FTI CONSULTING INC
Form 10-Q
August 05, 2011
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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 June 30, 2011

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.)**
777 South Flagler Drive, Suite 1500 West Tower, West Palm Beach, Florida	**33401**
(Address of Principal Executive Offices)	**(Zip Code)**

(561) 515-1900

(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 has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes x No ¨

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

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

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

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

Class	**Outstanding at July 28, 2011**
Common stock, par value $0.01 per share	41,555,223

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FTI CONSULTING, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

Item 1. Financial Statements

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 98,745	$ 384,570
Restricted cash	11,383	10,518
Accounts receivable:		
Billed receivables	318,554	268,386
Unbilled receivables	199,825	120,896
Allowance for doubtful accounts and unbilled services	(72,204)	(63,205)
Accounts receivable, net	446,175	326,077
Current portion of notes receivable	25,771	26,130
Prepaid expenses and other current assets	32,137	28,174
Income taxes receivable	17,885	13,246
Total current assets	632,096	788,715
Property and equipment, net of accumulated depreciation	71,983	73,238
Goodwill	1,305,170	1,269,447
Other intangible assets, net of amortization	132,035	134,970
Notes receivable, net of current portion	94,106	87,677
Other assets	64,305	60,312
Total assets	$ 2,299,695	$ 2,414,359
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable, accrued expenses and other	$ 105,589	$ 105,864
Accrued compensation	141,972	143,971
Current portion of long-term debt and capital lease obligations	6,616	7,559
Billings in excess of services provided	35,674	27,836
Deferred income taxes	4,052	4,052
Total current liabilities	293,903	289,282
Long-term debt and capital lease obligations, net of current portion	790,321	785,563
Deferred income taxes	99,520	92,134
Other liabilities	87,452	80,061
Total liabilities	1,271,196	1,247,040

Commitments and contingent liabilities (notes 7, 9 and 10)

Stockholders equity		
Preferred stock, $0.01 par value; shares authorized 5,000; none outstanding		
Common stock, $0.01 par value; shares authorized 75,000; shares issued and outstanding 41,555 (2011) and 46,144 (2010)	416	461
Additional paid-in capital	338,789	532,929
Retained earnings	726,129	687,419
Accumulated other comprehensive loss	(36,835)	(53,490)
Total stockholders equity	1,028,499	1,167,319
Total liabilities and stockholders equity	$ 2,299,695	$ 2,414,359

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(in thousands, except per share data)

Unaudited

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues	$ 400,437	$ 349,033	$ 762,253	$ 699,073
Operating expenses				
Direct cost of revenues	247,036	209,031	466,176	406,491
Selling, general and administrative expense	94,819	82,202	183,548	166,603
Special charges	16,772		16,772	30,245
Amortization of other intangible assets	5,498	5,852	10,952	11,943
	364,125	297,085	677,448	615,282
Operating income	36,312	51,948	84,805	83,791
Other income (expense)				
Interest income and other	2,923	(141)	4,923	2,213
Interest expense	(14,500)	(11,378)	(29,810)	(22,696)
	(11,577)	(11,519)	(24,887)	(20,483)
Income before income tax provision	24,735	40,429	59,918	63,308
Income tax provision	7,823	15,363	21,208	24,057
Net income	$ 16,912	$ 25,066	$ 38,710	$ 39,251
Earnings per common share basic	$ 0.42	$ 0.55	$ 0.92	$ 0.86
Earnings per common share diluted	$ 0.40	$ 0.52	$ 0.88	$ 0.82

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity and Comprehensive Income

(in thousands)

Unaudited

	Common Stock		Additional		Accumulated Other	
	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Loss	Total
Balance January 1, 2011	46,144	$ 461	$ 532,929	$ 687,419	$ (53,490)	$ 1,167,319
Comprehensive income:						
Cumulative translation adjustment, including income tax benefit of $2,068					16,655	16,655
Net income				38,710		38,710
Total comprehensive income						55,365
Issuance of common stock in connection with:						
Exercise of options, including income tax benefit from share-based awards of $68	149	2	3,841			3,843
Restricted share grants, less net settled shares of 84	324	4	(3,094)			(3,090)
Stock units issued under incentive compensation plan			4,241			4,241
Business combinations			(5,455)			(5,455)
Purchase and retirement of common stock	(5,062)	(51)	(209,349)			(209,400)
Share-based compensation			15,676			15,676
Balance June 30, 2011	41,555	$ 416	$ 338,789	$ 726,129	$ (36,835)	$ 1,028,499

