

The image features a large, stylized graphic of the letters 'Q&A' in black. The 'Q' is on the left, the ampersand is in the middle, and the 'A' is on the right. The letters are thick and blocky. The background is a solid blue color. Inside the 'Q', there is white text.

Navigant Consulting, Inc. 2000 Annual Report
An Interview

Navigant Consulting, Inc. is in the business of assisting our clients in building shareholder value. Our professionals in the Financial & Claims and Energy & Water practices understand the changing competitive landscape, identify opportunities and act on them. **We turn information into insight and insight into strategies**—strategies that enable our clients to build and sustain competitive advantage in a changing and challenging marketplace.

Our goal in this year's Annual Report is to tell the Navigant Consulting, Inc. story directly and simply. In keeping with that clarity of purpose, we have organized this review of the year around five direct questions—questions whose answers capture where we have been, where we are going and how we plan to get there:

1 **What** did we do in 2000?

2 **Who** are we?

3 **Where** are we going?

4 **How** will we grow?

5 **Why** will we succeed?

Navigant Consulting is a focused management consulting company, with industry experienced professionals and a proven business model. In 2000, we restructured the Company around our strengths in the marketplace, focusing upon our long-standing clients and taking aggressive action to ensure we have the intellectual and financial capital necessary to capitalize on the market opportunities ahead of us. As you read on, we hope you will share our enthusiasm for a journey well underway.



What did we do?

The Year 2000 was a year of restructuring and realignment.

We divested non-core business units and paid down debt.

We stabilized the Company's structure in order to generate financial liquidity and improve operations and shareholder value.

The year 2000 marked an important year of transition and change for Navigant Consulting, Inc. In May, we announced a realignment of our Corporate Office and retained Lehman Brothers as our financial advisor to assist in evaluating the Company's strategic alternatives. We immediately began a disciplined review, which culminated in a significant mid-year restructuring.

We concluded that several bold steps were necessary to stabilize the Company, both financially and professionally.

- We divested non-core business units and used the proceeds to repay bank debt and to support the two businesses where we feel we have the most expertise and opportunity—Financial & Claims and Energy & Water.
- We aggressively right-sized the Company's cost structure to improve cash flow and profitability.
- We negotiated a preliminary settlement of our primary shareholder class action litigation.
- We put in place an innovative value sharing retention program to protect, energize and motivate our single most important asset—our human capital.

RESTRUCTURING INITIATIVES OF 2000

Our senior management team and Lehman Brothers quickly assessed the Company's strengths and weaknesses against its strategic objectives. This review concluded that both our LECG and SDG business units would more appropriately fit in a private company model. In addition, GeoData Solutions and a number of other smaller practices were identified as businesses that did not provide us sufficient competitive advantage. We successfully completed all divestiture transactions during the second half of 2000, with total proceeds in excess of \$90 million. The divested units had a combined revenue base of \$110 million and an EBIT loss of \$12.6 million.

Cost reduction initiatives were implemented in the second and third quarters to better align our revenue and expense streams. Included in these initiatives were a reduction of approximately 225 consulting and administrative personnel, the downsizing of twenty facilities and the disposition or wind-down of small, non-core business units.

In August 2000, the Company settled the pending consolidated shareholder class action litigation. We expect final approval by the federal court shortly. While the decision may be appealed, the Company's future is no longer threatened and our management and employees are now able to fully focus on future business opportunities.

In September 2000, we implemented a value sharing retention program with our top 388 senior professionals in the Company. This program provides retention benefits in a high demand market and is intended to motivate our key contributors to drive performance. The Company committed to grant approximately \$20 million in cash awards and 6.9 million options and restricted stock awards. The awards vest in stages over a four and one-half year period to provide continuous and growing retention power. To manage the potential dilutive effects of the program, we recycled 7.0 million shares via the option exchange program and our divestiture and restructuring initiatives.

In October 2000, the Board of Directors authorized the repurchase of up to 5 million shares over the period ending December 31, 2001. We have used this authority to repurchase 1.1 million shares in the fourth quarter of 2000 and will continue to selectively utilize the authority to maximize shareholder value.

BUILDING MOMENTUM IN 2001

The year 2000 was a year of restructuring and realignment. The Company has been stabilized, with a solid fiscal foundation in place for future growth. We are encouraged about the direction of our two key businesses and expect to use our critical mass to fully exploit our competitive advantages.

