FTI CONSULTING INC
Form 10-Q
May 03, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from to

Commission file number 001-14875

FTI CONSULTING, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**52-1261113**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
500 East Pratt Street, Suite 1400, Baltimore, Maryland	**21202**
(Address of Principal Executive Offices)	**(Zip Code)**

(410) 951-4800

(Registrant s telephone number, including area code)

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

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

Large Accelerated Filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date.

Class	Outstanding at April 30, 2006
Common stock, par value $0.01 per share	39,970,425

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FTI CONSULTING, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FTI Consulting, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except per share data)

	December 31, 2005	March 31, 2006 (unaudited)
Assets		
Current assets		
Cash and cash equivalents	$ 153,383	$ 47,640
Accounts receivable		
Billed receivables	87,947	105,906
Unbilled receivables	56,871	78,184
Allowance for doubtful accounts and unbilled services	(17,330)	(18,876)
	127,488	165,214
Notes receivable	2,713	3,871
Prepaid expenses and other current assets	8,147	8,475
Deferred income taxes	6,404	9,425
Total current assets	298,135	234,625
Property and equipment, net	29,302	29,299
Goodwill	576,612	639,188
Other intangible assets, net	21,454	26,000
Other assets	33,961	42,988
Total assets	$ 959,464	$ 972,100
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable, accrued expenses and other	$ 21,762	$ 23,576
Accrued compensation	72,688	48,392
Billings in excess of services provided	10,477	11,845
Total current liabilities	104,927	83,813
Long-term debt, net of current portion	348,431	347,350
Deferred income taxes	33,568	35,938
Other liabilities	18,269	19,713
Commitments and contingent liabilities (notes 3, 5, 6 and 7)		
Stockholders equity		
Preferred stock, $0.01 par value; 5,000 shares authorized; none outstanding		
Common stock, $0.01 par value; 75,000 shares authorized; 39,009 shares issued and outstanding 2005; and 39,872 shares issued and outstanding 2006	390	399
Additional paid-in capital	238,055	245,687
Unearned compensation	(11,089)	
Retained earnings	226,913	239,200

Total stockholders equity	454,269	485,286
Total liabilities and stockholders equity	$ 959,464	$ 972,100

The accompanying notes are an integral part of these consolidated financial statements.

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FTI Consulting, Inc. and Subsidiaries

Consolidated Statements of Income

(in thousands, except per share data)

Unaudited

	Three Months Ended March 31, 2005	2006
Revenues	$ 116,614	$ 169,264
Operating expenses		
Direct cost of revenues	64,345	95,259
Selling, general and administrative expense	28,153	43,226
Amortization of other intangible assets	749	2,954
	93,247	141,439
Operating income	23,367	27,825
Other income (expense)		
Interest income	167	921
Interest expense and other	(1,722)	(5,883)
Litigation settlement losses, net	(304)	(264)
	(1,859)	(5,226)
Income before income tax provision	21,508	22,599
Income tax provision	9,033	10,312
Net income	$ 12,475	$ 12,287
Earnings per common share basic	$ 0.29	$ 0.31
Earnings per common share diluted	$ 0.29	$ 0.31

The accompanying notes are an integral part of these consolidated financial statements.

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FTI Consulting, Inc. and Subsidiaries

Consolidated Statement of Stockholders Equity

(in thousands)

Unaudited

	Common Stock		Additional Paid-in	Unearned	Retained	
	Shares	Amount	Capital	Compensation	Earnings	Total
Balance, January 1, 2006	39,009	$ 390	$ 238,055	$ (11,089)	$ 226,913	$ 454,269
Issuance of common stock in connection with:						
Exercise of options, including income tax benefit of $254	80	1	1,830			1,831
Employee stock purchase plan	145	2	2,572			2,574
Restricted share grants, net of forfeitures	5					
Business combinations	933	9	26,079			26,088
Purchase and retirement of common stock	(300)	(3)	(15,330)			(15,333)
Reclassification due to adoption of new accounting standard (note 2)			(11,089)	11,089		
Stock-based compensation			3,570			3,570
Net income					12,287	12,287
Balance, March 31, 2006	39,872	$ 399	$ 245,687	$	$ 239,200	$ 485,286

The accompanying notes are an integral part of these consolidated financial statements.

