



June 1, 2006

Gary Powell
State Purchasing Division
Department of Administrative Services
200 Piedmont Ave., Suite 1308 WT
Atlanta, GA 30334

Dear Mr. Powell:

Navigant Consulting, Inc. is pleased to submit our technical proposal in response to the State of Georgia's Commission on the Efficacy of the CON Program's RFP for a Health Care Data and Analytical Consultant (RFP #41900-001-0000000040). We have extensive experience in collecting, validating and analyzing a variety of health care data and health services research.

Should you have any questions about Navigant Consulting or our proposal, please do not hesitate to contact me at 410.528.4806.

Thank you for the opportunity to bid on this important work.

Sincerely,

A handwritten signature in cursive script that reads "Henry Miller".

Henry Miller,
Managing Director

TECHNICAL PROPOSAL IN RESPONSE TO RFP NUMBER 41900-001-0000000040

HEALTH CARE DATA AND ANALYTICAL CONSULTANT

June 1, 2006

Submitted To:

State of Georgia
State Commission on the Efficacy of the CON Program
c/o Gary Powell
State Purchasing Division
Department of Administrative Services
200 Piedmont Avenue, Suite 1308 WT
Atlanta, GA 30334

Submitted By:

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Guide to Mandatory Requirements

Requirement	Location
Offeror Qualification Requirements	
Work Plan	Chapter 4 - Work Plan and Schedule
Business References	Section 1.3
Evidence of more than five years of data collection and analysis experience	Section 1.1, Section 1.2
Complete list of Georgia clients for the last two years	Exhibit 3
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Business Requirements	
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1. Company Background and Experience

1.1 Navigant Consulting, Inc.

Navigant Consulting, Inc. (NCI) is a publicly traded firm (NYSE symbol – NCI) that provides consulting services in a variety of industries. NCI is a corporation domiciled in Delaware and licensed in Georgia. We have approximately 1,800 professionals in 36 U.S. offices and five international offices. The NCI staff members who are proposed to work on this project are based in our Baltimore and Atlanta offices. Our health care practice is the largest single component of our activities, with more than 400 consultants. We provide services to federal and state governments, to health plans, to providers and to life sciences companies. Our health care practice includes members of the staffs of two of the firms that NCI acquired in recent years. In 2002, the firm acquired the Center for Health Policy Studies, based in Maryland, which had completed several data system and health planning projects. In 2004, we acquired Tucker Alan, one of the most prominent firms in providing assistance to state Medicaid programs.

Our work for state governments include projects conducted for more than 30 state Medicaid programs as well as other projects conducted for Departments of Health. Our work for states has focused on health planning, reimbursement and policy analysis issues. We have also conducted several projects in the same areas for the Federal government.

1.2 Related Experience

We have been working on health planning issues and health care data issues for more than twenty consecutive years. Our experience was completed for the Federal government, several State governments and private sector entities. We have distilled that experience and present several of our most relevant projects in the paragraphs below. We have emphasized projects that focus on the use of the data we recommend using for the Agency, including Medicare Cost Reports, Hospital Cost and Utilization Project data and MedPAR data. At least one staff member proposed to provide assistance to the Agency led or worked on each project listed.

Projects conducted for the Federal Government: National Center for Health Statistics (NCHS).

Automation of the National Hospital Discharge Survey. NCI staff were responsible for the automation of the National Hospital Discharge Survey. Prior to our work, the survey was conducted using data collectors who abstracted medical records. We designed an approach that incorporated discharge data from a large sample of hospitals.

Design of the National Ambulatory Surgery Survey. NCI staff were responsible for the development of the ambulatory surgery component of the National Hospital Discharge Survey. We designed the survey, collected initial data and prepared sample analyses for use by NCHS.

Evaluation of the Provider Surveys of the National Center for Health Statistics. NCI staff conducted an evaluation of the four primary NCHS provider surveys – the National Hospital Discharge Survey, the National Ambulatory Medical Care Survey, the National Nursing Home Survey and the Master Facility Index. Our work focused on the use of these surveys for research and analysis.

Evaluation of the Use of the NCHS Web Site. NCI staff conducted a survey of the users of the NCHS web site in regard to the agency's provider surveys. A comprehensive Internet based survey was used to determine the extent to which users were satisfied with their access to data.

Projects Conducted for the Federal Government: Agency for Health Care Quality and Research (AHRQ).

Development of a Database to Assess Healthcare Markets. NCI compiled a comprehensive inventory of databases that could be used to describe healthcare services in markets. Utilization, service availability, financial and workforce data were included. In addition, census and price index data were also included. The database focused on data sources that could be used to provide data on a state-by-state and metropolitan area basis.

Evaluation of HCUPnet. NCI staff conducted an evaluation of the web site operated by AHRQ for users of Hospital Cost and Utilization Project (HCUP) data. The web site, which provides analyses upon request, was underutilized and methods were being sought to modify its content and usability to encourage increased use.

Projects Conducted for the Federal Government: Medicare Payment Advisory Commission (MedPAC).

Assessment of the Accuracy of Medicare Cost Reports When Used for Research and Policy Analysis. MedPAC is the Congressional agency that is responsible for monitoring the Medicare program. They frequently use Medicare cost reports for analysis of key issues. NCI staff conducted a comprehensive study of the accuracy of cost reports by comparing data included in cost reports to cost accounting data collected from hospitals.

Projects Conducted for the Federal Government: Health Resources and Services Administration (HRSA).

Evaluation of the Community Access Program (CAP). HRSA is a core agency in the U.S. Public Health Service. It is responsible for the community health center program, maternal and child health, HIV/AIDS programs and health manpower programs including the National Health Service Corp. NCI staff conducted a comprehensive evaluation of CAP, an important HRSA program that required investigation of several key health planning issues, including provision of services to the uninsured.

Evaluation of the Methods Used to Pay Children's Hospitals for Graduate Medical Education. NCI staff used HCUP data (including the KID database), the American Hospital Association Annual Survey and Medicare Cost Reports to calculate alternative methods to pay children's hospitals for direct and indirect medical education. In this project, we worked closely with AHRQ staff to build new links for HCUP data. Each of the databases we worked with will be key sources for the proposed project.

Calculation of an Upper Payment Limit for Federally Qualified Health Centers (FQHCs). NCI staff are currently working with FQHC cost reports submitted to the Medicare program to calculate a new upper payment limit for FQHCs. The original payment cap, adjusted only for inflation, has been in existence for several years and does not recognize changes in the services provided by FQHCs.

Projects Conducted for States: Vermont.

Development of a Comprehensive Health Resources Inventory and Support in the Preparation of a Health Resource Allocation Plan. Legislation passed in Vermont in 2004 required the Vermont Health Care Administration (HCA) to develop a Health Resource Allocation Plan (HRAP) which included a comprehensive inventory of every resource in the state. NCI staff, including several of the staff members proposed for this project, developed the inventory, which included all facility and professional provider types. We also provided assistance in working with the HRAP steering committee. NCI staff also assisted Vermont in its revision of CON requirements as part of this project.

Projects Conducted for States: Maryland.

Design and Development of the Maryland Health Care Commission (MHCC) Medical Care Database. NCI staff designed and completed the initial implementation of the MHCC Medical Care Database. The database includes claims data for all services paid for by Medicare, Medicaid, HMOS and private sector insurers in Maryland. The database, which includes thirty private sector insurers, focuses on physician and other professional utilization and fee analysis.

Projects Conducted for States: New York.

Evaluation of the Impact of the New York Prospective Hospital Reimbursement Methodology (NYPHRM). NCI staff conducted a series of three projects for the New York State Legislature that focused on the impact of NYPHRM on hospitals in the state. The New York HCUP data (a database referred to as SPARCS), Medicare cost reports and interviews were used to assess the impact of the payment methodology on the cost of hospital services, the utilization of hospital services and the financial condition of each hospital in the state.

Private Sector Projects: American Data Network.

Design and Operation of an Internet-based Data System for the Evaluation of the Quality of Hospital Services. NCI staff designed a data system for hospitals that provided data on quality of hospital services. The American Data Network includes more than twenty hospitals in Arkansas and other states. Each hospital submitted its claims data to NCI on a monthly basis. The data were cleansed, validated and analyzed to develop a large set of quality indicators. Each hospital's indicators were placed on a web site as were benchmark indicators for other hospitals. Benchmark data were generated using MedPAR and HCUP data.

Private Sector Projects: Business Coalitions in Rochester, New York and St. Louis, Missouri.

Analysis and Presentation of Data that Compared Key Health Care Cost, Quality and Utilization Indicators for Twelve Cities. NCI staff worked with the business coalitions in Rochester, NY and St. Louis, MO to identify key cost, utilization and quality indicators that could be measured on a community basis and compare these measures to similar data compiled for ten comparison cities. Data were gathered from HCUP, Medicare Cost Reports, National Commission on Quality Assurance (NCQA), state insurance departments and other sources.

The projects that are listed above are intended to be representative of the collective experience of the NCI staff who have been proposed for this project. Additional information on staff is presented in the next section.

There have been no instances where NCI services have been terminated by the client(s).

1.3 References

We have identified three references as required by the RFP. The projects that were conducted for these clients were discussed in the preceding section.

- Assistance in the Development of a Health Resource Allocation Plan for the State of Vermont
Client: Michael Davis
Director of Cost Containment
Division of Health Care Administration
Department of Banking, Insurance, Securities and Health Care Administration
Phone: 802.828.2989
- Development of the Maryland Medical Care Data Base
Client: Ben Steffen
Deputy Director
Data Systems and Analysis
Maryland Health Care Commission
Phone: 410-764-3570

- Calculation of an Upper Limit for FQHC Reimbursement
Client: George P. Smith, M.B.A.
Project Officer
Health Systems and Financing Group
Office of Planning and Evaluation
Health Resources and Services Administration
U.S. Department of Health and Human Services (DHHS)
Phone: (301) 443-1516

1.4 Financial Stability

Attached to this proposal is the most recent copy of section IV of our 10-K filing, which is the most recent audited financial report available for Navigant Consulting, Inc.

1.5 Business Litigation

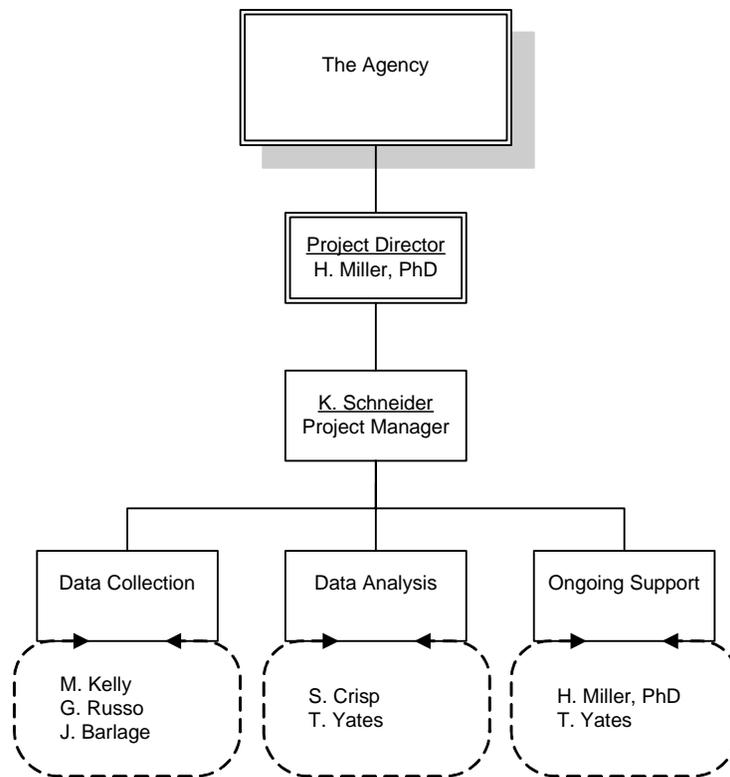
Navigant Consulting, Inc. is a public company and as such, discloses all material litigation in its periodic reports filed with the SEC on forms 10-K, 10-Q and 8-K, which are available on the SEC's EDGAR website. In the last five years, Navigant Consulting and the engagement team members who would be working on this project have not been involved in any material healthcare-related litigation.

2. Staff Qualifications and Experience

2.1 Introduction

We have assembled an experienced team of consultant to provide assistance to the State of Georgia as it considers the future of the State's Certificate of Need program. Our team is especially experienced in the collection and analysis of the data that will need to be gathered for the project. Our proposed organizational structure is presented in Figure 1.

Figure 1
Organizational Structure



As indicated in the organization chart, Dr. Henry Miller will serve as Project Director and Ms. Kathleen Schneider will serve as Project Manager. Both of these consultants will be responsible for assuring the quality of project deliverables and our ability to meet the project schedule. They will be the primary points of contact with the Agency subcommittees and the Department of Community Health staff. Descriptions of the backgrounds of Dr. Miller, Ms. Schneider and other NCI staff are presented in the paragraphs that follow.

2.1 Staff Descriptions

Henry Miller, PhD, is a Managing Director in Navigant Consulting Inc.'s healthcare practice. He has 35 years of experience a healthcare consultant and researcher specializing in data collection and analysis, cost measurement, provider payment systems, program evaluation and policy analysis. He directed several projects for the National Center for Health Statistics (NCHS) in which he either designed or evaluated the key provider surveys that are maintained by NCHS. He developed a database that describes the characteristics of healthcare markets for the Agency for Health Care Research and Quality (AHRQ). The database consolidated data on healthcare utilization, costs, quality and availability. He also directed the evaluation of HCUPnet, the AHRQ web site that is used to obtain HCUP data. He has been active in the validation of data sources for policy research: he directed a comprehensive study of the use of the Medicare Cost Report for policy research for the Medicare Payment Advisory Commission. He also directed the development of the Maryland Health Care Commission's Medical Care Database and led the firm's work in Vermont in which we provided support for the preparation of the State's Health Resource Allocation Plan. In addition, he led the preparation of a comprehensive statewide Health Resource Inventory. In other work, he used HCUP and Medicare Cost Report data to measure the impact of the New York State Prospective Hospital Reimbursement Methodology on the utilization, cost and financial status of hospitals.

Dr. Miller has worked on provider payment systems for more than thirty years. He was a member of the Medicare oversight committee for the effort to develop the practice expense component of the RBRVS physician fee schedule. He assisted CMS on several projects related to the development of the Hospital Outpatient Prospective Payment System and directed a project to assess opportunities to improve the Medicare Inpatient Prospective Payment System. He has designed hospital and physician payment systems for seven Medicaid programs and more than twenty Blue Cross and Blue Shield plans.

Dr. Miller has also worked on the development of performance measures used to evaluate physician and hospital performance. This work has included the design of physician profiling systems, development of pay for performance reimbursement systems and development of web-based reporting systems used to measure the quality of care provided by hospitals.

Dr. Miller received his Ph.D. in accounting and economics from the University of Illinois. He is a Certified Public Accountant.

Dr. Miller's complete resume can be found in Exhibit 2. References for Dr. Miller include:

Michael Davis Director of Cost Containment Division of Health Care Administration Department of Banking, Insurance, Securities and Health Care Administration Phone: 802.828.2989	Ben Steffen Deputy Director Data Systems and Analysis Maryland Health Care Commission Phone: 410-764-3570
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Kathleen Schneider is an Associate Director in the Healthcare practice at Navigant Consulting. Ms. Schneider specializes in work with analytics, information systems and payers. Her 20 years of experience span many sectors, including medical review, managed care, informatics, and software development. She has assisted clients with cost/outcomes analyses and database development, design and development of payment systems, and development and implementation of a national training program on third party reimbursement. Prior to joining Navigant Consulting, Ms. Schneider worked in medical informatics and medical management capacities at two payer organizations, provided product development and consulting services at an outcomes measurement software company, and managed medical review operations for Medicare and Medicaid in Delaware.

Ms. Schneider received her Bachelor of Science in nursing from the Catholic University of America.

Ms. Schneider's complete resume can be found in Exhibit 2. References for Ms. Schneider include:

George P. Smith, M.B.A. Project Officer Health Systems and Financing Group Office of Planning and Evaluation Health Resources and Services Administration U.S. Department of Health and Human Services (DHHS) Phone: (301) 443-1516	Mary Guy Social Science Research Analyst Centers for Medicare and Medicaid Services Phone: 410.786.2772
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Thomas Yates, is a Managing Consultant in the Healthcare team at Navigant Consulting and specializes in information technology for systems and data in the healthcare environment. His 19 years of experience span a variety of projects as he provides technical and management support to projects involving healthcare financing, healthcare cost analysis, cost containment, physician and institutional reimbursement, program evaluation and health services research studies.

Management responsibilities include the direction and scheduling of application development staff and project work. Technical responsibilities include the design, development and implementation of custom applications including information management and decision support systems; data intensive Internet applications (e.g. benchmarking); data processing support in the analysis of project data including statistical sampling and analysis, computer simulations, mathematical modeling, forecasting, and linear programming; technical consulting to project clients.

Mr. Yates received his Bachelor of Science degree in Computer and Management Information Systems from the University of Maryland at College Park

Mr. Yates complete resume can be found in Exhibit 2. References for Mr. Yates include:

George P. Smith, M.B.A. Project Officer Health Systems and Financing Group Office of Planning and Evaluation Health Resources and Services Administration (HRSA) U.S. Department of Health and Human Services (DHHS) Phone: (301) 443-1516	Bob Chrisman Assistant Administrator Policy, Research & Special Projects Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) Phone: 405.717.8701
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Sellers Crisp, MHA is a Managing Consultant in the Healthcare practice at Navigant Consulting and specializes in healthcare operations with a focus on the payer side. His eight years of experience span a variety of payers including a privately held national payer, a large regional Blues plan and a publicly-traded National payer. His experience on the payer side includes provider contract development and implementation, healthcare operations facilitation, and rate monitoring/forecasting. He has assisted clients with provider reimbursement policy development, payer-provider billing services development, outpatient surgery strategy development and has also assisted with an acquisition due diligence for an academic medical center. Prior to joining Navigant, Mr. Crisp was a Manager in the Actuarial Department within the Georgia Division of Wellpoint Healthcare.

Mr. Crisp holds a Master's of Healthcare Administration from the University of North Carolina at Chapel Hill. He received his Bachelor of Arts in English from Randolph-Macon College.

Mr. Crisp's complete resume can be found in Exhibit 2. References for Mr. Crisp include:

Kelly Wilson Deputy Internal Auditor Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) Phone: 405.717.8999	Dennis Scott Hospital Contracting Manager Horizon Blue Cross Blue Shield of New Jersey Phone: 973.466.8749
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Mark Kelly, MHS is a Managing Consultant in the Healthcare practice at Navigant Consulting and specializes in health policy, health economics, and strategy. Over his 4 years with Navigant Consulting, his experience spans a variety of providers, including federal and local government programs, hospitals, and pharmaceutical and medical device manufacturers. He has assisted

clients with program evaluations, market and financial analyses, and strategic planning. Prior to joining Navigant Consulting, Mark was attending the Johns Hopkins School of Public Health where he completed his Masters in Health Policy. His previous work experience includes serving as a financial intern at Merrill Lynch and Deutsche Bank Alex Brown, and as a clinical intern in the Department of Pediatric Neurosurgery at Johns Hopkins Medical Institute.

Mr. Kelly holds a Master's Degree in Health Policy from the Johns Hopkins School of Public Health. He completed his undergraduate studies in economics at the Johns Hopkins University.

Mr. Kelly's complete resume can be found in Exhibit 2. References for Mr. Kelly include:

Charles Daly Program Director, Healthy Communities Access Program Health Services & Resources Administration Phone: 301.594.5110	Dr. Victor Plavner Executive Director Maryland / D.C. Collaborative for Healthcare Information Technology Phone: 410.507.0460
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3. Project Approach/Methodology

3.1 Introduction

Navigant Consulting Inc. (NCI) is pleased to present this proposal to provide health care data and analytical services to the State of Georgia Commission on the Efficacy of the Certificate of Need Program (the Agency). We have outstanding experience in the collection and use of healthcare data and have worked on health planning issues in several states. We have used our experience and knowledge of data sources to prepare this section of the proposal. In the paragraphs that follow, we describe our understanding of the issue and our approach for the collection and analysis of data. Our work plan and project schedule is presented in the next section.

3.2 Understanding of the Issue

The Agency was created by the Georgia State Legislature to study the effectiveness and efficiency of the State's Certificate of Need (CON) program. Recommendations relating to the need to continue or discontinue components of the CON program or the CON program in its entirety will need to be made. The Agency's enabling legislation required it to recommend changes to the CON program, if appropriate, on or before June 30, 2007. The Agency expects to provide interim recommendations at the beginning of the 2007 legislative session. The Agency's charge is to evaluate the Georgia CON program, compare it to CON activities in other states and determine whether the program should be maintained for some services or for no services. The Agency's specific requirements include:

- The effectiveness of the CON program in accomplishing its original policy objectives,
- The costs of operating the program,
- The benefits and financial impact of continuing or discontinuing the program,
- The impact of continuing or discontinuing the program on the quality, availability and cost of health care in Georgia,
- The impact of continuing or discontinuing the program on the provision of patient care in trauma hospitals, critical access hospitals and public hospitals, and
- The impact of continuing or discontinuing the program on the provision of services to Medicaid and indigent patients.

This broad mandate is made even more challenging by the comprehensiveness of the Georgia CON program. The Agency must review a broad range of acute care services, long-term care services and specialized services, including ambulatory surgery centers, freestanding radiology providers, renal dialysis centers and refractive eye centers. The Agency has established subcommittees to meet its mandate – an Acute Care Subcommittee, a Long Term Care Subcommittee, a Special and Other Services Subcommittee and a Legal and Regulatory Subcommittee will evaluate various aspects of the efficacy of the CON program.

The Agency began its work in March 2006 and expects to make its recommendations by December 2006. This schedule, combined with the breadth of the Agency's mandate, means that work will need to proceed rapidly. To assure the timely preparation of its recommendations, the Agency has decided to retain a consultant to collect and analyze the data that will be needed. The consultant's responsibilities include identification of data sources, selection of states for comparative analyses, and the analysis of data to meet the needs of the Agency.

To meet the Agency's schedule, the consultant must have excellent knowledge of data sources and must be experienced in the use of health care and economic data. While the consultant should be prepared to assist the Agency's subcommittees in formulating the questions that they must address and deciding how data will be used to answer the questions, the consultant's primary role is to collect and analyze data to support the decision-making process. We are prepared to provide this support and are available to offer our experience in addressing similar questions in other states.

In the RFP, the Agency describes a four phase process for completing its work. The consultant is to participate actively in Phases I and II and needs to be prepared to provide assistance in Phase III. Our approaches for each of these phases are described in the paragraphs that follow.

3.3 Approach – Phase I

The consultant's Phase 1 responsibility is to work with the Agency to prepare a detailed work plan and schedule for Phase II. Our preliminary work plan and schedule is presented in the next chapter.

The RFP asks that proposals include answers to seven questions in the Phase I response. The questions and our answers to them are presented below.

Question: Identify data and data sources for each health care service outlined in Section 1.7 of the RFP.

Response: Section 3.2 of the RFP identifies several data requirements, including two requirements that do not relate to specific health care services, i.e., economic trends and employer health care costs. These data requirements are not addressed in this section. The data requirements that are addressed are:

- Utilization trends,
- Payment and reimbursement data,
- Supply and distribution data
- Provider workforce trends,
- Provider financial status and trends, and
- Quality indicators.

In some instances, especially for acute care services, data are generally available. In other instances, e.g., long term care providers, considerably less data are available. Data availability for each the providers included in each subcommittee's charge is described in the paragraphs that follow. Our data set selections are summarized in a table at the end of the section. The table also indicates whether we already have the data sources we identify.

Acute Care Providers. Data on short stay hospital beds, inpatient adult and pediatric cardiac catheterization, open heart surgery, perinatal services provided in hospitals, inpatient psychiatric and substance abuse services provided in acute care hospitals, organ transplant services and burn units are generally available from the same sources. Outpatient cardiac catheterization services, data on freestanding birthing centers and psychiatric and substance abuse facilities provided in specialty hospitals must be gathered from other sources. These data categories are summarized in Table 1 and discussed, by category.

