

NAVIGANT CONSULTING INC
Form 10-Q
July 26, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____

Commission File No. 1-12173

Navigant Consulting, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606
(Address of principal executive offices, including zip code)

36-4094854
(I.R.S. Employer
Identification No.)
30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606
(Address of principal executive offices, including zip code)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of July 22, 2016, 47,400,293 shares of the registrant's common stock, par value \$.001 per share, were outstanding.

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Forward-Looking Statements	

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

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****NAVIGANT CONSULTING, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,310	\$ 8,895
Accounts receivable, net	254,395	216,660
Prepaid expenses and other current assets	31,745	29,729
Total current assets	289,450	255,284
Non-current assets:		
Property and equipment, net	73,816	76,717
Intangible assets, net	32,617	38,160
Goodwill	620,136	623,204
Other assets	21,098	22,531
Total assets	\$ 1,037,117	\$ 1,015,896
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 11,984	\$ 9,497
Accrued liabilities	11,340	10,719
Accrued compensation-related costs	68,619	91,577
Income tax payable	8,300	
Other current liabilities	34,742	32,147
Total current liabilities	134,985	143,940
Non-current liabilities:		
Deferred income tax liabilities	80,308	75,719
Other non-current liabilities	19,706	28,956
Bank debt non-current	189,757	173,743
Total non-current liabilities	289,771	278,418

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Total liabilities	424,756	422,358
Stockholders' equity:		
Common stock	57	64
Additional paid-in capital	636,506	627,976
Treasury stock	(169,327)	(296,624)
Retained earnings	165,789	278,682
Accumulated other comprehensive loss	(20,664)	(16,560)
Total stockholders' equity	612,361	593,538
Total liabilities and stockholders' equity	\$ 1,037,117	\$ 1,015,896

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues before reimbursements	\$ 238,485	\$ 211,023	\$ 461,960	\$ 412,179
Reimbursements	23,198	22,416	45,010	44,431
Total revenues	261,683	233,439	506,970	456,610
Cost of services before reimbursable expenses	157,966	145,367	311,906	283,968
Reimbursable expenses	23,198	22,416	45,010	44,431
Total cost of services	181,164	167,783	356,916	328,399
General and administrative expenses	44,507	39,068	84,338	74,733
Depreciation expense	7,015	5,724	13,537	11,079
Amortization expense	2,891	2,297	5,812	4,566
Other operating costs (benefit):				
Contingent acquisition liability adjustments, net	850	2,308	850	(12,625)
Office consolidation, net	174	1,804	174	2,740
Other impairment		98		98
Operating income	25,082	14,357	45,343	47,620
Interest expense	1,429	1,238	2,689	2,970
Interest income	(36)	(46)	(75)	(101)
Other (income) expense, net	(444)	176	(784)	(152)
Income before income tax expense	24,133	12,989	43,513	44,903
Income tax expense	9,356	5,162	16,094	11,933
Net income	\$ 14,777	\$ 7,827	\$ 27,419	\$ 32,970
Basic net income per share	\$ 0.31	\$ 0.16	\$ 0.58	\$ 0.68
Shares used in computing basic per share data	47,550	48,150	47,488	48,137
Diluted net income per share	\$ 0.30	\$ 0.16	\$ 0.56	\$ 0.67
Shares used in computing diluted per share data	48,841	49,310	48,936	49,369
Net income	\$ 14,777	\$ 7,827	\$ 27,419	\$ 32,970
Other comprehensive income (loss), net of tax				
Unrealized net (loss) gain, foreign currency translation	(3,459)	2,834	(3,989)	(244)
Unrealized net loss on interest rate derivatives	(45)	(46)	(207)	(264)
Reclassification adjustment on interest rate derivatives included in interest expense and income tax expense	40	80	92	155

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Other comprehensive (loss) income, net of tax	(3,464)	2,868	(4,104)	(353)
Total comprehensive income, net of tax	\$ 11,313	\$ 10,695	\$ 23,315	\$ 32,617

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock Shares	Treasury Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock Cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stock- holders' Equity
Balance at December 31, 2015	64,465	(16,903)	\$ 64	\$ 627,976	\$ (296,624)	\$ (16,560)	\$ 278,682	\$ 593,538
Comprehensive income (loss)						(4,104)	27,419	23,315
Issuances of common stock	215			2,841				2,841
Tax benefits on stock options exercised and restricted stock units vested				1,063				1,063
Vesting of restricted stock units, net of forfeitures and tax withholdings	543		1	(3,836)				(3,835)
Share-based compensation expense				6,524				6,524
Additional paid-in capital recorded through compensation expense				1,938				1,938
Repurchases of common stock		(835)			(13,023)			(13,023)
Treasury stock retirement	(8,000)	8,000	(8)		140,320		(140,312)	
Balance at June 30, 2016	57,223	(9,738)	\$ 57	\$ 636,506	\$ (169,327)	\$ (20,664)	\$ 165,789	\$ 612,361

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 27,419	\$ 32,970
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	13,570	11,218
Amortization expense	5,812	4,566
Amortization expense - client-facing software	353	486
Share-based compensation expense	6,524	5,524
Accretion of interest expense	355	1,135
Deferred income taxes	1,131	4,686
Allowance for doubtful accounts receivable	4,547	1,592
Contingent acquisition liability adjustments, net	850	(12,625)
Other, net		98
Changes in assets and liabilities (net of acquisitions):		
Accounts receivable	(43,765)	(36,747)
Prepaid expenses and other assets	(1,025)	(2,361)
Accounts payable	2,478	136
Accrued liabilities	472	1,444
Accrued compensation-related costs	(22,788)	(22,896)
Income taxes payable	12,059	46
Other liabilities	(337)	5,923
Net cash provided by (used in) operating activities	7,655	(4,805)
Cash flows from investing activities:		
Purchases of property and equipment	(10,039)	(23,197)
Acquisitions of businesses, net of cash acquired	(1,995)	(21,379)
Other acquisition payments	(5,500)	
Payments of acquisition liabilities	(498)	(1,530)
Capitalized client-facing software	(127)	(346)
Net cash used in investing activities	(18,159)	(46,452)
Cash flows from financing activities:		
Issuances of common stock	2,841	4,894
Repurchases of common stock	(13,023)	(12,081)
Repayments to banks	(209,245)	(138,703)
Borrowings from banks	227,239	199,643

