FTI CONSULTING INC
Form 10-Q
July 30, 2015

**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, 2015**

**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.)** |
| **1101 K Street NW, Washington, D.C.** | **20005** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(202) 312-9100**

**(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 24, 2015** |
|---|---|
| Common stock, par value $0.01 per share | 41,840,581 |

**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, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 239,988 | $ 283,680 |
| Accounts receivable: | | |
| Billed receivables | 419,906 | 381,464 |
| Unbilled receivables | 298,964 | 248,462 |
| Allowance for doubtful accounts and unbilled services | (169,570) | (144,825) |
| Accounts receivable, net | 549,300 | 485,101 |
| Current portion of notes receivable | 36,281 | 27,208 |
| Prepaid expenses and other current assets | 53,727 | 60,852 |
| Current portion of deferred tax assets | 25,127 | 27,332 |
| Total current assets | 904,423 | 884,173 |
| Property and equipment, net of accumulated depreciation | 80,527 | 82,163 |
| Goodwill | 1,208,508 | 1,211,689 |
| Other intangible assets, net of amortization | 70,356 | 77,034 |
| Notes receivable, net of current portion | 120,076 | 122,149 |
| Other assets | 53,174 | 53,319 |
| **Total assets** | $ 2,437,064 | $ 2,430,527 |
| **Liabilities and Stockholders Equity** | | |
| **Current liabilities** | | |
| Accounts payable, accrued expenses and other | $ 90,083 | $ 99,494 |
| Accrued compensation | 183,416 | 220,959 |
| Current portion of long-term debt | 11,000 | 11,000 |
| Billings in excess of services provided | 30,122 | 35,639 |
| Total current liabilities | 314,621 | 367,092 |
| Long-term debt, net of current portion | 700,000 | 700,000 |
| Deferred income taxes | 161,534 | 161,932 |
| Other liabilities | 97,327 | 98,757 |

| | | |
|---|---|---|
| **Total liabilities** | 1,273,482 | 1,327,781 |
| Commitments and contingent liabilities (note 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 41,807 (2015) and 41,181 (2014) | 418 | 412 |
| Additional paid-in capital | 415,793 | 393,174 |
| Retained earnings | 834,823 | 789,428 |
| Accumulated other comprehensive loss | (87,452) | (80,268) |
| **Total stockholders equity** | 1,163,582 | 1,102,746 |
| **Total liabilities and stockholders equity** | $ 2,437,064 | $ 2,430,527 |

See accompanying notes to the condensed consolidated financial statements

**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income**

(in thousands, except per share data)

Unaudited

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Revenues** | $ 449,137 | $ 454,324 | $ 881,475 | $ 879,876 |
| **Operating expenses** | | | | |
| Direct cost of revenues | 291,469 | 295,549 | 570,499 | 569,824 |
| Selling, general and administrative expenses | 109,045 | 107,032 | 211,259 | 215,419 |
| Special charges | | 9,364 | | 9,364 |
| Acquisition-related contingent consideration | (1,538) | (5) | (1,304) | (1,848) |
| Amortization of other intangible assets | 3,007 | 3,452 | 6,019 | 8,068 |
| | 401,983 | 415,392 | 786,473 | 800,827 |
| **Operating income** | 47,154 | 38,932 | 95,002 | 79,049 |
| **Other income (expense)** | | | | |
| Interest income and other | 950 | 1,448 | 813 | 2,451 |
| Interest expense | (12,473) | (12,908) | (24,841) | (25,563) |
| | (11,523) | (11,460) | (24,028) | (23,112) |
| **Income before income tax provision** | 35,631 | 27,472 | 70,974 | 55,937 |
| **Income tax provision** | 13,922 | 10,225 | 25,579 | 20,573 |
| **Net income** | $ 21,709 | $ 17,247 | $ 45,395 | $ 35,364 |
| **Earnings per common share basic** | $ 0.53 | $ 0.43 | $ 1.12 | $ 0.89 |
| **Earnings per common share diluted** | $ 0.52 | $ 0.42 | $ 1.09 | $ 0.87 |
| **Other comprehensive income (loss), net of tax:** | | | | |
| Foreign currency translation adjustments, net of tax expense of $0 | $ 13,298 | $ 7,694 | $ (7,184) | $ 12,422 |
| **Total other comprehensive income (loss), net of tax** | 13,298 | 7,694 | (7,184) | 12,422 |
| **Comprehensive income** | $ 35,007 | $ 24,941 | $ 38,211 | $ 47,786 |

See accompanying notes to the condensed consolidated financial statements

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**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Statement of Stockholders Equity**

(in thousands)

Unaudited

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Total |
|---|---|---|---|---|---|---|
| **Balance December 31, 2014** | 41,181 | $ 412 | $ 393,174 | $ 789,428 | $ (80,268) | $ 1,102,746 |
| Net income | | | | 45,395 | | 45,395 |
| Other comprehensive income (loss): | | | | | | |
| Cumulative translation adjustment | | | | | (7,184) | (7,184) |
| Issuance of common stock in connection with: | | | | | | |
| Exercise of options, net of income tax impact from share-based awards of $2,599 | 562 | 6 | 13,717 | | | 13,723 |
| Restricted share grants, less net settled shares of 102 | 64 | | (3,803) | | | (3,803) |
| Stock units issued under incentive compensation plan | | | 2,124 | | | 2,124 |
| Share-based compensation | | | 10,581 | | | 10,581 |
| **Balance June 30, 2015** | 41,807 | $ 418 | $ 415,793 | $ 834,823 | $ (87,452) | $ 1,163,582 |