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

Unaudited

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating activities		
Net income	$ 38,710	$ 39,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	15,683	15,361
Amortization of other intangible assets	10,952	11,943
Provision for doubtful accounts	5,768	4,618
Non-cash share-based compensation	15,942	14,651
Excess tax benefits from share-based compensation	(124)	(625)
Non-cash interest expense	4,190	3,599
Other	136	(315)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(99,137)	(34,895)
Notes receivable	(5,281)	(17,789)
Prepaid expenses and other assets	(5,893)	(2,240)
Accounts payable, accrued expenses and other	227	11,262
Income taxes	(5,742)	(4,339)
Accrued compensation	4,093	(18,671)
Billings in excess of services provided	7,652	144
Net cash (used in) provided by operating activities	(12,824)	21,955
Investing activities		
Payments for acquisition of businesses, net of cash received	(50,888)	(22,834)
Purchases of property and equipment	(12,705)	(11,632)
Proceeds from sale or maturity of short-term investments		15,000
Other	(405)	(475)
Net cash used in investing activities	(63,998)	(19,941)
Financing activities		
Borrowings under revolving line of credit	25,000	20,000
Payments of revolving line of credit	(25,000)	(20,000)
Payments of long-term debt and capital lease obligations	(937)	(465)
Purchase and retirement of common stock	(209,400)	
Net issuance of common stock under equity compensation plans	685	4,235
Excess tax benefits from share-based compensation	124	625
Other	51	442
Net cash (used in) provided by financing activities	(209,477)	4,837
Effect of exchange rate changes on cash and cash equivalents	474	(2,469)

Net (decrease) increase in cash and cash equivalents	(285,825)	4,382
Cash and cash equivalents, beginning of period	384,570	118,872
Cash and cash equivalents, end of period	$ 98,745	$ 123,254
Supplemental cash flow disclosures		
Cash paid for interest	$ 25,711	$ 19,144
Cash paid for income taxes, net of refunds	27,016	28,396
Non-cash investing and financing activities:		
Issuance of stock units under incentive compensation plans	4,241	6,531
Issuance of notes payable to acquire businesses		4,772

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

Unaudited

1. Basis of Presentation and Significant Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and under the rules and regulations of the Securities and Exchange Commission (SEC) 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 and 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. Results of operations for the interim periods presented herein are not necessarily indicative of results of operations for a full year. These financial statements should be read 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, 2010.

2. New Accounting Standards Not Yet Adopted

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for us beginning in the first quarter of 2012. We do not expect the guidance to impact our consolidated financial statements, as it only requires a change in the format of presentation.

3. Earnings Per Common Share

Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjust basic earnings per share for the effects of potentially dilutive common shares. Potentially dilutive common shares include the dilutive effects of shares issuable under our equity compensation plans, including stock options and restricted stock, and shares issuable upon conversion of our 3 3/4% senior subordinated convertible notes due 2012 (Convertible Notes) assuming the conversion premium was converted into common stock based on the average closing price per share of our stock during the period, each using the treasury stock method. The conversion feature of our Convertible Notes had a dilutive effect on our earnings per share for the periods presented below because the average closing price per share of our common stock for such periods was above the conversion price of the Convertible Notes of $31.25 per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Numerator basic and diluted				
Net income	$ 16,912	$ 25,066	$ 38,710	$ 39,251
Denominator				
Weighted average number of common shares outstanding basic	40,587	45,857	42,223	45,828
Effect of dilutive stock options	857	954	831	954
Effect of dilutive convertible notes	836	1,184	759	1,167
Effect of dilutive restricted shares	238	181	257	204
Weighted average number of common shares outstanding diluted	42,518	48,176	44,070	48,153
Earnings per common share basic	$ 0.42	$ 0.55	$ 0.92	$ 0.86