Other, net	(2,779)	(1,247)
Net cash provided by financing activities	5,033	52,506
Effect of exchange rate changes on cash and cash equivalents	(114)	(43)
Net (decrease) increase in cash and cash equivalents	(5,585)	1,206
Cash and cash equivalents at beginning of the period	8,895	2,648
Cash and cash equivalents at end of the period	\$ 3,310	\$ 3,854

Supplemental Unaudited Consolidated Cash Flow Information

	For the six months ended June 30,	
	2016	2015
Interest paid	\$ 1,962	\$ 1,543
Income taxes paid, net of refunds	\$ 1,721	\$ 7,275

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Navigant Consulting, Inc. (Navigant, we, us, or our) (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, Navigant primarily serves clients in the healthcare, energy and financial services industries.

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

The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2016.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2015 included in our Annual Report on Form 10-K filed with the SEC on February 16, 2016 (2015 Form 10-K). During the first quarter of 2016, we renamed two of our business segments. The Disputes, Investigations & Economics segment was renamed Disputes, Forensics & Legal Technology, and the Financial, Risk & Compliance segment was renamed Financial Services Advisory and Compliance. Other than the changes to the names of these segments, the characteristics of the business segments remain unchanged.

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

2. ACQUISITIONS

2015 Acquisitions

On December 31, 2015, we acquired McKinnis Consulting Services, LLC (McKinnis) to further expand our healthcare business. McKinnis specializes in providing revenue cycle assessment, strategy and optimization assistance for healthcare providers. The acquisition included approximately 70 professionals and was integrated into our Healthcare segment. We paid \$45.7 million at closing, including \$42.7 million in cash (net of cash acquired) and \$3.0 million (or 176,758 shares) in our common stock. The purchase agreement also provides for a deferred contingent acquisition payment to the selling members of McKinnis in an amount up to \$10.0 million based on the business achieving certain performance targets over the one-year period ending December 31, 2016. We estimated the fair value of the deferred contingent consideration on the closing date to be \$8.3 million which was recorded in other

non-current liabilities at net present value using a risk-adjusted discount rate. Based on a second quarter 2016 forecast which projected that the business' strong operating performance was expected to continue through the end of 2016, we increased the fair value of the deferred contingent acquisition liability to \$9.5 million during the three months ended June 30, 2016. As part of our preliminary purchase price allocation, we recorded \$13.0 million in identifiable intangible assets, \$45.5 million in goodwill and other net assets of \$1.0 million. Terms of the purchase agreement also include a provision for a working capital adjustment to be calculated within 90 days of the closing, including a \$5.5 million payment to the selling members for undistributed cash held in the business as of the closing. The \$5.5 million payment was made during the first quarter 2016. As of June 30, 2016 the working capital adjustment had been finalized and settled. We are still in the process of finalizing our purchase price allocation and the assumptions used to determine the fair value of the intangible assets and deferred contingent consideration. To the extent that adjustments relate to facts and circumstances as of the closing date, the net impact will be recorded to goodwill for a period not exceeding one year.

On February 23, 2015, we acquired RevenueMed, Inc. (RevenueMed) to expand our business process management service capabilities within our Healthcare segment. RevenueMed specializes in providing coding, revenue cycle management, and business process management services to healthcare providers. This acquisition included approximately 1,500 professionals primarily located in India and was integrated into the Technology, Data & Process business within our Healthcare segment. We paid \$21.3 million in cash (net of cash acquired) at closing. The purchase agreement provided for a deferred contingent acquisition payment to the selling stockholders of RevenueMed in an amount up to \$4.0 million based on the business achieving certain performance targets over the six-month period beginning January 1, 2015 and ending June 30, 2015. We estimated the fair value of the deferred contingent consideration on the closing date to be \$3.8 million which was recorded in other current liabilities at net present value using a risk-adjusted discount rate. Based on the acquired business' operating results during the performance period, the maximum earned amount was achieved, and on October 1, 2015, a \$4.0 million cash payment was made to settle the contingent acquisition liability. As part of our purchase price allocation, we recorded \$7.3 million in identifiable intangible assets, \$14.4 million in goodwill, \$1.4 million of internally developed software and other net assets of \$2.6 million. Other net assets included a liability for uncertain tax positions of \$1.3 million, and based on the indemnification terms of the purchase agreement, which entitles us to indemnification if tax is due, an offsetting receivable from RevenueMed was recorded in prepaid expenses and other current assets.

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

Pro Forma Information

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Total revenues	\$ 261,683	\$ 240,337	\$ 506,970	\$ 472,524
Net income	\$ 14,777	\$ 8,387	\$ 27,419	\$ 34,026
Basic net income per basic share	\$ 0.31	\$ 0.17	\$ 0.58	\$ 0.70
Shares used in computing net income per basic share	47,550	48,326	47,488	48,313
Diluted net income per diluted share	\$ 0.30	\$ 0.17	\$ 0.56	\$ 0.69
Shares used in computing net income per diluted share	48,841	49,486	48,936	49,545

3. SEGMENT INFORMATION

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

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

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

The **Healthcare** segment provides consulting services and business process management services. Clients of this segment include healthcare providers, payers and life sciences companies. We help clients respond to market legislative changes such as the shift to an outcomes and value-based reimbursements model, ongoing industry consolidation and reorganization, Medicaid expansion, and the implementation of a new electronic health records system.

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

The following information includes segment revenues before reimbursements, segment total revenues and segment operating profit. Certain unallocated expense amounts related to specific reporting segments have been excluded from segment operating profit to be consistent with the information used by management to evaluate segment performance. Segment operating profit represents total revenues less cost of services excluding long-term compensation expense attributable to client-service employees. Long-term compensation expense attributable to client-service employees includes share-based compensation expense and compensation expense attributed to certain retention incentives (see Note 6 Share-Based Compensation Expense and Note 7 Supplemental Consolidated Balance Sheet Information).