Table 1
Acute Care Data Categories

Provider Type	Data Category
Short Stay Hospital Beds	Acute care data
Inpatient Adult Cardiac Catheterization	Acute care data
Open Heart Surgery	Acute care data
Pediatric Catheterization and Open Heart Surgery	Acute care data
Perinatal Services	Acute care data
Inpatient Psychiatric and Substance Abuse Services Provided in Acute Care Hospitals	Acute care data
Organ Transplant Services	Acute care data
Burn Units	Acute care data
Outpatient Cardiac Catheterization	Hospital and freestanding outpatient data
Freestanding Birthing Centers	Freestanding Birthing Center data
Psychiatric and Substance Abuse Services Provided in Specialty Hospitals	Psychiatric and substance abuse hospital data

Acute care data. As noted, acute care data are the most readily available, especially in regard to utilization trends and data on financial status. The RFP indicates that the Department of Community Health has some of this data, but complete data sets are available as follows:

Utilization trends (non-Georgia): Acute care utilization data for other states are available from three sources:

- National Center for Health Statistics National Hospital Discharge Survey (NHDS),
- Medicare Provider Analysis and Review (MedPAR) File (Medicare patients only), and
- Hospital Cost and Utilization Project (HCUP) Database (all hospital discharges).

The NHDS is an annual survey of hospital discharges for a representative sample of all U.S. hospitals. It is less useful for the tasks that the Agency needs to complete because data are generally not available for analysis by users other than the National Center for Health Statistics staff and the most recent data that have been published are from 2001.

The MedPAR file is especially useful because it includes data on all U.S. Medicare discharges and data are available by discharge for analysis by users. Furthermore, MedPAR data are currently available for the years 1993 through 2004. The file includes provider identification, primary and secondary diagnoses, procedures, length of stay and charges for each discharge. Data for each Georgia hospital can be aggregated and compared on a hospital-specific basis or on a state-wide basis. Because twelve years of data are available, trends in discharges by diagnosis or by DRG (which is also included in the data) can be established. The file is a national file, but states are identified, which means that the data can be used for specific state comparisons. As noted, the limitation of the MedPAR file to only Medicare patients constrains its use for CON purposes.

The HCUP database is the most useful source of data for measuring acute care trends, although it also has limitations. HCUP includes discharge data from approximately 30 states, including Georgia. All discharges from acute care hospitals are included, regardless of the payer. There are three primary HCUP databases that can be used:

- Nationwide Inpatient Sample (NIS),
- State Inpatient Databases (SID), and
- Kid's Inpatient Database (KID).

All three databases include the following data elements for each discharge record: principal diagnosis, secondary diagnoses, procedures, provider identification, length of stay, payer and charges. The NIS, which includes approximately 7.5 million discharges, is designed to provide a representative sample of all acute care hospital discharges in the U.S., but it is less reliable as a source for state-specific data than the SID. Each state submits its data to the Agency for Health Care Research and Quality (AHRQ), which is responsible for maintaining HCUP. These databases are complete for each year for each participating state. SID data through 2003 are currently available from AHRQ for 29 states. For most states, the data can be acquired directly from the state and frequently, more recent data are available. For example, data through the first half of 2005 are available for both Florida and Maryland. As discussed in a subsequent section, we recommend the use of state inpatient discharge databases for this project. We have selected comparison states for which data are available.

We will use MedPAR and HCUP data (SID) for selected states for analysis of utilization trends. Although Medicare patients are included in the HCUP data, the MedPAR file is more detailed and will offer opportunities for some analyses that can not be completed using HCUP data. 2004 data will be available for each data set. We currently have the most recent MedPAR data as well as SID data from several states.

Payment and reimbursement data: While acute care utilization data are readily available, there are far fewer sources of payment and reimbursement data. Four sources need to be considered:

- State inpatient databases,
- Medicare Cost Reports,
- Medicaid web sites, and
- Commercial sources (Ingenix, Solucient).

State inpatient data bases have already been discussed. These databases provide data that identifies payer and total charges for each discharge. It is more difficult to obtain data on costs and charges, although these data are available from cost reports and commercial sources.

We calculate costs by using the Medicare Cost Report, which is filed by all hospitals that receive Medicare reimbursement. The cost report provides a detailed analysis of costs for each cost center in each hospital. The cost report allows for the calculation of cost to charge ratios for each revenue center, e.g., routine care, lab, radiology, operating room, supplies, drugs. Cost to charge ratios can be applied to MedPAR data to determine the costs of individual Medicare cases, but more importantly, the Medicare Cost Report provides a thorough analysis of each hospital's costs. Cost reports are available from the Centers for Medicare and Medicaid Services (CMS) for all hospitals through 2005 (all reports that have been submitted). CMS makes these reports available in the Healthcare Cost Reporting Information System (HCRIS) file. Although the HCRIS file provides data on all U.S. hospitals, it includes provider and state identifiers that allow data to be aggregated by state.

Reimbursement data are available on a payer specific basis. Medicare publishes its methodology for calculating DRG payment which includes a base rate, a relative weight a geographic wage factor and other items. We regularly use the published methodology to calculate Medicare reimbursement on a hospital-specific basis for each type of case. These data can be aggregated on a state-wide basis.

We regularly collect Medicaid reimbursement data for our projects. Most frequently, we use Medicaid program websites for each state of interest to us. While the Medicare program uses DRGs to pay for all acute care, Medicaid programs use a variety of methods, although a majority of programs use DRGs. States either post DRG payment rates for specific services on their web sites or provide such data upon request. Other projects that we have completed have allowed us to collect Medicaid reimbursement data for several states, including Georgia.

Private sector reimbursement data are most difficult to obtain. Most health plans and insurers maintain the confidentiality of their reimbursement methods and amounts because they believe that it improves their competitive position. Nevertheless, we regularly purchase payment data from one of two commercial sources: Ingenix and Solucient. We currently have Ingenix and/or Solucient reimbursement data on inpatient services for several states, but not necessarily all of the states that are of interest in this project. When states are selected, we will review our data inventory to determine whether additional data will need to be purchased.

We also have data from several projects that we have conducted to design hospital payment systems for Blue Cross and Blue Shield plans. If any of these plans are in our states of interest, we can also use these data to support analysis of reimbursement rates. We have relevant 2004 data for Blue Cross and Blue Shield of Florida and we intend to select Florida as one of the comparison states.

We will use HCRIS (Medicare Cost Report) data, Medicaid program web sites, Ingenix data, Solucient data and NCI data on Florida to provide payment and reimbursement data. All of these data sources currently have data for 2004 or later. We have the current HCRIS file and data from several Medicaid programs. We have limited current Ingenix and Solucient data.

Supply and distribution data (non-Georgia): The RFP indicates that the Department of Community Health has supply and distribution data for Georgia. These data, which identify the number of facilities of each type, number of beds, number of employees, occupancy rate and the services that they provide are widely available for acute care programs. The best national data source is the American Hospital Association (AHA) Annual Survey. This survey includes data on every hospital in every state that responds to the survey, which is approximately 90 percent of all hospitals. AHA aggregates data on a state by state basis, which will make it especially easy to use for this project. Findings from the 2005 survey, which includes 2004 data, recently became available.

The AHA survey also includes other information which either does not directly relate to the Agency's stated data requirements, e.g., teaching programs, but which may be useful in certain analyses. Although the AHA survey is an effective source for supply and distribution data, we do not recommend its use for financial/cost data. The survey requires hospitals to provide these data, but the data that are provided are unaudited, required to reflect fiscal years ending on June 30 (which may not be the hospital's fiscal year) and which we have found to be less accurate than other financial/cost data sources.

We will use the AHA Annual Survey as our data source for supply and distribution data. We have the current AHA survey data.

Provider Workforce Trends: Data on provider workforce trends are somewhat less available than some of the other data that have been discussed. Data on total hospital employment, but not for specific subsets of hospital services, are included in the AHA survey. The U.S. Department of Labor's Bureau of Labor Statistics (BLS) has data on numbers of people in each major health care profession and wage rates, but these data are not available by hospital nor are they always available by state. Most state hospital associations conduct periodic workforce surveys that include the same data as BLS, but which is typically collected and presented in greater detail. If these surveys are available, they are the most accurate source of information on acute care provider workforce trends. Some hospital associations will make their workforce surveys available at no cost, others will charge for them and others will only make them available to Association members. We will make every effort to obtain the surveys for Georgia

and selected states. Nevertheless, the Agency needs to be prepared that data on provider workforce trends is likely to be less readily available than utilization, financial and supply data.

The BLS data are available on the Internet and we use it regularly. We will need to acquire state hospital association data.

Provider Financial Status and Trends: Current data on hospital financial status are readily available from two sources: Medicare Cost Reports and the AHA survey. The Medicare Cost Report includes annual balance sheets and income statements for all reporting hospitals (Schedules G-1 and G-2). These data are accurate (since they are likely to be audited or have been audited), with data based on each hospital's fiscal year. Although the cost report data are not as detailed as individual hospital audited financial statements, it is time-consuming and sometimes difficult to collect audited financial statements from hospitals. The cost report data, which are currently available for almost all hospitals for fiscal years ending in 2004 and many hospitals for fiscal years ending in 2005, are more than sufficient to project financial status. Trend analyses can be completed since electronic data are available as far back as 1993.

The AHA Annual Survey also includes financial data that can be used to analyze current financial status and trends, but as noted, we are less confident of the accuracy of these data and prefer to use Medicare Cost Reports. As noted, we have the current HCRIS file which includes all available Medicare Cost Reports.

Quality Indicators: We will need to work with the Agency to identify the quality indicators that are of interest. In general, there are two types of quality indicators – those that can be measured using claims or discharge data (because they are based on events that are recorded and the presence or absence of specific diagnosis and procedure codes) or those that require medical records data (because they are based on activities that are not recorded in claims data, but require medical records data). Readmissions or presence of a nosocomial infection are examples of quality indicators that can be measured using claims data. Provision of aspirin to patients with chest pain at time of admission to the emergency department is an example of a quality indicator that requires the use of medical records data. The Federal Agency for Health Care Research and Quality (AHRQ) has developed a set of acute care quality indicators that have gained substantial acceptance. Most of these indicators can be measured using claims or discharge data. CMS has developed a set of acute care quality indicators that are primarily based on medical records data. These indicators are being used in several CMS demonstration projects and are gaining broader acceptance.

The short time frame available for the completion of the Agency's work requires the use of quality indicators that can be measured using claims/discharge data. The same data sources identified in the discussion of utilization trends (MedPAR and HCUP) should be used for quality indicators. Needed data on diagnoses and procedures are available in these data sets. As noted, we have current MedPAR and HCUP data, which includes data through 2004.

Outpatient Cardiac Catheterization Data: If cardiac catheterization services are provided in hospital inpatient settings, data are readily available from the sources that have been described. Data are considerably less available if cardiac catheterization is completed in hospital or freestanding outpatient facilities. Data sources are summarized below.

Utilization Trends (non-Georgia): Data on utilization trends for outpatient cardiac catheterization are generally available from the same data sources as utilization trends for acute care services. MedPAR data can be used to identify utilization by Medicare patients and HCUP data can be used to identify utilization by all patients, although outpatient HCUP data are available for only 13 of the 29 states that submit inpatient data. It is likely that different states will need to be selected for outpatient comparisons than for inpatient comparisons.

Payment and Reimbursement Data: As noted previously, charge data are readily available for inpatient services from the MedPAR and HCUP databases. Charge data for outpatient cardiac catheterization are available from these data sources as well. Similarly, cost data can be calculated using the Medicare Cost Report. Payment data are less readily available. Some data can be purchased from Ingenix or Solucient, but we do not currently have these data. Medicaid data are available on web sites or from Medicaid programs.

Supply and distribution data (non-Georgia): There is no readily accessible source of data on the supply and distribution of freestanding outpatient cardiac catheterization centers in other states. Data on hospital based outpatient catheterization programs are available in the AHA survey. Data on freestanding centers can be collected in some states by contacting representatives of state agencies.

Provider workforce trends: Provider workforce data for outpatient cardiac catheterization are available from the Bureau of Labor Statistics, although sample sizes used by BLS are fairly small and somewhat less reliable. Data on hospital based programs are available from state hospital associations, but we are not aware of any workforce data relating to freestanding centers.

Provider financial status and trends: As is true for the other data categories, data on provider financial status is generally available for hospital-based catheterization programs from the same sources as acute care data (Medicare Cost Reports). We are not aware of any sources that provide data on freestanding cardiac catheterization centers.

Quality indicators: Limited data on quality indicators are available for outpatient cardiac catheterization. Data on hospital-based programs are available for the eighteen states that submit outpatient data to HCUP. Some of these states also include data on freestanding cardiac catheterization centers.

Freestanding Birthing Centers. Very little data are available on freestanding birthing centers. There are no central sources for data on these providers. Moreover, there are very few freestanding birthing centers in the U.S., which makes state comparisons far less useful. Data

can be collected through Internet searches, but the Agency must be prepared to accept very limited opportunities for analysis of this provider type.

Psychiatric and Substance Abuse Specialty Hospitals. In many instances, data are available for psychiatric and substance abuse specialty hospitals from the same sources that have been described for acute care hospitals. Data sources are identified below.

Utilization Trends (non-Georgia): Data on utilization trends for psychiatric and substance abuse specialty hospitals are generally available from the same data sources as utilization trends for acute care services. MedPAR data can be used to identify utilization by Medicare patients and HCUP data can be used to identify utilization by all patients of all payers. A reasonably large number of psychiatric and substance abuse specialty hospitals do not participate in the Medicare program, which will limit the use of MedPAR data. Similarly, HCUP data are less complete for psychiatric and substance abuse specialty hospitals. Nevertheless, these sources are the best available for understanding and projecting utilization for psychiatric and substance abuse specialty hospitals.

Payment and Reimbursement Data: As noted previously, charge data are readily available for inpatient services from the MedPAR and HCUP databases. Charge data for psychiatric and substance abuse specialty hospitals are available from these data sources as well. Similarly, cost data can be calculated using the Medicare Cost Report for those psychiatric and substance abuse specialty hospitals that file reports. Because several of these hospitals do not participate in the Medicare program, they do not file cost reports. Payment data are less readily available. Some data can be purchased from Ingenix or Solucient, but we do not currently have these data. Medicaid data are available on web sites or from Medicaid programs.

Supply and distribution data (non-Georgia): The AHA survey provides data on psychiatric and substance abuse specialty hospitals as well as acute care hospitals. This data source is relatively complete and can be used for the project.

Provider workforce trends: Provider workforce data for psychiatric and substance abuse specialty hospitals are available from the Bureau of Labor Statistics. These data may not specifically address all workforce categories, but will be generally useful.

Provider financial status and trends: As is true for the other data categories, data on provider financial status are generally available for psychiatric and substance abuse specialty hospitals from the same sources as acute care data (Medicare Cost Reports), for those hospitals that participate in the Medicare program.

Quality indicators: The same quality indicator data that are available for acute care services are available for psychiatric and substance abuse specialty hospitals, i.e., MedPAR and HCUP.

Long Term Care Providers. The Long Term Care Subcommittee is interested in several different types of long-term care providers. Data are available for some of these providers, e.g.,

skilled nursing facilities, from the some of the same data sources as acute care providers. Data sources for each provider type are discussed in the paragraphs that follow.

Skilled Nursing Facilities. Less data are available for skilled nursing facilities than for acute care services. Some data sources, however, are helpful.

Utilization Trends (non-Georgia): The only patient level utilization data available for skilled nursing facilities are in the MedPAR file. Data for each Medicare patient for all states can be obtained from this file. There is no source of patient level data for other than Medicare patients, but the majority of skilled nursing patients are reimbursed by Medicare. Aggregate data on utilization, which can be used to complete useful trend analyses, are available from Medicare and Medicaid cost reports. Most skilled nursing facilities (including all facilities that are hospital-based) file Medicare cost reports. Nearly all skilled nursing facilities file Medicaid cost reports. These cost reports identify total admissions and total days on an annual basis. As noted, Medicare cost reports are available in electronic form in the HCRIS database. Medicaid cost reports are not generally available in an electronic format, which will limit their use, given the short time available for data collection. For this reason we will rely on Medicare cost reports and use data from the reports and other sources to interpolate state-wide trends.

Payment and Reimbursement Data: Charge data are readily available for skilled nursing services provided to Medicare patients from the MedPAR database. Cost data for these providers can be calculated using the Medicare Cost Report for those facilities that file reports. Payment data are less readily available. Medicare payment data can be obtained from cost reports. Medicaid data are available on web sites or from Medicaid programs. Aggregate Medicaid payments to skilled nursing facilities are generally available. Although it is not possible to obtain patient-specific Medicaid payment data, aggregate data are sufficient for most purposes. Although only Medicare and Medicaid payment data are available, these payers account for a substantial majority of skilled nursing facility payment and are sufficient to understand the payment environment.

Supply and distribution data (non-Georgia): There is no data source that has current data that identifies skilled nursing facilities, their size and their location other than Medicare Cost Reports which are filed by many, but not all skilled nursing facilities. The National Master Facility Inventory (NMFI) (now known as the National Inventory of Long Term Care Places), which is maintained by the National Center for Health Statistics, has not been updated since 1986. Each state, however, maintains current listings of skilled nursing facilities and their size. These data are generally available on either Medicaid program or Department of Health web sites. When comparison states are selected, we will gather these data.

Provider workforce trends: Provider workforce data for skilled nursing facilities are available from the Bureau of Labor Statistics. These data may not specifically address all workforce categories, but will be generally useful.

Provider financial status and trends: As is true for the other data categories, data on provider financial status are generally available for skilled nursing facilities from the same source as acute care data (Medicare Cost Reports), for those facilities that participate in the Medicare program. The cost reports include balance sheets and income statements to allow reviews of financial status. Additional facilities are likely to file Medicaid cost reports, but as noted, these reports are not available electronically. Limited searches of Medicaid data for facilities in other states can be completed if there is a need to gather such data to address a specific question.

Quality indicators: CMS provides limited skilled nursing facility quality data as may some Medicaid programs. It is unlikely, however, that sufficient data will be available to allow for comparisons to the quality of Georgia skilled nursing facilities to facilities in other states.

Home Health Care Agencies. Substantial Medicare data are available for home health care agencies. These data, which have broad applicability, are discussed below.

Utilization Trends (non-Georgia): The only patient level utilization data available for home health agencies are in the MedPAR file. Data for each Medicare patient for all states can be obtained from this file. There is no source of patient level data for other than Medicare home health patients, but a large portion of home health patients are reimbursed by Medicare. Aggregate data on utilization, which can be used to complete useful trend analyses, are available from Medicare cost reports. Most home health agencies file Medicare cost reports which identify total visits on an annual basis. As noted, Medicare cost reports are available in electronic form in the HCRIS database and we will rely on them. State home health associations frequently publish annual summaries of home health data, including utilization data, but these reports are not available in many states and their data are unaudited. Nevertheless, they may be used to complete some analyses.

Payment and Reimbursement Data: Charge data are readily available for home health services provided to Medicare patients from the MedPAR database. Cost data for these providers can be calculated using the Medicare Cost Report for those agencies that file reports. Payment data are less readily available. Medicare payment data can be obtained from cost reports. In some instances, Medicaid data are available on web sites or from Medicaid programs. Aggregate state-wide Medicaid payments to home health agencies are generally available. Although it is not possible to obtain patient-specific Medicaid payment data, aggregate data are sufficient for most purposes. Although only Medicare and Medicaid payment data are available, these payers account for a substantial majority of home health agency payment and are sufficient to understand the payment environment.

Supply and distribution data (non-Georgia): CMS provides data that can be used to identify the name and location and services provided by every Medicare-certified home health agency in the U.S., which includes nearly all agencies. These data are available by state on the CMS website.

Provider workforce trends: Provider workforce data for home health agencies are available from the Bureau of Labor Statistics. These data may not specifically address all workforce categories, but will be generally useful.

Provider financial status and trends: As is true for the other data categories, data on provider financial status are generally available for home health agencies from the same source as acute care data (Medicare Cost Reports), for those agencies that participate in the Medicare program and nearly all home health care agencies participate in the program. These reports are included in the HCRIS database and are available electronically. The cost reports include balance sheets and income statements to allow reviews of financial status.

Quality indicators: CMS provides a useful set of quality indicators for all Medicare-certified home health agencies. Quality indicators are based on a variety of measures including Activities of Daily Living and are available on the CMS web site for each agency in a state and for all states. Quality indicators include percent of patients admitted to hospitals or to emergency departments, improvement in walking, bathing, etc.

Personal Care Homes/Assisted Living Facilities. Very little data are available on personal care homes and assisted living facilities. Some supply and distribution data are available from state provider associations, from the outdated National Master Facility Inventory and from state department of health websites. For example, Florida maintains its Floridahealthstat website, which lists the address and location of all health care facilities and can be used to provide aggregate supply and distribution data. Utilization and quality indicator data are not available. Since personal care homes and assisted living facilities rarely receive reimbursement from health care payers, there is little data available on payment and reimbursement. Workforce data are available from the Bureau of Labor Statistics.

Continuing Care Retirement Communities. Data on continuing care retirement communities are generally not available except for data on health services/facilities that may be operated within the community. Some data are available from the Commission on Accreditation of Rehabilitation Facilities (CARF) programs for the aging, but these data are limited to only those communities accredited by CARF. Workforce data are available from the Bureau of Labor Statistics.

Traumatic Brain Injury Facilities. Traumatic brain injury facilities are generally considered to be facilities where people with traumatic brain injuries are housed and where rehabilitation services are provided. In most states, these facilities are either nursing homes or community living arrangements. Data sources for nursing homes are similar to those for skilled nursing facilities, except that Medicare data are generally not available because nursing homes are not reimbursed by Medicare. Nevertheless, some data can be obtained from state provider associations and from Medicaid programs. These data, however, are not available from a central source. Group homes or community living arrangements are also sites for the placement and rehabilitation of traumatic brain injury patients. Limited data for these providers are only available on an aggregate basis.

Aggregate data on nursing homes are available for measuring utilization trends from Medicaid cost reports. Data are available from the same source for Medicaid reimbursement and for measuring financial status. Data on supply and distribution of both nursing homes and community living arrangements are available from Department of Health databases and websites. No other data on community living arrangements are available. Workforce data are available from the Bureau of Labor Statistics.

Comprehensive Inpatient Physical Rehabilitation Hospitals and Long Term Care Hospitals.

Data for rehabilitation hospitals and long term care hospitals are available from the same sources as for acute care hospitals. These data are somewhat less complete than acute care data, but are sufficiently available to allow analyses to be completed. No new data sources are required. Both of these provider types are considered to be subsets of hospitals that are included in HCUP data, MedPAR files, HCRIS (cost reports) and the AHA survey.

Hospice. Hospice services are most frequently provided on an outpatient basis, although there are large numbers of inpatient hospices throughout the U.S. Hospice data is fairly plentiful. Utilization data for Medicare patients are available from the MedPAR file and hospice cost reports are available in the HCRIS file from 1999 to 2004. The cost reports can be used to provide data on payment and reimbursement, supply and distribution, financial status and aggregate utilization. In addition, the national hospice associations (Hospice Association of America, the National Association for Home Care and Hospice and the National Hospice and Palliative Care Association all provide data on supply and distribution of hospices for each state. Workforce data are available from the Bureau of Labor Statistics.

Special and Other Services Providers. The Special and Other Services Subcommittee has responsibility for several types of outpatient facilities. These facilities are grouped in Table 2, below, for the identification of data sources.

Table 2
Special and Other Services

Provider Type	Data Category
Ambulatory Surgery Centers	Ambulatory Surgery Centers
Positron Emission Tomography	Outpatient Radiology Services
Radiation Therapy Services	Outpatient Radiology Services
Magnetic Resonance Imaging	Outpatient Radiology Services
Computed Tomography	Outpatient Radiology Services
Renal Dialysis	Renal Dialysis
Refractive Eye Centers	Refractive Eye Centers

Ambulatory Surgery Centers. Data on ambulatory surgery centers are readily available from several sources.

Utilization Trends (non-Georgia): Patient level utilization data for ambulatory surgery centers can be found in the MedPAR file for Medicare patients and in the HCUP database for all patients. As noted in previous discussions, eighteen states submit ambulatory surgery data to HCUP, including Georgia. Data for each patient can be obtained from these files. Ambulatory surgery data are also available from the National Center for Health Statistics (National Survey of Ambulatory Surgery), but these data are only available in aggregate form for the nation as a whole.

Payment and Reimbursement Data: Charge data are readily available for ambulatory surgery centers from the MedPAR file and the HCUP database. Since ambulatory surgery centers do not file Medicare cost reports, there is no central source for ambulatory surgery cost data. Ambulatory surgery reimbursement data are available for Medicare because the Medicare program uses a national fee schedule. Medicaid data are available on web sites or from Medicaid programs. Reimbursement data for other payers' patients can be obtained from Ingenix and Solucient.

Supply and distribution data (non-Georgia): CMS has a comprehensive list of Medicare-certified Ambulatory Surgery Centers on its web site. The national associations (Federated Ambulatory Surgery Association, the American Association of Ambulatory Surgery Centers) also have supply information on their web sites that includes their members, although none of these sources is completely comprehensive. It is possible, however, by combining them, to arrive at a fairly comprehensive analysis of the supply of centers in any state. These data can be compared to ambulatory surgery center licensure data maintained by state departments of health which is found on their websites.