Earnings per common share diluted	$	0.40	$	0.52	$	0.88	$	0.82
Antidilutive stock options and restricted shares		2,345		1,653		2,190		1,478

FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

4. Special Charges

During the year ended December 31, 2010, we recorded special charges of $52.0 million, of which $32.3 million was non-cash. The non-cash charges primarily included trade name impairment charges related to our global FTI Consulting branding strategy and other strategic branding decisions. The remaining charges related to a realignment of our workforce and a consolidation of four office locations. The charges reflect actions we took to support our corporate positioning, as well as actions taken to better align capacity with expected demand, to eliminate certain redundancies resulting from acquisitions and to provide for appropriate levels of administrative support.

During the quarter ended June 30, 2011, we recorded special charges of $16.8 million, of which $6.4 million was non-cash. The charges reflect actions we took to reduce senior management related overhead in connection with our recent realignment of our segment management on a global basis and to align our workforce with expected market trends. These actions included a reduction in workforce totaling 37 employees. The special charges consisted of:

- $10.4 million of salary continuance and other contractual employee related costs associated with the reduction in workforce;
- $3.6 million related to loan forgiveness and accelerated vesting of share-based awards related to the reduction in workforce; and
- $2.8 million of deferred costs under a service contract without a substantive future economic benefit to the Company.

The following table details the special charges by segment for the quarter ended June 30, 2011:

Corporate Finance/Restructuring	$ 11,000
Forensic and Litigation Consulting	839
Economic Consulting	2,093
	13,932
Unallocated Corporate	2,840
Total	$ 16,772

The total cash outflow associated with the 2010 special charges is expected to be $19.7 million, of which $19.1 million has been paid as of June 30, 2011. The total cash outflow associated with the 2011 special charges is expected to be $10.4 million, of which $0.5 million has been paid as of June 30, 2011. Of the remaining liability at June 30, 2011, $6.9 million is expected to be paid during the remainder of 2011 and the balance of approximately $3.6 million is expected to be paid during 2012. A liability for the amounts to be paid is included in Accounts payable, accrued expenses and other on the Condensed Consolidated Balance Sheets. Activity related to the liability for these costs for the six months ended June 30, 2011 is as follows:

	Employee Termination Costs	Lease Termination Costs	Total
Balances at January 1, 2011	$ 1,920	$ 2,762	$ 4,682
Additions	10,370		10,370
Payments	(1,798)	(2,646)	(4,444)
Adjustments	(36)	(116)	(152)
Balances at June 30, 2011	$ 10,456	$	$ 10,456

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

5. Provision for Doubtful Accounts

The provision for doubtful accounts is recorded after the related work has been billed to the client and we determine that full collectability is not reasonably assured. It is classified in Selling, general and administrative expense on the Condensed Consolidated Statements of Income. The provision for doubtful accounts totaled $3.2 million and $5.8 million for the three and six months ended June 30, 2011, respectively and $1.6 million and $4.6 million for the three and six months ended June 30, 2010, respectively.

6. Research and Development Costs

Research and development costs related to software development totaled $6.0 million and $11.8 million for the three and six months ended June 30, 2011, respectively, and $5.3 million and $10.7 million for the three and six months ended June 30, 2010, respectively. Research and development costs are included in Selling, general and administrative expense on the Condensed Consolidated Statements of Income.

7. Financial Instruments

Fair Value of Financial Instruments

We consider the recorded value of certain of our financial assets and liabilities, which consist primarily of cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2011, based on the short-term nature of the assets and liabilities. The fair value of our long-term debt at June 30, 2011 was $849.0 million compared to a carrying value of $814.8 million. At December 31, 2010, the fair value of our long-term debt was $847.2 million compared to a carrying value of $810.8 million. We determined the fair value of our long-term debt primarily based on quoted market prices for our 7 $^{3}/4$% senior notes due 2016, 6 $^{3}/4$% senior notes due 2020 and Convertible Notes. The carrying value of long-term debt includes the $18.0 million equity component of our Convertible Notes which is recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets.

Derivative Financial Instruments

From time to time, we hedge the cash flows and fair values of some of our long-term debt using interest rate swaps. We enter into these derivative contracts to manage our exposure to interest rate changes by achieving a desired proportion of fixed rate versus variable rate debt.