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

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues before reimbursements:				
Disputes, Forensics & Legal Technology	\$ 79,320	\$ 81,116	\$ 160,582	\$ 157,709
Financial Services Advisory and Compliance	39,994	29,509	73,644	64,452
Healthcare	89,876	74,245	171,543	138,239
Energy	29,295	26,153	56,191	51,779
Total revenues before reimbursements	\$ 238,485	\$ 211,023	\$ 461,960	\$ 412,179
Total revenues:				
Disputes, Forensics & Legal Technology	\$ 85,082	\$ 87,515	\$ 172,081	\$ 168,726
Financial Services Advisory and Compliance	45,360	34,439	82,267	76,739
Healthcare	98,386	80,652	188,488	149,981
Energy	32,855	30,833	64,134	61,164
Total revenues	\$ 261,683	\$ 233,439	\$ 506,970	\$ 456,610
Segment operating profit:				
Disputes, Forensics & Legal Technology	\$ 28,963	\$ 25,721	\$ 57,673	\$ 49,990
Financial Services Advisory and Compliance	17,511	11,201	31,017	26,271
Healthcare	29,362	24,726	53,130	42,982
Energy	8,402	7,513	15,116	15,435
Total segment operating profit	84,238	69,161	156,936	134,678
Segment reconciliation to income before income tax expense:				
Reconciling items:				
General and administrative expenses	44,507	39,068	84,338	74,733
Depreciation expense	7,015	5,724	13,537	11,079
Amortization expense	2,891	2,297	5,812	4,566
Other operating costs (benefit), net	1,024	4,210	1,024	(9,787)
Long-term compensation expense attributable to client-service employees (including share-based compensation expense)	3,719	3,505	6,882	6,467
Operating income	25,082	14,357	45,343	47,620
Interest and other expense, net	949	1,368	1,830	2,717
Income before income tax expense	\$ 24,133	\$ 12,989	\$ 43,513	\$ 44,903

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

	June 30, 2016	December 31, 2015
Disputes, Forensics & Legal Technology	\$ 340,284	\$ 332,772
Financial Services Advisory and Compliance	107,164	88,956
Healthcare	379,731	379,032
Energy	111,250	108,630
Unallocated assets	98,688	106,506
 Total assets	 \$ 1,037,117	 \$ 1,015,896

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

	Disputes, Forensics & Legal Technology	Financial Services Advisory and Compliance	Healthcare	Energy	Total Company
Gross goodwill at December 31, 2015	\$ 354,604	\$ 55,341	\$ 264,163	\$ 76,566	\$ 750,674
Acquisitions			1,670		1,670
Adjustments	(77)	(17)	(6)		(100)
Foreign currency translation	(3,007)	(871)	(322)	(438)	(4,638)
Gross goodwill at June 30, 2016	351,520	54,453	265,505	76,128	747,606
Accumulated goodwill impairment	(122,045)				(122,045)
Accumulated amortization	(5,425)				(5,425)
Net goodwill at June 30, 2016	\$ 224,050	\$ 54,453	\$ 265,505	\$ 76,128	\$ 620,136

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

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

Based on our assumptions, at that time, the estimated fair value exceeded the net asset carrying value for each of our reporting units as of May 31, 2016. Accordingly, there was no indication of impairment of our goodwill for any of our

reporting units. As of May 31, 2016, the estimated fair value of our Disputes, Forensics & Legal Technology, Financial Services Advisory and Compliance, Healthcare, and Energy reporting units exceeded the fair value of invested capital by 17%, 61%, 22%, and 32%, respectively.

We will continue to monitor the factors and key assumptions used in determining the fair value of each of our reporting units. There can be no assurance that goodwill or intangible assets will not be impaired in the future. We will perform our next annual goodwill impairment test as of May 31, 2017.

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

	June 30, 2016	December 31, 2015
Intangible assets:		
Customer lists and relationships	\$ 107,968	\$ 109,745
Non-compete agreements	23,658	23,808
Other	27,449	27,302
Intangible assets, at cost	159,075	160,855
Less: accumulated amortization	(126,458)	(122,695)
Intangible assets, net	\$ 32,617	\$ 38,160

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

Category	Weighted Average Remaining Years	Amount
Customer lists and relationships, net	6.0	\$ 27,254
Non-compete agreements, net	4.0	2,748
Other intangible assets, net	1.4	2,615
Total intangible assets, net	5.4	\$ 32,617

Total amortization expense was \$5.8 million and \$4.6 million for the six months ended June 30, 2016 and 2015, respectively. The estimated annual aggregate amortization expense to be recorded in future periods related to intangible assets at June 30, 2016 is as follows (in thousands):

Year Ending December 31,	Amount
2016 (includes January - June)	\$ 11,418
2017	8,466
2018	5,991
2019	4,148
2020	3,104
2021	3,327

5. NET INCOME PER SHARE (EPS)

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Basic shares	47,550	48,150	47,488	48,137
Employee stock options	88	88	94	108
Restricted stock units	1,151	1,019	1,261	1,043
Contingently issuable shares	52	53	93	81
Diluted shares	48,841	49,310	48,936	49,369
Antidilutive shares(1)	273	304	225	243

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

Table of Contents**6. SHARE-BASED COMPENSATION EXPENSE**

Share-based compensation expense is recorded for restricted stock units, stock options and the discount given on employee stock purchase plan transactions.

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Amortization of restricted stock unit awards	\$ 3,695	\$ 3,163	\$ 5,946	\$ 4,989
Amortization of stock option awards	234	203	401	373
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	66	54	177	162
Total share-based compensation expense	\$ 3,995	\$ 3,420	\$ 6,524	\$ 5,524

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Cost of services before reimbursable expenses	\$ 2,612	\$ 2,232	\$ 4,107	\$ 3,367
General and administrative expenses	1,383	1,188	2,417	2,157
Total share-based compensation expense	\$ 3,995	\$ 3,420	\$ 6,524	\$ 5,524

Share-based compensation expense attributable to client-service employees was included in cost of services before reimbursable expenses. Share-based compensation expense attributable to corporate management and support personnel was included in general and administrative expenses.