In 2001, we look forward to creating value for our stakeholders—shareholders, employees and clients. Navigant Consulting will move from a defensive posture to one of offense. We expect to grow by expanding our strong industry relationships, aggressively capitalizing on the changing competitive landscape, and implementing targeted recruiting initiatives to enhance our organic growth prospects. At the same time, we will continually evaluate opportunities for strategic acquisitions that support our growth goals rationally and profitably.

March 31, 2001



William M. Goodyear
Chairman and Chief Executive Officer

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA)

	2000	1999	Pro forma 1999*
Revenues			
Financial & Claims	\$ 151,282	\$ 124,785	\$ 146,048
Energy & Water	93,346	94,706	94,706
Total	\$ 244,628	\$ 219,491	\$ 240,754
Adjusted EBITDA¹			
Financial & Claims	\$ 23,241	\$ 10,064	\$ 11,543
Energy & Water	12,000	8,764	8,764
Total	\$ 35,241	\$ 18,828	\$ 20,307
Percent of revenues	14.40%	8.60%	8.40%
Per share – diluted	\$ 0.86	\$ 0.43	\$ 0.46

* PRO FORMA 1999 GIVES EFFECT TO THE ACQUISITIONS OF THE BARRINGTON CONSULTING GROUP AND PENTA ADVISORY SERVICES AS IF THEY HAD OCCURRED AS OF JANUARY 1, 1999.

¹ ADJUSTED EBITDA IS DEFINED AS EBITDA EXCLUDING RESTRUCTURING AND LITIGATION SETTLEMENT CHARGES, VALUE SHARING RETENTION CASH PAYMENTS, BARRINGTON ACQUISITION COSTS, NON-CASH COMPENSATION AND OTHER NON-RECURRING COSTS.

SELECTED BALANCE SHEET DATA (IN THOUSANDS, EXCEPT DAYS SALES OUTSTANDING)

	12/31/00	6/30/00	12/31/99
Cash	\$ 48,798	\$ 2,149	\$ 42,345
Short-term debt	\$ 0	\$ 5,600	\$ 10,000
Days sales outstanding, net	84	108	114



Who Are We?

We are a management consulting firm that delivers value in two practice areas where we are competitively advantaged:
Financial & Claims and Energy & Water.

We are focused on leveraging our core competencies.

We are professionals whose exceptional industry experience and breadth of knowledge distinguish us in the marketplace.

Navigant Consulting is a **focused management consulting company** to *Fortune* 500 firms, government agencies, law firms and regulated industries, with our primary market focus in North America and extended capabilities in Europe and Asia. We are comprised of two business units: Financial & Claims and Energy & Water. We have more than 1,200 employees, including 950 billable consultants.

The Financial & Claims unit offers **unique solutions** in two areas—Litigation Consulting, and Outsourcing and Claims Management—with special emphasis on technological solutions. We have a **remarkable experience base** in these core competencies. One of our legacy companies, Peterson Consulting, pioneered the litigation consulting industry. For over two decades, clients have counted on us to provide objective consulting services in all areas of commercial litigation, including bankruptcy, construction, financial institutions, fraud, health care, intellectual property, telecommunications and valuation. We provide both testimony and non-testimony services. Our work includes accumulating, managing and converting information from multiple sources in a variety of formats. We use that data to assist clients in identifying trends, quantifying and allocating costs; assessing risk; modeling potential outcomes; evaluating products, business lines and processes; and performing valuations to develop factual conclusions.

As a natural extension of that expertise, fifteen years ago we also expanded into the related field of Outsourcing and Claims Management consulting. Our professionals have experience and expertise in process design and management, project management, data management and systems development. As a result, we are able to help our clients in the design, development, day-to-day management, and quality control of ever-increasing volumes of data, claims and transactions. We use this expertise to **transform business processes** and **deliver customized technology** that most effectively manages workflow and processes.

The Energy & Water business unit provides **consulting and transaction services** to the four segments of the energy industry: generation, transmission, distribution and retail supply. It is also a leading provider of **planning and engineering services** to the water industry, with a focus in the western United States, where water is a particularly scarce resource.

Navigant Consulting's Energy & Water unit is the **industry leader** in conducting auctions of generation assets on behalf of both our utility and unregulated generation clients. We are also a recognized leader in providing a range of financial advisory services to these same clients to help them grow and obtain maximum value. These services are in high demand as the energy industry moves toward greater reliance on **competition around the globe**. What sets us apart is the ability to combine our refined process capabilities with true expert knowledge of local, regional and national energy markets. We provide a range of services to distribution and retail service companies that help them meet the increasing demands of their customer base for an affordable, competitive, reliable source of energy. These services include merger and acquisition, distribution company reliability, strategy and resource allocation, regulatory advisory and litigation support, customer care and energy market assessment.