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FTI Consulting, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

Unaudited

	Three Months Ended March 31, 2005	2006
Operating activities		
Net income	$ 12,475	$ 12,287
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and other amortization	2,601	3,049
Amortization of other intangible assets	749	2,954
(Recoveries of) provision for doubtful accounts, net	(580)	2,816
Non-cash stock-based compensation	451	3,713
Income tax benefit from stock option exercises and other	75	
Excess tax benefits from stock-based compensation		(132)
Non-cash interest expense	355	604
Other	714	(15)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(25,277)	(35,476)
Notes receivable	349	(10,515)
Prepaid expenses and other assets	(1,860)	(319)
Accounts payable, accrued expenses and other	187	3,121
Income taxes payable	2,753	3,039
Accrued compensation	(8,372)	(24,291)
Billings in excess of services provided	(129)	1,368
Net cash used in operating activities	(15,509)	(37,797)
Investing activities		
Payments for acquisition of businesses, including contingent payments and acquisition costs, net of cash received	(20,146)	(51,475)
Purchases of property and equipment	(4,025)	(3,237)
Proceeds from note receivable due from purchasers of former subsidiary	5,525	
Change in other assets	10	339
Net cash used in investing activities	(18,636)	(54,373)
Financing activities		
Issuance of common stock under equity compensation plans	2,491	1,577
Purchase and retirement of common stock	(7,707)	(15,333)
Borrowings under revolving credit facility	25,000	
Payments of revolving credit facility	(2,500)	
Payments of long-term debt	(5,000)	
Excess tax benefits from stock-based compensation		132
Other	(71)	51
Net cash provided by (used in) financing activities	12,213	(13,573)

Net decrease in cash and cash equivalents	(21,932)	(105,743)
Cash and cash equivalents, beginning of period	25,704	153,383
Cash and cash equivalents, end of period	$ 3,772	$ 47,640

The accompanying notes are an integral part of these consolidated financial statements.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(amounts in tables expressed in thousands, except per share data)

Unaudited

1. Basis of Presentation and Significant Accounting Policies

Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and under the rules and regulations of the Securities and Exchange Commission for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules or regulations. In management s opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. You should not expect the results of operations for interim periods to necessarily be an indication of the results for a full year. You should read these financial statements in conjunction with the consolidated financial statements and the notes contained in our annual report on Form 10-K for the year ended December 31, 2005.

Earnings per Common Share. Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjusts basic earnings per share for the effects of potentially dilutive common shares. Potentially dilutive common shares primarily include the dilutive effects of shares issuable under our stock option plans, including restricted shares using the treasury stock method; and shares issuable upon conversion of our convertible senior subordinated notes using the if-converted method. Since the average price per share of our common stock was below the conversion price of our convertible notes, the convertible notes did not have a dilutive effect on our earnings per share for any of the periods presented. Until the market price of our common stock exceeds $31.25 per share, the conversion feature of the convertible notes will not have an impact on the number of shares utilized to calculate diluted earnings per share. When the market price of our common stock exceeds $31.25 per share, the number of shares that would be issued if the convertible notes were converted will be included as outstanding shares in the calculation of the diluted earnings per share.

	Three Months Ended March 31,	
	2005	**2006**
Numerator basic and diluted		
Net income	$ 12,475	$ 12,287
Denominator		
Weighted average number of common shares outstanding basic	42,319	39,326
Effect of dilutive stock options	422	738
Effect of dilutive restricted shares		179
Weighted average number of common shares outstanding diluted	42,741	40,243
Earnings per common share basic	$ 0.29	$ 0.31
Earnings per common share diluted	$ 0.29	$ 0.31
Antidilutive stock options and restricted shares	3,185	1,065

Supplemental Cash Flow Information.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
Other non-cash investing and financing activities		
Issuance of common stock to acquire businesses	$ 14,978	$ 26,088

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

Stock-Based Compensation Expense. In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement No. 123(R), Share-Based Payment, which is a revision of Statement No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees. Effective January 1, 2006, we adopted Statement No. 123(R) using the modified prospective method under which prior period amounts are not restated for comparative purposes. Under the modified prospective method, we are required to recognize compensation cost:

- for all share-based payments granted after January 1, 2006 based on the requirements of Statement No. 123(R) and

- for all unvested awards granted prior to January 1, 2006 using the compensation cost calculated for pro forma disclosure purposes under Statement 123.