At June 30, 2016, we had \$18.0 million of total compensation costs related to unvested share-based awards that have not been recognized as share-based compensation expense. The compensation costs will be recognized as an expense over the remaining vesting periods. The weighted average remaining vesting period is approximately two years. During the six months ended June 30, 2016, we granted an aggregate of 1,055,957 share-based awards, consisting of restricted stock units and stock options with an aggregate fair value of \$14.4 million at the time of grant. These grants include certain awards that vest based on relative achievement of pre-established performance criteria.

7. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION***Accounts Receivable, net***

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

	June 30, 2016	December 31, 2015
Billed amounts	\$ 173,909	\$ 153,837
Engagements in process	103,416	80,102
Allowance for uncollectible billed amounts	(13,348)	(9,797)
Allowance for uncollectible engagements in process	(9,582)	(7,482)
Accounts receivable, net	\$ 254,395	\$ 216,660

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

Table of Contents***Prepaid Expenses and Other Current Assets***

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

	June 30, 2016	December 31, 2015
Notes receivable - current	\$ 2,727	\$ 3,342
Prepaid recruiting and retention incentives - current	10,974	9,688
Other prepaid expenses and other current assets	18,044	16,699
Prepaid expenses and other current assets	\$ 31,745	\$ 29,729

Other Assets

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

	June 30, 2016	December 31, 2015
Notes receivable - non-current	\$ 2,497	\$ 4,420
Capitalized client-facing software	1,342	1,567
Prepaid recruiting and retention incentives - non-current	15,264	14,009
Prepaid expenses and other non-current assets	1,995	2,535
Other assets	\$ 21,098	\$ 22,531

Notes receivable, current and non-current, represent unsecured employee loans. These loans were issued to recruit or retain certain senior-level client-service employees. During the six months ended June 30, 2016, no such loans were issued, and during the six months ended June 30, 2015, we issued loans aggregating \$2.1 million. The principal amount and accrued interest on these loans is either paid by the employee or forgiven by us over the term of the loans so long as the employee remains continuously employed by us and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is amortized as compensation expense over the service period, which is consistent with the term of the loans.

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

Prepaid recruiting and retention incentives, current and non-current, include sign-on and retention bonuses that are generally recoverable from an employee if the employee voluntarily terminates employment or if the employee's employment is terminated for cause prior to fulfilling his or her obligations to us. These amounts are amortized as compensation expense over the period in which they are recoverable from the employee, generally in periods up to six years. During the six months ended June 30, 2016 and 2015, we paid \$10.4 million and \$11.3 million, respectively, of sign-on and retention bonuses.

Property and Equipment, net

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

	June 30, 2016	December 31, 2015
Furniture, fixtures and equipment	\$ 63,991	\$ 63,995
Software	81,322	77,910
Leasehold improvements	44,639	40,560
Property and equipment, at cost	189,952	182,465
Less: accumulated depreciation and amortization	(116,136)	(105,748)
Property and equipment, net	\$ 73,816	\$ 76,717

During the six months ended June 30, 2016, we recorded \$10.8 million in property and equipment which included \$4.6 million in our technology infrastructure and software, \$1.6 million in furniture and \$4.5 million in leasehold improvements (\$0.9 million was non-cash) related to the build-outs of various office spaces. During the six months ended June 30, 2016, we retired \$3.0 million in fully-depreciated assets.

Table of Contents***Other Current Liabilities***

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

	June 30, 2016	December 31, 2015
Deferred acquisition liabilities - current	\$ 10,600	\$ 1,665
Deferred revenue	19,281	19,317
Deferred rent - current	2,890	2,909
Other current liabilities	1,971	8,256
Total other current liabilities	\$ 34,742	\$ 32,147

Other Non-Current Liabilities

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

	June 30, 2016	December 31, 2015
Deferred acquisition liabilities - non-current	\$ 8,300	\$ 8,300
Deferred rent - non-current	14,166	14,358
Other non-current liabilities	5,540	6,298
Total other non-current liabilities	\$ 19,706	\$ 28,956

Deferred acquisition liabilities, current and non-current, at June 30, 2016 consisted of cash obligations related to definitive and contingent purchase price considerations recorded at net present value and fair value, respectively. During the six months ended June 30, 2016, we recorded a fair value adjustment which increased the deferred contingent acquisition liabilities by \$0.9 million and reclassified the non-current balance to current as it is expected to be settled within the 12 month period. See Note 11 – Fair Value for additional information regarding deferred contingent consideration fair value adjustments.

During the first quarter 2016, we made a payment of \$5.5 million to the selling members of McKinnis for cash held in the business at closing, which reduced other current liabilities.

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

At June 30, 2016, other non-current liabilities included \$0.8 million of performance-based long-term incentive compensation liabilities. As part of our long-term incentive program for select senior-level client service employees and leaders, we grant restricted stock units which vest three years from the grant date based on the achievement of certain performance targets during the year prior to grant.

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

Table of Contents**8. ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

	For the three months ended		For the six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Unrealized loss on foreign exchange:				
Balance at beginning of period	\$ (16,976)	\$ (15,051)	\$ (16,446)	\$ (11,973)
Unrealized (loss) gain on foreign exchange	(3,459)	2,834	(3,989)	(244)
Balance at end of period	\$ (20,435)	\$ (12,217)	\$ (20,435)	\$ (12,217)
Unrealized loss on derivatives:				
Balance at beginning of period	\$ (224)	\$ (254)	\$ (114)	\$ (111)
Unrealized loss on derivatives in period, net of reclassification	(45)	(46)	(207)	(264)
Reclassified to interest expense	66	134	153	259
Income tax benefit	(26)	(54)	(61)	(104)
Balance at end of period	\$ (229)	\$ (220)	\$ (229)	\$ (220)
	2016	2015		
Accumulated other comprehensive loss at June 30,	\$ (20,664)	\$ (12,437)		

9. DERIVATIVES AND HEDGING ACTIVITY

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

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

We expect the interest rate derivatives to be highly effective against changes in cash flows related to changes in interest rates and have recorded the derivatives as a cash flow hedge. As a result, gains or losses related to fluctuations in the fair value of the interest rate derivatives are recorded as a component of accumulated other comprehensive loss and reclassified into interest expense as the variable interest expense on our bank debt is recorded. There was no ineffectiveness related to the interest rate derivatives during the six months ended June 30, 2016. During the six months ended June 30, 2016 and 2015, we recorded \$0.2 million and \$0.3 million, respectively, in interest expense associated with differentials received or paid under the interest rate derivatives.