Provider workforce trends: Provider workforce data for ambulatory surgery centers are available from the Bureau of Labor Statistics.

Provider financial status and trends: Since ambulatory surgery centers do not submit Medicare cost reports, there is little data on the financial status of these providers. Most centers are investor or physician owned and do not share their financial data.

Quality indicators: CMS provides limited ambulatory surgery center quality data as may some Medicaid programs. It is unlikely, however, that sufficient data will be available to allow for comparisons to the quality of Georgia ambulatory surgery centers to facilities in other states.

Outpatient Radiology Services. Only limited data on outpatient radiology centers are available. Supply and distribution data are available from state departments of health who license these providers. Some utilization data are available from states that submit outpatient data to HCUP, although only a few states include outpatient radiology services in their submissions. The MedPAR file includes data on all Medicare patients' use of outpatient radiology centers and can be used for limited analyses. Outpatient radiology centers do not submit cost reports to Medicare or Medicaid, which limits the availability of financial and reimbursement data. Information on Medicare and Medicaid payment rates are available, but it

is difficult to obtain private sector payment rates. Data on quality indicators are generally unavailable.

Renal Dialysis Centers. Because Medicare is the primary payer for renal dialysis services, data on centers are readily available.

Utilization Trends (non-Georgia): Patient level utilization data are available for renal dialysis centers in the MedPAR file. Data for each Medicare patient for all states can be obtained from this file. There is no source of patient level data for other than Medicare patients, but the majority of renal dialysis patients are reimbursed by Medicare. Aggregate data on utilization, which can be used to complete useful trend analyses, are available from Medicare cost reports. Nearly all renal dialysis centers file Medicare cost reports. These cost reports identify total visits on an annual basis. As noted, Medicare cost reports are available in electronic form in the HCRIS database.

Payment and Reimbursement Data: Charge data are readily available for skilled nursing services provided to Medicare patients from the MedPAR database. Cost data for these providers can be calculated using the Medicare Cost Report. Medicare payment data can be obtained from cost reports. Medicaid data are available on web sites or from Medicaid programs. Although it is not possible to obtain patient-specific Medicaid payment data, aggregate data are sufficient for most purposes. Although only Medicare and Medicaid payment data are available, these payers account for a substantial majority of renal dialysis patients and are sufficient to understand the payment environment.

Supply and distribution data (non-Georgia): CMS maintains a list of renal dialysis centers on its website. Centers and their location are identified. In addition, each state maintains current listings of renal dialysis centers. These data are generally available on Department of Health web sites. When comparison states are selected, we will gather these data.

Provider workforce trends: Provider workforce data for skilled nursing facilities are available from the Bureau of Labor Statistics. These data may not specifically address all workforce categories, but will be generally useful.

Provider financial status and trends: As is true for the other data categories, data on provider financial status are generally available for renal dialysis centers from the same source as acute care data (Medicare Cost Reports), for those facilities that participate in the Medicare program. The cost reports include balance sheets and income statements to allow reviews of financial status.

Quality indicators: CMS provides limited renal dialysis center quality data as may some Medicaid programs. It is unlikely, however, that sufficient data will be available to allow for comparisons to the quality of Georgia renal dialysis centers to facilities in other states.

Refractive Eye Centers. Only limited data on refractive eye centers are available. Supply and distribution data are available from state departments of health who license these providers. Some utilization data are available from states that submit outpatient data to HCUP, although only a few states include freestanding refractive eye centers in their submissions. The MedPAR file includes data on all Medicare patients' use of refractive eye centers and can be used for limited analyses. Refractive eye centers do not submit cost reports to Medicare or Medicaid, which limits the availability of financial and reimbursement data. Information on Medicare and Medicaid payment rates are available, but it is difficult to obtain private sector payment rates. Data on quality indicators are generally unavailable.

Economic Trends: Several data sources are available for the analysis of economic trends. Although national data are used frequently, we recommend the use of state-specific data. Such data are readily available for all states from the Kaiser Family Foundation. Their website, statehealthfacts.org, provides data on employment, unemployment, state spending, population and gross state product. These data are gathered from each state and we believe these data are sufficient for most analyses. If additional data are required, the websites of individual state Departments of Economic Development or Planning provide these data.

Employer Health Care Costs: The Kaiser Family Foundation also provides a substantial amount of data on employer health care costs. These data, which are found on the website, www.kff.org/insurance/index.cfm, are readily available for analysis. The website furnishes data for each state on employer health benefits, expenditures for employer health benefits and expenditures for employer-sponsored retiree health care costs. The data are readily available.

Summary. We have prepared Table 3 to summarize data sources. The table identifies sources, indicates whether we already have the data available to us and the years for which data are available. As discussed in the next section, we expect to recommend the use of Florida, South Carolina, Tennessee and Maryland as comparison states for nearly all analyses. For this reason, we have included data from these states in the table.

Table 3
Summary of Data Sources

Data Source	Applicable Provider Types	Latest Year Available	Currently Have/Need to Acquire
MedPAR File	All	2004	Currently have
HCUP NIS	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers		
HCUP SID - Florida	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers	2004-5	Currently have

Data Source	Applicable Provider Types	Latest Year Available	Currently Have/Need to Acquire
HCUP SID – South Carolina	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers	2004	Need to Acquire
HCUP SID - Tennessee	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers	2004	Need to Acquire
HCUP SID - Maryland	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers	2005	Currently have
HCRIS (Medicare Cost Reports)	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers, skilled nursing facilities, home health agencies, hospices, renal dialysis centers	2004-5	Currently have
Medicaid Reimbursement and Related Data from State Websites	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers, skilled nursing facilities, home health agencies, hospices, renal dialysis centers	2005	Can obtain immediately
Ingenix/Solucient Data	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers, skilled nursing facilities, home health agencies, hospices, renal dialysis centers	2004-5	Have some, would need to purchase some
Internal NCI Data – Florida	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers, skilled nursing facilities, home health agencies, hospices, renal dialysis centers	2004	Currently have
American Hospital Association Annual Survey	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers	2004	Currently have
Bureau of Labor Statistics Data	All providers	2004-5	Currently have
State Hospital Association Workforce Surveys	Acute care, psychiatric, rehabilitation, long term care hospitals, ambulatory surgery centers	2004	Need to acquire
Department of Health Websites for Licensure Data	All providers	2005	Can obtain immediately
State Association Data	Skilled nursing facilities, home health agencies, hospices, nursing homes	2005	Can obtain immediately
Statehealthfacts.org	Economic trend data	2005	Can obtain immediately

Data Source	Applicable Provider Types	Latest Year Available	Currently Have/Need to Acquire
Kff.org/insurance	Employer health care cost data	2005	Can obtain immediately
Other websites	All	2005	Can obtain immediately

Question: Include a list of all states for which you already have health care data, if any, and describe the data that you have, including the year.

Response: See Table 3 and the preceding discussion of data sources.

Question: Propose a list of comparable States and include reasons for proposing each state (by subcommittee health care sector, if deemed appropriate); identify your capacity to obtain the non-Georgia specific health care data identified above from each comparable State, including year; describe the methods used to obtain this data.

Response: We believe that states contiguous to Georgia should be used for comparative analyses. These states are: Florida, South Carolina, Tennessee and Alabama. Florida and South Carolina data are readily available for almost all categories of providers. Tennessee data are generally available, i.e., Tennessee submits inpatient and outpatient data to HCUP, but the data are collected and maintained by the Tennessee Hospital Association rather than a state agency, as is the case for Florida and South Carolina. It is, therefore, somewhat more difficult to obtain data for Tennessee hospitals than in some other states. Nevertheless, we believe that the Tennessee Hospital Association will allow us to use their data and we will purchase it directly from them. Unfortunately, Alabama does not participate in HCUP and there are significant limits on the availability of Alabama data. For this reason, we propose that Maryland data be substituted for Alabama data. Although Maryland is not a contiguous state, its health care system has some similarities to Georgia and more, importantly, it is a highly regulated state. As Georgia examines the future of its CON program, it should consider data from a highly regulated state to better assess the effects of a strong regulatory program. Maryland's regulatory approach is far greater than approaches used in Georgia, Florida and South Carolina. Therefore, we recommend the following comparison states:

- Florida
- South Carolina
- Tennessee
- Maryland

The only reason to use different states for different provider types or subcommittees is if data are not available for those states that have been identified as most appropriate for comparisons. Data for Florida, South Carolina, Tennessee and Maryland are available for most types of providers. Therefore, we recommend using these states for all comparisons.

It should be noted that some of the data sources we recommend are national sources, especially MedPAR and HCRIS. These national data sources are available for all states and data for selected states can easily be established as subsets of these larger databases. We identified the data that we already have in our offices in Table 3. We expect to be able to obtain all needed data that we do not already have within the first three weeks of the project. Some data (Tennessee and South Carolina HCUP data, Ingenix and Solucient data) will need to be purchased. We recommend purchasing the HCUP data immediately, but will review data needs with Department of Community Health staff and subcommittees before committing to purchasing additional Ingenix and Solucient data.

Question: Identify your capacity to obtain the Georgia-specific health care data identified above, including year; describe the methods used to obtain this data.

Response: Georgia-specific health care data will be gathered from the same national sources as data for the comparison states. These data sources are identified in Table 3. In addition, some data will be collected from the Department of Community Health, including provider licensure data. We do not expect to encounter any difficulties in collecting these data. We expect to be able to acquire the Georgia HCUP data from the State, although we recognize that we may need to acquire it from the Georgia Hospital Association. We assume that the hospital association will cooperate with the Agency and allow us to purchase the data.

Question: Describe your ability to obtain Georgia-specific health care data at a sub-State level.

Response: Key data are available at the patient or provider level (MedPAR, HCUP, HCRIS). These data can be aggregated at the state or sub-State level. In similar analyses for other states, we have aggregated data at the County level or at a level equivalent to hospital service area. Either level of analysis can be completed using the data sources that we have identified.

Question: Describe if and whether you will obtain subcontractors to obtain any data.

Response: We do not intend to use subcontractors. We may purchase additional data from Ingenix or Solucient, but we do not consider them to be subcontractors.

Question: If subcontractors will be obtained, please explain who and for what purpose.

Response: We do not intend to use subcontractors.

3.4 Approach – Phase II

Phase II is devoted to the collection and analysis of the data identified in Phase I. We will collect all of the data that we have identified in Table 3 after consultation with the Department of Community Health staff and representatives of the Agency. Since the key purpose of

collecting and analyzing data is to assure the Agency's subcommittees that their questions can be addressed with data, it is difficult to plan much of the analysis. We will work with the Department of Community Health staff to identify the questions that are most likely to need to be answered during Phase I and focus our initial analysis on answering those questions.

Question: Describe your approach to and methodology for Phase II; include a detailed work plan for Phase II meeting the timeframe established by the Agency.

Response: Our detailed work plan is presented in the next chapter. It indicates that we will collect all data by the end of August, although we will begin to analyze it as it becomes available. We expect analyses to be complete by mid-September.

We will complete three steps in our analysis approach. First, we will validate the data we have collected. Our approach to validation is presented in the response to the next question. Second, we will meet with the Department of Community Health staff and the Subcommittees to identify their analysis needs. We believe that some of these needs can be predicted – most of these needs relate to analysis of changes over time and comparisons to other states in terms of:

- Numbers and size of providers by type,
- Utilization of services by provider type,
- Reimbursement for services by provider type,
- Size of provider workforce by provider type,
- Changes in financial status by provider type, and
- Changes in quality indicators by provider type.

We will prepare these time series analyses for each key data element and for each provider type for the period from 1999-2004. Additional data will be added if we are requested to add it, but almost all of the data sources have data for these years. We will prepare similar analyses for the comparison states and provide the comparisons to Georgia.

Third, after meeting with Department of Community Health staff and the subcommittees, we will add analyses to those that have been identified and complete them as well. It is difficult to identify which analyses will be requested, but we expect the subcommittees to ask the following questions (among others):

- How has the supply of providers changed over time in Georgia?
- How does the per population/capacity of providers, by type, in Georgia compare to the per population/capacity of providers, by type in other states?
- How has utilization of services by provider type changed over time in Georgia?
- How does the per population/utilization of providers, by type, in Georgia compare to the per population/utilization of providers, by type in other states?
- How do charges, costs and payment rates by provider type in Georgia compare to charges, costs and payment rates by provider type in other states?
- How have charges, costs and payment rates by provider type changed in Georgia and in other states?

- How has the provider workforce changed over time in Georgia?
- How do changes in the provider workforce in Georgia compare to changes in other states?
- How has the financial status of providers changed over time in Georgia?
- How has the financial status of providers changed over time in other states?

Question: Describe the standards and methods employed to ensure the integrity of any data collected.

Response: Although most of the data sources we will use are published and therefore, there are expectations that they are valid, our prior efforts have led us to conclude that the data need to be validated. Our validation procedures focus on a review of the data sets to test for completeness of data. Missing data fields are flagged and investigated. If missing data limits our ability to use the data, we will not include the records that contain the missing data in our analysis. We also test for outlier records, i.e., records that contain values that are not within a reasonable range for the data element being tested. Most often, we use two standard deviations from the mean to identify outliers, but examine each record identified to determine whether it truly is an outlier. Outliers are excluded from analyses.

We have already evaluated and validated most of the large data sets that will be used for the project, e.g., recent MedPAR files, HCRIS files and the Florida and Maryland HCUP data. Our data validation work will focus on those data sets that we have not yet used.

Question: Describe the format of the final data analyses that will be provided.

Response: We will prepare the final data analyses in the format requested by the Agency and its subcommittees. At this point, we expect to provide summary analyses to address each question asked by the subcommittees in a PowerPoint format both as a report and in presentations to the subcommittees. The summary analyses will be accompanied by detailed analyses, based on the specific question that is being addressed. We will work with staff and the subcommittees to provide the data in the most useful form possible. In our experience in similar situations, we have found that committee members have strong feelings about the form in which they would like to see data. We will seek to accommodate such preferences.

Question: Describe the final deliverable for Phase II.

Response: The final deliverable will include the data described in the final data analyses and the supporting information as discussed above. The deliverable, however, will be in the form of a report that includes the following sections:

- Purpose of the report
- Scope of analyses completed
- Data sources
- Data analysis approach

- Data analyses – acute care
- Data analyses – long term care
- Data analyses – special and other services
- Recommendations for maintaining data bases
- Detailed data will be provided in appendices

In addition, if requested we will turn over the data used to complete analyses on CDs to allow the Agency to conduct its own analyses. We will continue to be available to conduct analyses if that approach is preferred.

Question: Describe the interaction of the staff members that you propose for this engagement with staff members from the Georgia Department of Health.

Response: We prefer to work closely with our clients. We have proposed a kick off meeting at the start of the project (see Work Plan in the next section) and we believe we will stay in touch with key staff on a regular basis. If acceptable, we would like to have a weekly phone call to update staff on our progress throughout the fairly intense Phase II period. Dr. Henry Miller, our project director and Ms. Kathleen Schneider, our project manager, will be on most calls and will be responsible for contacts with staff. As indicated, we prefer to work closely with our clients although we do not expect the Department of Community Health staff to do any of our work – we will ask for feedback and accept direction and we will need some assistance in obtaining some data.

Question: Describe the interaction that you propose for this engagement with each subcommittee of the Agency.

Response: We will need to meet with each subcommittee early in Phase II to be certain that we understand the data analysis needs and expectations of the subcommittee. We understand that the subcommittees intend to meet bimonthly throughout Phase II. We expect to be present at each meeting to present data, to answer questions and to receive direction for additional analyses.

Question: Identify the time and amount of work that will need to be conducted on-site vs. remotely.

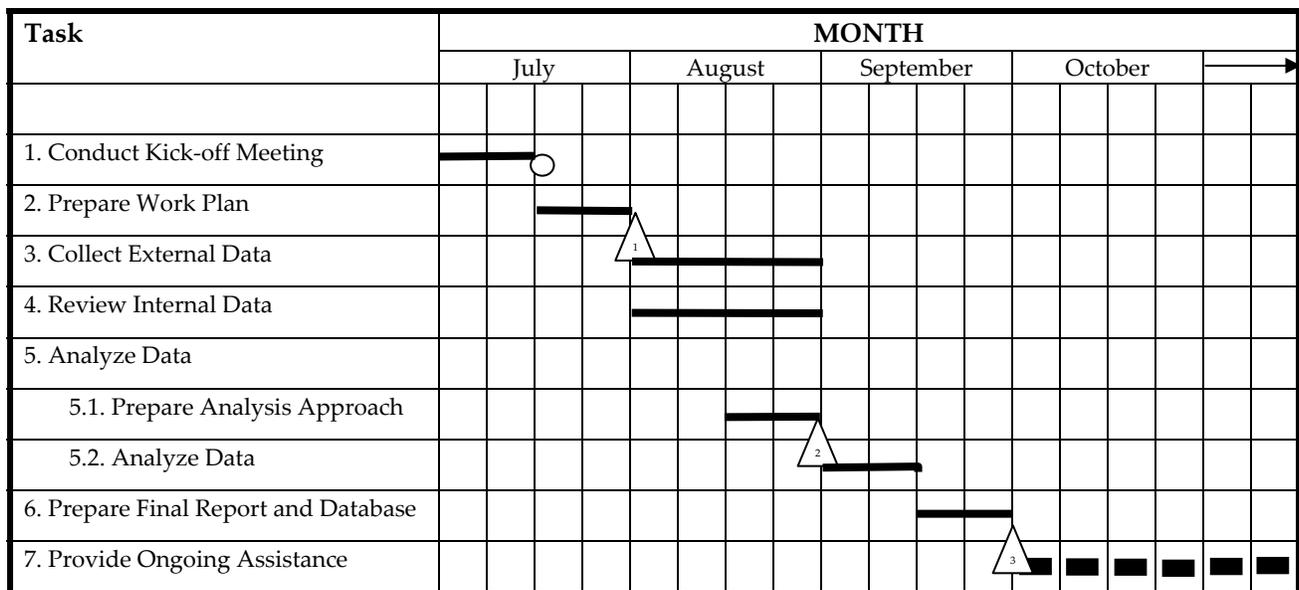
Response: We expect to be on-site for meetings with Department of Community Health staff and subcommittees. Otherwise, all work will be conducted remotely. We will be available by telephone and e-mail throughout the project period.

4. Work Plan and Schedule

4.1 Introduction

Our proposed schedule is presented in Figure 2. The schedule includes only Phase I and II activities in detail and indicates that we are prepared to provide assistance throughout Phase III and beyond, if we are requested to do so. Each task is described below.

**Figure 2
Project Schedule**



Deliverables:

- = Work Plan and List of Data Services
- = Analysis Approach
- = Final Report and Database

4.2 Task 1. Conduct Kick-off Meeting

We would like to meet with Department of Community Health staff as soon after the contract is signed as possible. The meeting will allow us to introduce our project director, Dr. Miller, and our project manager, Ms. Schneider to the staff members who attend. In addition, we would like to discuss the following issues to be sure that we will meet expectations:

- Project objectives,
- NCI approach,
- Project schedule,
- Available Department of Community Health Data,
- Subcommittee meeting schedule,
- Expectations for project deliverables.

If we assume a July 1 start date for the project, we expect this task to be completed prior to July 14, 2006.

Task 2. Prepare Work Plan

We will discuss our approach and proposed work plan at the kick-off meeting. Immediately following the meeting, we will revise our approach and work plan accordingly. The work plan that is submitted will include both the schedule (as amended – this section will be used as the foundation of the schedule) and the approach (as amended from the discussions in the previous section). The revised work plan will be submitted by July 21, 2006. The work plan will serve as a guide to both the Agency and NCI throughout the project period.

Task 3. Collect External Data

All data identified in the approach will be collected during this task, with additions or deletions made based on our discussions with staff. As indicated, we have much of the data in hand. Additional data will be collected based on our current understanding and discussions with Department of Community Health staff. Data that we already have will be organized, validated and prepared for analysis in this task. We will complete this task by August 18, 2006.

Task 4. Review Internal Data

We will request data from the Department of Community Health. We expect to receive data on Georgia health care facilities, their health care utilization and some financial data. We will also request licensure data to allow us to complete an inventory of providers. We will review the data we receive in this task and validate its completeness and accuracy. We will complete this task by August 18, 2006.

Task 5. Analyze Data

We will complete two subtasks in this task. First, we will complete the analysis approach that was described in the approach discussion. We will meet with the staff and subcommittees to identify the issues/questions that need to be addressed. We will use this input to complete the approach. As noted, we expect much of the analysis to focus on changes over time (time series analysis) and across states (cross site comparisons). We will complete the analysis approach by September 1, 2006, if we can meet with the subcommittees on a timely basis. We will submit the analysis approach as a deliverable.

In the second subtask, we will implement the analysis plan and complete the analysis of data as required in the approach. First, we will validate all of the data that has not been validated at

this point (as described in the approach). Second, we will complete the analyses and submit the PowerPoint version to the Agency by September 12, 2006.

Task 6. Prepare Report and Database

We will complete Phase II by preparing the report that we described in our approach discussion. We will begin working on the report as we are analyzing data so that it can be completed by September 22, 2006. In addition, we will prepare the databases that we used in a format that will allow their ongoing use and, if appropriate, updating. We expect to be available to complete additional analyses, but we also are prepared to turn the database over to Department of Community Health staff.

Task 7. Provide Ongoing Assistance

We will be available throughout the contract period to provide assistance to the Agency and its subcommittees. Assistance may be provided in person at meetings or by telephone or e-mail. We will follow the lead of the agency in regard to the timing of assistance and the need to be present in person at meetings.

5. Proposed Deliverables

We have identified deliverables in preceding discussions. They are summarized in Table 4 presented below.

Table 4
Summary of Deliverables

Task	Deliverable	Due Date*
2. Prepare Work Plan	Work Plan	July 21, 2006
	List of Data Sources	July 21, 2006
5. Analyze Data	Analysis Approach	September 1, 2006
	PowerPoint Presentation of Analysis	September 12, 2006
6. Prepare Report and Database	Report	September 22, 2006
	Database	September 22, 2006
7. Provide Ongoing Assistance	Ongoing Assistance	As Needed

Appendix A – Proposal Certification

PROPOSAL CERTIFICATION

We propose to furnish and deliver any and all of the goods and/or services named in the attached Request for Proposals (RFP) for which prices have been set. The price or prices offered herein shall apply for the period of time stated in the RFP.

We further agree to strictly abide by all the terms and conditions contained in the Georgia Vendor Manual, located at: http://statepurchasing.doas.georgia.gov/vgn/images/portal/cit_11783501/371_06725vendormanual.pdf, and any modifications or attached special terms and conditions, all of which are made a part hereof. Any exceptions are noted in writing and included with this bid.

It is understood and agreed that this proposal constitutes an offer, which when accepted in writing by the Agency, and subject to the terms and conditions of such acceptance, will constitute a valid and binding contract between the undersigned and the Agency.

It is understood and agreed that we have read the specifications shown or referenced in the RFP and that this proposal is made in accordance with the provisions of such specifications. By our original signature, entered below, we guarantee and certify that all items included in this proposal meet or exceed any and all such stated specifications.

We further agree, if awarded a contract, to deliver goods and/or services that meet or exceed the specifications. It is understood and agreed that this proposal shall be valid and held open for a period of one hundred twenty days from proposal opening date.

PROPOSAL SIGNATURE AND CERTIFICATION (Bidder to sign and return with proposal)

I certify that this proposal is made without prior understanding, agreement, or connection with any corporation, firm, or person submitting a proposal for the same materials, supplies, equipment, or services and is in all respects fair and without collusion or fraud. I understand collusive bidding is a violation of state and federal law and can result in fines, prison sentences, and civil damage awards. I agree to abide by all conditions of the proposal and certify that I am authorized to sign this proposal for the Offeror. I further certify that the provisions of the Official Code of Georgia Annotated, Sections 45-10-20 et. seq. have not been violated and will not be violated in any respect.

The Vendor also certifies that the Vendor and its Lobbyists have complied with the Lobbyist Registration Requirements in accordance with the Georgia Vendor Manual.

Authorized Signature: Henry Miller Date: June 1, 2006
Print/Type Name: Henry Miller
Company Name: Navigant Consulting, Inc.
Address: 2 North Charles Street, Suite 200
Baltimore, MD 21201
Phone Number: (410) 528-4806 E-Mail: hmiller@navigantconsulting.com

Appendix B – Small or Minority Business Form

SMALL OR MINORITY BUSINESS FORM

- **Can your company be classified as a SMALL BUSINESS by the following definition:**

Small Business – defined as an independently owned and operated entity that has either fewer than one hundred (100) employees or less than one million dollars (\$1,000,000) in gross receipts per year. (State Statute 50-5-12 1).