Under statement No. 123(R), we are required to recognize all share-based payments to employees and non-employee directors in our financial statements based on their grant date fair values, using prescribed option-pricing models. We use the Black-Scholes option pricing model to value share-based payments. Compensation expense related to stock-based awards is recognized on a straight-line basis based on the value of share awards that are scheduled to vest during the requisite service period. Under Statement No. 123(R), stock-based compensation expense is based on awards ultimately expected to vest and must be reduced for estimated forfeitures.

For the three months ended March 31, 2006, as a result of adopting Statement No. 123(R), our income before income taxes was $3.1 million lower and our net income was $2.5 million lower than if we had continued to account for share-based compensation under APB Opinion No. 25. If we had not adopted Statement 123(R), our basic earnings per share would have been $0.07 higher than our reported basic earnings per share of $0.31; and our diluted earnings per share would have been $0.06 higher than our reported diluted earnings per share of $0.31. Upon adoption of Statement No. 123(R), we reclassified our unamortized unearned compensation related to the issuance of unvested restricted stock awards to additional paid-in capital in our balance sheet.

Prior to the adoption of Statement No. 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in our statement of cash flows. Statement 123(R) requires the cash flows resulting from the tax benefits of tax deductions in excess of compensation cost recognized for those options, referred to as excess tax benefits, to be classified as financing cash flows. The $0.1 million excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if we had not adopted Statement No. 123(R).

In November 2005, the FASB issued FASB Staff Position, or FSP, No. FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. FSP No. 123(R)-3 provides an elective alternative method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of Statement No. 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of Statement No. 123(R). We have up to one year to evaluate the available transition alternatives and make a one-time election as to which method to adopt. We are currently in the process of evaluating the alternative methods.

Reclassifications. Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

2. Stock-Based Compensation

Stock-Based Incentive Compensation Plans. Our 1997 Stock Option Plan provides for the issuance of up to 11,587,500 shares of common stock to employees and non-employee directors. Under the terms of the 1997 plan, we may grant option rights or shares of restricted and unrestricted common stock to employees. As of March 31, 2006, 40,538 shares of common stock are available for grant under our 1997 Stock Option Plan.

Our 2004 Long-Term Incentive Plan provides for grants of option rights, appreciation rights, restricted or unrestricted shares, performance awards or other stock-based awards to our officers, employees, non-employee directors and individual service providers. We are authorized to issue up to 3,000,000 shares of common stock under the 2004 plan, of which no more than 600,000 shares of common stock may be issued in the form of restricted or unrestricted shares, performance awards or other stock-based awards. As of March 31, 2006, 1,080,882 shares of common stock are available for grant under our 2004 Long-Term Incentive Plan.

Generally, options are granted to employees with exercise prices equal to or exceeding the market value of our common stock on the grant date and expire ten years subsequent to award. Vesting provisions for individual awards are established at the grant date at the discretion of our board of directors. Options granted under our stock-based incentive compensation plans generally vest over three to five years, although some options granted during 2006 vest over eight years. Restricted shares are generally contingent on continued employment and vest over periods of three to ten years. Our stock-based incentive compensation plans provide for accelerated vesting if there is a change in control, as defined in the plan. We issue new shares of our common stock whenever stock options are exercised or share awards are granted.

Periodically we issue restricted and unrestricted shares to employees in connection with new hires and performance evaluations. The fair market value on the date of issue of unrestricted shares is immediately charged to compensation expense. The fair market value on the date of issue of restricted shares is charged to compensation expense ratably over the remaining service period as the restrictions lapse. During the three months ended March 31, 2006, we granted 10,000 restricted shares common stock to employees at a weighted-average fair value of $28.09.

Employee Stock Purchase Plan. The FTI Consulting, Inc. Employee Stock Purchase Plan allows eligible employees to subscribe to purchase shares of common stock through payroll deductions of up to 15% of eligible compensation, subject to limitations. The purchase price is the lower of 85% of the fair market value of our common stock on the first trading day or the last trading day of each semi-annual offering period. The aggregate number of shares purchased by an employee may not exceed $25,000 of fair market value annually, subject to limitations imposed by Section 423 of the Internal Revenue Code. A total of 2,300,000 shares are authorized for purchase under the plan. As of March 31, 2006, 378,058 shares of our common stock are available for purchase under the plan. Employees purchased 144,680 shares of common stock under this plan during the three months ending March 31, 2006 at the weighted-average price per share of $17.79.