At June 30, 2016, we had \$0.4 million of net liability related to the interest rate derivatives.

10. BANK DEBT

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

At June 30, 2016, we had aggregate borrowings outstanding of \$189.8 million, compared to \$173.7 million at December 31, 2015. Based on our financial covenants at June 30, 2016, approximately \$204.6 million in additional borrowings were available to us under the credit facility. At June 30, 2016, we had \$4.0 million of unused letters of credit under our credit facility, which have been included as a reduction in the available borrowings above. The letters of credit are primarily related to the requirements of certain lease agreements for office space.

At our option, borrowings under the credit facility bear interest at a variable rate equal to an applicable base rate or LIBOR, in each case plus an applicable margin. For LIBOR loans, the applicable margin varies depending upon our consolidated leverage ratio

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(the ratio of total funded debt to adjusted EBITDA, as defined in the credit agreement). At June 30, 2016, the applicable margins on LIBOR and base rate loans were 1.25% and 0.25%, respectively. Depending upon our performance and financial condition, our LIBOR loans will have applicable margins varying between 1.00% and 2.00%, and our base rate loans have applicable margins varying between zero and 1.00%. Our average borrowing rate (including the impact of our interest rate derivatives; see Note 9 Derivatives and Hedging Activity) was 2.2% and 2.0% for the three months ended June 30, 2016 and 2015, respectively, and 2.3% and 2.2% for the six months ended June 30, 2016 and 2015, respectively.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.25:1 (except for the first quarter of each calendar year when the covenant requires us to maintain a consolidated leverage ratio of not greater than 3.5:1) and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBITDA (as defined in the credit agreement) and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1. At June 30, 2016, under the definitions in the credit agreement, our consolidated leverage ratio was 1.4 and our consolidated interest coverage ratio was 5.2. In addition, the credit agreement contains customary affirmative and negative covenants (subject to customary exceptions), including covenants that limit our ability to incur liens or other encumbrances, make investments, incur indebtedness, enter into mergers, consolidations and asset sales, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the covenants contained in our credit agreement at June 30, 2016; however, there can be no assurances that we will remain in compliance in the future.

11. FAIR VALUE

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

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

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

Level 3: Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As circumstances change, we will reassess the level in which the inputs are included in the fair value hierarchy.

We utilize a third-party to value our interest rate derivatives. The interest rate derivatives are used to hedge the risk of variability from interest payments on our borrowings (see Note 9 Derivatives and Hedging Activity). A majority of the inputs used in determining the fair value of the derivatives is derived mainly from Level 2 observations which include counterparty quotations in over the counter markets. However, the credit valuation adjustments associated with the derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by ourselves and our counterparties. We determined that these adjustments are not significant to the overall valuation of our derivatives. As a result, our interest rate derivatives are classified in Level 2 in the fair value hierarchy.

In certain instances our acquisitions provide for deferred contingent acquisition payments. These deferred payments are recorded at fair value at the time of acquisition and are included in other current and/or non-current liabilities on our consolidated balance sheets. We estimate the fair value of our deferred contingent acquisition liabilities using a probability-weighted discounted cash flow model. This fair value measure is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Fair value measurements characterized within Level 3 of the fair value hierarchy are measured based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

The significant unobservable inputs used in the fair value measurements of our deferred contingent acquisition liabilities are our measures of the future profitability and related cash flows and discount rates. The fair value of the deferred contingent acquisition liabilities is reassessed on a quarterly basis based on assumptions provided to us by segment and business area leaders together with our corporate development and finance departments. Any change in the fair value estimate is recorded in the earnings of that period. During the six months ended June 30, 2016, we recorded \$0.9 million in other operating cost for a net increase in the liability and during the six months ended June 30, 2015, we recorded \$12.6 million in other operating benefit for a net reduction in the liability reflecting changes in the fair value estimate of the deferred contingent acquisition liability for certain acquisitions made in 2015, 2014 and 2013 (see Note 3 to the consolidated financial statements in our 2015 Form 10-K). Also during the six months ended

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June 30, 2015, the contingent acquisition liability related to the Cymetrix acquisition was reclassified as a definitive acquisition liability. The changes in deferred contingent acquisition liabilities are as follows (in thousands):

	For the six months ended June 30,	
	2016	2015
Beginning Balance	\$ 8,782	\$ 23,272
Acquisitions		3,765
Accretion of acquisition-related contingent consideration	350	1,063
Remeasurement of acquisition-related contingent consideration	850	(12,625)
Payments	(49)	
Reclassification to definitive consideration liability		(10,000)
Ending Balance	\$ 9,933	\$ 5,475

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

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

	Quoted Prices in Active Markets for			Total
	Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
At June 30, 2016				
Interest rate derivatives, net	\$	\$ 384	\$	\$ 384
Deferred contingent acquisition liabilities	\$	\$	\$ 9,933	\$ 9,933
At December 31, 2015				
Interest rate derivatives, net	\$	\$ 189	\$	\$ 189
Deferred contingent acquisition liabilities	\$	\$	\$ 8,782	\$ 8,782

12. OTHER OPERATING COSTS (BENEFIT)***Contingent Acquisition Liability Adjustment, Net***

During the six months ended June 30, 2016, we recorded an expense of \$0.9 million relating to fair value adjustments to our estimated deferred contingent acquisition liabilities.

During the three and six months ended June 30, 2015, we recorded an expense of \$2.3 million and benefit of \$12.6 million, respectively, relating to fair value adjustments to our estimated deferred contingent acquisition liabilities. The adjustment made in 2015 relates primarily to our Cymetrix acquisition.