___ **Yes** (If yes, please check the following reason(s) that apply)
 ___ Less than 100 employees or,
 ___ Less than \$1,000,000 in gross Annual Receipts.

X **No**

- **Can your company be classified as a MINORITY-OWNED BUSINESS by the following definition?**

Navigant Consulting, Inc. is not a minority-owned business.

Minority Owned Business – means a business that is 51% owned or controlled by one or more minority persons. Please indicate below if your firm is 51% owned or controlled by one of the minority groups listed.

African American	%	Asian American	%
Hispanic / Latino	%	Pacific Islander	%
Native American	%		

Ownership: American Citizen ___ Yes ___ No

Are any of your suppliers minority and/or small business enterprises? ___ Yes **X** No

If Yes, please indicate the percentage of minority companies represented. _____%

If awarded a contract as a result of this solicitation, do you anticipate employing any small or minority subcontractors?

___ Yes **X** No

Appendix D – Contract

No exceptions are taken from Appendix D, the State of Georgia's sample contract.

Exhibit 1: Business Requirements

State of Georgia Business License

Control No. 0027795

STATE OF GEORGIA
Secretary of State
Corporations Division
315 West Tower
#2 Martin Luther King, Jr. Dr.
Atlanta, Georgia 30334-1530

**CERTIFICATE
OF
EXISTENCE**

I, Cathy Cox, Secretary of State and the Corporations Commissioner of the state of Georgia, hereby certify under the seal of my office that

NAVIGANT CONSULTING, INC.
Foreign Profit Corporation

was formed or was authorized to transact business on 06/16/2000 in Georgia. Said entity is in compliance with the applicable filing and annual registration provisions of Title 14 of the Official Code of Georgia Annotated and has not filed articles of dissolution, certificate of cancellation or any other similar document with the office of the Secretary of State.

This certificate relates only to the legal existence of the above-named entity as of the date issued. It does not certify whether or not a notice of intent to dissolve, an application for withdrawal, a statement of commencement of winding up or any other similar document has been filed or is pending with the Secretary of State.

This certificate is issued pursuant to Title 14 of the Official Code of Georgia Annotated and is prima-facie evidence that said entity is in existence or is authorized to transact business in this state.

 WITNESS my hand and official seal of the City of Atlanta and the State of Georgia on 25th day of May, 2006


Cathy Cox
Secretary of State

Certification Number: 72743-1 Reference: 134199
Verify this certificate online at <http://corp.sos.state.ga.us/corp/soskb/verify.asp>

Insurance Certificate



VERIFICATION OF INSURANCE

ISSUED TO: Gary Powell
State Purchasing Division
Department of Administrative Services
200 Piedmont Ave., Suite 1308 WT
Atlanta, GA 30334
RFP Number: 41900-001-000000004

We, the undersigned Insurance Brokers, hereby verify that Arch Specialty Insurance Company has issued the following described insurance, which is in force as of the date thereof-

ERRORS AND OMISSIONS PROFESSIONAL LIABILITY INSURANCE

NAME OF INSURED: Navigant Consulting, Inc. and others as more fully described in the Policy.

POLICY NUMBER: SPL0004194-01

PERIOD OF INSURANCE: 12:01 a.m. January 30, 2006 to 12:01 a.m. January 30, 2007

SUM INSURED: \$1,000,000 Each claim and Annual Aggregate including costs, charges and expenses excess of the applicable self-insured retention for the stated policy period.

SUBJECT TO ALL TERMS, CONDITIONS AND LIMITATIONS OF THE POLICY

This document is furnished to you as a matter of information only and is not insurance coverage. Only the formal policy and applicable endorsements offer a comprehensive review of the coverage in place. The issuance of this document does not make the person or organization to whom it is issued an additional insured, nor does it modify in any manner the contract of insurance between the Insured and the Insurer. Any amendment, change or extension of such contract can only be effected by specific endorsement attached thereto.

Issued at Chicago, Illinois

Date: May 26, 2006

Lemme Insurance Group, Inc.

Per:

A handwritten signature in black ink, appearing to read "D. L. ...".

Executive Vice President

Exhibit 2: Resumes

Henry C. Miller, Ph.D., C.P.A.

Henry C. Miller
Managing Director

Navigant Consulting
2 North Charles Street
Suite 400
Baltimore, Maryland 21201
Phone: (410) 528-4806
Fax: (410) 528-4801

Hmiller@NavigantConsulting.com

Areas of Expertise

Industry:

- Healthcare

Functional:

- Public Policy Analysis
- Reimbursement Systems
- Strategic Planning
- Provider Network Management
- Data Analysis

Other

- Member, Healthcare Financial Management Association
- Member, American Public Health Association
- Member, National Association of Health Data Organizations

Educational Background

Ph.D., University of Illinois (Accounting, Economics and Organizational Behavior)

M.B.A. City College of New York
B.B.A., City College of New York
C.P.A. New York State

Henry Miller is a member of the Healthcare team at Navigant Consulting and specializes in the design and evaluation of provider reimbursement systems, measurement of healthcare costs, strategic planning for hospitals and managed care organizations, development of methods to collect and analyze healthcare financial and utilization data and public policy analysis. He frequently provides expert witness testimony on these issues. His 30 years of experience include work for managed care organizations, federal and state government, hospitals, pharmaceutical and device manufacturers, professional and advocacy associations and large employers. Prior to joining Navigant Consulting, Henry was the President of CHPS Consulting and a faculty member at the University of Illinois, the State University of New York and the University of Baltimore.

Professional Experience

Collection and Analysis of Healthcare Data

Directed the development of several health care data systems, including CAPNet, a web-based cooperative data exchange among health insurers.

Directed the development and operation of the American Data Network, a hospital data system to support cost and quality analysis for a consortium of Midwestern hospitals.

Designed a data system to describe healthcare markets for the Federal Agency for Healthcare Research and Quality. Applied this data system for business coalitions in Rochester, New York and St. Louis, Missouri.

Directed several efforts for the National Center for Health Statistics, including the evaluation of ICD-10 and the initial effort to collect and analyze ambulatory surgery data.

Directed the development of the Maryland Medical Care Data Base, the first statewide, multi-payer claims database for the analysis of physician, hospital and other healthcare utilization and costs.

Measurement of Healthcare Costs

Developed resource costing, a method to measure the costs of specific healthcare services for a series of projects conducted for the Office of the Assistant Secretary for Planning and Evaluation of DHHS. Directed major study of the resource costs of outpatient services for the Centers for Medicare and Medicaid Services.

Applied resource costing to measure the cost of new pharmaceutical and medical device technologies for several manufacturers, including Glaxo SmithKline, Bausch & Lomb and Medtronic.

Directed studies to measure the costs of specific healthcare activities, including the measurement of the differences in providing acute care services to adults and children for the National Association of Children's Hospitals.

Measured the costs of clinics providing services to people with HIV/AIDS, costs of services provided in personal care homes in two states.

Directed a study of the costs of high-risk maternity and infant care for a major health insurer.

Directed a project to develop a method for measuring the costs of implementing clinical guidelines. Implemented the method on behalf of the Agency for Healthcare Research and Quality.

Provider Reimbursement Systems

Designed non-participating provider reimbursement systems for health plans and other payers, including approaches for physicians, hospitals, ambulatory surgery centers and other providers.

Member of Medicare oversight committee for the study of the physician office expense component of the Medicare RBRVS physician fee schedule.

Assisted the American College of Radiology, the American College of Cardiology and College of American Pathologists in measuring the impact of changes in the Medicare RBRVS physician fee schedule.

Designed a pay for performance physician fee schedule based on RBRVS payment for a major commercial health insurer.

Directed analyses of physician reimbursement systems for several private sector insurers, including comparisons of rates paid in different settings and the establishment of site of service payment differentials.

Directing an evaluation of the Medicare Inpatient Prospective Payment system based on DRGs for the Centers for Medicare and Medicaid Services.

Directed the design of outpatient prospective payment systems for several managed care organizations, including Blue Cross and Blue Shield Plans in New Jersey, New York, Georgia, Arkansas and California.

Directed several projects for the federal Center for Medicare and Medicaid Services (CMS) to support the development of the Medicare Outpatient Prospective Payment System, including analysis of rates paid in different settings for the same service.

Directed an evaluation of the impact of the Medicare Hospital Outpatient Prospective Payment System for the Medicare Payment Advisory Commission.

Directed the design of outpatient prospective payment systems for Medicaid programs in New Jersey and Washington, D.C.

Designed inpatient hospital reimbursement systems for a variety of third party payers, including Medicaid programs in Iowa, Washington, D.C., and Virginia. Also designed inpatient hospital reimbursement systems for Blue Cross and Blue Shield plans in Pennsylvania, Virginia, Florida, Tennessee, Ohio, Iowa, Texas, Oklahoma and Illinois.

Directed the design of a method that allows the Federal Government to pay for medical education in children's hospitals.

Directed three studies of the impact of hospital regulation based on per case payment on the New York healthcare system for the New York State legislature.

Directed studies of clinical laboratory payment issues for the Institute of Medicine and professional associations.

Directed the design of nursing home payment systems for the Medicaid programs in Pennsylvania and Virginia. Directed a series of studies on the use of Medicare Cost Reports to maximize Medicare reimbursement for the Office of the Assistant Secretary for Planning and Evaluation of the federal Department of Health and Human Services.

Directed a study of the use of Medicare Cost Reports for research and analysis of health care costs for the Medicare Payment Advisory Commission.

Worked with several pharmaceutical and medical device manufacturers to address reimbursement issues for new technologies in the public and private sector.

Strategic Planning

Directed strategic planning projects for hospitals, including rural hospitals, suburban community hospitals and major academic medical centers. Projects included long term planning for changes in patient populations, need for new facilities, alternative uses for existing facilities, design of new programs and the development of data systems to monitor strategic plans.

Directed the preparation of a strategic plan for a unique managed healthcare organization that serves the uninsured in the Tampa, Florida region.

Directed the preparation of a strategic health and human services plan for a major Maryland county.

Public Policy Analysis and Program Evaluation

Directed the evaluation of key aspects of the Community Access Program of the Bureau of Primary Health Care (Federal Department of Health and Human Services). The evaluation focuses on sites that have developed: disease management programs, unique approaches to community health center expansion and methods to assure the sustainability of CHC sites.

Directed the evaluation of the Black Lung Clinics Program of the Bureau of Primary Health Care. Evaluation required the completion of comprehensive telephone interviews with all Black Lung Clinic sites.

Directed the evaluation of the Health Diary for the Health Resources and Services Administration (Federal Department of Health and Human Services). The Health Diary is an interactive tool for educating pregnant women.

Evaluation of case management in the Health Care Services in the Home Demonstration Program (Federal Department of Health and Human Services). Study focused on case management methods used to coordinate care of uninsured patients in five states.

Directed the design of an evaluation of the Special Projects of Regional and National Significance (SPRANS) for the Maternal and Child Health Bureau (Federal Department of Health and Human Services). The SPRANS program is the primary source of federal funding for maternal and child health research.

Directed an evaluation of the recruiting activities of the National Health Service Corps (Federal Department of Health and Human Services).

Directed an evaluation of the methods used to disseminate the data produced by the Health Care Utilization Project of the Agency for Healthcare Quality and Research (Federal Department of Health and Human Services).

Directed the development of an evaluation design for the AIDS Service Delivery Demonstration Projects for the Health Resources and Services Administration.

Directed the evaluation of the implementation of grants to provide health services to the homeless for the Health Resources and Services Administration.

Directed an evaluation of the uses for the provider surveys of the National Center for Health Statistics (Federal Department of Health and Human Services).

Directed an evaluation of the Early and Periodic Screening, Diagnostic and Treatment (EPSDT) program of the Connecticut Medicaid program.

Directed a study of the characteristics, services used and fiscal impact of infants and toddlers at risk of developmental delay for the State of Maryland.

Directed an evaluation of the Health Start Plus program for pregnant women established by the New Jersey Department of Health.

Directed a study of the long-term care needs of the Commonwealth of Virginia for the Virginia State Legislature.

Selected Publications

H. Miller, "Outpatient Prospective Payment in the Private Sector," in Goldfield, N. and Kelly, W., Outpatient Prospective Payment, (Gaithersburg, MD, Aspen Publishing, 1999).

H. Miller, B. Cassidy and D. Karr, "Resource Costing for Health Care Services," in Goldfield, N. and Kelly, W., Outpatient Prospective Payment, (Gaithersburg, MD, Aspen Publishing, 1999).

D. Karr, H. Miller, S. McCue, "The Effect of Instrument Type on the Cost of Laparoscopic Surgery," Surgical Endoscopy, 1996.

H. Miller, W. Kelly, "Prospective Per Case Payment in New York State: An Analysis," in Goldfield, N. and Boland, P., Physician Profiling and Risk Adjustment, (Gaithersburg, MD, Aspen Publishing, 1996).

B. Balicki, H. Miller, W. Kelly, "Benchmarks and Tools for Evaluating Ambulatory Surgery: A Model for Examining Cost Competitiveness," Healthcare Financial Management, Spring 1995.

W. Kelly, H. Miller and T. Parciak, "The Need for Alternatives to Capitation Under Managed Care," Managed Care Quarterly, Summer 1994.

H. Miller, "Outpatient Prospective Payment Approaches for Use by Insurers," Journal of Ambulatory Care Management, Spring 1993.

B. Balicki, H. Miller, W. Kelly and T. Yates, "Guidelines for Managing Ambulatory Surgery Programs in the 1990's," Journal of Ambulatory Care Management, Winter 1991.

H. Miller, et. al., "Costs of Ambulatory Care: Implications for Outpatient Prospective Payment Systems," Journal of Ambulatory Care Management, Winter 1991.

W. Kelly, P. Tenan, H. Fillmore and H. Miller, "Products of Ambulatory Care Patient Classification System," Journal of Ambulatory Care Management, Winter 1990.

H. Miller and W. Kelly, Impact of Uncompensated Maternity and Infant Care on U.S. Employers, (Hartford, CIGNA Insurance Companies, 1992).

Kathleen Schneider

Kathleen Schneider
Associate Director

Navigant Consulting
2 North Charles Street, Suite 400
Baltimore, MD 21201
Tel: 410.454.6209
Fax: 410.454.6201

kschneider@navigantconsulting.com

Professional History

- CHPS Consulting/Center for Health Policy Studies
- CareFirst BlueCross BlueShield
- U.S. Healthcare/U.S. Quality Algorithms (USQA)
- MediQual Systems
- West Virginia Medical Institute (WVMI) Peer Review Organization
- Delaware Peer Review Organization/Professional Standards Review Organization (DELRO PRO/PSRO)

Education

- Bachelor of Science in Nursing
The Catholic University of America

Ms. Schneider is a member of the Healthcare team at Navigant Consulting and specializes in work with payers, analytics and information systems. Her 20 years of experience span many sectors, including medical review, managed care, informatics, and software development. She has assisted clients with cost/outcomes analyses and database development, design and development of payment systems, and development and implementation of a national training program on third party reimbursement. Prior to joining Navigant Consulting, Ms. Schneider worked in medical informatics and medical management capacities at two payer organizations, provided product development and consulting services at an outcomes measurement software company, and managed medical review operations for Medicare and Medicaid in Delaware.

Professional Experience

Analysis of Coding Impact on Payment

Completing an analysis of diagnosis coding discrepancies and resultant impact on CMS Hierarchical Condition Categories (severity adjustment tool to adjust payments to Medicare managed care organizations). Responsibilities included:

- » Managing literature review to identify known diagnosis coding discrepancies
- » Managing analysis to understand diagnosis coding discrepancies in claims data

Payer Strategic Planning

Served as project manager for an effort to quantify the results of a merger of not-for-profit health plans and the estimated impact of separation of these plans.

Served as project manager for an effort to assist the Board of Directors of a not-for-profit health plan to understand and quantify the organizational and governance issues related to an earlier merger. Responsibilities for both projects included:

- » Managing document request and review process
- » Managing client communications,
- » Preparation of final report

Payment System Design

Outpatient Prospective Payment System (OPPS)

Served as lead manager for implementation of outpatient prospective payment systems for payers' outpatient facility reimbursement. Responsibilities included:

- » Understanding existing payer payment methodologies, claims adjudication processes and information systems to conduct feasibility analyses for OPPS
- » Educating payers on major OPPS methodologies (APCs and APGs) to assist in understanding key differences and selecting the appropriate grouping methodology
- » Managing data analysis and modeling to assist payers in setting appropriate design parameters and preparing for OPPS implementation

Ancillary Services Payments

Managed the design and development of a revised payment methodologies for reimbursement of SNF, rehabilitation, mental health, ambulance, dialysis and clinical laboratory services by a large commercial payer. Responsibilities included:

- » Understanding existing payer payment methodologies, claims adjudication processes and information systems
- » Researching and reviewing Medicare and other commercial payer payment methodologies for these services
- » Managing data analysis and modeling to inform setting of appropriate design parameters and rates

Payment System Design for Residential Care for Individuals with Developmental Disabilities

Managed the design and development of a new payment methodology for reimbursement of residential providers caring for individuals with developmental disabilities for a large state. Included researching available benchmarks and best practices, designing payment components and rates, conducting focus groups with advocates and stakeholders and communicating with key state government staff.

Payer Contracting

Managed the recontracting process for a large payer to contract a home infusion network. Responsibilities included communication and negotiation with national and local home infusion providers, focusing on explanation of contract requirements and payment methodologies. Completed recontracting effort with appropriate network in place in three months total elapsed time.

Managed the process for a larger payer to clean up their provider files and recontract with selected mental health and substance abuse agencies, home health care agencies and SNFs.

Benchmarking and Comparative Analysis

Managed the design and development of an online community for payer customers. The web-based community allowed for sharing of contracting best practices and presented benchmark data related to medical costs. Included researching available benchmarks and best practices, managing data analysis and database design and facilitating sharing of information among payers.

Serving as project manager for an analytic and reporting effort to describe differences in cardiac implant procedures within a group of 50+ hospitals. Responsibilities include:

- » Understanding hospitals' data and analytic expectations

- » Understanding Medicare payment issues
- » Managing analysis plan, quality assurance testing and reporting
- » Preparing findings to depict gaps between costs and Medicare payments to CMS

Served as product manager for a software product providing data analysis and benchmarking functionality to a group of hospitals. Responsibilities included:

- » Understanding hospitals' data and analytic requirements
- » Managing ongoing updates, enhancements and quality assurance testing
- » Presenting at quarterly User Group meetings
- » Assisting hospitals with special analyses and software enhancements

Managed the process to report HEDIS utilization and quality metrics to NCQA for a large, multi-state payer that provided managed care and indemnity products. Defined the business requirements and coordinated efforts of analysts and IT professionals. Participated in HEDIS audits by external third party. Submitted final measures to NCQA for Quality Compass reporting.

Third Party Reimbursement Training

Served as project director for the development and implementation of a third party reimbursement training program for the U.S. Health Resources and Services Administration. Responsibilities include:

- » Developing and modifying the training curriculum and materials
- » Coordinating the meeting and registration logistics for national meetings
- » Coordinating technical assistance
- » Implementing web-assisted teleconferencing

Life Sciences Reimbursement and Product Development

Assisted in national engagement to provide pricing and reimbursement analysis to quantify the impact of charge compression on hospital reimbursement for cardiac devices and to support an application to CMS for a new technology add on payment. Collected claims data from a national sample of hospitals, identified variation in charge structures and developed benchmarking reports. Presented findings to MedPAC.

Managed project to research retail and wholesale pricing of a pleural catheter to support application to CMS for additional reimbursement.

Assisted in a project to quantify the costs associated with implantation of a new ophthalmologic drug delivery device. Collected data from clinical trial sites. Met with physician investigators and study coordinators to identify process and resources. Collected cost information from the accounting departments. Prepared a presentation for CMS regarding costs and reimbursement rates that highlighted the procedure, effectiveness and costs involved.

Managed project to support application to CMS for a new technology add on payment for a spinal implant manufacturer. Collected and analyzed claims and outcomes data from approximately 50 hospitals. Prepared reports describing approach, findings and recommendations.

Information Systems and Technology

Assisted rehabilitation hospital to develop a standardized process and business requirements for enterprise-wide scheduling of outpatient services. Facilitated multi-disciplinary group to achieve consensus on process to be used. Documented process and information requirements to create business requirements used to develop custom software.

Participated in selection and implementation process to purchase and install a core managed care system (enrollment, claims processing, network/contract management, credentialing) for a large, multi-state payer that provided managed care and indemnity products. Represented the business requirements of the medical and provider management departments and planned system modifications to meet those requirements. Worked on transition of data from legacy systems to new system.

Led the effort to select and implement a utilization/case management system for a large, multi-state payer that provided managed care and indemnity products. Defined the business requirements of the medical management and quality improvement departments and planned and signed off on system modifications to meet those requirements. Specified requirements for touch points and interfaces with other core systems. Implemented system, trained users and implemented enhancements and upgrades.

Led the effort to select and implement a decision support/provider profiling system for a large, multi-state payer that provided managed care and indemnity products. Defined the business and reporting requirements for decision support and provider profiling functionality. Developed RFP and scoring methodology. Selected vendor and executed contract. Planned for implementation.

Served as product manager for outcomes measurement software at subsidiary of large, multi-state HMO. Guided product development and implementations internally and at hospital customer sites. Software provided data on severity-adjusted cost and quality outcome measures for hospitals and payers. Also led special studies investigating specific clinical or care cost issues to identify understand trends and practice pattern variation.

Held a variety of roles for a company providing outcomes measurement software to hospital clients. Managed service delivery and contract issues for over 100 hospitals. Provided support, service and training to over 40 hospital clients on use of severity-adjusted cost and outcome data for utilization management, quality improvement, credentialing, product line analyses and management reporting.

Process Improvement

Analyzed inpatient processes at a rehabilitation hospital. Interviewed key stakeholders and reviewed hospital data and Medicare cost report data to identify opportunities for improvement and efficiencies.

Re-engineered medical management operations for two large, multi-state payers that provided managed care and indemnity products. Analyzed and flowcharted existing processes, then designed and implemented future state, best practice processes. Designed and implemented new medical and disease management programs based on cost and utilization trends.

Directed medical management functions for a large, multi-state HMO, including outpatient precertification/ concurrent review and retrospective appeals department. Responsibilities included managing staff, interfacing with medical directors, implementing standards and criteria and coordinating with other medical management programs.

Managed multiple clinical quality improvement engagements in hospitals. Work entailed measuring costs and outcomes related to specific clinical conditions compared to identified benchmark facilities, analyzing and flowcharting existing clinical processes at customer hospitals, then designing and implementing revised processes based on benchmark information.

Medical Review

Worked in the PSRO/PRO program for over 6 years. Responsibilities included managing federal and state utilization and quality review programs in Delaware, designing and managing retrospective review studies to identify utilization and cost patterns and trends for large, self-insured corporate customers, developing and implementing a preadmission review program and reviewing medical records for coding accuracy, utilization of services and quality of care.

Managed a project to develop a retrospective claims review process to assist a large state Medicaid agency to identify potentially inappropriate DRG assignment Utilized benchmarking and analysis tools, including HCUP and MedPAR comparative data. Documented methodology and trained agency staff to reproduce the results.

Other

Managing a project to develop a home and community-based services waiver for foster children with severe emotional disturbances, developmental disabilities and chronic medical problems. Researching other relevant waivers, facilitating stakeholder groups, assisting with program design and application to CMS.

Assisted a state hospital association in evaluating the relevance of a public utility model or variant for regulation of hospital payments. Collected and analyzed cost and charge data from all hospitals in the state. Prepared summaries for key stakeholders. Produced final report.

Assisted a community hospital in understanding the implications of APR-DRGs on its reimbursement. Analyzed one year of claims data grouped by APR-DRG and assessed underlying coding problems. Prepared report of findings.

JoAnna B. Younts, MBA

JoAnna B. Younts
Associate Director

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Professional History
CHPS Consulting
Cleveland Clinic Foundation
Watson Wyatt Worldwide
Solution Point
Mid-Carolina Cardiology
SunHealth/Premier
Center for Health Policy Studies

Education:

MBA, Finance and Health Care
Administration, The George
Washington University
BA, Mathematics and Economics,
University of North Carolina at
Chapel Hill

Professional Associations:

American Public Health Association
– Program Committee

Honors:

Beta Gamma Sigma Business Honor
Society

JoAnna Younts is a member of the Health Care team at Navigant Consulting and specializes in health services research, market research, provider cost analysis and outcomes management. Her 17 years of experience span a variety of providers and payers, including hospitals, physicians, commercial health insurers and state Medicaid programs. She has assisted clients with program evaluations, cost and outcomes management studies, as well as strategic planning and market development. Prior to joining Navigant, JoAnna was an independent consultant who worked primarily with the Cleveland Clinic Foundation managing clinical outcomes studies. She was also the Director of Outcomes Management for Mid Carolina Cardiology, a large specialty clinic in Charlotte, North Carolina. Prior to her experience at MCC, she spent time as a consultant at Premier, a large hospital alliance and at the Center for Health Policy Studies in Columbia, Maryland.

