rate risk associated with these variable interest loans.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures as defined in Rule 13a-15 under the Exchange Act designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2018. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2018, at the reasonable assurance level.

SPECIAL NOTE REGARDING

FORWARD-LOOKING STATEMENTS

Certain statements contained within this report may be deemed "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933 (as amended, the "Securities Act") and Section 21E of the Securities Exchange Act. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe," "expect," "anticipate," "intend," and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein include, but are not limited to, the following:

- our ability to invest in projects that will generate best returns for our stockholders;
- our future liquidity outlook;
- the outlook our chemical products and related markets;
- the amount, timing and effect on the nitrogen market from the current nitrogen expansion projects;
- the effect from the lack of non-seasonal volume;
- our belief that competition is based upon service, price, location of production and distribution sites, and product quality and performance;
- our outlook for the coal industry;
- the availability of raw materials;
- the result of our product and market diversification strategy;
- changes in domestic fertilizer production;
- on-stream rates at our production facilities;
- our ability to moderate risk inherent in agricultural markets;
- the sources to fund our cash needs and how this cash will be used;
- the ability to enter into additional borrowings;
- the anticipated cost and timing of our capital projects;
- certain costs covered under warranty provisions;
- our ability to pass to our customers cost increases in the form of higher prices;
- annual natural gas requirements;
- compliance by the El Dorado Facility of the terms of its permits;
- the costs of compliance with environmental laws, health laws, security regulations and transportation regulations;
- our belief as to when Turnarounds will be performed and completed;
- expenses in connection with environmental projects;
- the effect of litigation and other contingencies;
- the benefits from the El Dorado expansion project;
- our ability to comply with debt servicing and covenants;
- our ability to meet debt maturities or redemption obligations when due; and
- our beliefs as to whether we can meet all required covenant tests for the next twelve months.

While we believe the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to, the following:

- changes in general economic conditions, both domestic and foreign;
- material reductions in revenues;
- material changes in interest rates;

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- our ability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- adverse effects on increases in prices of raw materials;
- changes in federal, state and local laws and regulations, especially environmental regulations or the American Reinvestment and Recovery Act, or in the interpretation of such;
- releases of pollutants into the environment exceeding our permitted limits;
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us;
- the requirement to use internally generated funds for purposes not presently anticipated;
- the inability to secure additional financing for planned capital expenditures or financing obligations due in the near future;
- our substantial existing indebtedness;
- material changes in the cost of certain precious metals, natural gas, and ammonia;
- limitations due to financial covenants;
- changes in competition;
- the loss of any significant customer;
- increases in cost to maintain internal controls over financial reporting;
- changes in operating strategy or development plans;
- an inability to fund the working capital and expansion of our businesses;
- changes in the production efficiency of our facilities;
- adverse results in our contingencies including pending litigation;
- unplanned downtime at one or more of our chemical facilities;
- changes in production rates at any of our chemical plants;
- an inability to obtain necessary raw materials and purchased components;
- material increases in cost of raw materials;
- material changes in our accounting estimates;
- significant problems within our production equipment;
- fire or natural disasters;
- an inability to obtain or retain our insurance coverage;
- difficulty obtaining necessary permits;
- difficulty obtaining third-party financing;
- risks associated with proxy contests initiated by dissident stockholders;
- changes in fertilizer production;
- reduction in acres planted for crops requiring fertilizer;
- decreases in duties for products we sell resulting in an increase in imported products into the U.S.;
- volatility of natural gas prices;
- weather conditions;
- increases in imported agricultural products; and
- other factors described in “Risk Factors” in our Form 10-K for the year ended December 31, 2017.

Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

Defined Terms

The following is a list of terms used in this report.

Act	- The Tax Cuts and Jobs Act of 2017.
ADEQ	- The Arkansas Department of Environmental Quality.
AN	- Ammonium nitrate.
ASU	- Accounting Standard Update.
BAE	- BAE Systems Ordinance Systems, Inc.
Baytown Facility	- The nitric acid production facility located in Baytown, Texas.
CAO	- A consent administrative order.
Cherokee Facility	- Our chemical production facility located in Cherokee, Alabama.
Chevron	- Chevron Environmental Management Company.
Climate Control Business	- Former business conducted through the Climate Control Group.
Covestro	- The party with whom our subsidiary in Baytown has entered into an agreement for supply of nitric acid through at least June 2021, the Covestro Agreement.
DOJ	- The U.S. Department of Justice.
EDA	- El Dorado Ammonia L.L.C.
EDC	- El Dorado Chemical Company.
EDN	- El Dorado Nitrogen L.L.C.
EIA	- The U.S. Energy Information Administration.
El Dorado Facility	- Our chemical production facility located in El Dorado, Arkansas.
Environmental and Health Laws	- Numerous federal, state and local environmental, health and safety laws.
EPA	- The U.S. Environmental Protection Agency.
FASB	- Financial Accounting Standards Board.

Financial Covenant	-	Certain springing financial covenants associated with the working capital revolver loan.
GAAP	-	U. S. Generally Accepted Accounting Principles.
Global	-	Global Industrial, Inc., a subcontractor asserting mechanics liens for work rendered to LSB and EDC.
Golsen Holders	-	Jack E. Golsen, our Executive Chairman of the Board, and Barry H. Golsen, a member of the Board, entities owned by them and trusts for which they possess voting or dispositive power as trustee.
Hallowell Facility	-	A chemical facility previously owned by two of our subsidiaries located in Kansas.
HDAN	-	High density ammonium nitrate prills used in the agricultural industry.
KDHE	-	The Kansas Department of Health and Environment.
Indenture Amendments	-	Certain amendments to the Original 7.75% Indenture.
LDAN	-	Low density ammonium nitrate prills used in the mining industry.
Leidos	-	Leidos Constructors L.L.C.
Liquidation Preference	-	The Series E Redeemable Preferred liquidation preference of $1,000 per share plus accrued and unpaid dividends plus the participation rights value.
LSB	-	LSB Industries, Inc.
LSB Funding	-	LSB Funding L.L.C.