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

Office Consolidation, Net

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

During the three and six months ended June 30, 2015, we recorded costs of \$1.8 million and \$2.7 million, respectively, related to our consolidated office space located in New York City which we took possession of on October 22, 2014. The cost included rent expense for duplicate rent as we occupied our old New York City offices until the completion of the build-out of the new space in April 2015.

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We have included \$2.9 million in current and non-current liabilities for restructured real estate. The activity for the six months ended June 30, 2016 was as follows (in thousands):

	Office Space Reductions
Balance at December 31, 2015	\$ 3,083
Cost to operations during the six months ended June 30, 2016	141
Other adjustments during the six months ended June 30, 2016	114
Payments, net of amounts received during the six months ended June 30, 2016	(414)
Balance at June 30, 2016	\$ 2,924

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations relates to, and should be read in conjunction with, our unaudited consolidated financial statements included elsewhere in this report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management's expectations. Please see the sections of this report entitled "Forward-Looking Statements" and Part II, Item 1A, "Risk Factors."

Overview

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

Revenues and Expenses

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

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

Our most significant overhead expenses included in general and administrative expense are administrative compensation and benefits and office-related expenses. Administrative compensation includes salaries, incentive compensation, share-based compensation and benefits for corporate management and other non-billable employees that indirectly support client engagements. Office-related expenses primarily consist of rent for our offices. General and administrative expense includes bad debt expense and marketing, technology, finance, human capital management and legal expenses. Other non-billable employees who support the segments are recorded in cost of services before reimbursable expenses.

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

Hiring and Retention

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

how well we are managing our Consulting FTE (as defined below) levels in response to changing demand.

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

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

Technology

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

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

Acquisitions

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

Key Operating Metrics

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

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

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

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE “FOR” THE NOMINEES SET FORTH ABOVE.

PROPOSAL 2 - ADVISORY VOTE ON EXECUTIVE PAY-FOR-PERFORMANCE

COMPENSATION

Under the ARRA, companies that participate in any assistance programs administered by the United States Department of the Treasury, including the CPP, are required to provide shareholders the opportunity to vote on a non-binding advisory proposal to approve the compensation of executives. The Company closed an investment with the U.S. Treasury under the CPP on December 5, 2008. Accordingly, the Company's shareholders are entitled to cast a non-binding advisory vote on the compensation of the Company's executive officers.

The Company has decided to implement this requirement by providing shareholders a simple vote that indicates their position (by a yes or no vote) with respect to the level of the Company's overall executive compensation.

Our HR/Compensation Committee of the Board of Directors of the Company (“Committee”), annually reviews and approves corporate and/or individual goals and objectives relevant to the compensation of our executive officers, evaluates performance in light of those goals and objectives, and sets levels of compensation based on this evaluation. In determining any long-term incentive component of compensation, the Committee will consider all such factors as it deems relevant, such as the Company’s performance and relative shareholder return, the value of similar incentive awards at comparable companies and the awards granted in previous years. We also believe that both the Company and shareholders benefit from these compensation policies.

The Board recommends that shareholders approve, in an advisory vote, the following resolution:

“Resolved, that the shareholders approve the overall executive compensation of the Company as described in this proxy statement, including the tabular disclosure regarding the Company’s named executive officers contained herein.”

Because your vote is advisory, it will not be binding upon the Board. However, the HR/Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

Required Vote

approval of the advisory proposal requires the affirmative vote of a majority of the votes cast at the annual meeting whether in person or by proxy.

Recommendation

The board of directors recommends that the sHAREholders vote “for” the advisory proposal set forth above.

PROPOSAL 3 – THE RATIFICATION OF THE SELECTION OF McGladrey LLP AS THE COMPANY’S INDEPENDENT EXTERNAL AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2013.

The Audit Committee has appointed the firm of McGladrey LLP to act as our independent registered public accounting firm and to audit our Consolidated Financial Statements for the fiscal year ending December 31, 2013. This appointment will continue at the pleasure of the Audit Committee and is presented to the shareholders for ratification as a matter of good governance. In the event that this appointment is not ratified by our shareholders, the Audit Committee will consider that fact when it selects the independent auditors for the following fiscal year.

Required Vote

the selection of McGladrey LLP will be ratified by the affirmative vote of a majority of the votes cast at the annual meeting whether in person or by proxy.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS RATIFY THE COMPANY'S SELECTION OF McGladrey LLP.

PROPOSAL 4 - THE APPROVAL OF UNITY BANCORP, INC.

2013 STOCK bonus PLAN

Description of the 2013 Plan and Vote Required:

On February 21, 2013, the Board of Directors adopted the Unity Bancorp, Inc. 2013 Stock Bonus Plan (the “2013 Plan”) and directed that the 2013 Plan be submitted to the shareholders for approval at the 2013 Annual Meeting. The 2013 Plan will become effective if approved by a majority of the votes cast by holders of the shares of the Company’s Common Stock voting in person or by proxy at the Annual Meeting. The Company believes that the 2013 Plan will enable it to attract and continue to appoint and employ qualified directors, officers and employees by providing them with equity based compensation. Although the shareholders have previously approved other equity compensation plans, those plans have been substantially exhausted; and, accordingly, the Company believes that it is in the best interests of the Company to adopt the 2013 Plan.

The purpose of the 2013 Plan is to provide directors, officers and employees of the Company, the Bank, and any subsidiaries the Company may acquire or form, with a proprietary interest in the Company as an incentive to encourage such persons to promote the growth and profitability of the Company and the Bank and remain in service with the Company and the Bank, and to reward such persons for the past performance of the Company and the Bank. The following summary of the material features of the 2013 Plan is qualified in its entirety by the full text of the 2013 Plan, a copy of which is attached to this Proxy Statement as Exhibit A.

Summary of the 2013 Plan:

Up to 250,000 shares of the Company’s Common Stock may be awarded under the 2013 Plan, subject to adjustment in the event of certain capital changes in the Company. Directors, officers and employees of the Company, the Bank, and of any subsidiaries that the Company may acquire or form, are eligible to be awarded bonuses under the 2013 Plan in the form of shares of the Company’s Common Stock.