Relevant Experience

Health Services Research/Program Evaluation

Evaluation of Rural/Frontier Women's Health Coordinating Centers (RFCCs)– Project manager for a two-year evaluation of the RFCC program sponsored by the Federal Office on Women's Health. Responsible for coordination of evaluation plan and methodology, data collection and reporting. Evaluation implementation of the RFCC program, individual site management and health outcomes.

Development of a State Health Resource Allocation Plan – Project manager for an extensive health planning project for the State of Vermont. Responsible for overseeing and managing staff who are collecting data and building a Health Resource Inventory for the state, including hospitals, physicians, nursing homes, clinics and other providers. Assessing community needs and developing allocation plan based on resources available across the state.

Third Party Reimbursement Training Project -- Responsible for conducting research on state Medicaid programs in all 50 states, including gathering and assembling detailed information on eligibility requirements, covered services, managed care programs and claims processing. The information is being used in training courses sponsored by the Federal Health Resources and Services Administration (HRSA) for Medicaid providers receiving HRSA grant funds.

Community Access Program Evaluation -- Project manager for an evaluation of a grant program to improve access to and quality of health care services for underinsured and underserved individuals across the U.S. Specific evaluation areas are disease management programs, community health center expansion and sustainability. Responsible for overall day-to-day coordination of the project, which includes 27 site visits.

Small Business Health Insurance Access Project -- Conducted case studies of health insurance programs for small businesses throughout the U.S. The engagement included telephone interviews and other research on various health insurance programs available to small businesses.

Market Research/Strategic Planning

Market Research and Strategic Planning – Project manager for a study of physician prescribing habits and preferences regarding a hypertension drug in the United Kingdom. Assessing the prescribing habits of General Practitioners and Specialists, as well as a Primary Care Organization formulary guidelines in order to develop a strategy for increasing physician pull-through and market share.

Market Analysis and Competitive Analysis -- Project manager for an assessment of the utilization of and reimbursement for physical therapy modalities, including national and state volumes by CPT code and individual payment rates across payers. Types and numbers of providers administering these modalities were also identified. Using a variety of data sources, including Medicare, state data and commercially available information, a potential annual revenue projection was developed as well as a market model allowing the use of various reimbursement and market penetration scenarios.

Market Positioning and Reimbursement Strategy -- Conducted market research to assist a medical device manufacturer to properly position a product in the clinical marketplace. Interviewed a variety of providers, including physicians, chiropractors, physical therapists and occupational therapists to better understand the market for physical therapy devices. Interviewed a sample of national and regional payers in order to gather information on their technology assessment processes and assess the reimbursement environment for specific medical devices.

Market Research and Competitive Analysis on Potential Data Product -- Conducted initial research on the potential market for a claims-based data product. Interviewed data purchasers from a variety of medical device and pharmaceutical companies, including biostatisticians, health economists, marketing directors and clinical outcomes directors in order to understand current uses of claims-based data and sources of these data. Assessed the competitive landscape for similar claims-based data products. The project was conducted for a claims processing/adjudication company.

Third Party Administrator Market Research -- Conducted interviews with third party administrators to learn more about the services they provide to self-funded employers, particularly medical management and disease management services. Based on the information collected, developed a summary of findings and providing recommendations for a marketing strategy for the client, a specialized disease management company.

Payer Market Research -- Responsible for meeting with a sample of large health insurers on behalf of a medical device manufacturer in order to understand the mechanisms used to reimburse hospitals for inpatient telemetry services, the process for assessing new technologies/medical devices, determine the feasibility of securing reimbursement for a new device and develop a strategy for obtaining reimbursement.

Self-Funded Employer Market Research -- Project manager for the study of large self-funded employers (10,000+ employees) on behalf of a specialized disease management company. Responsible for gathering information on current disease management programs and other relevant health benefits offered by these corporations. Based on these findings, recommendations were made to the client on strategies for penetrating this market.

Cost and Reimbursement Analysis/Provider Contracting/Rate Setting

Development of Capitation Rate for State Prison Healthcare – Project manager responsible for developing a model of the costs of providing healthcare services to all State prison inmates in a Northeastern state. The model was used to develop a capitation rate that could be used in contract negotiations between the client and the state. Also developed five-year cost projections for healthcare costs, as well as recommendations regarding carve-outs and rates for specific services. *Development of Reimbursement Methodology for Out-of-Network Hospitals* – Project manager responsible for conducting analysis of current payment policies and rates and developing new methodology recommendations for paying out-of-network hospitals for a regional health plan.

Development of Rates for Ancillary Out-of-Network Providers – Project Manager responsible for overseeing analysis and preparing recommended payment methodologies for out-of-network ancillary providers for a large Blue Cross Blue Shield plan. Provide types include Ambulatory Surgical Centers, Dialysis Centers, Ambulance, Skilled Nursing Facilities, Home Infusion Providers, Home Health Providers and Durable Medical Equipment.

Development of Economic Model for Medical Device – Developed detailed cost-effective model to show the benefits of using a specific cardiovascular device for peripheral vascular disease compared to alternatives. The model is being used by company sales force as a demonstration to potential purchasers of the product.

Outpatient Prospective Payment System Development -- Responsible for data collection and data management activities for a study of outpatient hospital costs that was used in the development of the Medicare Outpatient Prospective Payment System (Ambulatory Patient Classifications).

Study of Pediatric Inpatient Costs -- Responsible for data management and analysis for a study of targeted inpatient costs available through automated cost accounting systems in children's hospitals. The findings were used to develop pediatric Diagnosis Related Groups.

Study of Portable X-ray Costs -- Project manager responsible for data collection, analysis and presentation of findings on the costs of portable x-rays. The project required on-site interview with portable x-ray providers, mail surveys and other research activities. Developed time and motion data collection instruments and other specific survey tools. Reviewed accounting records and observed the portable x-ray process on-site. The study was conducted for a trade association.

DRG Payment System Design -- Assisted in the development of a DRG payment system for a state Medicaid program. Developed issue analysis papers and constructed simulation models to measure the impact of various prospective payment policies on hospitals.

Study of Residential Health Care Costs -- Managed this study to determine the cost effects of a new manual of standards on residential health care facilities in New Jersey. The study required mail surveys, site visits and collection of financial data to assess the impact of the standards.

Study of Personal Care Costs -- The study's objective was to determine the costs of providing care to residents in personal care homes and assess the adequacy of the personal needs allowance provided by the state. Responsible for coordinating a mail survey analysis for a large sample of facilities and performing cost analyses.

Outcomes Measurement/Data Management

Congestive Heart Failure Clinical Outcomes Study -- Responsible for data management and analysis for a three-year study of congestive heart failure patients at a large academic medical center. The objective of the study was to learn more about the relationship between perceived functional status and disease severity in order to provide more appropriate care to these patients.

Joint Replacement Clinical Outcomes Study -- Responsible for data management and analysis for a three-year study of knee and hip replacement patients at a large academic medical center. The objective of the study was to measure functional status prior to surgery and at specific intervals following surgery to assess patient perceptions and their relationship to clinical indicators.

Educational Background

JoAnna holds a Bachelor of Arts degree in mathematics and economics from the University of North Carolina at Chapel Hill. She has a Master of Business Administration, with a concentration in finance and health care administration, from The George Washington University.

Thomas R. Yates

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Managing Consultant

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Areas of Expertise

Industry:
Information Technology
Healthcare

Functional:
Information Systems
Decision Support
Benchmarking Applications
Payment Systems
Reimbursement Methodologies
Rate Development and Analysis
Financial Impact Analysis

Technical:
MS Visual Studio.NET (ASP, C#, VB)
MS Visual Studio (ASP, VB, C++,
J++)
SAS
SPSS
Visual Basic
C and C++
Java
dBase, Clipper, FoxPro
COBOL
PowerBuilder
Fortran IV and 77
Pascal, Assembler
CICS
Informix
IBM DB2
IBM Job Control Language (JCL)
MS Access
MS Project
MS Word, Excel, Powerpoint
WordPerfect
Adobe Pagemaker
Adobe Photoshop
Adobe Illustrator

Educational Background

Thomas holds a bachelor of science degree in Computer and Management Information Systems from University of Maryland at College Park. He graduated Magna Cum Laude.

Thomas is a member of the Healthcare team at Navigant Consulting and specializes in information technology for systems and data in the healthcare environment. His 19 years of experience span a variety of projects as he provides technical and management support to projects involving healthcare financing, healthcare cost analysis, cost containment, physician and institutional reimbursement, program evaluation and health services research studies.

Management responsibilities include the direction and scheduling of application development staff and project work. Technical responsibilities include the design, development and implementation of custom applications including information management and decision support systems; data intensive Internet applications (e.g. benchmarking); data processing support in the analysis of project data including statistical sampling and analysis, computer simulations, mathematical modeling, forecasting, and linear programming; technical consulting to project clients.

Prior to joining Navigant Consulting, Thomas was Senior Consultant for CHPS Consulting (Center for Health Policy Studies).

Professional Experience

Review of Medicare Payment Limits for FQHCs

Providing technical support for analysis of Federally Qualified Health Center (FQHC) costs related to providing services to Medicare beneficiaries. Responsible for development of comprehensive cost report database which includes eight years of FQHC cost reports. Providing analytic support including: evaluation of cost center level costs, visit productivity thresholds, rate cap blending for aggregate site reporting, losses resulting from visit payment limits, and modeling of new reimbursement methodologies.

(Client: Health Resource and Services Administration, HRSA)

National Medicare & You Training Workshops

Provided technical support for the "Medicare & You" Partner Training Program. Implemented and maintained Partner registration web site for all National and Regional training workshops. Registration site implemented secure transactions and automated registration confirmations. Provided database management pages for program administrators.

(Client: Centers for Medicare and Medicaid Service, CMS)

Medicare-Approved Drug Discount Card Program

The Medicare Price Comparison Website is key tool available under the Medicare-Approved Drug Discount Card Program to assist beneficiaries in selecting the Medicare-approved drug card that best meets their prescription drug needs. Card sponsors provide weekly submission of price and pharmacy data to CMS contractor. Managed development team providing support for routine identification and correction of data errors, pricing validation, automated reporting in HTML, ad hoc searches and analysis of data, developed card-level report to promote error reduction, report on stability and variability in reported prices over time. (Client: Centers for Medicare and Medicaid Service, CMS)

Medicaid Outpatient Prospective Payment System

Project includes the design and implementation of an outpatient prospective payment system (OPPS) based on NJ Medicaid payment policies and Medicare Ambulatory Payment Classifications (APCs). Responsibilities include development of APC relative weights from historical NJ Medicaid claims data and simulation modeling that identifies the impact on the Medicaid program and individual providers. We will be providing assistance in implementation of the system and will provide post-implementation support to minimize difficulties that may arise. (Client: New Jersey Division of Medical Assistance and Health Services)

Indirect Medical Education Payment Development

Providing technical service for project to analyze and develop a formula, which can be used to calculate indirect medical education payments to hospitals in the Children's Hospital Graduate Medical Education (CHGME) program. Responsibilities include: Encounter data validation; Database development for analytic modeling of inpatient pediatric encounters from CHGME program hospitals and public data sources; DRG (CMS, AP and APR) processing and relative weight development from standardized encounter costs; Development of pediatric hospital universe; And, analytic model development to support and measure impact of IME payment alternatives. (Client: The Department of Health and Human Services, Health Resources and Services Administration (HHS, HRSA))

Health Services Benchmarking System

Managed the development and maintenance of a provider payment benchmarking application for a network of Arkansas hospitals and payers. The system collects detailed medical claims data from each participating member and summarizes by key components for comparative purposes. The application is a secure Web-based site where members access patient level data for comparative analysis or targeted hospital program analysis.

The system provides clinical financial and utilization statistics by DRG, Type of Service, Specialty, Physician and many combinations thereof. Application also includes modules for outcomes analysis and physician performance reporting. Benchmarks are developed from several publicly available data sources and monthly member hospital data submissions. All statistics are severity adjusted using APR-DRG classification system to compensate for variations in case mix among hospitals/physicians. Data is also collected and processed for JCAHO reporting and available within the application. System also includes on-line help manuals as well as query tutorials for end-users.

Mr. Yates' responsibilities include development team management and the design, development and implementation of the application component. (Client: American Data Network)

Health Services Decision Support System

Developed an Internet benchmarking product targeted for providers in six states. The system provides end-users access to clinical, quality, financial and market share indicators, expected values and rankings. There are approximately 150 aggregate views providing drill-down access via pop-up menus. The application also provides tools for charting and graphing as well as printer formatted reports. Responsibilities include application and production database development and deployment. (Client: Corporate Product)

Payer Benchmarking System

Developing a provider payment benchmarking initiative for a consortium of Health Plans. The system collects encounter and medical claims data from each participating plan and summarizes by key components for comparative analysis. The analytic database is made accessible to participants via a Web site where each plan has access to various comparative analysis tools. Support is provided for "per member/per month" analysis and development of custom benchmarks. Mr. Yates' responsibilities include the design, development and implementation of the benchmark database and the benchmarking Web site. (Client: Corporate Product)

Reimbursement Rate Development

Participated in the development of a comprehensive payment reimbursement system for the Oklahoma State and Education Employees Group Insurance Board. Developed and implemented physician and ancillary fee models. Performed claims history analysis, model data base design and development, methodology simulations and impact analysis. Additional policy issues also modeled. (Client: Oklahoma State and Education Employees Group Insurance Board)

AP-DRG Rate Development and MMIS Modifications

Assisted the Virginia Department of Medical Assistance Services (DMAS) and their claims processing contractor with the development of requirements for processing and settlement reporting under an All Patient DRG reimbursement system. The project involved the development of processing specifications and claims classification logic for a series of reports needed for cost settlement purposes. The specifications and logic were incorporated into DMAS' Medicaid management information system. Also provided data processing support during the design of the reimbursement system, which involved preprocessing edits, the processing of three years of inpatient hospital claims, the development of case data, and the use of the All Patient DRG grouper software. (Client: Department of Medical Assistance Services, Richmond, VA).

Outpatient Reimbursement Development

Provided support on a project to develop an outpatient hospital prospective payment system for the North Dakota Department of Human Services. He provided consulting and modeling services for the evaluation of alternative outpatient classification systems, development of model datasets, relative weights, and base rates. Responsibilities included detailed policy/methodology and fiscal impact analyses for APG reimbursement. (Client: North Dakota Department of Human Services, Bismark, ND)

Healthcare Analytic Database Development

Participated in a project for the Maryland Healthcare Cost and Access Commission to analyze healthcare claims from almost every major payer in Maryland and the District of Columbia. The study included two years of Maryland healthcare claims data from Medicaid, Medicare, BCBS of MD, BCBS of DC and many other private payers. Responsible for data processing efforts to develop a medical care database reflecting Maryland state healthcare expenditures and a

physician fee database for practitioner payment analysis. Also responsible for all data processing efforts in the design and implementation of claims expenditure and utilization analysis. (Client: Maryland Healthcare Cost and Access Commission, Baltimore, MD)

RBRVS Rate Development

Developed a Resource Based Relative Value Scale (RBRVS) impact assessment model for three Washington State agencies. The model is composed of two PC-based sub-models, a macro model and a micro model. The macro model is designed to develop and estimate the cost impact of alternative RBRVS fee schedules and implementation strategies. The micro model is used to conduct more detailed impact analysis by various program, provider and enrollee categories. The model uses claims experience and maximum allowance data from each agency and relative value unit (RVU) data from the Medicare Fee Schedule as base line data. User defined inflation/adjustment factors, conversion factor controls and geographic indices are used as model parameters. Reports provide impact analysis of existing, model generated and Medicare fee schedules. The system is a completely menu-driven SAS application. (Client: Washington State Healthcare Authority, Seattle, WA)

Utilization and Cost Analysis – Substance Abuse Population

Provided data processing support during an evaluation of substance abuse benefits in a Medicaid Health Insuring Organization in Philadelphia. The data processing effort utilized over 20 million records from the inpatient, medical services, HIO and eligibility files from Medicaid and HealthPASS systems. Utilization and cost analysis for reimbursement strategies and capitation rate settings were performed for an identified drug abuse population. (Client: National Institute on Drug Abuse, Rockville, MD)

National Reporting System Development – National Hospital Discharge Survey

Systems Analyst on a four year project to automate the National Hospital Discharge Survey (NHDS) utilizing purchased medical record abstract data. Provided technical consulting services to hospitals and private abstracting services regarding the routine generation of discharge data tapes. Developed mainframe pre-processing system designed to validate and profile submitted data prior to introduction into study's sampling frame. Pre-processing system currently processes over 800,000 records annually including the verification and relational editing of approximately 5,000,000 procedural and diagnosis codes. Developed microcomputer based survey management system facilitating the purchase and maintenance of submitted data tapes. The system provides management of survey participant, data tape processing, invoice and purchase order data.

Developed separate software package, "Data Access System" (DAS), distributed by NCHS which includes annual survey data and routines which allow the user to define data profiles for comparison to their own facility's data. (Client: Hospital Care Statistics Branch, Division of Healthcare Statistics, National Center for Health Statistics.)

National Reporting System Development – Ambulatory Surgical Facilities

Participated in project to determine feasibility of surveying ambulatory surgical facilities for a national survey. Data processing support included the development of data entry software for medical record abstracts collected from 90 ambulatory surgical facilities. Programs designed to track the flow of abstract data from the field to ensure proper study sample. Analysis programs developed to analyze content, completeness, accuracy and quality of abstract data by type of facility and abstractor. (Client: National Center for Health Statistics)

Health Services Intervention/Outcomes Analysis

Participating in workforce demonstration project of 30 New York hospitals. Project is a 3 year study measuring impact hospital programs or policies are having on productivity, resource cost and quality of care. The project involves a massive data collection effort utilizing both Center for Health Policy Studies (CHPS) staff members and hospital staff. To facilitate data collection, CHPS is collecting the majority of data on scannable data collection forms. Workforce activity and patient judgment data is collected in the field on OMR (optical mark recognition) forms and then sent to CHPS where it is scanned, checked for errors, converted and analyzed. (Client: New York Department of Health, Albany, NY)

Hospital Departmental Cost Allocation Analysis

Provided data processing support for study to analyze the Medicare Cost Report (MCR) as an instrument measuring hospital costs under a DRG prospective payment system. The project involves a series of simulations on MCR data for 90 hospitals. Responsibilities include: development of sample from the Medicare provider population; development of a MCR database; development of cost allocation software implementing linear programming techniques designed to further refine the allocation of costs between cost centers over the standard step down methodology; execution of simulations involving the manipulation of statistical basis of allocation, cost center sequencing, allocation methods, non-allowable and non-reimbursable costs; and analysis of simulation results on total Medicare inpatient costs. (Client: Prospective Payment Assessment Commission, Washington, D.C.)

RBRVS Modeling

Provided data processing support for study designed to analyze detailed physician charge, payment and utilization data in an effort to accurately measure recent changes in physician costs for 12 Blue Cross and Blue Shield plans. The project involves the development of specialized software distributed to each survey participant for use as a data collection instrument. Participated in the development of software designed to validate, analyze and profile plan submitted data. Providing technical support to plan participants regarding data collection and analysis. (Client: Multiple BCBS Plans.)

Resource Use Analysis – Developmentally Disabled Population

Systems Analyst for two projects to study ambulatory care service utilization, resource use and preferred provider pricing alternatives for New York State Office of Mental Retardation and Developmental Disabilities clients. The projects involve the development of data collection and validation routines, utilization and resource use analysis, and PAC grouper analysis. (Client: New York State Office of Mental Retardation and Developmental Disabilities.)

MIS Development – Financial Status and Uncompensated Care Obligations

Systems Analyst for project to implement a Local Area Network (LAN) and management information system designed to monitor compliance of over 3,000 hospitals obligated to provide uncompensated care. Developed multi-user MIS integrating facility status monitoring, automated generation and tracking of facility reporting instruments, facility assessment data management, data management on more than 15,000 loans and grants, automation of complex compliance level calculations previously perform manually, integration routines providing real-time updates of status indicators system wide, and system maintenance routines. Assisted in the verification and importation of data downloaded from existing mainframe systems. Provided support in system training and technical manuals. (Client: Division of Facilities Compliance, Health Resources and Services Administration, DHHS.)

MIS Development – Financial Analysis

Systems Analyst for project to develop financial information system to monitor the financial condition of hospitals in the Federal government's mortgage loan portfolio of Hill-Burton guaranteed and HUD-242 mortgages. Developed a multi-user system maintaining facility data from the Medicare Cost Report, hospital financial statements, DFL internal operations and feasibility studies. Developed management reports automating financial analyses and profiling. The system provides "What If" capabilities through routines allowing the temporary modification of system data and access to all management reports. Created routines performing strict data entry edits and relational edits among fields to ensure highest degree of data integrity. Provided support in training and technical manuals. (Client: Division of Facilities Loans, Health Resources and Services Administration, DHHS.)

Resource Optimization

Providing data processing support in the development of private sector products and services for ambulatory surgery programs. Work entails the development of software which maintains data including available facility resources, specialty mix, procedure cost and payor reimbursement rates. Additionally, the database management system has been integrated with pre-packaged optimization and spreadsheet software for the analysis of optimal resource utilization and case/payor mix.

Case-Based Cost Analysis

Systems Analyst for a project to evaluate New York State's case-based hospital payment system. Performed analysis of Institutional Cost Report (ICR) data and NY State Department of Health data on 240 hospitals. (Client: New York Council on Healthcare Financing.)

Outpatient Resource Cost Analysis

Participated in a project to measure resource costs of outpatient hospital-based ambulatory care for 25 hospitals. Work involved development of Laptop data collection software used by interviewers during site visits. Performed analysis using several cost accounting methods, some involving development of specialized software to accomplish processing. (Client: Office of the Assistant Secretary for Planning and Evaluation, DHHS.)

Sellers Crisp

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Managing Consultant

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Professional History

- Wellpoint Healthcare
- Blue Cross Blue Shield of Georgia
- Prudential Healthcare

Education

- Master of Healthcare Administration, University of North Carolina at Chapel Hill
- BA in English, Randolph-Macon College

Honors and Fellowships

- President's Award, Wellpoint 2001

Sellers specializes in healthcare operations with a focus on the payer side. His eight years of experience span a variety of payers including a privately held national payer, a large regional Blues plan and a publicly-traded National payer. His experience on the payer side includes provider contract development and implementation, healthcare operations facilitation, and rate monitoring/forecasting. He has assisted clients with provider reimbursement policy development, payer-provider billing services development, outpatient surgery strategy development and has also assisted with an acquisition due diligence for an academic medical center. Prior to joining Navigant, Mr. Crisp was a Manager in the Actuarial Department within the Georgia Division of Wellpoint Healthcare.

Professional Experience

Payer-Provider Transaction

Assist a national payer client with market research into the payer-provider transaction arena and then developed a national customer advisory board of physicians and hospitals to assist in the development of multiple payer-provider transaction tools.

Academic Medical Center Acquisition Due Diligence

Assist an academic medical center in performing due diligence on a potential acquisition target.

Ancillary Provider Reimbursement Policy Development

Assist a regional Blues plan in its development of ancillary rates for their Ambulance Services, Dialysis Centers, Rehabilitation Hospitals, Laboratory Services and Skilled Nursing Facilities.

Ancillary Provider Reimbursement Policy Development

Assist a large Blue Cross health plan in its development and implementation of an outpatient reimbursement methodology.

Ambulatory Surgery Center

Assist large medical center in its decision process for building and joint-venturing an ambulatory surgery center.

Medicare Drug Plan Business Case Development

Assist a large Blue Cross health plan's development of a business case for a PDP/MAPD offering.

Manager, Actuarial Department

Manage five analysts within the Actuarial Department of the Georgia Division at Wellpoint Healthcare.

- » Lead the development and implementation of trend and rate monitoring. Trend and rate monitoring facilitate award winning forecast accuracy.
- » Manage claims and revenue analyses for Group and Individual premium rate development and provider network re-contracting and reimbursement initiatives. Present findings to External Consultants, Senior Management and in contract negotiations with providers.
- » Streamline the Large Group RFP processes. Out-performs all other divisions in accurately meeting corporate, external consultant and prospect deliverables.
- » Manage the development of a forecast system to forecast revenue, claims and enrollment on a monthly basis. Individual, Senior and Small Group segments receive the Gold Standard award for forecast accuracy.

Senior Actuarial Systems Analyst

Serve as Senior Actuarial Systems Analyst for Blue Cross Blue Shield of Georgia Actuarial Division.