Stock-Based Compensation Expense. We use the Black-Scholes option-pricing model to value our option and purchase plan grants using the assumptions in the following table. The risk-free interest rate is based on the yield curve of U.S. Treasury strip securities with remaining terms similar to the expected term of the option or purchase plan award. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to do so in the future. To estimate the market price volatility of our common stock, we use the historical volatility of our common stock over a time period equal to the expected term of the option or purchase plan award. The expected life of option grants is based on historical observations of the actual

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

time lapsed between the grant date and exercise date. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
Risk-free interest rate option plan grants	3.44% 3.98%	4.29% 4.66%
Risk-free interest rate purchase plan grants	2.55%	4.37%
Dividend yield	0%	0%
Expected life of option grants	3 years	3 10 years
Expected life of stock purchase plan grants	0.5 years	0.5 years
Stock price volatility option plan grants	51.2% 54.1%	45.8% 50.4%
Stock price volatility purchase plan grants	34.7%	32.0%

The table below reflects the total stock-based compensation expense recognized in our statements of income for the three months ended March 31, 2005 and 2006. Statement No. 123(R) requires forfeitures to be estimated at the time an award is granted and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be between 0% and 3% based on historical experience. For the three months ended March 31, 2006, stock-based compensation expense is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. In our pro forma disclosures of stock-based compensation under Statement No. 123, we accounted for forfeitures as they occurred.

	March 31, 2005		March 31, 2006	
Income Statement Classification	**Option Grants And Stock Purchase Plan Rights**	**Restricted Stock Grants**	**Option Grants And Stock Purchase Plan Rights**	**Restricted Stock Grants**
Direct cost of revenues	$	$ 324	$ 553	$ 324
Selling, general and administrative expense		127	2,523	313
Stock-based compensation expense before income taxes		451	3,076	637
Income tax benefit		189	600	271
Stock-based compensation, net of income taxes	$	$ 262	$ 2,476	$ 366

As of March 31, 2006, there was $10.6 million of unrecognized compensation cost related to unvested stock options, net of forfeitures. That cost is expected to be recognized ratably over a weighted-average period of 3.4 years as the options vest. There were no stock-based compensation costs capitalized as of March 31, 2006.

As permitted by Statement No. 123, prior to January 1, 2006, we accounted for share-based payments to employees and non-employee members of our board of directors using the intrinsic value method prescribed by APB Opinion No. 25. Under APB Opinion No. 25, we recorded compensation expense over the vesting period to the extent that the fair value of the underlying stock on the grant date exceeded the exercise or acquisition price of the stock or stock-based award. Because options granted under our stock-based incentive compensation plans had an exercise price greater than or equal to the market value of the underlying common stock on the grant date, we generally did not recognize compensation cost related to employee stock options or shares issued under our

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

employee stock purchase plan. For the three months ending March 31, 2005, the following table illustrates the effect on net income and earnings per share if we had determined compensation cost by applying the fair value recognition provisions of Statement No. 123 to stock-based employee awards.

Net income, as reported	$ 12,475
Add Stock-based employee compensation cost included in reported net income, net of income taxes	262
Deduct Total stock-based employee compensation expense determined under a fair value based method for all awards, net of income taxes	(2,048)
Net income, pro forma	$ 10,689
Earnings per common share	
Basic, as reported	$ 0.29
Basic, pro forma	$ 0.25
Diluted, as reported	$ 0.29
Diluted, pro forma	$ 0.25