The 2013 Plan will be administered by the HR/Compensation Committee of the Board of Directors of the Company, (the “Committee”), which will have the authority to determine the persons to whom share bonuses will be granted, the amount of each share bonus, and any other terms and conditions applicable to a share bonus (which terms and conditions may not be identical for all participants or with respect to all awards). The Committee also has the authority to establish such rules and regulations as it may deem necessary or appropriate for the proper administration of the 2013 Plan. The Company anticipates filing a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issuable under the 2013 Plan.

Federal Income Tax Consequences of the 2013 Plan:

In general, bonus share grants will be taxed as compensation income to the grant recipient at the full fair market value of the Common Stock underlying the grant on the date of grant. The Company is entitled to an income tax deduction for the amount of compensation paid to a participant under the 2013 Plan. If the bonus shares are subject to forfeiture, absent an election under section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), the bonus share grant will be taxed to the grant recipient as compensation income at the fair market value of the Common Stock underlying the grant, and the Company will be entitled to an income tax deduction for such amount, as of the date the risk of forfeiture is eliminated. If the grant recipient makes a timely election under section 83(b) of the Code, the bonus share grant will be taxed as compensation income to the grant recipient at the fair market value of the Common Stock underlying the grant, without regard to any risk of forfeiture, on the date of grant, and the Company will be entitled to an income tax deduction in such amount as of the same date.

Termination of and Amendments to the 2013 Plan:

No awards may be made under the 2013 Plan after the expiration of ten (10) years from the date of adoption of the 2013 Plan. The Committee may amend the 2013 Plan from time to time, or terminate the 2013 Plan at any time, in each case in its discretion, but no such action shall reduce any award granted prior to the date of such action, or change any of the terms or conditions applicable to such existing award without the consent of the award recipient.

No awards have been made under the 2013 Plan as of the date of this Proxy statement.

The following table provides information with respect to the equity securities that are authorized for issuance under our equity compensation plans as of December 31, 2012:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders	90,975	-	18,663
Equity compensation plans not approved by security holders	-	-	-
Total	90,975	\$ -	18,663

Recommendation

The Board of Directors recommends that the shareholders vote FOR the approval of the 2013 Stock BONUS Plan.

OTHER MATTERS

The Board of Directors is not aware of any matters other than those set forth in this proxy statement that will be presented for action at the Annual Meeting. However, if any other matter should properly come before the Annual Meeting, the persons authorized by the accompanying proxy will vote and act with respect thereto in what, according to their judgment, is in the interests of the Company and its shareholders.

INCORPORATION BY REFERENCE

To the extent that this proxy statement has been or will be specifically incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, the section of this proxy statement entitled "Report of the Audit Committee" (to the extent permitted by the rules of the SEC), shall not be deemed to be so incorporated, unless specifically otherwise provided in such filing.

COMPLIANCE WITH SECTION 16(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and Directors and persons who own more than 10% of the Company's Common Stock (who are referred to as "Reporting Persons") to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on the Company's review of the copies of such forms received or written representations from Reporting Persons, the Company believes that, with respect to the fiscal year ended December 31, 2012, all of the Reporting Persons timely complied with all applicable filing requirements; with the exception of the following: Director Charles S. Loring's sale of 1,000 shares of common stock on March 13, 2012 was reported late on Form 4 on June 21, 2012.

SUBMISSION OF SHAREHOLDER PROPOSALS

FOR THE 2014 ANNUAL MEETING

Any shareholder who intends to present a proposal at the 2014 Annual Meeting of Shareholders must ensure that the proposal is received by the Corporate Secretary at Unity Bancorp, Inc., 64 Old Highway 22, Clinton, New Jersey, 08809, no later than December 13, 2013, if the proposal is submitted for inclusion in the Company's proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 or is otherwise submitted.

ANNUAL REPORT ON FORM 10-K

At your request, the Company will provide by mail, without charge, a copy of its Annual Report on Form 10-K. Please direct all inquiries to the Company's Corporate Secretary at (908) 713-4308.

EXHIBIT A

UNITY BANCORP, INC. 2013 STOCK BONUS PLAN

Section 1. Purpose

The 2013 Stock Option Plan (the “Plan”) is intended to provide incentives that will attract and retain highly competent key members of management and directors of Unity Bancorp, Inc. (the “Company”), Unity Bank (the “Bank”) and any other subsidiaries, direct or indirect, which the Company may form in the future (collectively, the “Group”) by providing them with a bonus in the form of shares of the common stock, no par value, (“Stock”) of the Company pursuant to awards (“Awards”) described herein.

Section 2. Administration

The HR/Compensation Committee of the Board of Directors of the Company (the “Committee”) shall supervise and administer the Plan. Any questions of interpretation of the Plan or of any Awards issued under it shall be determined by the Committee and such determination shall be final and binding upon all persons. The Committee is authorized to, subject to the provisions of this Plan, select Participants from among the eligible Participants (as set forth under Paragraph 3 hereof) to receive Awards, to determine the number of shares of Stock subject to each Award, to establish the terms and conditions of each such Award, to establish such rules and regulations as the Committee deems necessary for the proper administration of the Plan and to make whatever determinations and interpretations in connection with the Plan as it deems necessary or advisable. All the determinations and interpretations made by the Committee shall be binding and conclusive on all Plan Participants and on their legal representatives and beneficiaries.

Section 3. Participants

Participants shall consist of select key members of management or Board of Directors of the Group, including employees and non-employee directors of the Bank as the Committee may select from time to time.

Section 4. Shares Reserved Under the Plan

There is hereby reserved for issuance as Awards under the Plan an aggregate of 250,000 shares of Stock.

Section 5. Awards

Awards will consist of shares of Stock transferred to Participants as a bonus for service rendered to the Group. Upon any such grant, the Company shall notify the recipient of the grant, the terms and conditions of the Award (if any) and the certificate representing the Stock will be delivered to the Participant as soon as practicable. In the event any employee or director of the Group is terminated (for any reason) or resigns (for any reason), all rights to receive any additional shares of Stock contained in any Awards received prior to such termination or resignation, and not vested prior to such termination, shall become null and void. Notwithstanding the preceding sentence, in the event any employee or director of the Group has reached the age of 63 and, in connection with retirement from employment, resigns from the Group, all rights to receive additional shares of Stock contained in any Awards received prior to such resignation, and not vested prior to such resignation, shall continue in full force and effect.