Accordingly, to achieve the desired mix of fixed and floating interest rate debt, we entered into four interest rate swap agreements in March 2011, which qualify and have been designated as fair value hedges. The interest rate swaps mature on October 1, 2016. Under the terms of the interest rate swaps, we receive interest on the $215.0 million notional amount at a fixed rate of 7 $^{3}/4$% and pay a variable rate of interest, based on LIBOR as the benchmark interest rate. For the three months ended June 30, 2011, our variable interest rate was 5.48%. The maturity, payment dates and other critical terms of these swaps exactly match those of the hedged senior notes. These interest rate swaps qualified for hedge accounting using the short-cut method under ASC 815-20-25, *Derivatives and Hedging* (formerly SFAS No. 133), which assumes no hedge ineffectiveness. As a result, changes in the fair value of the interest rate swaps and changes in the fair value of the hedged debt were assumed to be equal and offsetting. As of June 30, 2011, the fair value of our interest rate swaps was an asset of $2.2 million, which is recorded in Other assets on the Condensed Consolidated Balance Sheets. The impact of effectively converting the interest rate of $215.0 million of our senior notes from fixed rate to variable rate decreased interest expense by $1.5 million for the six months ended June 30, 2011.

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

8. Acquisitions

In March 2011, we completed acquisitions of certain practices of LECG Corporation in Europe, the United States and Latin America with services relating to those provided through our Economic Consulting, Forensic and Litigation Consulting, and Corporate Finance/Restructuring segments. The acquisition-date fair value of the total consideration transferred is approximately $30.0 million, which consisted of $27.0 million of cash paid at the closings of these acquisitions, a portion of which is subject to certain working capital and other adjustments, and contingent consideration with an estimated fair value of $3.0 million. As part of the preliminary purchase price allocation, we recorded an aggregate of $24.6 million in accounts receivable, $6.0 million in identifiable intangible assets, $18.8 million of assumed liabilities and $14.9 million in goodwill. Aggregate acquisition-related costs of approximately $1.4 million have been recognized in earnings in the first quarter of 2011. Pro forma results of operations have not been presented because the acquisitions were not material in relation to our consolidated financial position or results of operations for the periods presented.

Certain acquisition-related restricted stock agreements entered into prior to January 1, 2009 contain stock price guarantees that may result in cash payments in the future if our share price falls below a specified per share market value on the date that the applicable stock restrictions lapse (the determination date). For those acquisitions, the future settlement of any contingency related to our common stock price will be recorded as a reduction to additional paid-in capital. During the six months ended June 30, 2011, we paid $6.2 million in cash in relation to the stock price guarantees on certain shares of common stock that became unrestricted, which was recorded as a reduction to additional paid-in-capital. Our remaining common stock price guarantee provisions have stock floor prices that range from $24.50 to $69.48 per share and have determination dates that range from 2011 to 2013.

9. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill by business segment for the six months ended June 30, 2011, are as follows:

	Corporate Finance/ Restructuring	Forensic and Litigation Consulting	Economic Consulting	Technology	Strategic Communications	Total
Balances at January 1, 2011	$ 434,439	$ 197,234	$ 202,689	$ 117,960	$ 317,125	$ 1,269,447
Goodwill acquired during the period	1,616	929	12,380			14,925
Contingent consideration[1]		32			11,412	11,444
Foreign currency translation adjustment and other	(241)	1,296	47	61	8,191	9,354
Balances at June 30, 2011	$ 435,814	$ 199,491	$ 215,116	$ 118,021	$ 336,728	$ 1,305,170

(1) Contingent consideration related to business combinations consummated prior to January 1, 2009.

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of $5.5 million and $11.0 million for the three and six months ended June 30, 2011, respectively, and $5.9 million and $11.9 million for the three and six months ended June 30, 2010, respectively. Based solely on the amortizable intangible assets recorded as of June 30, 2011, we estimate amortization expense to be $11.2 million during the remainder of 2011, $22.2 million in 2012, $20.4 million in 2013, $11.8 million in 2014, $10.8 million in 2015, $9.3 million in 2016 and $40.7 million in years

FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

after 2016. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, finalization of asset valuations for newly acquired assets, changes in useful lives, changes in value due to foreign currency translation or other factors. During the six months ended June 30, 2011, we wrote-off $26.3 million of fully amortized intangible assets related to our customer relationships, non-competition agreements, tradenames and contract backlog with a net book value of zero.