- » Lead the development of RFP/RFI packages for external consultants and prospects.
- » Analyze provider risk-share arrangements and present findings to providers and auditors.
- » Develop and implement enrollment and claims reporting within Enterprise Data Warehouse. Reduce the month-end claims and enrollment deliverables by four days.
- » Integrate enrollment, claims and revenue statistics for Blue Cross Blue Shield of Georgia merger with Wellpoint Healthcare. Received President's Award in 2001.
- » Develop and implement a financial data mart as part of an enterprise data warehouse.
- » Perform a cost analysis of the federal and state mandated benefits and present the impact of the mandates to management for state and federal legislation lobby.

National Network Operations Analyst

Serve as National Network Operations Analyst for Prudential Healthcare.

- » Design and support standard reporting for national contracting unit.
- » Design and support standard reporting for national contracting unit.
- » Identified 1.2 million dollars in overpayment to providers.
- » Analyze and implement national risk-share contract between Prudential and SmithKline Beecham.
- » Recruited by Blue Cross Blue Shield of Georgia April, 1998.

Mark T. Kelly

Mark T. Kelly, MHS
Managing Consultant

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Areas of Expertise:

Industry:
Healthcare

Functional:

- Healthcare Policy
- Healthcare Economics
- Healthcare Finance
- Research and Analysis
- Statistical Analysis
- Market Analysis

Technical:
Microsoft Word
Excel
PowerPoint
STATA

Other
Member, Healthcare Financial
Management Association (HFMA)

Mark is a member of the Healthcare team at Navigant Consulting and specializes in health policy, health economics, and strategy. Over his 4 years with Navigant his experience spans a variety of providers, including federal and local government programs, hospitals, and pharmaceutical and medical device manufacturers. He has assisted clients with program evaluations, market and financial analyses, and strategic planning. Prior to joining Navigant, Mark was attending the Johns Hopkins School of Public Health where he completed his Masters in Health Policy. His previous work experience includes serving as a financial intern at Merrill Lynch and Deutsche Bank Alex Brown, and as a clinical intern in the Department of Pediatric Neurosurgery at Johns Hopkins Medical Institute.

Relevant Experience

Federal and State Government Experience

Currently assisting two academic medical centers in an impact analysis of proposed changes to the outpatient surgery payment methodology in Maryland. The project has involved one of the more comprehensive studies of Indirect Medical Education costs in the outpatient setting that has been performed to date.

Currently assisting the Health Services & Research Administration in a study of the upper payment limits for Federally Qualified Health Centers. The study is considering the current rates, the services that are included in current rates, and those services that are not include, but are frequently being delivered. The study will produce a proposed rate and a mechanism for more accurately inflating these rates in the future.

Completed a study of the impact of Medicare's DRG system on Puerto Rico hospitals for the Puerto Rico Hospital Association. The impact study involved an overview of the territory's hospital network, and an analysis of the operating and financial conditions of its hospitals (at the hospital-specific level, aggregate, and compared to U.S. mainland).

Assisted senior management in the evaluation of 136 grantees that received funding from the Health Resources and Services Administration under the Community Access Program. The evaluation focused on the development of

disease management protocols, the expansion of community health centers, and the ability to sustain program activities. Chief duties included research, writing interview and site visit protocols, conducting interviews, attending conferences and site visits, and drafting deliverables for clients. Tasked with management responsibilities, such as overseeing other project staff, progress reports, and client communications.

Assisted the State of Vermont with their legislature-mandated initiative to develop a statewide Health Resource Allocation Plan. Facilitated completion of a comprehensive inventory of all healthcare resources utilized by Vermont state residents.

Litigation Support

Assisted with a healthcare litigation related to an antitrust claim against a commercial insurer. Part of the work completed included the verification of the existence of major medical policies available to individuals from certain carriers during any or all of the years 1986 to 1991. An expert report was prepared on the subject.

Assisted senior management in several healthcare-related litigation suits that pertained to breeches of contracts, violations of non-compete agreements, and market monopolization. Chief duties involved significant background research, literature and document review, preparation of briefs and memos for clients and senior managers, and quality control of final reports.

Strategic Planning

Currently assisting a collaborative of healthcare providers, payers, and other service providers with a feasibility study for establishing a regional healthcare information organization (RHIO) in the Maryland and Washington, D.C. area. The study involved interviewing collaborative members, and staff of established RHIOs from around the country, identifying and evaluating potential IT products, and a review of potential IT vendors for possible inclusion in future efforts. Additionally, financial forecasts of both start-up and on-going costs were modeled.

Completed a cost analysis of providing annual healthcare services to the Massachusetts prison population for the University of Massachusetts. As part of this study, we were tasked with building a comprehensive financial model of total delivery costs by line item, and project these costs forward 5 years. The model was extremely detailed, and was built based on historical and current costs data, assumptions (based on a literature review) about healthcare costs and disease incidence in the prison system, and line item-specific inflation factors.

Assisted senior directors in the development of a strategic plan for a pediatric hospital that was struggling financially. Chief duties included the initial data collection and organization; both quantitative and qualitative model building, and preparation of the final report and presentation. The work included analyses on the current healthcare market, the competitive landscape, future healthcare demand, and health planning recommendations to best serve the community.

Assisted senior directors in the study and development of joint venture options between a New Jersey hospital and a group of cardiologists and gastroenterologists. The project involved studying the competitive landscape, modeling the market demand, and analyzing the projected financial implications of each joint venture option.

Strategic Assistance to the Pharmaceutical & Medical Device Industries

Managed a cost analysis for a major pharmaceutical company that was interested in quantifying total costs related to the use of one of its emerging medical device technologies. Historically, the company felt that the CMS reimbursement for the device was underweighted and requested a quantitative study that involved claims analysis and statistical review. This study was prepared as a formal report and was eventually presented to Congress. The company's efforts recently led to an increase in reimbursement for the device.

Designed and managed a project for a major U.S. pharmaceutical company to study and quantify the cost of administering a new cancer drug. The goal of the cost analysis was to accurately measure the costs associated with the drug's use in order to secure accurate reimbursement. The project involved surveying each of the nation's hospitals that currently uses the drug, as well as site visits to six academic medical centers that have significant experience with the drug. The project resulted in a qualitative analysis of the steps involved in administering the drug, and a report that accurately quantified the total costs.

Worked with an emerging health sciences firm in the U.S. to design and draft two proposals for demonstration projects related to a new medical device. The device is aimed at improving patient outcomes, increasing patient safety, and reducing medical malpractice claims. The proposals were submitted to CMS and AHRQ and decisions are pending.

Educational Background

Mark holds a Master's Degree in Health Policy from the Johns Hopkins School of Public Health. He completed his undergraduate studies in Economics at the Johns Hopkins University.

Exhibit 3: Other Work in Georgia

The following is a list of all healthcare-related clients in Georgia that Navigant Consulting has performed work for in the past two years:

Archbold Medical Center
Atlanta Medical Center
Rockdale Medical Center
Chestatee Regional Hospital
DeKalb Medical Center
Exante Financial Services
Glades Pharmaceuticals
Hamilton Health Care System
Medical Center of Central Georgia
Newnan Hospital
North Fulton Regional Hospital
Per Se Technologies
Piedmont Hospital
Smart Document Solutions
St. Mary's Healthcare System
St. Francis Hospital and Health Center
St. Joseph's Candler Health System
Stiefel Laboratories
Stonebridge Pharm, LLC

Note: All work completed for provider clients was completed by other staff than those proposed. The proposed staff has not and will not participate in work for providers in Georgia and will not share any of the work product completed for the Agency with any other clients.

Exhibit 4: Audited Financial Statement

SEC 10K Filing for Navigant Consulting, Inc., March 2006
Section IV

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

As of and for the year ended December 31, 2005

OR

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

Commission File No. 0-28830

Navigant Consulting, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4094854
(I.R.S. Employer
Identification No.)

615 North Wabash Avenue, Chicago, Illinois 60611
(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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

PART IV

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 Consolidated Financial Statements. The Financial Statement Schedule filed as part of this report is listed below.

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

a. **Exhibits:**

Exhibit No.	Description
2.1	Asset Purchase Agreement dated as of September 1, 2002 among the Company, Hunter & Associates Management Services, Inc. and THG Investors, Inc. (13)
2.2	Asset Purchase Agreement dated as of January 30, 2004 among the Company, Tucker Alan Inc., and the shareholders of Tucker Alan Inc. (14)
2.3	Asset Purchase Agreement dated as of February 8, 2005 among the Company, Casas, Benjamin & White, LLC and certain other parties thereto (15)
3.1	Amended and Restated Certificate of Incorporation of the Company (1)
3.2	Amendment No. 1 to Amended and Restated Certificate of Incorporation of the Company (2)
3.3	Amendment No. 2 to Amended and Restated Certificate of Incorporation of the Company (3)
3.4	Amended and Restated By-Laws of the Company (4)
3.5	Amendment No 3. to Amended and Restated Certificate of Incorporation of the Company (16)
4.1	Rights Agreement dated as of December 15, 1999 between the Company and American Stock Transfer & Trust Company, as Rights Agent, (which includes the form of Certificate of Designations setting forth the terms of the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C) (5)
4.2*	Substitution of Successor Rights Agent and Amendment No. 1 to Rights Agreement dated as of June 01, 2005 between the Company and LaSalle Bank, as Successor Rights Agent
10.1†	Long-Term Incentive Plan of the Company (6)
10.2†	2001 Supplemental Equity Incentive Plan of the Company (7)
10.3†	Employee Stock Purchase Plan of the Company (8)
10.4†	Amendment No. 1 Employee Stock Purchase Plan of the Company (9)
10.5†	Amendment No. 2 Employee Stock Purchase Plan of the Company (9)
10.6†	Amendment No. 3 Employee Stock Purchase Plan of the Company (10)
10.7†	Amendment No. 4 Employee Stock Purchase Plan of the Company (10)
10.8†	Amendment No. 5 Employee Stock Purchase Plan of the Company (6)
10.10†	Employment Agreement dated January 1, 2003 between the Company and William M. Goodyear (11)
10.11†	Employment Agreement dated May 19, 2000 and Amendment dated December 23, 2004 between the Company and Ben W. Perks (6)
10.12†	Employment Agreement dated July 24, 2003 between the Company and Philip P. Steptoe (12)

Navigant Consulting, Inc.'s Technical Proposal
 Health Care Data and Analytical Consultant (RFP# 41900-001-0000000040)

Exhibit No.	Description
10.13†	Employment Agreement dated November 3, 2003 between the Company and Julie M. Howard (17)
10.14†	2005 Long-Term Incentive Plan of the Company (18)
21.1*	Significant Subsidiaries of the Company
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification of Chairman and Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Executive Vice President and Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1*	Certification of Chairman and Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Executive Vice President and Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
(1)	Incorporated by reference from the Company's Registration Statement on Form S-1 (Registration No. 333-9019) filed with the SEC on July 26, 1996.
(2)	Incorporated by reference from the Company's Registration Statement on Form S-3 (Registration No. 333-40489) filed with the SEC on November 18, 1997.
(3)	Incorporated by reference from the Company's Form 8-A12B filed with the SEC on July 20, 1999.
(4)	Incorporated by reference from the Company's Amendment No. 1 to Registration Statement on Form S-3 (Registration No. 333-40489) filed with the SEC on February 12, 1998.
(5)	Incorporated by reference from the Company's Current Report on Form 8-K dated December 15, 1999.
(6)	Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
(7)	Incorporated by reference from the Company's Registration Statement on Form S-8 (Registration No. 333-81680) filed with the SEC on January 30, 2002.
(8)	Incorporated by reference from the Company's Registration Statement on Form S-8 (Registration No. 333-53506) filed with the SEC on January 10, 2001.
(9)	Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
(10)	Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
(11)	Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2002.
(12)	Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003.
(13)	Incorporated by reference from the Company's Current Report on Form 8-K dated September 23, 2002.
(14)	Incorporated by reference from the Company's Current Report on Form 8-K dated February 12, 2004.
(15)	Incorporated by reference from the Company's Current Report on Form 8-K dated February 9, 2005.
(16)	Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005.
(17)	Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2003.
(18)	Incorporated by reference from the Company's Registration Statement on Form S-8 (Registration No. 333-127988) filed with the SEC on August 31, 2005.
*	Indicates filed herewith.
†	Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

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.

Date: March 14, 2006

Navigant Consulting, Inc.

By: /s/ WILLIAM M. GOODYEAR
William M. Goodyear
Chairman and Chief Executive Officer

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 in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WILLIAM M. GOODYEAR</u> William M. Goodyear	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2006
<u>/s/ BEN W. PERKS</u> Ben W. Perks	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2006

<u>/s/ THOMAS A. GILDEHAUS</u>	Director	March 14, 2006
Thomas A. Gildehaus		
<u>/s/ VALERIE B. JARRETT</u>	Director	March 14, 2006
Valerie B. Jarrett		
<u>/s/ PETER B. POND</u>	Director	March 14, 2006
Peter B. Pond		
<u>/s/ SAMUEL K. SKINNER</u>	Director	March 14, 2006
Samuel K. Skinner		
<u>/s/ GOVERNOR JAMES R. THOMPSON</u>	Director	March 14, 2006
Governor James R. Thompson		

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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. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we also 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 the 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 as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, 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 effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois
March 16, 2006

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,871	\$ 36,897
Accounts receivable, net	145,616	111,157
Assets held for sale	—	5,816
Prepaid expenses and other current assets	8,189	5,633
Income taxes receivable	—	1,713
Deferred income tax assets	11,231	5,142
	<u>179,907</u>	<u>166,358</u>
Total current assets		
Property and equipment, net	42,320	27,381
Intangible assets, net	20,423	11,068
Goodwill	298,332	213,777
Other assets	1,881	223
	<u>542,863</u>	<u>418,807</u>
Total assets		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank borrowings	\$ 40,800	\$ —
Accounts payable	11,079	8,448
Accrued liabilities	8,444	5,669
Accrued compensation-related costs	43,683	62,580
Income taxes payable	4,551	—
Other current liabilities	35,085	41,188
	<u>143,642</u>	<u>117,885</u>
Total current liabilities		
Non-current liabilities		
Deferred income tax liabilities	8,793	1,618
Other non-current liabilities	5,980	10,630
	<u>14,773</u>	<u>12,248</u>
Total non-current liabilities		
Total liabilities	<u>158,415</u>	<u>130,133</u>
Stockholders' equity:		
Preferred stock, \$.001 par value per share; 3,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$.001 par value per share; 150,000 shares authorized; 50,601 and 44,922 shares issued and outstanding at December 31, 2005 and 2004	55	53
Additional paid-in capital	497,517	444,827
Deferred stock issuance, net	16,473	19,612
Deferred compensation—restricted stock, net	(17,691)	(11,020)
Treasury stock	(60,424)	(63,853)
Accumulated deficit	(51,414)	(101,270)
Accumulated other comprehensive income (loss)	(68)	325
	<u>384,448</u>	<u>288,674</u>
Total stockholders' equity		
Total liabilities and stockholders' equity	<u>\$ 542,863</u>	<u>\$ 418,807</u>

See accompanying notes to the consolidated financial statements.

Navigant Consulting, Inc.'s Technical Proposal
 Health Care Data and Analytical Consultant (RFP# 41900-001-0000000040)

Revenues before reimbursements	\$508,874	\$426,867	\$276,130
Reimbursements	66,618	55,252	41,652
Total revenues	575,492	482,119	317,782
Cost of services before reimbursable expenses	291,676	248,954	160,080
Reimbursable expenses	66,618	55,252	41,652
Total costs of services	358,294	304,206	201,732
Stock-based compensation expense	9,079	9,589	11,107
General and administrative expenses	98,877	84,673	63,292
Depreciation expense	10,213	8,312	7,488
Amortization expense	8,538	3,562	1,880
Restructuring costs	—	1,091	—
Litigation and settlement provisions	1,250	385	440
Operating income	89,241	70,301	31,843
Interest expense	3,976	2,481	482
Interest income	(290)	(330)	(246)
Other income, net	(403)	(287)	(500)
Income before income taxes	85,958	68,437	32,107
Income tax expense	36,102	28,062	13,399
Net income	\$ 49,856	\$ 40,375	\$ 18,708
Basic income per share	\$ 1.00	\$ 0.86	\$ 0.43
Shares used in computing income per basic share	50,011	47,187	43,236
Diluted income per share	\$ 0.95	\$ 0.80	\$ 0.40
Shares used in computing income per diluted share	52,390	50,247	47,029

See accompanying notes to the consolidated financial statements.

Navigant Consulting, Inc.'s Technical Proposal
 Health Care Data and Analytical Consultant (RFP# 41900-001-000000040)

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (In thousands)

	Pre-ferred Stock Shares	Common Stock Shares	Treasury Stock Shares	Common Stock Par Value	Addi-tional Paid-In Capital	Deferred Stock Issuance	Restricted Stock Units Outstanding	Deferred Compen-sation— Restricted Stock	Treasury Stock Cost	Accumu-lated Other Compre-hensive Income (loss)	Retained Earnings (Accumu-lated Deficit)	Total Stock-holders' Equity
Balance at December 31, 2002	—	47,320	(5,237)	\$ 47	\$372,012	\$ 3,209	\$ 4,439	\$ (9,152)	\$ (65,803)	\$ (104)	\$ (160,353)	\$144,295
Comprehensive income	—	—	—	—	—	—	—	—	—	399	18,708	19,107
Issuances of common stock related to business combinations	—	74	325	1	1,701	(2,004)	—	—	1,967	—	—	1,665
Deferred purchase price commitments to issue stock	—	—	—	—	—	3,097	—	—	—	—	—	3,097
Other issuances of common stock	—	1,295	279	2	5,293	—	330	385	1,817	—	—	7,827
Tax benefit on stock options exercised and restricted stock vested	—	—	—	—	10,333	—	—	—	—	—	—	10,333
Issuances of restricted stock	—	1,842	—	1	4,529	73	(3,310)	(1,293)	—	—	—	—
Grants of restricted stock awards	—	—	—	—	2,613	—	—	(2,613)	—	—	—	—
Purchases of treasury stock	—	—	(976)	—	—	—	—	—	(6,081)	—	—	(6,081)
Stock-based compensation expense—variable accounting stock options	—	—	—	—	2,218	—	—	—	—	—	—	2,218
Stock-based compensation expense—restricted stock and units	—	—	—	—	—	—	—	6,297	—	—	—	6,297
Balance at December 31, 2003	—	50,531	(5,609)	\$ 51	\$398,699	\$ 4,375	\$ 1,459	\$ (6,376)	\$ (68,100)	\$ 295	\$ (141,645)	\$188,758
Comprehensive income	—	—	—	—	—	—	—	—	—	30	40,375	40,405
Issuances of common stock related to business combinations	—	(74)	687	1	7,727	(4,170)	—	—	4,124	—	—	7,682
Deferred purchase price commitments to issue stock	—	—	—	—	—	19,324	—	—	—	—	—	19,324
Other issuances of common stock	—	1,312	16	—	6,993	—	740	—	123	—	—	7,856
Tax benefit on stock options exercised and restricted stock vested	—	—	—	—	13,124	—	—	—	—	—	—	13,124
Issuances of restricted stock	—	1,005	—	1	2,868	83	(2,158)	(815)	—	—	—	(21)
Grants of restricted stock awards	—	—	—	—	13,706	—	—	(10,672)	—	—	—	3,034
Stock-based compensation expense—variable accounting stock options	—	—	—	—	834	—	—	—	—	—	—	834
Stock-based compensation expense—restricted stock and units	—	—	—	—	876	—	—	6,802	—	—	—	7,678
Balance at December 31, 2004	—	52,774	(4,906)	\$ 53	\$444,827	\$ 19,612	\$ 41	\$ (11,061)	\$ (63,853)	\$ 325	\$ (101,270)	\$288,674
Comprehensive income	—	—	—	—	—	—	—	—	—	(393)	49,856	49,463
Issuances of common stock related to business combinations	—	—	791	—	12,969	(12,331)	—	—	3,263	—	—	3,901
Deferred purchase price commitments to issue stock	—	—	—	—	—	9,021	—	—	—	—	—	9,021
Other issuances of common stock	—	789	48	1	7,691	81	782	—	166	—	—	8,721
Tax benefit on stock options exercised and restricted stock vested	—	—	—	—	5,856	—	—	—	—	—	—	5,856
Issuances of restricted stock	—	1,105	—	1	9,993	(9,994)	—	—	—	—	—	—
Grants of restricted stock awards	—	—	—	—	18,269	10,241	(781)	(17,488)	—	—	—	10,241
Stock-based compensation expense—variable accounting stock options	—	—	—	—	(173)	—	—	—	—	—	—	(173)

Navigant Consulting, Inc.'s Technical Proposal
 Health Care Data and Analytical Consultant (RFP# 41900-001-0000000040)

Stock-based compensation expense— restricted stock and units	—	—	—	—	(1,915)	(157)	(1)	10,817	—	—	—	8,744
Balance at December 31, 2005	—	54,668	(4,067)	\$ 55	\$497,517	\$ 16,473	\$ 41	\$ (17,732)	\$ (60,424)	\$ (68)	\$ (51,414)	\$384,448

See accompanying notes to the consolidated financial statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)

	Years ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 49,856	\$ 40,375	\$ 18,708
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:			
Depreciation expense	10,213	8,312	7,488
Amortization expense	8,538	3,562	1,880
Stock-based compensation expense	9,079	9,589	11,107
Tax benefit of issuances of common stock	5,856	13,124	10,333
Amortization of consultants' non-solicitation agreements	915	1,796	1,816
Accretion of interest expense	1,153	1,262	—
Provisions for bad debts	7,987	6,352	4,894
Deferred income taxes	685	4,607	1,290
Payments related to stock appreciation rights obligations	(1,387)	(2,407)	—
Payments related to consultants' non-solicitation agreements	(1,062)	(1,064)	(1,290)
Other, net	69	563	—
Changes in assets and liabilities:			
Accounts receivable	(31,865)	(54,407)	(12,141)
Prepaid expenses and other current assets	(5,377)	(19)	(1,365)
Accounts payable and accrued liabilities	3,773	6,196	(3,606)
Accrued compensation-related costs	(8,778)	31,378	20,965
Income taxes payable	6,264	(4,207)	(5,340)
Other current liabilities	2,477	7,228	2,306
Net cash provided by operating activities	58,397	72,240	57,045
Cash flows from investing activities:			
Purchases of property and equipment	(21,345)	(14,726)	(9,254)
Acquisitions of businesses, net of cash acquired	(82,875)	(53,735)	(2,780)
Payments of acquisition liabilities	(26,723)	(13,450)	(10,316)
Proceeds from divestiture of assets held for sale	3,220	—	—
Other, net	(2,221)	330	352
Net cash used in investing activities	(129,944)	(81,581)	(21,998)
Cash flows from financing activities:			
Issuances of common stock	8,721	7,836	7,827
Stock repurchases	—	—	(6,081)
Borrowings from (repayments to) banks, net	40,800	—	(6,500)
Net cash provided by (used in) financing activities	49,521	7,836	(4,754)
Net increase (decrease) in cash and cash equivalents	(22,026)	(1,505)	30,293
Cash and cash equivalents at beginning of the year	36,897	38,402	8,109
Cash and cash equivalents at end of the year	\$ 14,871	\$ 36,897	\$ 38,402

See accompanying notes to the consolidated financial statements.

**NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. DESCRIPTION OF BUSINESS

Navigant Consulting, Inc. (the "Company") is an independent specialty consulting firm combining deep industry expertise and integrated solutions to assist companies and their legal counsel in addressing the challenges of uncertainty and risk, and leveraging opportunities for overall business model improvement. Professional services include dispute, investigative, financial, operational and business advisory, risk management and regulatory advisory, and transaction advisory solutions.

The Company is headquartered in Chicago, Illinois and has offices in various cities within the United States, as well as offices in Canada, China, the Czech Republic, and the United Kingdom. Less than 5% of the Company's revenues are generated outside the United States in either 2003, 2004, or 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates and may affect future results of operations and cash flows.

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's presentation.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, bank borrowings, and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2005 and 2004 based upon the short-term nature of the assets and liabilities.

Determination of Accounts Receivable Realization

The Company maintains allowances for doubtful accounts for estimated losses resulting from the Company's review and assessment of its clients' ability to make required payments, and the estimated realization, in cash, by the Company of amounts due from its clients. If the financial condition of the Company's clients were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances might be required.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of three to seven years for furniture, fixtures and equipment, three years for software, and forty years for buildings. Amortization of leasehold improvements is computed over the shorter of the remaining lease term or the estimated useful life of the asset.

Operating Leases

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

For tenant allowances and rent holidays, the Company records a deferred rent liability on the consolidated balance sheets and amortizes the deferred rent over the terms of the leases as reductions to rent expense on the consolidated statements of income. For scheduled rent escalation clauses during the lease term or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases in the consolidated statements of income.