See accompanying notes to the condensed consolidated financial statements

**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

(in thousands)

Unaudited

| | Six Months Ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Operating activities** | | |
| Net income | $ 45,395 | $ 35,364 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 15,111 | 18,138 |
| Amortization of other intangible assets | 6,019 | 8,068 |
| Acquisition-related contingent consideration | (1,304) | (1,848) |
| Provision for doubtful accounts | 6,571 | 8,671 |
| Non-cash share-based compensation | 10,581 | 15,194 |
| Non-cash interest expense | 1,343 | 1,348 |
| Other | (223) | (368) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, billed and unbilled | (70,710) | (115,787) |
| Notes receivable | (6,626) | (22,559) |
| Prepaid expenses and other assets | (5,120) | 8,860 |
| Accounts payable, accrued expenses and other | (2,435) | 2,645 |
| Income taxes | 16,458 | 4,832 |
| Accrued compensation | (40,587) | (47,418) |
| Billings in excess of services provided | (5,204) | 7,756 |
| Net cash used in operating activities | (30,731) | (77,104) |
| **Investing activities** | | |
| Payments for acquisition of businesses, net of cash received | (576) | (15,611) |
| Purchases of property and equipment | (17,533) | (21,778) |
| Other | 64 | (6) |
| Net cash used in investing activities | (18,045) | (37,395) |
| **Financing activities** | | |
| Payment of debt financing fees | (3,090) | |
| Purchase and retirement of common stock | | (4,367) |
| Net issuance of common stock under equity compensation plans | 8,662 | (2,692) |
| Deposits | 2,423 | 11,580 |
| Other | (326) | (891) |
| Net cash provided by financing activities | 7,669 | 3,630 |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (2,585) | (552) |
| Net decrease in cash and cash equivalents | (43,692) | (111,421) |
| Cash and cash equivalents, beginning of period | 283,680 | 205,833 |
| Cash and cash equivalents, end of period | $ 239,988 | $ 94,412 |
| **Supplemental cash flow disclosures** | | |
| Cash paid for interest | $ 23,047 | $ 23,541 |
| Cash paid for income taxes, net of refunds | 9,121 | 15,743 |
| Non-cash investing and financing activities: | | |
| Issuance of stock units under incentive compensation plans | 2,124 | 1,674 |

See accompanying notes to the condensed consolidated financial statements

**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

The unaudited condensed consolidated financial statements of FTI Consulting, Inc., including its consolidated subsidiaries (collectively, the Company, we, our or FTI Consulting ) presented herein, 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. Certain prior period amounts have been reclassified to conform to the current period presentation. 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, 2014.

## 2. 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 common 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, each using the treasury stock method.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Numerator basic and diluted** | | | | |
| Net income | $ 21,709 | $ 17,247 | $ 45,395 | $ 35,364 |
| **Denominator** | | | | |
| Weighted average number of common shares outstanding basic | 40,792 | 39,681 | 40,607 | 39,560 |
| Effect of dilutive stock options | 451 | 288 | 414 | 322 |
| Effect of dilutive restricted shares | 453 | 781 | 508 | 722 |
| Weighted average number of common shares outstanding diluted | 41,696 | 40,750 | 41,529 | 40,604 |
| **Earnings per common share basic** | $ 0.53 | $ 0.43 | $ 1.12 | $ 0.89 |
| **Earnings per common share diluted** | $ 0.52 | $ 0.42 | $ 1.09 | $ 0.87 |

| | | | | |
|---|---|---|---|---|
| **Antidilutive stock options and restricted shares** | 1,524 | 3,637 | 1,849 | 3,408 |

**3. New Accounting Standards Not Yet Adopted**

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. We do not expect the adoption of this ASU to have a material impact on our consolidated balance sheets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, which requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. On July 9, 2015, the FASB deferred the effective date of the standard by one year which would result in the new standard being effective for the Company at the beginning of its first quarter of fiscal year 2018. We have not evaluated the impact of the new standard, including possible transition alternatives, on the Company s financial statements.

**4. Special Charges**

There were no special charges recorded during the three and six months ended June 30, 2015.

During the three months ended June 30, 2014, we recorded special charges totaling $9.4 million, of which $0.6 million was non-cash. The charges consisted of $7.9 million related to the termination of the Company s corporate airplane lease and $1.5 million related to the closure of the Company s West Palm Beach executive office and related lease termination.

The total cash outflow associated with the special charges recorded in 2014, 2013 and 2012 is expected to be $65.1 million, of which $50.8 million has been paid as of June 30, 2015. Approximately $2.2 million is expected to be paid during the remainder of 2015, $3.3 million is expected to be paid in 2016, $3.1 million is expected to be paid in 2017, $2.7 million is expected to be paid in 2018, and the remaining balance of $3.0 million will be paid from 2019 to 2025. A liability for the current and noncurrent portions of the amounts to be paid is included in Accounts payable, accrued expenses and other and Other liabilities, respectively, on the Condensed Consolidated Balance Sheets.