General Stock Option and Stock Award Information. The following table summarizes the option activity under our stock-based incentive compensation plans as of and during the three-months ended March 31, 2006. The aggregate intrinsic value in the table below represents the total pre-tax intrinsic value (the difference between the closing price of our common stock on the last trading day of the first quarter of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2006. This amount changes based on changes in the fair market value of our common stock. The total intrinsic value of options exercised was $0.2 million during the three months ended March 31, 2005 and $0.7 million during the three months ended March 31, 2006. The intrinsic value of options exercised is the amount by which the market value of our common stock on the exercise date exceeds the exercise price. The total fair value of stock options that vested was $0.5 million during the three months ended March 31, 2005 and $0.5 million during the three months ended March 31, 2006.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, January 1	4,604	$ 20.56		
Options granted during the period:				
Options granted = fair market value	410	$ 28.10		
Options granted > fair market value	22	$ 31.91		
Options exercised	(80)	$ 19.67		

Options forfeited	(18)	$	22.22				
Options outstanding, March 31	4,938	$	21.24	7.4 years	$	36,234
Options exercisable, March 31	3,204	$	20.42	7.1 years	$	25,985

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

The table below reflects the weighted-average grant-date fair value of stock options granted, shares purchased under our employee stock purchase plan and restricted shares granted during the three months ended March 31, 2005 and 2006.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
Stock options:		
Grant price = fair market value	$ 7.51	$ 16.99
Grant price > fair market value	$ 6.82	$ 13.41
Employee stock purchase plan shares	$ 5.46	$ 6.78
Restricted shares		$ 28.09

Following is a summary of the status of stock options outstanding and exercisable at March 31, 2006.

		Options Outstanding			Options Exercisable	
Exercise Price Range		**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Shares**	**Weighted-Average Exercise Price**
$ 1.90	$16.74	790	$ 11.40	5.8 years	688	$ 10.77
$16.75	$21.00	998	$ 18.60	8.5 years	424	$ 18.87
$21.01	$22.34	954	$ 21.54	7.0 years	724	$ 21.41
$22.35	$25.67	1,081	$ 23.79	7.1 years	882	$ 24.07
$25.68	$33.25	1,115	$ 27.88	8.3 years	486	$ 27.33
		4,938			3,204	

A summary of our unvested restricted share award activity during the three months ended March 31, 2006 is presented below. The fair value of unvested restricted share awards is determined based on the closing market price of our common on the grant date. Forfeitures of unvested restricted shares have been nominal; therefore compensation expense related to unvested restricted shares has not been adjusted for expected forfeitures.

	Shares	Weighted-Average Grant-Date Fair Value

Unvested restricted shares outstanding, January 1	640	$	21.32
Restricted shares granted	10	$	28.09
Restricted shares vested	(3)	$	26.42
Restricted shares forfeited	(5)	$	15.65
Unvested restricted shares outstanding, March 31	642	$	21.44

As of March 31, 2006, there was $10.7 million of unrecognized compensation cost related to unvested stock-based compensation arrangements. That cost is expected to be recognized ratably over a weighted-average period of 5.1 years as the shares vest. The total fair value of restricted shares that vested during the three months ended March 31, 2006 was $0.1 million. No restricted shares vested during the three months ended March 31, 2005.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

3. Acquisitions

We record assets acquired and liabilities assumed in business combinations on our balance sheet as of the respective acquisition dates based upon their estimated fair values at the acquisition date. We include the results of operations of businesses acquired in our statement of income beginning on the acquisition dates. We allocate the acquisition cost to identifiable tangible and intangible assets and liabilities based upon their estimated relative fair values. We allocate the excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed to goodwill. We determine the fair value of intangible assets acquired based upon independent appraisals. The fair value of shares of our common stock issued in connection with a business combination is based on a five-day average of the closing price of our common stock two days before and two days after the date we agree to the terms of the acquisition and publicly announce the transaction. In certain circumstances, the allocations of the excess purchase price are based on preliminary estimates and assumptions. Accordingly, the allocations are subject to revision when we receive final information, including appraisals and other analyses. Revisions to our preliminary estimates of fair value may be significant. Since the business combinations consummated in 2005 and 2006 did not materially impact our results of operations, pro forma results have not been presented.