Goodwill and Identifiable Intangible Assets

Intangible assets consist of identifiable intangibles and goodwill. Identifiable intangible assets other than goodwill include customer lists, employee non-compete agreements, employee training methodology and materials, backlog revenue, and trade names. Intangible assets, other than goodwill, are amortized on the straight-line method based on their estimated useful lives, ranging up to five years.

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the purchase method of accounting. The Company tests goodwill and intangible assets annually for impairment. This annual test is performed in the second quarter of each year by reviewing the book value compared to the fair value at the reporting unit level. The Company also reviews long-lived assets, including identifiable intangibles and goodwill, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Considerable management judgment is required to estimate future cash flows. Assumptions used in the Company's impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. The Company did not recognize any impairment charges for goodwill, indefinite-lived intangible assets or identifiable intangible assets subject to amortization during the years presented.

Revenue Recognition

The Company recognizes revenues as the related professional services are provided. In connection with recording revenues, estimates and assumptions are required in determining the expected conversion of the revenues to cash. The Company may provide multiple services under the term of an arrangement. These services have been considered as one unit of accounting under EITF 00-21, "Revenue Arrangements with Multiple Deliverables." There are also client engagements where the Company is paid a fixed amount for its services. The

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recording of these fixed revenue amounts requires the Company to make an estimate of the total amount of work to be performed and revenues are then recognized on a percentage of completion basis or based on objectively determinable output measures. For these engagements, the Company determines the most systematic and rational method of recognizing revenues. The Company applies a cost-to-cost approach, a methodology based upon objectively determined output measures, or a straight line method over the term of the arrangement, which is used if no other revenue recognition method is determined to be more systematic and rational. From time to time, the Company also earns incremental revenues. These incremental revenue amounts are generally contingent on a specific event and the incremental revenues are recognized when the contingencies are resolved.

Legal

The Company records legal expenses as incurred. Potential exposures related to unfavorable outcomes of legal matters are accrued for when they become probable and reasonably estimable under SFAS No. 5.

Stock-Based Compensation

Other than equity awards subject to variable accounting, the Company accounts for stock-based compensation using the intrinsic value-based method as prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, for its stock-based compensation plans. Accordingly, no stock-based compensation costs have been recognized for those option grants where the exercise price was equal to the fair market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the "fair value" recognition provisions of Statement of Financial Accounting Standard No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," to its stock-based compensation plans (shown in thousands, except per share amounts):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income, as reported	\$49,856	\$40,375	\$18,708
Add: Stock-based compensation expense included in reported net income, net of related tax effects	5,266	5,658	6,664
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5,955)	(6,441)	(7,766)
Pro forma net income	<u>\$49,167</u>	<u>\$39,592</u>	<u>\$17,606</u>
Earnings per share:			
Basic, as reported	\$ 1.00	\$ 0.86	\$ 0.43
Basic, pro forma	\$ 0.98	\$ 0.84	\$ 0.41
Diluted, as reported	\$ 0.95	\$ 0.80	\$ 0.40
Diluted, pro forma	\$ 0.94	\$ 0.79	\$ 0.37

For purposes of calculating compensation cost under SFAS No. 123, the fair value of each option grant is estimated as of the date of grant using the Black-Scholes-Merton option-pricing model. The weighted average fair value of options granted and the assumptions used in the Black-Scholes-Merton option pricing model were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fair value of options granted	\$9.70	\$8.22	\$4.23
Expected volatility	64%	59%	65%
Risk free interest rate	4.3%	3.6%	3.8%
Dividend yield	0%	0%	0%
Contractual or expected lives (years)	4.2	4.8	7.2

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Share-Based Payments - SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which replaces SFAS No. 123 and supersedes APB No. 25. The Statement requires that the cost resulting from all share-based compensation arrangements, such as the Company's stock option and restricted stock plans, be recognized in the financial statements based on their fair value. The provisions of SFAS No. 123(R) are required to be applied for the 2006 fiscal year, effective January 1, 2006.

SFAS No. 123(R) requires companies to adopt its provisions prospectively by recognizing compensation expense for the unvested portion of previously granted awards and all new awards granted after the adoption date over the respective vesting periods. The Company had 0.3 million stock options that were unvested as of December 31, 2005. The Company expects to record \$0.8 million in share-based compensation expense related to these unvested options for the year 2006, and \$0.7 million over the remaining vesting period from 2007 to 2009. The Company will continue to utilize the Black-Scholes-Merton option-pricing model to estimate the fair value of the unvested stock options.

As part of the implementation of SFAS No. 123(R), the Company will treat its employee stock purchase plan as compensatory and record the purchase discount from market price of stock purchases by employees as share-based compensation expense. Based on the participants enrolled in the plan as of December 31, 2005 and the purchase elections in the fourth quarter 2005, the Company expects to record an additional \$0.8 million to stock-based compensation expense for the year 2006 related to the discount on employee stock purchases.

The adoption of SFAS No. 123(R) will not affect the Company's net cash flows, but it will reduce net earnings and net earnings per share, both basic and diluted. The Company currently discloses the pro forma net earnings effects of its stock-based awards (see above, "Stock-Based Compensation").

Income Taxes

Income taxes are accounted for in accordance with the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Foreign Currency Translation

The balance sheets of the Company's foreign subsidiaries are translated into U.S. dollars using the period-end exchange rates, and revenues and expenses are translated using the average exchange rates for each period. The resulting translation gains or losses are recorded in stockholders' equity as a component of accumulated other comprehensive income (loss).

Comprehensive Income

Comprehensive income consists of net income and foreign currency translation adjustments. It is presented in the consolidated statements of stockholders' equity.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS

2005 Acquisitions:

On February 8, 2005, the Company acquired the majority of the assets of Casas, Benjamin & White, LLC ("CBW") for \$47.5 million, which consisted of \$38.0 million cash paid at closing and \$9.5 million of the Company's common stock to be issued in February 2006, 2007 and 2008. The Company recorded \$35.7 million in goodwill and \$10.1 million in intangible assets as part of the purchase price allocation. The CBW acquisition included 23 consulting professionals specializing in corporate restructuring and transaction advisory services. The Company acquired CBW to strengthen its financial advisory services practice.

On April 15, 2005, the Company acquired Tiber Group, LLC ("Tiber") for \$8.4 million, which consisted of \$4.3 million in cash and \$1.8 million of the Company's common stock paid at closing, and \$1.7 million in cash and \$0.7 million of the Company's common stock, both payable in two equal installments on the first and second anniversaries of the closing date. The Company recorded \$8.4 million in goodwill as part of the purchase price allocation. Tiber included 24 consultants that provide strategic advisory services to clients in the healthcare industry.

On July 15, 2005, the Company acquired the assets of A.W. Hutchison & Associates, LLC ("Hutchison") for \$26.5 million, which consisted of \$17.5 million in cash and \$1.7 million of the Company's common stock paid at closing, and \$3.0 million in cash and \$4.3 million payable in the Company's common stock, both payable in two equal installments in August 2006 and August 2007. As part of the Hutchison acquisition purchase price, the Company acquired \$3.9 million in clients' accounts receivable. The Company recorded \$18.4 million in goodwill and \$3.4 million in intangible assets as a part of the purchase price allocation. The Company acquired Hutchison, which included 57 consultants, to add depth to its construction management analysis and dispute resolution services and to broaden its geographic presence in the southeastern portion of the United States.

On August 9, 2005, the Company acquired the stock of LAC, Ltd. ("LAC") for \$24.1 million, which consisted of \$16.7 million in cash and \$0.7 million of the Company's common stock paid at closing and 0.1 million shares (valued at closing at \$1.9 million) payable in three equal installments in August 2006, 2007 and 2008. The Company also paid \$4.8 million for clients' accounts receivable, payable in three equal monthly installments within three months of closing. The Company recorded \$16.7 million in goodwill and \$4.0 million in intangible assets as a part of the purchase price allocation. LAC was formed in conjunction with a management buyout of the Canadian forensic accounting, litigation consulting and business valuation practices of Kroll, Inc., the risk consulting subsidiary of Marsh & McLennan Companies, Inc. The LAC acquisition, which included 54 consultants, strengthened the Company's presence in Canada and provides services in the Dispute, Investigative & Regulatory Advisory Services business segment. The purchase accounting has not been finalized as the Company has not completed the valuation of the acquired identifiable intangible assets.

2004 Acquisitions:

On January 30, 2004, the Company acquired substantially all of the assets of Tucker Alan, Inc. ("Tucker") for \$89.5 million, which consisted of payments at closing of \$45.6 million cash and 0.3 million shares of the Company's common stock (valued at \$6.0 million at closing) and \$37.9 million payable in two installments of cash and the Company's common stock within the first two years following the closing date of the transaction. In connection with the Tucker acquisition, the Company acquired tangible assets of \$1.3 million. The Tucker acquisition included 230 consulting professionals active primarily in the litigation, construction and healthcare practices. The Company acquired Tucker to strengthen its national platform in these practices. Tucker has a significant presence in the western region of the United States that complements the Company's other geographic regions. Tucker's service offerings and industry expertise are also complementary to those of the Company.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 4, 2004, the Company acquired substantially all of the assets of Capital Advisory Services, LLC ("CapAdvisory") for \$10.5 million, which consisted of payments at closing of \$6.5 million cash and 0.1 million shares of the Company's common stock (valued at \$1.5 million at closing) and \$2.5 million payable in two installments of cash and the Company's common stock in the first two years following the closing date of the transaction. The CapAdvisory acquisition included 49 consulting professionals who complement the Company's financial services practice and primarily provide financial and accounting consulting services. The Company acquired CapAdvisory to expand the Company's service offerings within the financial services industry.

On August 31, 2004, the Company acquired substantially all of the assets of Invalesco Group, Inc. ("Invalesco") for \$2.5 million, which consisted of payments at closing of \$1.2 million cash and 0.04 million shares of the Company's common stock (valued at \$0.8 million at closing) and \$0.5 million payable in cash on the first anniversary of the closing date of the transaction. The Invalesco acquisition included 14 consulting professionals who complement the Company's healthcare practice and primarily provides services to hospitals and healthcare providers. The Company acquired Invalesco to expand the Company's service offerings within the healthcare industry.

2003 Acquisition:

On December 15, 2003, the Company acquired substantially all of the assets of Front Line Strategic Consulting, Inc. ("Front Line") for \$4.8 million, which included \$2.5 million cash at closing and 0.1 million shares of the Company's common stock (valued at \$1.3 million at closing) and \$1.0 million in cash payable in two equal installments on the first and second anniversary of the closing date. The Front Line acquisition consisted of 27 consulting professionals. Front Line was acquired primarily to augment the Company's healthcare practice.

Accounting for Acquisitions

All of the Company's acquisitions described above have been accounted for by the purchase method of accounting for business combinations and, accordingly, the results of operations have been included in the consolidated financial statements since the dates of acquisitions.

Pro Forma Information

As noted above, the Company acquired CBW on February 8, 2005 and, accordingly, the income statement for the year ended December 31, 2005 includes approximately 11 months of operating results for CBW. The Company acquired Tucker on January 30, 2004 and, accordingly, the income statement for the year ended December 31, 2004 includes 11 months of the operating results for Tucker. The Company acquired several additional businesses during the years 2003 to 2005, as discussed above. These acquired businesses were not included in the pro forma disclosures, as they were not deemed significant either individually or in the aggregate.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following unaudited pro forma financial information (shown in thousands, except net income per share) as if the acquisitions of Tucker and CBW had been effective as of January 1, 2004. The unaudited pro forma financial information includes adjustments to CBW's operating results, as if CBW had been included in the Company's operating results. The adjustments consist of amortization expense for the acquired intangible assets with finite lives, salary compensation adjustments, incentive compensation-related adjustments and income tax expense adjustments. Similar pro forma adjustments were also made for Tucker.

	2005	2004
Total revenues	\$576,371	\$509,462
Total cost of services	358,797	316,912
Stock-based compensation expense	9,145	10,218
General and administrative expenses	99,120	86,945
Depreciation expense	10,220	8,438
Amortization expense	6,362	5,235
Restructuring costs	—	1,091
Litigation and settlements	1,250	385
Other expense, net	3,283	1,750
Income tax expense	37,041	32,220
	\$ 51,153	\$ 46,268
Net income		
	\$ 1.02	\$ 0.97
Basic income per share		
Diluted income per share	\$ 0.97	\$ 0.90

4. SEGMENT INFORMATION

During 2005, the Company realigned the business to coincide with the types of services provided and the requisite sales channels. As a part of this realignment, the Company organized its business segments to include two reportable

business segments: Dispute, Investigative & Regulatory Advisory Services and Business, Financial & Operational Advisory Services. The Company evaluates the aforementioned segments' performance and allocates resources based upon the operating results of the business segments.

The Dispute, Investigative & Regulatory Advisory Services business segment provides consulting services to a wide range of clients facing the challenges of dispute, litigation, forensic investigations, discovery and regulatory compliance. The clients of the Dispute, Investigative & Regulatory Advisory Services business segment often include corporate counsels, law firms and corporate boards and special committees. The Business, Financial & Operational Advisory Services business segment provides strategic, operational, and technical management consulting services to the management of businesses in highly regulated industries, including the healthcare, energy, financial and insurance industries. In accordance with the disclosure requirements of SFAS No. 131, "Disclosure about Segments of an Enterprise," the Company identified these business segments as reportable segments. The types of services provided to clients not included in the two reportable business segments include financial and valuation advisory and claims advisory services. Transactions between segments have been eliminated and the Company has restated the 2004 and 2003 segment revenues and profits to reflect the Company's current business segments. Previous to 2005, the Company's segments were Financial & Claims and Energy Consulting.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information on the segment operations for the years ended December 31, 2005, 2004 and 2003 have been summarized as follows (shown in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Revenues:			
Dispute, Investigative & Regulatory Advisory Services	\$251,598	\$210,012	\$115,350
Business, Financial & Operational Advisory Services	257,764	225,438	155,572
	<u>509,362</u>	<u>435,450</u>	<u>270,922</u>
Combined reportable segment revenues	509,362	435,450	270,922
All other	66,130	46,669	46,860
	<u>575,492</u>	<u>482,119</u>	<u>317,782</u>
Total revenues	<u>\$575,492</u>	<u>\$482,119</u>	<u>\$317,782</u>
Operating Profit:			
Dispute, Investigative & Regulatory Advisory Services	\$108,385	\$ 87,208	\$ 50,004
Business, Financial & Operational Advisory Services	86,807	76,875	51,034
	<u>195,192</u>	<u>164,083</u>	<u>101,038</u>
Combined reportable segment profits	195,192	164,083	101,038
All other	22,006	13,830	15,012
	<u>\$217,198</u>	<u>\$177,913</u>	<u>\$116,050</u>
Total combined segment operating profit	<u>\$217,198</u>	<u>\$177,913</u>	<u>\$116,050</u>
Operating Profit and Statement of Income reconciliation:			
Unallocated:			
General and administrative expenses	\$ 98,877	\$ 84,673	\$ 63,292
Depreciation expense	10,213	8,312	7,488
Amortization expense	8,538	3,562	1,880
Stock-based compensation expense	9,079	9,589	11,107
Restructuring costs	—	1,091	—
Litigation and settlement provisions	1,250	385	440
Other expense (income)	3,283	1,864	(264)
	<u>131,240</u>	<u>109,476</u>	<u>83,943</u>
Total unallocated expenses, net	<u>131,240</u>	<u>109,476</u>	<u>83,943</u>
Income before income tax expense	<u>\$ 85,958</u>	<u>\$ 68,437</u>	<u>\$ 32,107</u>

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Certain unallocated expense amounts, related to specific reporting segments, have been excluded from the segment operating profit to be consistent with the information used by management to evaluate segment performance. The Company records accounts receivable, net (see Note 10) and goodwill and intangible assets, net (see Note 5) on a segment basis. Other balance sheet amounts are not maintained on a segment basis.

In September 2003, the Company sold, for a nominal sales price, its water consulting practice, Bookman-Edmonston, Inc., which had been included in the Business, Financial & Operational Advisory Services segment. Bookman-Edmonston accounted for less than 3 percent of the Company's total revenues for the year ended December 31, 2003, and operated at a loss.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. GOODWILL AND INTANGIBLE ASSETS, NET

As of December 31, goodwill and other intangible assets consisted of (shown in thousands):

	<u>2005</u>	<u>2004</u>
Goodwill	\$303,757	\$219,202
Less—accumulated amortization	(5,425)	(5,425)
	<u>298,332</u>	<u>213,777</u>
Goodwill, net		
Intangible assets:		
Customer lists	21,945	12,191
Non-compete agreements	10,463	6,100
Trade name	1,020	1,000
Other	8,496	4,740
	<u>41,924</u>	<u>24,031</u>
Intangible assets, at cost		
Less: accumulated amortization	(21,501)	(12,963)
	<u>20,423</u>	<u>11,068</u>
Intangible assets, net		
Goodwill and intangible assets, net	<u>\$318,755</u>	<u>\$224,845</u>

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", the Company is required to perform an annual goodwill impairment test. The Company completed the annual impairment test based on May 31, 2005 balances and there was no impairment recognized as of that date. The Company reviewed the intangible assets' net book values and estimated useful lives by class. As of December 31, 2005, there was no indication of impairment related to the intangible assets. The Company amortizes intangible assets over their remaining useful lives, which range from nine months to five years.

The changes in carrying balances of goodwill and intangible assets during the year ended December 31, 2005 are as follows (shown in thousands):

	<u>Total</u>
Balance as of December 31, 2004—Goodwill, net	\$213,777
Balance as of December 31, 2004—Intangible assets	11,068
	<u>224,845</u>
Balance as of December 31, 2004—Total	224,845
Goodwill acquired	84,555
Intangible assets acquired	17,893
Less—amortization expense	(8,538)
	<u>\$318,755</u>
Balance as of December 31, 2005—Total	\$318,755
Goodwill and intangible assets:	
Goodwill, net	\$298,332
Intangible assets, net	20,423
	<u>\$318,755</u>
Balance as of December 31, 2005—Total	\$318,755

As of December 31, 2005, goodwill and intangible assets, net of amortization, was \$171.6 for Dispute, Investigative & Regulatory Services, \$101.9 million for Business, Financial & Operational Advisory Services, and \$45.3 million for all other services.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the businesses acquired during the year ended December 31, 2005, the Company has allocated the purchase prices, including amounts assigned to goodwill and intangible assets and made estimates of their related useful lives. The CBW acquisition, which occurred on February 8, 2005, included \$35.7 million in goodwill and \$10.1 million in intangible assets as a part of the purchase price allocation. The Tiber acquisition, which occurred on April 15, 2005, included \$8.4 million in goodwill. The Hutchison acquisition, which occurred on July 15, 2005, included \$18.4 million in goodwill and \$3.4 million in intangible assets as a part of the purchase price allocation. The LAC acquisition, which occurred on August 9, 2005, included \$16.7 million in goodwill and \$4.0 million in intangible assets as a part of the purchase price allocation. The amounts assigned to intangible assets for the businesses acquired include non-compete agreements, client lists and backlog revenue. The Company has completed the valuation and allocation of purchase price related to the CBW and Hutchinson acquisitions and has made a preliminary valuation and allocation of purchase price related to the Tiber and LAC acquisition. The Company has not finalized the valuation of the acquired identifiable intangible assets for these acquisitions.

The Company has one year from the acquisition date to complete the valuation and allocation of purchase price for acquisitions.

During the year ended December 31, 2005, the Company recorded \$2.5 million of additional goodwill related to certain previously acquired businesses that achieved earnout provisions specified in their purchase agreements.

Total amortization expense for 2005 was \$8.5 million, compared with \$3.6 million and \$1.9 million for 2004 and 2003, respectively. The weighted average remaining life for intangible assets was three years at December 31, 2005. Below is the estimated annual aggregate amortization expense to be recorded in future years related to intangible assets at December 31, 2005 (shown in thousands):

<u>Year ending December 31,</u>	<u>Amount</u>
2006	\$ 7,147
2007	5,522
2008	4,598
2009	2,721
2010	435
Total	<u>\$20,423</u>

6. EARNINGS PER SHARE (EPS)

Basic earnings per share (EPS) is computed by dividing income by the basic shares. Basic shares are the total of the common shares outstanding and the equivalent shares from obligations presumed payable in common stock, both weighted for the average number of days outstanding for the period. Diluted shares include the dilutive effect of common shares that could potentially be issued due to the exercise of stock options, restricted shares, or contingently issuable shares. Diluted EPS is computed by dividing income by the diluted shares, which are the total of the basic shares outstanding and all potentially issuable shares, weighted for the average days outstanding for the period.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2005, 2004 and 2003, the components of basic and diluted shares (weighted for the average days outstanding for the periods) are as follows (shown in thousands):

	2005	2004	2003
Common shares outstanding	49,422	46,447	43,026
Business combination obligations payable in a fixed number of shares	589	740	210
Basic shares	50,011	47,187	43,236
Employee stock options	1,018	1,783	2,458
Restricted shares and stock units	783	1,146	1,243
Business combination obligations payable in a fixed dollar amount of shares	363	—	—
Contingently issuable shares	215	131	92
Diluted shares	52,390	50,247	47,029

For the years ended December 31, 2005, 2004 and 2003, the Company had stock options of 0.2 million, 0.2 million, and 0.7 million, respectively, which were excluded from the computation of diluted shares. The shares were excluded from the diluted share computation because these shares had exercise prices greater than the average market price and the impact of including these options in the diluted share calculation would have been antidilutive.

In connection with certain business acquisitions, the Company is obligated to issue a certain number of shares of its common stock based on the trading price share value at the time of issuance. The weighted average of these shares is included in the basic earnings per share calculation.

In accordance with SFAS No. 128, "Earnings per Share", the Company uses the treasury stock method to calculate the dilutive effect of its common stock equivalents should they vest. The exercise of stock options or vesting of restricted shares and restricted stock unit shares results in tax benefits that reduce the dilutive effect of such shares being issued. The tax benefits are obtained from the spread of the Company's market price of its common stock over the measurement prices of the stock options, restricted shares and restricted stock units on the date the shares vest.

7. STOCKHOLDERS' EQUITY

The following summarizes the activity of stockholders' equity during the year ended December 31, 2005 (shown in thousands):

	Dollars	Shares
Stockholders' equity at January 1, 2005	\$288,674	47,868
Comprehensive income	49,463	—
Stock issued in acquisition-related transactions	12,922	791
Stock compensation and stock purchase plans:		
Stock option exercises and stock purchases	8,721	838
Tax benefit on stock options exercised and restricted stock vested	5,856	—
Restricted stock issued to employees in lieu of annual incentive cash bonus	10,241	—
Amortization of restricted stock/units compensation	8,744	—
Variable accounting stock-based compensation expense	(173)	—
Vesting of restricted stock to common stock	—	1,104
Stockholders' equity at December 31, 2005	\$384,448	50,601

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the Tucker purchase agreement, which occurred on January 30, 2004, the Company issued, in the first quarter of 2005, the second of three installments of 0.4 million shares of its common stock.

On July 1, 2005, the Company issued 0.3 million shares of its common stock related to restricted stock awards granted under the Management Stock Purchase Plan ("MSPP").

The restricted stock issued to employees in lieu of annual incentive cash bonus was granted on March 1, 2005 and was related to services provided during 2004. The restricted stock vested September 1, 2005, six months from the grant date and the Company issued 0.4 million shares of its common stock.

At the 2005 Annual Meeting of Stockholders of the Company held on May 4, 2005, the Company's stockholders approved a proposal to amend the Company's Amended and Restated Certificate of Incorporation to increase the Company's total authorized shares of common stock from 75.0 million to 150.0 million.

Employee Stock Purchase Plan

During 1996, the Company implemented a plan that permits employees to purchase shares of the Company's common stock each quarter at 85 percent of the market value. The market value of shares purchased for this purpose is determined to be the closing market price on the last day of each calendar quarter. As of December 31, 2005, the Company was authorized to sell 1.4 million shares. During 2005, 2004 and 2003, the Company sold 291,000, 107,000 and 138,000 shares, respectively, under the plan. The Company had sold 650,000 shares under the plan prior to 2003.

Stock Appreciation Rights

During 2000, the Company granted 200,000 shares of stock appreciation rights. During 2004, two-thirds of the 200,000 shares were exercised and \$2.4 million in cash was paid for the accumulated appreciation in stock value since grant date. During 2005, the remaining one-third of the 200,000 shares was exercised and \$1.4 million was paid for the accumulated appreciation in stock value since grant date. As of December 31, 2005, there were no stock appreciation rights outstanding.