Activity related to the liability for these costs for the six months ended June 30, 2015 is as follows:

| | Employee Termination Costs | Lease Costs | Total |
|---|---|---|---|
| **Balance at December 31, 2014** | $ 13,759 | $ 4,854 | $ 18,613 |
| Payments | (3,680) | (496) | $ (4,176) |
| Foreign currency translation adjustment and other | (168) | | $ (168) |
| **Balance at June 30, 2015** | $ 9,911 | $ 4,358 | $ 14,269 |

**5. Allowance for Doubtful Accounts and Unbilled Services**

We record adjustments to the allowance for doubtful accounts and unbilled services as a reduction in revenue when there are changes in estimates of fee reductions that may be imposed by bankruptcy courts and other regulatory institutions, for both billed and unbilled receivables. The allowance for doubtful accounts and unbilled services is also adjusted after the related work has been billed to the client and we discover that collectability is not reasonably assured. These adjustments are recorded to Selling, general and administrative expenses on the Condensed Consolidated Statements of Comprehensive Income and totaled $3.6 million and $6.6 million for the three and six months ended June 30, 2015, respectively, and $4.2 million and $8.7 million for the three and six months ended

June 30, 2014, respectively.

**6. Research and Development Costs**

Research and development costs related to software development totaled $4.8 million and $10.7 million for the three and six months ended June 30, 2015, respectively, and $4.6 million and $9.1 million for the three and six months ended June 30, 2014, respectively. Research and development costs are included in Selling, general and administrative expenses on the Condensed Consolidated Statements of Comprehensive Income.

**7. Financial Instruments**

***Fair Value of Financial Instruments***

We consider the recorded value of certain 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, 2015 and December 31, 2014, based on the short-term nature of the assets and liabilities. The fair value of our long-term debt at June 30, 2015 was $740.5 million compared to a carrying value of $711.0 million. At December 31, 2014, the fair value of our long-term debt was $735.0 million compared to a carrying value of $711.0 million. We determine the fair value of our long-term debt primarily based on quoted market prices for our $6^3/_4$% Senior Notes Due 2020 ( 2020 Notes ) and 6.0% Senior Notes Due 2022 ( 2022 Notes, and together with the 2020 Notes, the Senior Notes ). The fair value of our long-term debt is classified within Level 2 of the fair value hierarchy, because it is traded in less active markets.

For business combinations consummated on or after January 1, 2009, we estimate the fair value of acquisition-related contingent consideration based on the present value of the consideration expected to be paid during the remainder of the earnout period, based on management s assessment of the acquired operations forecasted earnings. This fair value measure is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Fair value measurements characterized within Level 3 of the fair value hierarchy are measured based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

The significant unobservable inputs used in the fair value measurements of our acquisition-related contingent consideration include our measures of the future profitability and related cash flows of the acquired business or assets, impacted by appropriate discount rates. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumptions used for the discount rates is accompanied by a directionally opposite change in the fair value measurement and a change in the assumptions used for the future cash flows is accompanied by a directionally similar change in the fair value measurement. The fair value of the contingent consideration is reassessed on a quarterly basis by the Company using additional information as it becomes available.

Any change in the fair value of an acquisition s contingent consideration liability results in a remeasurement gain or loss that is recorded as income or expense, respectively, and is included within Acquisition-related contingent consideration in the Condensed Consolidated Statements of Comprehensive Income. During the three and six months ended June 30, 2015, the Company recorded $1.7 million gain related to the change in fair value of future contingent consideration payments, of which $1.5 million related to a termination of a contingent consideration arrangement, for which no future payments will be made. Fair value remeasurement gains of $0.3 million and $2.4 million for the three and six months ended June 30, 2014, respectively.

The following table represents the changes in the acquisition-related contingent consideration liability during the three and six months ended June 30, 2015 and 2014, respectively:

| (in thousands) | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|---|---|
| **Beginning balance** | $ 6,331 | $ 6,903 | $ 6,338 | $ 13,329 |
| Acquisition [1] | | | | (4,495) |
| Accretion of acquisition-related contingent consideration | 137 | 255 | 371 | 535 |
| Remeasurement of acquisition-related contingent consideration | (1,675) | (261) | (1,675) | (2,383) |
| Payments | (421) | (314) | (662) | (378) |
| Unrealized gains (losses) related to currency translation in other comprehensive income | | 18 | | (7) |
| **Ending balance** | $ 4,372 | $ 6,601 | $ 4,372 | $ 6,601 |

(1) Includes adjustments during the purchase price allocation period.

**8. Goodwill and Other Intangible Assets**

The changes in the carrying amounts of goodwill by operating segment for the six months ended June 30, 2015, are as follows:

| | Corporate Finance/ Restructuring | Forensic and Litigation Consulting | Economic Consulting | Technology | Strategic Communications | Total |
|---|---|---|---|---|---|---|
| **Balances at December 31, 2014:** | | | | | | |
| Goodwill | $ 446,066 | $ 238,173 | $ 269,897 | $ 117,967 | $ 333,725 | $ 1,405,828 |
| Accumulated goodwill impairment | | | | | (194,139) | (194,139) |
| **Goodwill, net at December 31, 2014** | 446,066 | 238,173 | 269,897 | 117,967 | 139,586 | 1,211,689 |
| Acquisitions | 427 | | | | | 427 |
| Foreign currency translation adjustment and other | (2,474) | (758) | (149) | 21 | (248) | (3,608) |
| Goodwill | 444,019 | 237,415 | 269,748 | 117,988 | 333,477 | 1,402,647 |
| Accumulated goodwill impairment | | | | | (194,139) | (194,139) |
| **Goodwill, net at June 30, 2015** | $ 444,019 | $ 237,415 | $ 269,748 | $ 117,988 | $ 139,338 | $ 1,208,508 |

**Other Intangible Assets**

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of $3.0 million and $6.0 million for the three and six months ended June 30, 2015, respectively, and $3.5 and $8.1 million for the three and six months ended June 30, 2014, respectively. Based solely on the amortizable intangible assets recorded as of June 30, 2015, we estimate amortization expense to be $5.8 million during the remainder of 2015, $10.6 million in 2016, $9.8 million in 2017, $8.2 million in 2018, $7.6 million in 2019, $7.4 million in 2020, and $15.4 million in years after 2020. 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, and other factors.