		June 30, 2011		December 31, 2010	
	Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets					
Customer relationships	1 to 15	$ 150,039	$ 45,630	$ 149,278	$ 46,146
Non-competition agreements	1 to 10	15,931	9,042	19,796	11,722
Software	5 to 6	33,300	18,163	37,700	19,536
Tradenames	1 to 5			9,610	9,610
Contract backlog	1			333	333
		199,270	72,835	216,717	87,347
Unamortized intangible assets					
Tradenames	Indefinite	5,600		5,600	
		$ 204,870	$ 72,835	$ 222,317	$ 87,347

10. Long-term Debt and Capital Lease Obligations

The components of long-term debt and capital lease obligations are presented in the table below:

	June 30, 2011	December 31, 2010
7 3/4% senior notes due 2016[(a)]	$ 217,156	$ 215,000
6 3/4% senior notes due 2020	400,000	400,000
3 3/4% senior subordinated convertible notes due 2012[(b)]	144,140	141,515
Notes payable to former shareholders of acquired businesses	35,502	36,307
Total debt	796,798	792,822
Less current portion	6,502	7,307
Long-term debt, net of current portion	790,296	785,515
Total capital lease obligations	139	300
Less current portion	114	252

Capital lease obligations, net of current portion	25	48
Long-term debt and capital lease obligations, net of current portion	$ 790,321	$ 785,563

[a] Balance includes a fair value hedge adjustment of $2.2 million relating to interest rate swaps entered into on March 9, 2011.

[b] Balance includes $149.9 million principal amount of Convertible Notes net of discount of $5.8 million at June 30, 2011 and $8.4 million at December 31, 2010.

FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

Convertible Notes

Our Convertible Notes are convertible at the option of the holder during any conversion period if the per share closing price of our common stock exceeds the conversion threshold price of $37.50 for at least 20 trading days in the 30 consecutive trading day period ending on the first day of such conversion period. A conversion period is the period from and including the eleventh trading day in a fiscal quarter up to but not including the eleventh trading day of the following fiscal quarter.

When the Convertible Notes are convertible at the option of the holder, they are classified as current on our Consolidated Balance Sheet. When the Convertible Notes are not convertible at the option of the holder, and the scheduled maturity is not within one year after the balance sheet date, they are classified as long-term. As of June 30, 2011, the Convertible Notes are classified as long-term given that the per share price of our common stock did not close above the conversion threshold for 20 days in the 30 consecutive trading day period ended April 14, 2011. As of July 15, 2011, the Convertible Notes did not meet the conversion threshold and therefore, the Convertible Notes will remain non-convertible and classified as long-term through July 16, 2011, when the Convertible Notes will be a year from maturity and classified as short-term.

6 $^{3}/4$% Senior Notes Due 2020

On September 27, 2010, we issued $400.0 million in aggregate principal amount of 6 $^{3}/4$% senior notes due 2020 (6$^{3}/4$% senior notes) in a private offering (the Offering) that was exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). The 6 $^{3}/4$% senior notes were sold to qualified institutional buyers as defined in Rule 144A under the Securities Act and non-U.S. persons outside the United States under Regulation S under the Securities Act. The net proceeds from the Offering were $390.4 million after deducting debt issuance costs. On March 25, 2011, the Company filed a Registration Statement on Form S-4 with the SEC to register the exchange offer of the 6 $^{3}/4$% senior notes for publicly registered senior notes with identical terms, which was declared effective on May 24, 2011. The Company completed the exchange offer of all outstanding 6 $^{3}/4$% senior notes on June 24, 2011.

11. Commitments and Contingencies

Contingencies

We are subject to legal actions arising in the ordinary course of business. In management s opinion, we believe we have adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions. We do not believe any settlement or judgment would materially affect our financial position or results of operations.