Compass. On January 6, 2006, we completed our acquisition of Competition Policy Associates, Inc., or Compass. Compass is a top competition economics consulting firm, with offices in Washington, D.C. and San Francisco. Compass provides services that involve sophisticated economic analysis in the context of antitrust disputes, mergers, and acquisitions, regulatory and policy debates, and general commercial litigation across a broad range of industries in the United States, Europe and the Pacific Rim. The total acquisition cost was about $74.3 million consisting of net cash of $47.8 million, $0.4 million of transaction costs and 932,599 restricted shares of common stock valued at $26.1 million. We financed the cash portion of the purchase price from cash on hand. The purchase agreement provides for:

- post-closing purchase price adjustments based on actual adjusted earnings before interest and taxes, or EBIT, as of December 31, 2005 and
- post-closing cash adjustment payments based on actual working capital as of December 31, 2005.

For each fiscal year ending between December 31, 2006 and December 31, 2013, the purchase agreement provides for:

- additional consideration based on EBIT of the business unit;
- the set aside of a percentage of EBIT of the business unit for each fiscal year to be used as incentive compensation to employees of and consultants to the business; and
- conditional contractual protection against a decline in the value of the shares of our common stock issued as purchase price below the issuance price of $27.61.

We allocated the acquisition cost to identifiable assets and liabilities based upon their estimated relative fair values. We are in process of completing a valuation of the identifiable intangible assets that we acquired consisting principally of contract backlog, customer relationships and non-competition agreements. At March 31, 2006, the estimated valuation of these intangible assets, totaling $7.5 million, is based on data we have developed to date. We expect to complete our valuation by the end of 2006. The final purchase price allocation may differ from our preliminary estimates. We recorded $62.8 million of goodwill as a result of the value of the assembled workforce we acquired and the ability to earn a higher rate of return from the acquired business than would be expected if those net assets had to be acquired or developed separately. We believe the goodwill recorded as a result of this acquisition will be fully deductible for income tax purposes over the next 15 years.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

We issued and aggregate of $8.0 million of loans to key employees and outside consultants of Compass at the time of the acquisition. Interest is payable quarterly at 4.65%. The principal amount is due in January 2016 or earlier if the employee resigns or the consultants stop providing service to us. These loans are classified as long-term other assets in our consolidated balance sheet.

4. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill for the three months ended March 31, 2006, are as follows:

	Forensic/ Litigation	Corporate Finance/ Restructuring	Economics	Technology	Consolidated
Balance, January 1, 2006	$ 122,140	$ 298,839	$ 125,349	$ 30,284	$ 576,612
Goodwill acquired during the period			62,787		62,787
Adjustments to allocation of purchase price		(252)		41	(211)
Balance, March 31, 2006	$ 122,140	$ 298,587	$ 188,136	$ 30,325	$ 639,188

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of $0.7 million for the three months ended March 31, 2005 and $3.0 million for the three months ended March 31, 2006. Based solely on the amortizable intangible assets recorded as of March 31, 2006, we estimate amortization expense to be $8.0 million during the remainder of 2006, $3.8 million in 2007, $3.6 million in 2008, $3.4 million in 2009, $0.7 million in 2010, $0.4 million in 2011, and $0.7 million in years after 2011. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors. The carrying amounts of the amortizable assets we acquired in connection with the acquisition completed during the first quarter of 2006 are based on our estimated valuations, which we expect to complete by the end of 2006. The final purchase price allocations may differ from our preliminary estimates. See note 3.

	Useful Life in Years	December 31, 2005 Gross Carrying Amount	December 31, 2005 Accumulated Amortization	March 31, 2006 Gross Carrying Amount	March 31, 2006 Accumulated Amortization
Amortized intangible assets					
Customer relationships	3.5 to 15	$ 10,340	$ 2,827	$ 12,340	$ 3,334
Contract backlog	0.5 to 3	8,105	3,536	9,548	4,424
Software	5	4,400	733	4,400	953
Non-competition agreements	3 to 5	2,421	1,116	4,421	1,398
		25,266	8,212	30,709	10,109
Unamortized intangible assets					
Tradenames	Indefinite	4,400		5,400	

	$ 29,666	$ 8,212	$ 36,109	$ 10,109

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in tables expressed in thousands, except per share data)

Unaudited

5. Long-Term Debt and Capital Lease Obligations

	December 31, 2005	March 31, 2006
7 5/8% senior notes due 2013, including a fair value hedge adjustment of $1,569 2005 and $2,834 2006	$ 198,431	$ 197,166
3 3/4% convertible senior subordinated notes due 2012	150,000	150,000
Other		200
Total long-term debt	348,431	&nbs