**9. Debt**

The components of debt obligations are presented in the table below:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| 6 ¾% senior notes due 2020 | $ 400,000 | $ 400,000 |
| 6.0% senior notes due 2022 | 300,000 | 300,000 |
| Notes payable to former shareholders of acquired businesses | 11,000 | 11,000 |
| **Total debt** | 711,000 | 711,000 |
| Less current portion | 11,000 | 11,000 |
| **Long-term debt, net of current portion** | $ 700,000 | $ 700,000 |

On June 26, 2015, we entered into a credit agreement (the 2015 Credit Agreement ), which effectively amended and extended our prior Credit Agreement, dated November 27, 2012 (the 2012 Credit Agreement ). The 2012 Credit Agreement provided for a five-year $350 million senior secured revolving line of credit maturing on November 27, 2017. The 2015 Credit Agreement provides for a $550 million senior secured revolving line of credit (the 2015 Credit Facility ) maturing on June 26, 2020. We did not incur any early termination or prepayment penalties in connection with the replacement of the 2012 Credit Agreement. At the Company s option, borrowings under the 2015 Credit Facility will bear interest at either one, two or three month LIBOR or an alternative base rate, in each case plus the applicable margin. Borrowings will initially bear interest at LIBOR plus 1.75% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 0.75% per annum, in the case of base rate loans. After delivering the compliance certificate for the fiscal quarter ended June 30, 2015, the applicable margin will fluctuate between 1.375% per annum and 2.00% per annum, in the case of LIBOR borrowings, or between 0.375% per annum and 1.00% per annum, in the case of base rate borrowings, in each case, based upon the Company s Consolidated Total Leverage Ratio (as defined in the Credit Agreement) at such time.

We will initially be required to pay a commitment fee of 0.30% per annum on the daily unused amount of the facility and a letter of credit fronting fee of 1.75% per annum on the maximum amount available to be drawn under each letter of credit that is issued and outstanding. After delivering the compliance certificate for the fiscal quarter ending June 30, 2015, the commitment fee rate will fluctuate between 0.25% and 0.35% per annum and the letter of credit fee rate will fluctuate between 1.375% and 2.00% per annum, in each case, based upon the Company s Consolidated Total Leverage Ratio.

Under the 2015 Credit Facility, the lenders have a security interest in substantially all of the existing and after acquired assets of FTI Consulting, Inc. and substantially all of our domestic subsidiaries. Subject to certain conditions, at any time prior to maturity, we will be able to invite existing and new lenders to increase the size of the revolving credit facility under the 2015 Credit Agreement or provide new term loans under the 2015 Credit Agreement, in each case, up to a maximum of $100.0 million plus unlimited amounts so long as the effect of the new increase does not cause the Consolidated Total Leverage Ratio to be greater than 3.50 to 1.00.

The 2015 Credit Agreement governing our 2015 Credit Facility and the indentures governing our Notes contain covenants which, among other things, limit our ability to incur additional indebtedness, create liens, pay dividends on our capital stock, make distributions or repurchases of our capital stock or make specified other restricted payments, consolidate, merge or sell assets or engage in sale-leasebacks, guarantee obligations of other entities and our foreign subsidiaries, make investments and loans, enter into transactions with affiliates or related persons, repay, redeem or purchase certain indebtedness (or modify the terms thereof), make material changes to accounting and reporting practices and engage in any business other than consulting-related businesses or substantially related, complimentary or incidental businesses. In addition, the 2015 Credit Agreement governing our 2015 Credit Facility includes financial covenants that require us to (i) not to exceed a maximum consolidated total leverage ratio (the ratio of total funded debt to adjusted EBITDA), (and (iii) not to exceed a maximum consolidated interest coverage ratio (the ratio of adjusted EBITDA minus capital expenditures and cash taxes to cash interest). At June 30, 2015, we were in compliance with all covenants as stipulated in the 2015 Credit Agreement governing our 2015 Credit Facility and the indentures governing our Senior Notes. There were no borrowings outstanding under the Company s 2015 Credit Facility as of June 30, 2015.

**10. 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 relating to any pending legal action would materially affect our financial position or results of operations.

**11. 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 the Company s equity compensation plans, subject to the discretion of the administrator of the plans. During the three months ended June 30, 2015, we granted 124,688 restricted stock awards, 126,070 stock options, 81,016 performance stock units, and 51,369 restricted stock units. During the six months ended June 30, 2015, we granted 244,020 restricted stock awards, 184,933 stock options, 81,016 performance stock units, and 109,665 restricted stock units. During the three months ended June 30, 2015, 43,537 stock options were forfeited prior to the completion of the vesting requirements. These awards are recorded as equity on the Condensed Consolidated Balance Sheet.

Total share-based compensation expense, net of forfeitures, for the three and six months ended June 30, 2015 and 2014 is detailed in the following table:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Comprehensive Income Statement Classification** | **2015** | **2014** | **2015** | **2014** |
| Direct cost of revenues | $ 2,234 | $ 3,548 | $ 6,133 | $ 9,370 |
| Selling, general and administrative expenses | 2,134 | 2,773 | 5,177 | 6,027 |
| Total share-based compensation expense | $ 4,368 | $ 6,321 | $ 11,310 | $ 15,397 |

**12. Income Taxes**

The Company has estimated its annual effective tax rate for the full fiscal year 2015 and applied that rate to its income before income taxes in determining its provision for income taxes for the three and six months ended June 30, 2015. The Company also records discrete items in each respective period as appropriate.