12. Share-Based Compensation

Share-based Awards and Share-based Compensation Expense

Our officers, employees, non-employee directors and certain individual service providers are eligible to participate in FTI Consulting s equity compensation plans, subject to the discretion of the administrator of the plans. During the six months ended June 30, 2011, aggregate share-based awards included stock option grants exercisable for 744,147 shares of common stock upon vesting, restricted stock awards of 389,288 shares of common stock and restricted stock units equivalent to 353,835 shares of common stock.

FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

Total share-based compensation expense for the three and six months ended June 30, 2011 and 2010 is detailed in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Statement Classification	**2011**	**2010**	**2011**	**2010**
Direct cost of revenues	$ 4,742	$ 4,746	$ 9,354	$ 7,325
Selling, general and administrative expense	2,682	2,511	4,879	4,852
Special charges	1,718		1,718	2,474
Total share-based compensation expense	$ 9,142	$ 7,257	$ 15,951	$ 14,651

13. Stockholders Equity

Common Stock Repurchase Program

In November 2009, our Board of Directors authorized a two-year stock repurchase program of up to $500.0 million (the Repurchase Program) and terminated the $50.0 million stock repurchase program authorized in February 2009. Also in November 2009, we entered into a collared stock buyback master confirmation agreement (the Master Agreement) with Goldman, Sachs & Co. (Goldman Sachs). Through December 31, 2010, we repurchased and retired approximately 6,633,680 shares of our common stock with a value equivalent to approximately $290.6 million at the time of repurchase under the Repurchase Program, including a $250.0 million accelerated stock buyback transaction pursuant to a supplemental confirmation under the Master Agreement. As of December 31, 2010, a balance of $209.4 million remained available under the Repurchase Program to fund stock repurchases by the Company.

On March 2, 2011, we entered into a supplemental confirmation with Goldman Sachs for a $209.4 million accelerated stock buyback (the 2011 ASB), pursuant to the Master Agreement. On March 7, 2011, we paid $209.4 million to Goldman Sachs using available cash on hand and received a majority of the shares of FTI Consulting common stock, representing 4,433,671 shares, expected to be delivered in the 2011 ASB. On May 17, 2011, FTI Consulting received additional shares bringing the total number of shares of our common stock delivered in the 2011 ASB to 5,061,558 shares of FTI Consulting common stock. The specific number of shares that ultimately will be repurchased in the 2011 ASB will be based generally on the volume-weighted average share price of our common stock during the term of the repurchase agreement, subject to provisions that establish minimum and maximum numbers of shares. The 2011 ASB contemplates that final settlement may occur in December 2011, although under certain circumstances, at Goldman Sachs discretion, the completion date may be accelerated. At settlement, we may be entitled to receive additional shares of our common stock from Goldman Sachs. This transaction was accounted for as two separate transactions, a share repurchase and a forward contract indexed to our own stock. The repurchase of shares was accounted for as a share retirement resulting in a reduction of common stock issued and outstanding of 5,061,558 shares and a corresponding reduction in common stock and additional paid-in capital of $209.4 million. Any additional shares received will be accounted for as a share retirement in the period(s) in which the shares are received. The 2011 ASB completes the Repurchase Program.

For the quarter ended June 30, 2011, the forward contract was anti-dilutive as the forward contract represented a contingent number of shares that could be delivered to FTI Consulting by the investment bank. As the shares were anti-dilutive, their impact was not considered in the computation of earnings per share for the

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

quarter ended June 30, 2011 in accordance with the guidance of ASC 260, *Earnings Per Share*. Additional shares that may be received before the final settlement date in December 2011 will be considered in the calculation of weighted average shares outstanding used for the calculation of earnings per share after delivery to FTI Consulting.

14. Segment Reporting

We manage our business in five reportable operating segments: Corporate Finance/Restructuring, Forensic and Litigation Consulting, Economic Consulting, Technology and Strategic Communications.

Our Corporate Finance/Restructuring segment focuses on strategic, operational, financial and capital needs of businesses around the world and provides consulting and advisory services on a wide range of matters, such as restructuring (including bankruptcy), financings, claims management, mergers and acquisitions, post-acquisition integration, valuations, tax issues and performance improvement.