In short, the energy and water industries are undergoing rapid and far-reaching structural change. As markets are transformed and become increasingly competitive, firms are experiencing a **paradigm shift**—a change in the rules of the game. They are under pressure to deliver reliable, competitively priced services to their customers and to do so with a successful business model. Increasingly, they are turning to the expertise and experience of our Energy & Water practice.

Where Are We Going?

We will capitalize on deregulation in the Energy & Water marketplace, and the need to transform information into insight in our Financial & Claims practice.

Sweeping structural changes in the industries we serve spell great opportunities for us.

We will leverage our unique single source solutions capabilities.

We believe the experience and understanding that Navigant Consulting brings to a changing marketplace is more valuable today than ever before. Many of the industries we serve are undergoing **sweeping structural changes**. As we target growth opportunities in 2001, our goal is to extend our core expertise to industry leaders facing rapidly changing markets. Expanding the business will mean more than building on existing long-term client relationships, although clearly that is a key component of our growth strategy. It will also mean forging new relationships that address the demand drivers reshaping many of the markets we serve.

In the Energy & Water unit, recently deregulated firms in consolidating industries have new and complex needs that are only just beginning to be understood. **Deregulation changes all the rules**, and Navigant Consulting has the expertise to help these firms navigate the new landscape. In the West, where energy shortages are threatening economic stability and growth, Navigant Consulting is providing a wide array of services to help the State of California through this challenging period. These services began with helping the State contract for almost a third of its electricity requirements by conducting competitive solicitations and negotiating contracts with competitive suppliers. Navigant Consulting's reputation among all segments of the market and our depth of talent has enabled us to respond quickly to needs that are rapidly evolving.

We expect that our California experience will only enhance our already strong market position in other regions of the country. The issues around deregulation in California have created greater public awareness of the importance of a reliable energy supply as an engine for economic growth in the United States and throughout the world. While we expect that market rules will continue to evolve, the underlying **trend toward competitive markets** is well established. Navigant Consulting is well positioned in this environment, as our core services support our clients' needs for better energy resource planning, risk management, assessment of the adequacy and reliability of the basic infrastructure, distributed generation, and energy supply contracting. Our experience in California and our broad national presence will create many opportunities to assist

utilities, generators, fuel suppliers, large energy customers, financial institutions, and governmental organizations in a new and largely unfamiliar setting.

Each of our services is supported by a core competency that positions us to offer the kinds of services that firms operating in a competitive market need to be successful. We are bundling our existing expertise in such areas as electric market forecasting and network design issues, and we are doing it on a regional basis. We can describe, for a given region, the pace of competition, new market entrants, and forecasts of energy prices. Our clients have expressed substantial interest in this kind of **unique local and regional market intelligence**.

In our Financial & Claims unit, the challenge for businesses is to manage the explosive growth in data and to convert this information into knowledge that can be efficiently accessed and acted on by management. Firms are overwhelmed with information but short on insight. Navigant Consulting makes that **information understandable, useful and actionable**. For example, the production of electronic data and documents is a brand new field entailing the production of e-mail, videotapes, and audiotapes as evidence in litigation. We have developed an approach that consistently extracts the relevant material and delivers it to the client in an organized, accessible manner. We expect that electronic data production will become increasingly important in industries outside of litigation as e-mail and the Internet become more pervasive.

In the health care industry there is increasing pressure to control costs and simultaneously standardize information. Navigant Consulting has the expertise necessary to help health care providers understand this changing marketplace and anticipate regulatory change and information needs. In financial services, **consolidation and globalization** are reshaping the industry. Successful, timely and cost-effective change management requires dedicated and experienced resources to manage the dynamics and associated complexities of change. We can help clients develop a project and process management discipline designed to address this change.



How Will We Grow?

Navigant Consulting has the financial capital and human capital in place for profitable growth in 2001.

We will deepen and extend our existing client relationships.

We will build on our pool of talent and expertise.

Our growth will be both organic and by selective acquisition.

If the year 2000 was a year for consolidating and stabilizing the business, 2001 will be a year of **emphasis on profitable growth**. We will focus on growing the business internally by extending our deep industry relationships and leveraging our unique breadth of capabilities. We will strategically target individual and team hires that complement our existing base of professional capabilities. We will also capitalize on external opportunities through selective acquisitions that fit within our core competencies and increase shareholder value.

We will grow by expanding our existing relationships with industry leader clients and by identifying new markets where our core competencies deliver significant value. In industry after industry, leading companies work with Navigant Consulting because they understand we get close to their value proposition. We **ask the right questions** and **deliver the right solutions** to propel the success of their business.