As of June 30, 2015 and December 31, 2014, the liability for uncertain tax positions was $7.9 million and $2.8 million respectively. During the six month ended June 30, 2015, the increase in the liability for uncertain tax positions is due to the timing of tax deductions claimed in prior years.

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**13. Segment Reporting**

We manage our business in five reportable 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 areas, such as restructuring (including bankruptcy), interim management, financings, 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, business intelligence assessments, data analytics, risk mitigation services as well as interim management and performance improvement services for our health solutions practice clients.

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

Our Technology segment provides electronic discovery and information management consulting, 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, cloud and social media data as well as financial and transactional data.

Our Strategic Communications segment provides advice and consulting services relating to financial and corporate communications and investor relations, reputation management and brand communications, public affairs, business consulting and digital design and marketing.

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, remeasurement of acquisition-related contingent consideration, special charges and goodwill impairment charges. We define Total Adjusted Segment EBITDA as the total of Adjusted Segment EBITDA for all segments, which excludes unallocated corporate expenses. Although Adjusted Segment EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, we use Adjusted Segment EBITDA to internally evaluate the financial performance of our segments because we believe it is a useful supplemental measure which reflects current core operating performance and provides an indicator of the segment s ability to generate cash.

The table below presents revenues and Adjusted Segment EBITDA for our reportable segments for the three and six months ended June 30, 2015 and 2014:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Revenues** | | | | |
| Corporate Finance/Restructuring | $ 109,113 | $ 104,020 | $ 215,325 | $ 198,002 |
| Forensic and Litigation Consulting | 126,131 | 119,081 | 249,396 | 240,510 |
| Economic Consulting | 108,698 | 117,227 | 214,779 | 224,078 |
| Technology | 61,826 | 60,720 | 116,480 | 120,783 |
| Strategic Communications | 43,369 | 53,276 | 85,495 | 96,503 |
| Revenues | $ 449,137 | $ 454,324 | $ 881,475 | $ 879,876 |
| **Adjusted Segment EBITDA** | | | | |
| Corporate Finance/Restructuring | $ 22,032 | $ 19,133 | $ 44,512 | $ 30,084 |
| Forensic and Litigation Consulting | 19,979 | 22,271 | 42,050 | 48,765 |
| Economic Consulting | 15,292 | 18,043 | 26,848 | 31,073 |
| Technology | 12,166 | 15,104 | 22,239 | 32,452 |
| Strategic Communications | 5,631 | 5,834 | 11,383 | 8,563 |
| Total Adjusted Segment EBITDA | $ 75,100 | $ 80,385 | $ 147,032 | $ 150,937 |

The table below reconciles Total Adjusted Segment EBITDA to income before income tax provision:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Total Adjusted Segment EBITDA | $ 75,100 | $ 80,385 | $ 147,032 | $ 150,937 |
| Segment depreciation expense | (6,513) | (7,512) | (13,504) | (15,060) |
| Amortization of other intangible assets | (3,007) | (3,452) | (6,019) | (8,068) |
| Special charges | | (9,364) | | (9,364) |
| Unallocated corporate expenses, excluding special charges | (20,101) | (21,386) | (34,182) | (41,779) |
| Interest income and other | 950 | 1,448 | 813 | 2,451 |
| Interest expense | (12,473) | (12,908) | (24,841) | (25,563) |
| Remeasurement of acquisition-related contingent consideration | 1,675 | 261 | 1,675 | 2,383 |
| Income before income tax provision | $ 35,631 | $ 27,472 | $ 70,974 | $ 55,937 |

**14. Supplemental Condensed Consolidating Guarantor and Non-Guarantor Financial Information**

Substantially all of our domestic subsidiaries are guarantors of borrowings under our 2015 Credit Facility and Senior Notes. The guarantees are full and unconditional and joint and several. All of the guarantors are 100%-owned, direct or indirect, subsidiaries. The following financial information presents condensed consolidating balance sheets, statements of comprehensive 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, 2015**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 132,087 | $ 159 | $ 107,742 | $ | $ 239,988 |
| Accounts receivable, net | 185,150 | 176,336 | 187,814 | | 549,300 |
| Intercompany receivables | | 873,606 | | (873,606) | |
| Other current assets | 69,662 | 26,636 | 18,837 | | 115,135 |
| **Total current assets** | 386,899 | 1,076,737 | 314,393 | (873,606) | 904,423 |
| Property and equipment, net | 34,915 | 15,960 | 29,652 | | 80,527 |
| Goodwill | 558,978 | 416,053 | 233,477 | | 1,208,508 |
| Other intangible assets, net | 27,834 | 17,001 | 48,316 | (22,795) | 70,356 |
| Investments in subsidiaries | 1,959,993 | 491,623 | | (2,451,616) | |
| Other assets | 53,092 | 78,189 | 41,969 | | 173,250 |
| **Total assets** | $ 3,021,711 | $ 2,095,563 | $ 667,807 | $ (3,348,017) | $ 2,437,064 |
| **Liabilities** | | | | | |
| Intercompany payables | $ 821,938 | $ 13,607 | $ 38,061 | $ (873,606) | $ |
| Other current liabilities | 130,039 | 98,336 | 86,246 | | 314,621 |
| **Total current liabilities** | 951,977 | 111,943 | 124,307 | (873,606) | 314,621 |
| Long-term debt, net | 700,000 | | | | 700,000 |
| Other liabilities | 206,152 | 11,140 | 41,569 | | 258,861 |
| **Total liabilities** | 1,858,129 | 123,083 | 165,876 | (873,606) | 1,273,482 |
| **Stockholders equity** | 1,163,582 | 1,972,480 | 501,931 | (2,474,411) | 1,163,582 |
| **Total liabilities and stockholders equity** | $ 3,021,711 | $ 2,095,563 | $ 667,807 | $ (3,348,017) | $ 2,437,064 |