Our Forensic and Litigation Consulting segment provides law firms, companies, government clients and other interested parties with dispute advisory, investigations, forensic accounting, data analytics, business intelligence assessments and risk mitigation services.

Our Economic Consulting segment provides law firms, companies, government entities and other interested parties with analysis of complex economic issues for use in legal and regulatory proceedings, strategic decision making and public policy debates in the U.S. and around the world.

Our Technology segment provides electronic discovery (e-discovery) and information management software and services to its clients. It provides products, services and consulting to companies, law firms, courts and government agencies worldwide. Its comprehensive suite of software and services help clients locate, review and produce electronically stored information, including e-mail, computer files, voicemail, instant messaging and financial and transactional data.

Our Strategic Communications segment provides advice and consulting services relating to financial communications, brand communications, public affairs and reputation management and business consulting.

We evaluate the performance of our operating segments based on adjusted segment EBITDA. We define adjusted segment EBITDA as a segment s share of consolidated operating income before depreciation, amortization of intangible assets, accretion of contingent consideration and special charges. Although adjusted segment EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, we use adjusted segment EBITDA to evaluate and compare the operating performance of our segments.

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The table below presents revenues and adjusted segment EBITDA for our reportable segments for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenues				
Corporate Finance/Restructuring	$ 101,896	$ 111,095	$ 209,150	$ 228,562
Forensic and Litigation Consulting	93,368	80,754	176,281	159,432
Economic Consulting	94,480	64,552	168,739	131,859
Technology	57,130	42,791	108,165	86,164
Strategic Communications	53,563	49,841	99,918	93,056
Total revenues	$ 400,437	$ 349,033	$ 762,253	$ 699,073
Adjusted segment EBITDA				
Corporate Finance/Restructuring	$ 17,311	$ 25,977	$ 38,832	$ 60,696
Forensic and Litigation Consulting	19,232	19,346	36,110	39,130
Economic Consulting	18,914	11,453	32,156	24,973
Technology	20,692	15,857	39,323	33,118
Strategic Communications	6,457	8,635	11,865	14,377
Total adjusted segment EBITDA	$ 82,606	$ 81,268	$ 158,286	$ 172,294

The table below reconciles adjusted segment EBITDA to income before income tax provision:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Total adjusted segment EBITDA	$ 82,606	$ 81,268	$ 158,286	$ 172,294
Segment depreciation expense	(5,866)	(6,312)	(11,614)	(12,638)
Amortization of intangible assets	(5,498)	(5,852)	(10,952)	(11,943)
Special charges	(16,772)		(16,772)	(30,245)
Accretion of contingent consideration	(799)		(1,595)	
Unallocated corporate expenses, excluding special charges	(17,359)	(17,156)	(32,548)	(33,677)
Interest income and other	2,923	(141)	4,923	2,213
Interest expense	(14,500)	(11,378)	(29,810)	(22,696)
Income before income tax provision	$ 24,735	$ 40,429	$ 59,918	$ 63,308

15. Supplemental Condensed Consolidating Guarantor and Non-Guarantor Financial Information

Substantially all of our domestic subsidiaries are guarantors of borrowings under our senior bank credit facility, senior notes and our Convertible Notes. The guarantees are full and unconditional and joint and several. All of our guarantors are wholly-owned, direct or indirect, subsidiaries.

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The following financial information presents condensed consolidating balance sheets, statements of income and statements of cash flows for FTI Consulting, all the guarantor subsidiaries, all the non-guarantor subsidiaries and the eliminations necessary to arrive at the consolidated information for FTI Consulting and its subsidiaries. For purposes of this presentation, we have accounted for our investments in our subsidiaries using the equity method of accounting. The principal eliminating entries eliminate investment in subsidiary and intercompany balances and transactions.

Condensed Consolidating Balance Sheet Information as of June 30, 2011

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 24,097	$ 371	$ 74,277	$	$ 98,745
Restricted cash	8,632		2,751		11,383
Accounts receivable, net	152,169	172,180	121,826		446,175
Intercompany receivables	90,403	496,810	97,713	(684,926)	
Other current assets	30,185	15,816	29,792		75,793