We will grow by investing in and deepening our core competencies in the Financial & Claims and Energy & Water spaces and by **capitalizing on attractive growth opportunities** in both areas. In Financial & Claims, we are particularly excited about extending our core capabilities to address emerging issues in health care, asbestos-related matters, energy deregulation, construction claim and infrastructure project management, large scale data conversion and electronic information production. The Energy & Water practice will leverage its client relationships, in-depth understanding of the regulatory and competitive energy industry drivers, and competitively advantaged knowledge of local, regional and national energy markets. We will use our knowledge and approach to create value for our clients as they transition to a competitive environment and as they strive to be successful in that environment.

We will grow by **bringing in new talent**. Intellectual capital is one of Navigant Consulting's differentiators in the marketplace and renewal of that talent must be ongoing. As we ended the year 2000, Navigant Consulting was adding to its roster of experts in energy, information, health care and other industries as we continue to make the most important investment there is: the investment in intellectual capital.

And finally, we will grow by selectively **pursuing strategic acquisitions** that are accretive for our stakeholders—shareholders, employees and clients. Our acquisition strategy focuses on affiliations that are complementary and incremental to our core businesses and earnings, and provide for a high return on investment. One example of this strategy is our recently announced affiliation with Barba-Arkhn International, Inc. Barba-Arkhn International is one of the premier advisors in the field of delay and disruption claims. Its acquisition is synergistic with our current construction practice, a market leader in damage analysis. Together, Navigant Consulting and Barba-Arkhn International will provide our clients with **seamless access to the leading experts** in all aspects of dispute resolution related to construction and government contracts.



Why Will We Succeed?

We are relationship-driven, not project-driven.

We have built significant relationship equity with our colleagues and clients.

Our highly experienced intellectual capital sets us apart.

Our consultants are trained in the industries and markets they serve.

Navigant Consulting possesses the most important sustainable competitive advantage in the consulting marketplace: we have enormous **relationship equity in our people**. Our professionals have built long-standing successful partnerships with their colleagues and with their clients. These partnerships are the fabric of our success.

At Navigant Consulting, the term **partnership is important, both internally and externally**, because our business is driven and expanded by relationships. Our senior professionals in the Financial & Claims unit have worked together as a team for an average of thirteen years. In our Energy & Water unit the average is ten years. At the same time, our long-standing client relationships are a clear indication of the continuing high quality work-product we provide. In 2000, our top twenty clients in the Financial & Claims unit accounted for over 50% of the revenue base. We have partnered with these clients for an ongoing cumulative total of 130 years, or an average relationship length of nearly seven years. Our top twenty clients in the Energy & Water unit accounted for over 50% of the business in 2000. These clients are also long-standing repeat customers, with a cumulative partnership base of 65 years and an average relationship length of more than three years.

Navigant Consulting's approach is grounded in **content-rich consulting**. Our professionals are subject matter experts in their chosen field—experts in commercial litigation support services, claims management, business process transformation, electronic data production, utility regulation and competition, water resource planning, environmental policy and utility valuation. While we seek to continually nurture **entrepreneurial spirit**, our approach to each engagement is **team-based**. We deliver value to our clients by leveraging exceptional individual knowledge within the framework of the collective expertise of a team. As a result, we deliver the kind of **single source solutions** that are unmatched in the industry. Depending on the client's needs, we can marshal a team that covers every pertinent skill set—from legal issues to environmental regulations, from investment banking to labor negotiations. Result? Clients engage and re-engage Navigant Consulting based on our reputation for expertise and execution, for energy and enthusiasm.

This is the most exciting time in Navigant Consulting's history. We are a company with the right skills and the right people in the right place at the right time. We understand the tremendous growth opportunities in a fast-changing marketplace, and we are positioned to exploit them fully.

**BOARD OF
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Thomas A. Gildehaus
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Controller*

Jeffrey H. Stoecklein
*Vice President, Corporate
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**OPERATING UNIT
LEADERS**

Douglas A. Reichert
*Executive Managing
Director, Financial &
Claims*

Robert C. Yardley, Jr.
*Executive Managing
Director, Energy & Water*

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STOCK MARKET INFORMATION

Common stock is traded on the New York

Stock Exchange under the symbol NCI.

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company

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ANNUAL MEETING OF STOCKHOLDERS

9:00 A.M., CDT, Thursday, April 26, 2001

The Mid-America Club

200 East Randolph Drive, 80th Floor

Chicago, Illinois 60601