Section 6. Change in Control

(a) For purposes of the Plan, a “Change in Control” shall mean:

(i) a reorganization, merger, consolidation or sale of all or substantially all of the assets of the Company or a similar transaction in which Unity is not the resulting entity; or

(ii) individuals, who constitute the Incumbent Board (as herein defined) of Unity, cease for any reason to constitute a majority thereof; or

(iii) the occurrence of an event of a nature that would be required to be reported in response to Item 1 of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”); or

(iv) without limitation, a “change in control” shall be deemed to have occurred at such time as (i) any “person” (as the term is used in Section 13(d) and 14(d) of the Exchange Act) other than the Company or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Employer from time-to-time is or becomes a “beneficial owner” (as defined in Rule 13-d under the Exchange Act) directly or indirectly, of securities of the Company representing 35% or more of the Company’s outstanding securities ordinarily having the right to vote at the election of directors; or

(v) a tender offer is made for 35% or more of the voting securities of the Company and shareholders owning beneficially or of record 35% or more of the outstanding securities of the Company have tendered or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

For these purposes, “Incumbent Board” means the Board of Directors of the Company on February 21, 2013, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by members or stockholders was approved by the same nominating committee serving under an Incumbent Board, shall be considered as if he were a member of the Incumbent Board.

(b) Upon the occurrence of a Change in Control, all shares of Stock contained in any Awards to any employee or director of the Group, which is received prior to any such Change in Control and are not vested prior to such Change

in Control, shall become vested.

Section 7. Distribution of Awards

(a) Awards shall not be distributed and the restrictions pertaining to such award shall not expire earlier than:

(i) upon the completion or satisfaction of the conditions specified by the Committee in the Award;

(ii) a Participant's separation from service;

(iii) the date a Participant becomes disabled (as defined in Section 8(b));

(iv) upon the death of a Participant;

(v) a change in the ownership of effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, as described in Section 6 or, if in conflict therewith, to the extent necessary, by the Secretary of Treasury under regulations issued under Code section 409A; or

(vi) upon the occurrence of an unforeseeable emergency.

(b) A payment of a Participant's vested interest in an Award may, in the discretion of the Committee, be made in the event of a Participant's Disability, upon the occurrence of a Change-in-Control or Unforeseeable Emergency, (as defined below). Payments in settlement of a Participant's vested interest in an Award shall be made as soon as practicable after such occurrence or after the Participant otherwise vests in such award. For the purposes of section 409A of the Code, the entitlement to a series of installment payments will be treated as the entitlement to a single payment.

(c) Other provisions of the Plan notwithstanding, if, upon the written application of a Participant, the Committee determines that the Participant has an unforeseeable emergency, (as defined in Section 8(b)), the Committee may, in its sole discretion, direct the payment to the Participant of all or a portion of the balance of his or her vested interest in an Award in a lump sum payment, provided that any such withdrawal shall be limited by the Committee to the amount reasonably necessary to meet the emergency, including amounts needed to pay any income taxes or penalties reasonably anticipated to result from the payment. No payment may be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets or to the extent the liquidation of such assets would not cause severe financial hardship.

(d) The Committee may not otherwise permit the acceleration of the time or schedule of any vesting of an Award scheduled to be paid pursuant to the Plan, unless such acceleration of the time or schedule is (i) necessary to fulfill a domestic relations order, (as defined in section 414(p)(1)(B) of the Code), or to comply with a certificate of divestiture, (as defined in section 1043(b)(2) of the Code), (ii) de minimis in nature, (as defined in regulations promulgated under sections 409A of the Code), (iii) to be used for the payment of FICA taxes on amounts deferred under the Plan, or (iv) equal to amounts included in the federal personal taxable income of the Participant under section 409A of the Code.

Section 8. Definitions of Awards

(a) For purposes of this Section 8, the following definitions shall apply:

(i) “Disability” shall mean (i) the inability of a Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) if the Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company.

(ii) “Unforeseeable Emergency” shall mean a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent, (as defined in Code section 152(a)), of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

Section 9. Duration, Amendment and Termination

No Award shall be granted more than ten (10) years after the date of adoption of this Plan. The Committee may amend the Plan from time to time or terminate the Plan at any time. However, no action authorized by this Paragraph 6 shall reduce the amount of any existing Award or change the terms and conditions thereof without the consent of the recipient of such services.

Section 10. Notice

Any and all notices, consents, offers, acceptances or any other communications provided for herein shall be given in writing and shall be addressed, in the case of the Company, to its principal office; and, in the case of a Participant, to his residence or to any other address as may be designated by him after giving appropriate notice of such other address to the Company.

Section 11. Benefit

Except as herein otherwise provided, this Plan shall inure to the benefit of and shall be binding upon the Company, its successors and assigns and a Participant, his executor or legal representative, heirs, legatees, and successors.

Section 12. Construction

This Plan has been adopted in the State of New Jersey and shall be construed pursuant to the laws of the State of New Jersey in effect at the time of such construction. In construing this Plan, the singular shall be deemed to include the Plural, and the masculine the feminine, and vice versa, except where the context clearly requires otherwise.

Section 13. Titles

Captions and titles of articles and sections are provided for convenience only and are not intended to affect the substance of this Plan.

Section 14. No Employment or Continued Service

Participation in this Plan shall not be deemed to be a contract between any member of the Group and any Participant. Nothing contained herein may be deemed to give any Participant the right to be retained in the employ of any member of the Group or to continue service of the Board of Directors of any member of the Group.

Section 15. No Fiduciary Relationship

Neither the establishment and maintenance of this Plan, nor any action taken by the Company or the Committee hereunder, shall create or be deemed to create a trust or fiduciary relationship of any kind between any member of the Group and any Participant or other person.