MD&A	- Management's Discussion and Analysis of Financial Condition and Results of Operations found in Item 7 of this report.
NOL	- Net Operating Loss.
NPDES	- National Pollutant Discharge Elimination System.
ODEQ	- The Oklahoma Department of Environmental Quality.
PCC	- Pryor Chemical Company.
PP&E	- Plant, property and equipment.
Pryor Facility	- Our chemical production facility located in Pryor, Oklahoma.
Purchaser	- LSB Funding L.L.C.
SEC	- The U.S. Securities and Exchange Commission.
Secured Promissory Note due 2019	- A secured promissory note between EDC and a lender which matures in June 2019.
Secured Promissory Note due 2021	- A secured promissory note between EDC and a lender which matures in March 2021.
Secured Promissory Note due 2023	- A secured promissory note between EDA and a lender which matures in May 2023.
Senior Secured Notes	- The Senior Secured Notes with a current interest rate of 8.50%.
Series B Preferred	- The Series B 12% cumulative convertible Class C Preferred stock.
Series D Preferred	- The Series D 6% cumulative convertible Class C preferred stock.
Series E Redeemable Preferred	- The 14% Series E Redeemable Preferred stock with participating rights and liquidating distributions based on a certain number of shares of our common stock.
Series F Redeemable Preferred	- The Series F Redeemable Preferred stock with one share to vote as a single class on all matters with our common stock equal to 456,225 shares of our common stock.
SG&A	- Selling, general and administrative expense.
Turnaround	- A planned major maintenance activity.
UAN	- Urea ammonium nitrate.
U.S.	- United States.

WASDE	-	World Agricultural Supply and Demand Estimates Report.
West Fertilizer	-	West Fertilizer Company.
Working Capital Revolver Loan	-	Our secured revolving credit facility.
Zena	-	Zena Energy L.L.C., a former subsidiary of the Company.
2017 Crop	-	Corn crop marketing year (September 1 - August 31), which began in 2016 and ended in 2017.
2018 Crop	-	Corn crop marketing year (September 1 - August 31), which began in 2017 and ending in 2018.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Other Litigation

We are from time to time subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service. For further discussion of our legal matters, see “Note 7—Commitments and Contingencies—Legal Matters” in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

Item 1A. Risk Factors

Reference is made to Item 1A of our 2017 Form 10-K, filed with the SEC on February 26, 2018 for our discussion regarding risk factors.

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

Not applicable

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

See “Index to Exhibits” on page 41.

Index to Exhibits Item 6

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
3(i).1	Restated Certificate of Incorporation of LSB Industries, Inc., dated January 21, 1977, as amended August 27, 1987	Exhibit 3(i).1 to the Company's Form 10-K filed on February 28, 2013
3(ii).1	Amended and Restated Bylaws of LSB Industries, Inc. dated August 20, 2009, as amended February 18, 2010, January 17, 2014, February 4, 2014 and August 21, 2014	Exhibit 3(ii).1 to the Company's Form 8-K filed August 27, 2014
3(ii).2	Fifth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of April 26, 2015	Exhibit 3(ii) to the Company's Form 8-K filed April 30, 2015
3(ii).3	Sixth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 2, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 8, 2015
3(ii).4	Seventh Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 22, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 29, 2015
4.1	Indenture, dated as of April 25, 2018, among LSB Industries, Inc., the subsidiary guarantors party thereto and Wilmington Trust, National Association, as trustee and collateral agent.	Exhibit 4.1 to the Company's Form 8-K filed April 25, 2018
4.2	Form of 9.625% Senior Secured Notes due 2023 (included in Exhibit 4.1).	Exhibit 4.2 to the Company's Form 8-K filed April 25, 2018
10.1	First Amendment to Third Amended and Restated Loan and Security Agreement, dated as of April 16, 2018, by and among Wells Fargo Capital Finance, LLC, as the arranger and administrative agent, the lenders party thereto, LSB Industries, Inc. and its subsidiaries identified on the signature pages thereto as borrowers and the Company's subsidiaries identified on the signature pages thereto as guarantors.	Exhibit 10.1 to the Company's Form 8-K filed April 20, 2018
10.2	Amendment No. 1 to Intercreditor Agreement, dated as of April 25, 2018, among Wells Fargo Capital Finance, LLC, UMB Bank, n.a. and Wilmington Trust, National Association, and acknowledged by LSB Industries, Inc. and	Exhibit 10.1 to the Company's Form 8-K filed April 25, 2018

	the subsidiary guarantors party thereto.
31.1(a)	Certification of Daniel D. Greenwell, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302
31.2(a)	Certification of Mark T. Behrman, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302
32.1(b)	Certification of Daniel D. Greenwell, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906
32.2(b)	Certification of Mark T. Behrman, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906
101.INS(a)	XBRL Instance Document
101.SCH(a)	XBRL Taxonomy Extension Schema Document
101.CAL(a)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(a)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(a)	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE(a)	XBRL Taxonomy Extension Presentation Linkbase Document

*Executive Compensation Plan or Arrangement

(a) Filed herewith
(b) Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 25th day of April 2018.

LSB INDUSTRIES, INC.

/s/ Mark T. Behrman
Mark T. Behrman
Executive Vice President of Finance and

Chief Financial Officer
(Principal Financial Officer)

/s/ Harold L. Rieker, Jr.
Harold L. Rieker, Jr.
Vice President and Corporate Controller
(Principal Accounting Officer)