Stockholder Rights Plan

On December 15, 1999 ("Distribution Date"), the Company's Board of Directors adopted a Stockholders Rights Plan (the "Rights Plan") and declared a dividend distribution of one Right (a "Right") for each outstanding share of common stock, to stockholders of record at the close of business on December 27, 1999. Each Right will entitle its holder, under certain circumstances described in the Rights Agreement, to purchase from the Company one one-thousandth of a share of its Series A Junior Participating Preferred Stock, \$.001 par value, (the "Series A Preferred Stock"), at an exercise price of \$75 per Right, subject to adjustment. The Rights are not exercisable until the Distribution Date and will expire at the close of business on December 15, 2009, unless earlier redeemed or exchanged by the Company. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") between the Company and LaSalle Bank, as successor Rights Agent.

Treasury Stock Authority

In October 2000, the Board of Directors granted the Company's stock repurchase authorization up to 5.0 million shares of the Company's common stock. During 2004 and 2005, the Company did not repurchase

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shares of common stock. From December 1, 2000 to December 31, 2003, the Company repurchased 2.8 million shares for \$12.7 million. As of December 31, 2005, the Company had authorization to purchase 2.2 million shares.

8. STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense is recorded for restricted stock awards on a straight-line basis over the vesting term for the valuation amount at grant date. In addition, stock-based compensation expense is recorded for certain stock options and stock appreciation rights ("variable accounting awards") that have been awarded to the Company's employees and are subject to variable accounting treatment. As of December 31, 2005, less than 0.1 million shares were subject to variable accounting treatment. Compensation expense (or credit) for these variable accounting awards is recorded, on a cumulative basis, for the increase (or decrease) in the Company's stock price above the grant prices.

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

	2005	2004	2003
Amortization of restricted stock awards	\$9,384	\$7,678	\$ 6,297
Fair value adjustment for variable accounting awards	(305)	1,911	4,810
	\$9,079	\$9,589	\$11,107

Amounts attributable to employee consultants were \$7.9 million, \$6.7 million and \$7.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

9. LONG-TERM INCENTIVE PLAN AND SUPPLEMENTAL EQUITY INCENTIVE PLAN

Summary

On June 30, 1996, the Company adopted a Long-Term Incentive Plan ("LTIP") that provides for common stock, common stock-based and other performance incentives to employees, consultants, directors, advisors and independent contractors of the Company. On May 4, 2005, the Company's shareholders approved, at the 2005 Annual Meeting of Shareholders, the 2005 Long-Term Incentive Plan ("2005 LTIP"). The 2005 LTIP provided for an additional 5.25 million shares of the Company's common stock available to be issued under the plan. In November 2001, the Company adopted a Supplemental Equity Incentive Plan ("SEIP") to retain and recruit certain middle and senior-level employees and to optimize shareholder value. The SEIP only allows nonqualified stock options. The SEIP did not require shareholder approval; therefore, it was not voted on or approved by the Company's stockholders.

The purposes of the plans are to (1) align the interests of the Company's shareholders and recipients of awards under the plan, (2) attract and retain officers, other employees, non-employee directors, consultants, independent contractors and agents, and (3) motivate such persons to act in the long-term best interests of the Company's shareholders. The incentives offered by the Company under the plans are an important component of the compensation for the recipients.

Restricted Stock Outstanding

As of December 31, 2005, the Company had 1.6 million restricted stock and equivalent units outstanding at a weighted average measurement price of \$16.45 per share. The measurement price is the market price of the

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company's common stock at the date of grant of the restricted stock and equivalent units. The restricted stock and equivalent units were granted out of the LTIP.

The following table summarizes restricted stock activity for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	Number of shares (000s)	Weighted average measurement date price	Number of shares (000s)	Weighted average measurement date price	Number of shares (000s)	Weighted average measurement date price
Restricted stock and equivalents outstanding at beginning of year	1,691	\$ 10.38	1,973	\$ 5.72	3,818	\$ 5.03
Granted	1,177	24.18	732	20.28	100	15.39
Exercised (vested)	(1,104)	15.61	(989)	8.13	(1,857)	4.85
Forfeited	(202)	15.83	(25)	16.46	(88)	5.14
Restricted stock and equivalents outstanding at end of year	1,562	\$ 16.45	1,691	\$ 10.38	1,973	\$ 5.72

The following table summarizes information regarding restricted stock outstanding at December 31, 2005:

Range of measurement date prices	Outstanding shares (000s)	Weighted average measurement date price
\$0.00 - \$4.99	210	\$ 4.97
\$5.00 - \$9.99	324	5.49
\$10.00 - \$19.99	351	18.55
\$20.00 and above	677	24.17
Total	1,562	\$ 16.45

Stock Options Outstanding

As of December 31, 2005, the Company had 2.4 million stock options outstanding at a weighted average exercise price of \$8.21 per share. As of December 31, 2005, 2.1 million stock options were exercisable at a weighted average exercise price of \$7.31 per share.

The following table summarizes stock option activity for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	Number of shares (000s)	Weighted average exercise price	Number of shares (000s)	Weighted average exercise price	Number of shares (000s)	Weighted average exercise price
Options outstanding at beginning of year	3,065	\$ 7.31	4,305	\$ 5.95	5,860	\$ 5.42
Granted	65	25.60	157	21.14	232	9.45
Exercised	(613)	4.75	(1,347)	4.52	(1,435)	4.44
Forfeited or exchanged	(122)	8.69	(50)	8.55	(352)	5.60
Options outstanding at end of year	2,395	\$ 8.21	3,065	\$ 7.31	4,305	\$ 5.95
Options exercisable at year end	2,110	\$ 7.31	2,322	\$ 6.54	2,919	\$ 6.11

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information regarding stock options outstanding at December 31, 2005 and 2004:

Range of exercise prices	2005			2004		
	Outstanding shares (000s)	Weighted average exercise price	Remaining exercise period (years)	Outstanding shares (000s)	Weighted average exercise price	Remaining exercise period (years)
\$0.00 to \$3.74	279	\$ 3.69	5.6	337	\$ 3.70	6.7
\$3.75 to \$4.99	1,018	3.95	4.6	1,396	3.96	5.6
\$5.00 to \$7.49	498	6.12	6.5	723	6.03	6.8
\$7.50 to \$9.99	152	8.67	5.0	186	8.78	6.2
\$10.00 and above	448	22.87	4.6	423	22.83	5.8
Total	2,395	\$ 8.21	5.2	3,065	\$ 7.31	6.1

The following table summarizes information regarding stock options exercisable at December 31, 2005:

Range of exercise prices	Outstanding shares (000s)	Weighted average exercise price
\$0.00 to \$3.74	279	\$ 3.69
\$3.75 to \$4.99	1,018	3.95
\$5.00 to \$7.49	385	6.11
\$7.50 to \$9.99	130	8.68
\$10.00 and above	298	23.16
Total	2,110	\$ 7.31

The following table summarizes the information regarding stock options outstanding by each plan the Company had as of December 31, 2005:

Plan category	Outstanding shares (000s)	Weighted average exercise price	Shares remaining available for future issuances (000s)
LTIP	2,144	\$ 7.75	4,994
SEIP	251	\$ 12.20	167
Total	2,395	\$ 8.21	5,161

10. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

Accounts Receivable:

The components of accounts receivable as of December 31 were as follows (shown in thousands):

	2005	2004
Billed amounts	\$107,882	\$ 78,764
Engagements in process	57,661	45,406
Allowance for uncollectible accounts	(19,927)	(13,013)
	\$145,616	\$111,157

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Receivables attributable to engagements in process represent balances accrued by the Company for services that have been performed and earned but have not been billed to the client. Billings are generally done on a monthly basis for the prior month's services.

Accounts receivable, net of the allowance for uncollectible accounts, was \$69.7 million for the Dispute, Investigative & Regulatory Advisory Services, \$60.5 million for the Business, Financial & Operational Advisory Services, and \$15.4 million for all other services at December 31, 2005, compared with \$60.7 million, \$46.5 million and \$4.0 million, respectively, as of December 31, 2004.

Assets Held for Sale:

On January 3, 2005, the Company sold, at a discount from book values, certain receivables and fixed assets to a group of senior consultants, who departed from the Company. As part of the agreement, the Company transferred certain client engagements to the former senior consultants.

As of December 31, 2004, the Company recorded assets held for sale of \$5.8 million, which consisted of \$5.0 million of billed and unbilled receivables and \$0.8 million of fixed assets. At December 31, 2004, the Company recorded write-downs of receivables and fixed assets of \$0.5 million and \$0.1 million, respectively, to state the assets held for sale at net realizable value.

Property and Equipment:

Property and equipment as of December 31 consisted of (shown in thousands):

	<u>2005</u>	<u>2004</u>
Land and buildings	\$ 3,555	\$ 3,563
Furniture, fixtures and equipment	44,095	35,748
Software	14,912	12,514
Leasehold improvements	22,457	12,248
	<u>85,019</u>	<u>64,073</u>
Less: accumulated depreciation and amortization	(42,699)	(36,692)
Property and equipment, net	<u>\$ 42,320</u>	<u>\$ 27,381</u>

Other Current Liabilities:

The components of other current liabilities as of December 31 were as follows (shown in thousands):

	<u>2005</u>	<u>2004</u>
Deferred business acquisition obligations	\$15,655	\$14,689
Acquisition earnout obligations	—	11,176
Deferred revenue credits	11,722	10,780
Deferred rent	5,977	2,386
Other liabilities	1,731	2,157
	<u>\$35,085</u>	<u>\$41,188</u>

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The deferred business acquisition obligations of \$15.7 million at December 31, 2005 consisted of cash obligations and fixed monetary obligations payable in shares of the Company's common stock. The Company recorded \$2.4 million in fixed monetary obligations payable in shares as of December 31, 2005. The number of shares to be issued is determined by the average closing price for a period of time prior to the due dates. The deferred business acquisition obligations of \$15.7 million at December 31, 2005 consisted of \$10.0 million for the Tucker acquisition, which was paid in January 2006. The liability amounts for deferred business acquisition obligations have been discounted to net present value. The deferred business acquisition obligations of \$14.7 million at December 31, 2004 primarily related to \$13.0 million for the Tucker acquisition, which was paid in January 2005. During the year ended December 31, 2005, the Company reclassified the then current present value of \$9.5 million related to the Tucker acquisition obligation from non-current to current.

Acquisition earnout obligations relate to payments due under certain purchase agreements. These amounts become payable upon the achievement of specified financial objectives by acquired businesses. As of December 31, 2004, the Company had an \$11.2 million liability for acquisition earnout obligations, which was paid April 1, 2005.

Deferred revenue credits represent advance billings, by the Company to its clients, for services that have not been performed and earned.

Other Non-Current Liabilities:

The components of other non-current liabilities as of December 31 were as follows (shown in thousands):

	2005	2004
Deferred business acquisition obligations	\$5,977	\$10,213
Other non-current liabilities	3	417
	\$5,980	\$10,630

The deferred business acquisition obligation of \$10.2 million at December 31, 2004 included \$9.5 million for the Tucker acquisition, payable in January 2006, which was reclassified from non-current liabilities to current during 2005 and is included in Other Current Liabilities as of December 31, 2005. The deferred business acquisition obligations of \$6.0 million at December 31, 2005 consisted of cash obligations and fixed monetary obligations payable in shares of the Company's common stock. The Company recorded \$3.7 million in fixed monetary obligations payable in shares as of December 31, 2005. The number of shares to be issued is determined by the average closing price for a period of time prior to the due dates.

11. SUPPLEMENTAL CASH FLOW INFORMATION

2005 Non-Cash Transactions

During the year ended December 31, 2005, as part of the purchase price agreements for acquired businesses, the Company entered into commitments to issue shares of its common stock, with an aggregate value of \$16.7 million at the closing dates. The commitment related to the CBW acquisition, which occurred on February 8, 2005, included \$9.5 million in shares, valued at the closing date, payable in three equal annual installments on the anniversary date over the three years from the closing date. The commitment related to the Hutchison acquisition, which occurred on July 15, 2005, included \$4.3 million in shares, valued at the closing date, payable in two equal installments on the first and second anniversaries of the closing date. The LAC acquisition, which occurred on August 9, 2005, included \$1.9 million in shares, valued at the closing date, payable in three equal installments in August 2006, 2007 and 2008.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the year ended December 31, 2005, the Company recorded \$10.8 million of deferred compensation related to restricted shares and restricted stock units.

2004 Non-Cash Transactions

During the year ended December 31, 2004, as part of the purchase price agreements for acquired businesses, the Company entered into a \$25.0 million deferred cash payment commitment and \$16.0 million deferred stock issuance. In addition, the Company issued 0.5 million shares of its common stock with a value of \$8.4 million at closing.

During the year ended December 31, 2004, the Company recorded goodwill and acquisition earnout obligations of \$15.7 million related to purchase agreement provisions of certain businesses acquired in prior years.

During the year ended December 31, 2004, the Company recorded assets and liabilities of \$0.8 million related to computer software. The liability is payable in two equal installments, in May 2005 and May 2006.

During the year ended December 31, 2004, the Company recorded \$6.8 million for deferred compensation related to restricted shares and restricted stock units.

2003 Non-Cash Transactions

The Company entered into a \$1.0 million deferred cash payment commitment and issued 0.1 million shares of its common stock with a value of \$1.3 million at closing as part of the purchase price for the Front Line acquisition.

During the year ended December 31, 2003, the Company recorded, in aggregate, \$12.2 million of goodwill relating to contingent earnout liabilities and stock obligations for earnout provisions met under provisions of certain purchase agreements. For the year ended December 31, 2003, the Company recorded \$6.3 million for deferred compensation related to restricted shares and restricted stock units.

Other Information

Total interest paid during the years ended December 31, 2005, 2004 and 2003 was \$2.7 million, \$1.1 million and \$0.7 million, respectively. Total income taxes paid during the years ended December 31, 2005, 2004 and 2003 were \$23.7 million, \$15.1 million and \$7.9 million, respectively.

12. LEASE COMMITMENTS

The Company leases its office facilities and certain equipment under operating lease arrangements that expire at various dates through 2017. The Company leases office facilities under non-cancelable operating leases that include fixed or minimum payments plus, in some cases, scheduled base rent increases over the terms of the leases and additional rents based on the Consumer Price Index. Certain leases provide for monthly payments of real estate taxes, insurance and other operating expenses applicable to the property. Certain of the Company's leases contain renewal provisions. In addition, the Company leases equipment under non-cancelable operating leases.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum annual lease payments for the years subsequent to 2005 and in the aggregate are as follows (shown in thousands):

Year ending December 31,	Amount
2006	\$ 21,113
2007	18,583
2008	18,184
2009	15,200
2010	14,164
Thereafter	34,656
	\$121,900

Rent expense for operating leases was \$22.1 million, \$18.6 million, and \$14.3 million for the years ended December 31, 2005, 2004 and 2003, respectively.

13. BANK BORROWINGS

As of December 31, 2005, the Company maintained an unsecured revolving line of credit agreement for \$175.0 million. On April 18, 2005, the Company amended its line of credit to increase the amount available from \$150.0 million to \$175.0 million, with the option to increase the facility up to \$200.0 million over the term of the agreement. The amendment also extended the current expiration term of the agreement to July 2008, from October 2005. In addition, National City Bank joined the existing bank consortium of LaSalle Bank, N.A., a subsidiary of ABN AMRO Bank N.V., U.S. Bank, Harris Trust and Savings Bank, and Fifth Third Bank, to support the line of credit agreement. The line of credit was amended to give the Company more financial flexibility to pursue strategic objectives, to make selective acquisitions and to support the growth of the Company.

Borrowings under the revolving line of credit agreement bear interest based, at the Company's option, on either (1) the higher of the prime rate or the Federal funds rate plus 0.5 percent, or (2) London Interbank Offered Rate (LIBOR) plus 1.00 percent. The line of credit agreement requires the Company to maintain a minimum level of earnings before interest, taxes, depreciation and amortization, among other things. The Company complied with the terms of its line of credit agreement as of December 31, 2005 and 2004. As of December 31, 2005, the Company had a \$40.8 million balance outstanding under the line of credit agreement. The Company did not have a balance outstanding under its line of credit agreement as of December 31, 2004.

At December 31, 2005 and 2004, the Company had outstanding letters of credit of \$4.9 million and \$4.3 million, respectively. The letters of credit outstanding are to secure various leased office space the Company occupies. The letters of credit expire at various dates through 2014. These letters of credit reduce the Company's borrowing ability under the line of credit.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. INCOME TAXES

Income tax expense (benefit), shown in thousands, consists of the following:

	For the year ended December 31,		
	2005	2004	2003
Federal:			
Current	\$24,748	\$20,165	\$10,137
Deferred	3,222	2,463	239
Total	<u>27,970</u>	<u>22,628</u>	<u>10,376</u>
State:			
Current	6,619	4,646	2,547
Deferred	822	571	(123)
Total	<u>7,441</u>	<u>5,217</u>	<u>2,424</u>
Foreign:			
Current	689	217	599
Deferred	2	—	—
Total	<u>691</u>	<u>217</u>	<u>599</u>
Total federal, state and foreign income tax expense	<u>\$36,102</u>	<u>\$28,062</u>	<u>\$13,399</u>

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

	For the year ended December 31,		
	2005	2004	2003
Federal tax expense at the statutory rate	35.0%	35.0%	35.0%
State tax expense at the statutory rate, net of federal tax benefits	5.4	5.0	4.6
Foreign taxes	0.7	0.2	0.1
Effect of non-deductible amortization	—	—	1.3
Effect of non-deductible meals and entertainment expense	0.6	0.6	0.7
Effect of other transactions, net	0.3	0.2	—
	<u>42.0%</u>	<u>41.0%</u>	<u>41.7%</u>

The tax benefits associated with restricted stock, nonqualified stock options and disqualifying dispositions of incentive stock options reduced taxes payable by \$5.9 million, \$13.1 million, and \$10.3 million in 2005, 2004 and 2003, respectively. Such benefits were recorded as an increase to additional paid-in capital in each year.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31,	
	2005	2004
Deferred tax assets (liabilities) attributable to:		
Allowance for uncollectible receivables	\$ 4,883	\$ 3,621
Insurance related costs	15	15
Stock options	1,751	476
Deferred revenue	2,528	2,823
Litigation settlement	1,987	1,424
Compensation program	1,681	704
Tax credits and capital loss carry forward	1,037	974
	13,882	10,037
Deferred tax assets		
Depreciation and amortization	(654)	(586)
Restructuring costs	0	(95)
Acquisition costs	(10,590)	(5,285)
Investments	(6)	(298)
State income taxes offset for deferred tax assets	(194)	(249)
	(11,444)	(6,513)
Deferred tax liabilities		
Net deferred tax assets	\$ 2,438	\$ 3,524

The Company has not recorded a valuation allowance against its net deferred tax assets, as it believes it is more likely than not that the net deferred tax assets are recoverable from future results of operations.

In the past, the Company has taken the position that undistributed earnings of foreign subsidiaries were reinvested, and that no federal income tax needed to be provided under this plan of reinvestment. The American Jobs Creation Act of 2004 ("the Act") introduced a special one-time dividend received deduction under certain circumstances on the repatriation of certain foreign earnings to a federal taxpayer. The Company evaluated the impact of this change in the law, and determined that it would continue to reinvest its undistributed earnings in developing its business in those countries in which the earnings were generated.

15. EMPLOYEE BENEFIT PLANS

The Company maintains profit sharing and savings plans and provides employer-matching contributions for all participants. The Company matches an amount equal to 100 percent of the employee's current contributions, up to a maximum of 3 percent of the employee's total eligible compensation and limited to \$5,100 per participant.

The Company, as sponsor of the plans, uses independent third parties to provide administrative services to the plans. The Company has the right to terminate the plans at any time. The Company's contributions to the various plans were \$5.1 million, \$4.0 million and \$2.7 million in the years ended December 31, 2005, 2004 and 2003, respectively.

16. RELATED PARTY TRANSACTIONS

Governor Thompson, one of the Company's Directors, is Chairman of the law firm of Winston & Strawn. Winston & Strawn has provided legal representation for the Company in the past and may provide services to the

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company in the future. Total payments related to services rendered were less than \$0.1 million in 2005, and were \$0.3 million for both 2004 and 2003.

The Company leases office space from Equity Office Properties ("EOP"). William M. Goodyear is a Trustee on the Board of Trustees at EOP. During the years ended December 31, 2005, 2004 and 2003, the Company paid \$3.4 million, \$2.5 million and \$2.0 million, respectively, to EOP in connection with such space. These leases were executed at market terms.

17. LITIGATION AND SETTLEMENTS

As previously disclosed, on February 15, 2006, the Company received an adverse order and "interim findings" from an arbitrator in a proceeding related to a dispute with the City of Vernon, California. Under a contract signed in 1998, RMI-US, a subsidiary of the Company, provided electric distribution system maintenance services to the City until November 30, 2003, at which time the contract was terminated at the request of RMI-US. Since that time, the Company no longer provides such system maintenance services. The arbitrator's order and "interim findings" denied the Company's right to recover unpaid fees and expenses previously billed to the City. As a result, the Company charged \$1.4 million to expense in the Company's fourth quarter 2005 consolidated statement of income. In addition, the arbitrator found that, as a result of the suspension of the subsidiary's contractor's license for certain periods, RMI-US did not meet the statutory definition of "substantial compliance" with licensing requirements and, therefore, the City is entitled to disgorgement of unspecified amounts paid under the contract for a period not defined in the order. The arbitrator also found that the City is entitled to treble damages but the order did not indicate the amount of damages that would be trebled. While the order does not state the amounts to be reimbursed or trebled, if the arbitrator enters a final award on the basis of the interim findings, and if that final award is not modified or reversed by the special arbitration appeal panel described below, the total amount could have a material adverse impact on the Company's financial position and results of operations.

In its briefs and arguments, the City has contended that an amount between \$13.4 million and \$17.7 million that it paid under the 1998 contract is subject to disgorgement due to RMI-US' alleged failure to be in "substantial compliance" with the state's licensing requirements. In addition to its disgorgement claim, the City has also contended that the Company's submission of bills under an earlier contract during 1995 to 1998 and for approximately 19 days in 2001

represented "false claims" under the California False Claims Act, with respect to which the City is entitled to collect approximately \$7.7 million in purported damages, trebled. On March 7, 2006 the Company filed briefs setting forth various legal and factual arguments that have yet to be considered by the arbitrator. For the reasons stated in its briefs, the Company contends the total amount that should be disgorged is zero and, in any event, substantially less than the amounts sought by the City. Further, the Company contends that there was no violation of the California False Claims Act and treble damages are not appropriate. In addition, the Company is asserting various defenses, including the statute of limitations, which have not previously been ruled upon. The arbitrator has established a briefing schedule to address any issues the Company wishes to raise with respect to the order and interim findings and has scheduled a further hearing for argument in May 2006.

The Company strongly disagrees with the arbitrator's interim findings. Pursuant to a written stipulation of the parties, the Company has the right to appeal any arbitration award to a three-judge panel consisting of three neutral members agreed upon by the parties or appointed by the arbitration agency. The appeal panel will apply the same standard of review that a first-level appellate court in California would apply to an appeal from a trial court decision.

As previously disclosed, also at issue in the arbitration is whether RMI-US must reimburse the City for approximately \$950,000 in oil spill cleanup expenses incurred by the City. The oil spill occurred in 2001 at the

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

City's generating station, allegedly due to the negligence of RMI-US and a subcontractor who removed certain underground piping at the request of the City. The Company contends that the oil spill was caused by the negligence of the City's employees. Evidentiary hearings were held in February 2006 and are expected to be completed in March 2006, following which the arbitrator will issue his findings on the oil spill issues.

It is not possible at this point to reasonably predict the outcome of these proceedings, nor is it possible to reasonably estimate the loss or range thereof. As such, no amounts have been reflected in the 2005 financial statements for the potential loss, if any, regarding this matter, other than the aforementioned charge of \$1.4 million relating to unpaid fees and expenses.

From time to time, the Company is party to various other lawsuits and claims in the ordinary course of business. While the outcome of those lawsuits or claims cannot be predicted with certainty, except as otherwise described above the Company does not believe that any of those additional lawsuits or claims will have a material adverse effect on the financial condition and results of operation of the Company.

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SCHEDULE II
NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2005, 2004 and 2003
(amounts in thousands)

<u>Description</u>	<u>Balance at beginning of year</u>	<u>Charged to expenses</u>	<u>Deductions(1)</u>	<u>Balance at end of year</u>
Year ended December 31, 2005				
Allowance for doubtful accounts	\$ 13,013	\$ 7,987	\$ (1,073)	\$ 19,927
Year ended December 31, 2004				
Allowance for doubtful accounts	\$ 11,164	\$ 6,352	\$ (4,503)	\$ 13,013
Year ended December 31, 2003				
Allowance for doubtful accounts	\$ 9,190	\$ 4,894	\$ (2,920)	\$ 11,164

(1) Represents write-offs of bad debts.

See accompanying report of independent registered public accounting firm.