**Condensed Consolidating Balance Sheet Information as of December 31, 2014**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 171,090 | $ 159 | $ 112,431 | $ | $ 283,680 |
| Accounts receivable, net | 153,495 | 162,032 | 169,574 | | 485,101 |
| Intercompany receivables | | 875,000 | 12,195 | (887,195) | |
| Other current assets | 74,455 | 22,994 | 17,943 | | 115,392 |
| **Total current assets** | 399,040 | 1,060,185 | 312,143 | (887,195) | 884,173 |
| Property and equipment, net | 33,864 | 17,050 | 31,249 | | 82,163 |
| Goodwill | 559,318 | 416,053 | 236,318 | | 1,211,689 |

| | | | | | |
|---|---|---|---|---|---|
| Other intangible assets, net | 29,807 | 18,432 | 53,357 | (24,562) | 77,034 |
| Investments in subsidiaries | 1,915,869 | 484,162 | | (2,400,031) | |
| Other assets | 61,025 | 78,388 | 36,055 | | 175,468 |
| **Total assets** | $ 2,998,923 | $ 2,074,270 | $ 669,122 | $ (3,311,788) | $ 2,430,527 |
| **Liabilities** | | | | | |
| Intercompany payables | $ 832,253 | $ 14,197 | $ 40,745 | $ (887,195) | $ |
| Other current liabilities | 148,299 | 113,450 | 105,343 | | 367,092 |
| **Total current liabilities** | 980,552 | 127,647 | 146,088 | (887,195) | 367,092 |
| Long-term debt, net | 700,000 | | | | 700,000 |
| Other liabilities | 215,625 | 14,955 | 30,109 | | 260,689 |
| **Total liabilities** | 1,896,177 | 142,602 | 176,197 | (887,195) | 1,327,781 |
| **Stockholders equity** | 1,102,746 | 1,931,668 | 492,925 | (2,424,593) | 1,102,746 |
| **Total liabilities and stockholders equity** | $ 2,998,923 | $ 2,074,270 | $ 669,122 | $ (3,311,788) | $ 2,430,527 |

**Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended**

**June 30, 2015**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenues** | $ 172,899 | $ 289,431 | $ 125,484 | $ (138,677) | $ 449,137 |
| **Operating expenses** | | | | | |
| Direct cost of revenues | 106,517 | 238,186 | 85,255 | (138,489) | 291,469 |
| Selling, general and administrative expenses | 48,177 | 30,962 | 30,094 | (188) | 109,045 |
| Acquisition-related contingent consideration | (1,485) | (53) | | | (1,538) |
| Amortization of other intangible assets | 986 | 716 | 2,202 | (897) | 3,007 |
| **Operating income** | 18,704 | 19,620 | 7,933 | 897 | 47,154 |
| **Other (expense) income** | (11,709) | (1,053) | 1,239 | | (11,523) |
| **Income before income tax provision** | 6,995 | 18,567 | 9,172 | 897 | 35,631 |
| **Income tax provision** | 4,124 | 8,267 | 1,531 | | 13,922 |
| **Equity in net earnings of subsidiaries** | 18,838 | 6,851 | | (25,689) | |
| **Net income** | 21,709 | 17,151 | 7,641 | (24,792) | 21,709 |
| **Other comprehensive loss, net of tax:** | | | | | |
| Foreign currency translation adjustments, net of tax expense of $0 | | | 13,298 | | 13,298 |
| **Total other comprehensive income, net of tax** | | | 13,298 | | 13,298 |
| **Comprehensive income** | $ 21,709 | $ 17,151 | $ 20,939 | $ (24,792) | $ 35,007 |

**Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended**

**June 30, 2014**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenues** | $ 155,457 | $ 269,329 | $ 131,805 | $ (102,267) | $ 454,324 |
| **Operating expenses** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Direct cost of revenues | 98,574 | 210,455 | 88,439 | (101,919) | 295,549 |
| Selling, general and administrative expenses | 45,864 | 30,077 | 31,439 | (348) | 107,032 |
| Special Charges | 9,364 | | | | 9,364 |
| Acquisition-related contingent consideration | 2 | 200 | (207) | | (5) |
| Amortization of other intangible assets | 1,086 | 641 | 2,697 | (972) | 3,452 |
| **Operating income** | 567 | 27,956 | 9,437 | 972 | 38,932 |
| **Other (expense) income** | (12,262) | (1,969) | 2,771 | | (11,460) |
| **Income (loss) before income tax provision** | (11,695) | 25,987 | 12,208 | 972 | 27,472 |
| **Income tax (benefit) provision** | (4,847) | 11,858 | 3,214 | | 10,225 |
| **Equity in net earnings of subsidiaries** | 24,095 | 8,357 | | (32,452) | |
| **Net income** | 17,247 | 22,486 | 8,994 | (31,480) | 17,247 |
| **Other comprehensive income, net of tax:** | | | | | |
| Foreign currency translation adjustments, net of tax expense of $0 | | | 7,694 | | 7,694 |
| **Total other comprehensive income, net of tax** | | | 7,694 | | 7,694 |
| **Comprehensive income** | $ 17,247 | $ 22,486 | $ 16,688 | $ (31,480) | $ 24,941 |

**Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended**

**June 30, 2015**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenues** | $ 342,034 | $ 433,570 | $ 247,336 | $ (141,465) | $ 881,475 |
| **Operating expenses** | | | | | |
| Direct cost of revenues | 211,580 | 334,773 | 165,338 | (141,192) | 570,499 |
| Selling, general and administrative expense | 91,588 | 60,839 | 59,105 | (273) | 211,259 |
| Acquisition-related contingent consideration | (1,420) | 116 | | | (1,304) |
| Amortization of other intangible assets | 1,972 | 1,431 | 4,383 | (1,767) | 6,019 |
| **Operating income** | 38,314 | 36,411 | 18,510 | 1,767 | 95,002 |
| **Other (expense) income** | (25,575) | (3,063) | 4,610 | | (24,028) |
| **Income (loss) before income tax provision** | 12,739 | 33,348 | 23,120 | 1,767 | 70,974 |
| **Income tax (benefit) provision** | 6,687 | 13,993 | 4,899 | | 25,579 |
| **Equity in net earnings of subsidiaries** | 39,343 | 16,676 | | (56,019) | |
| **Net income** | 45,395 | 36,031 | 18,221 | (54,252) | 45,395 |
| **Other comprehensive income (loss), net of tax:** | | | | | |
| Foreign currency translation adjustments, net of tax $0 | | | (7,184) | | (7,184) |
| **Total other comprehensive income, net of tax** | | | (7,184) | | (7,184) |
| **Comprehensive income** | $ 45,395 | $ 36,031 | $ 11,037 | $ (54,252) | $ 38,211 |

**Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended**

**June 30, 2014**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenues** | $ 306,489 | $ 521,412 | $ 252,332 | $ (200,357) | $ 879,876 |
| **Operating expenses** | | | | | |
| Direct cost of revenues | 198,072 | 406,154 | 165,296 | (199,698) | 569,824 |

| | | | | | |
|---|---|---|---|---|---|
| Selling, general and administrative expense | 91,162 | 58,577 | 66,339 | (659) | 215,419 |
| Special charges | 9,364 | | | | 9,364 |
| Acquisition-related contingent consideration | (596) | (403) | (849) | | (1,848) |
| Amortization of other intangible assets | 2,159 | 1,370 | 6,468 | (1,929) | 8,068 |
| **Operating income** | 6,328 | 55,714 | 15,078 | 1,929 | 79,049 |
| **Other (expense) income** | (25,576) | (4,235) | 6,699 | | (23,112) |
| **Income (loss) before income tax provision** | (19,248) | 51,479 | 21,777 | 1,929 | 55,937 |
| **Income tax (benefit) provision** | (7,705) | 22,904 | 5,374 | | 20,573 |
| **Equity in net earnings of subsidiaries** | 46,907 | 14,690 | | (61,597) | |
| **Net income** | 35,364 | 43,265 | 16,403 | (59,668) | 35,364 |
| **Other comprehensive income, net of tax:** | | | | | |
| Foreign currency translation adjustments, net of tax $0 | | | 12,422 | | 12,422 |
| **Total other comprehensive income, net of tax** | | | 12,422 | | 12,422 |
| **Comprehensive income** | $ 35,364 | $ 43,265 | $ 28,825 | $ (59,668) | $ 47,786 |

**Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2015**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net cash used in operating activities | $ (28,171) | $ 8,296 | $ (10,856) | $ (30,731) |
| **Investing activities** | | | | |
| Payments for acquisition of businesses, net of cash received | | | (576) | (576) |
| Purchases of property and equipment | (6,000) | (8,887) | (2,646) | (17,533) |
| Other | 25 | | 39 | 64 |
| Net cash used in investing activities | (5,975) | (8,887) | (3,183) | (18,045) |
| **Financing activities** | | | | |
| Payments of debt financing fees | (3,090) | | | (3,090) |
| Net issuance of common stock under equity compensation plans | 8,662 | | | 8,662 |
| Deposits | | | 2,423 | 2,423 |
| Other | (114) | (212) | | (326) |
| Intercompany transfers | (10,315) | 803 | 9,512 | |
| Net cash provided by (used in) financing activities | (4,857) | 591 | 11,935 | 7,669 |
| Effect of exchange rate changes on cash and cash equivalents | | | (2,585) | (2,585) |
| **Net decrease in cash and cash equivalents** | (39,003) | | (4,689) | (43,692) |
| **Cash and cash equivalents, beginning of period** | 171,090 | 159 | 112,431 | 283,680 |
| **Cash and cash equivalents, end of period** | $ 132,087 | $ 159 | $ 107,742 | $ 239,988 |

**Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2014**

| | FTI Consulting, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net cash used in operating activities | $ (26,238) | $ (33,013) | $ (17,853) | (77,104) |
| **Investing activities** | | | | |
| Payments for acquisition of businesses, net of cash received | (14,656) | | (955) | (15,611) |
| Purchases of property and equipment | (7,140) | (3,890) | (10,748) | (21,778) |
| Other | (6) | | | (6) |

| | | | | |
|---|---|---|---|---|
| Net cash used in investing activities | (21,802) | (3,890) | (11,703) | (37,395) |
| **Financing activities** | | | | |
| Net issuance of common stock under equity compensation plans | (2,692) | | | (2,692) |
| Purchase and retirement of common stock | (4,367) | | | (4,367) |
| Deposits | | | 11,580 | 11,580 |
| Other | 444 | (378) | (957) | (891) |
| Intercompany transfers | (24,147) | 36,943 | (12,796) | |
| Net cash (used in) provided by financing activities | (30,762) | 36,565 | (2,173) | 3,630 |
| Effect of exchange rate changes on cash and cash equivalents | | | (552) | (552) |
| **Net decrease in cash and cash equivalents** | (78,802) | (338) | (32,281) | (111,421) |
| **Cash and cash equivalents, beginning of period** | 111,943 | 494 | 93,396 | 205,833 |
| **Cash and cash equivalents, end of period** | $ 33,141 | $ 156 | $ 61,115 | $ 94,412 |

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

The following is a discussion and analysis of our consolidated financial condition and results of operations for the three and six months ended June 30, 2015 and 2014 and significant factors that could affect our prospective financial condition and results of operations. This discussion should be read together with the accompanying unaudited condensed consolidated financial statements and related notes and with our Annual Report on Form 10-K for the year ended December 31, 2014. Historical results and any discussion of prospective results may not indicate our future performance. See Forward-Looking Statements.

**BUSINESS OVERVIEW**

We are a leading global business advisory firm dedicated to helping organizations protect and enhance their enterprise value. We work closely with our clients to help them anticipate, understand, manage and overcome complex business matters arising from such factors as the economy, financial and credit markets, governmental regulation, legislation and litigation. We assist clients in addressing a broad range of business challenges, such as restructuring (including bankruptcy), financing and credit issues and indebtedness, interim business management, forensic accounting and litigation matters, international arbitrations, mergers and acquisitions ( M&A ), antitrust and competition matters, securities litigation, electronic discovery ( e-discovery ), management and retrieval of electronically stored information ( ESI ), reputation management and strategic communications. We also provide services to help our clients take advantage of economic, regulatory, financial and other business opportunities. Our experienced teams of professionals include many individuals who are widely recognized as experts in their respective fields. We believe clients retain us because of our recognized expertise and capabilities in highly specialized areas as well as our reputation for satisfying client needs.

We report financial results for the following five reportable segments:

Our **Corporate Finance/Restructuring ( Corporate Finance )** 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 areas, such as restructuring (including bankruptcy), interim management, financings, M&A, post-acquisition integration, valuations, tax issues and performance improvement.

Our **Forensic and Litigation Consulting ( FLC )** segment provides law firms, companies, government clients and other interested parties with dispute advisory, investigations, forensic accounting, business intelligence assessments, data analytics, risk mitigation services as well as interim management and performance improvement services for our health solutions practice clients.

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

Our **Technology** segment provides e-discovery and information management consulting, 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 ESI, including e-mail, computer files, voicemail, instant messaging, cloud and social media data as well as financial and transactional data.

Our **Strategic Communications** segment provides advice and consulting services relating to financial and corporate communications and investor relations, reputation management and brand communications, public affairs, business consulting and digital design and marketing.

We derive substantially all of our revenues from providing professional services to both U.S. and global clients. Most of our services are rendered under time-and-expense arrangements that obligate the client to pay us a fee for the hours that we incur at agreed upon rates. Under this arrangement, we typically bill our clients for reimbursable expenses, which may include the cost of producing our work product and other direct expenses that we incur on behalf of the client, such as travel costs. We also render services for which certain clients may be required to pay us a fixed fee or recurring retainer. These arrangements are generally cancellable at any time. Some of our engagements contain performance-based arrangements in which we earn a success fee when and if certain predefined outcomes occur. This type of success fee may supplement a time-and-expense or fixed-fee arrangement. Success fee revenues may cause variations in our revenues and operating results due to the timing of achieving the performance-based criteria. In our Technology segment, certain clients are also billed based on the amount of data stored on our electronic systems, the volume of information processed or the number of users licensing our Ringtail® software products for use or installation within their own environments. We license certain products directly to end users as well as indirectly through our channel partner relationships. Unit-based revenue is defined as revenue billed on a per-item, per-page, or some other unit-based method and includes revenue from data processing and hosting, software usage and software licensing. Unit-based revenue includes revenue associated with our proprietary software that is made available to customers, either via a web browser ( on-demand ) or installed at our customer or partner locations ( on-premise ). On-demand revenue is charged on a unit or monthly basis and includes, but is not limited to, processing and review related functions. On-premise revenue is comprised of up-front license fees, with recurring support and maintenance. Seasonal factors, such as the timing of our employees and clients vacations and holidays, impact the timing of our revenues.

Our financial results are primarily driven by:

- the number, size and type of engagements we secure;
- the rate per hour or fixed charges we charge our clients for services;
- the utilization rates of the revenue-generating professionals we employ;
- the number of revenue-generating professionals;
- fees from clients on a retained basis or other;
- licensing of our software products and other technology services;
- the types of assignments we are working on at different times;
- the length of the billing and collection cycles; and
- the geographic locations of our clients or locations in which services are rendered.

**Non-GAAP Measures**

In the accompanying analysis of financial information, we sometimes use information derived from consolidated and segment financial information that is not presented in our financial statements and prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). Certain of these measures are considered non-GAAP financial measures under the SEC rules. Specifically, we have referred to:

- Segment Operating Income
- Total Segment Operating Income
- Adjusted EBITDA
- Adjusted Segment EBITDA
- Total Adjusted Segment EBITDA
- Adjusted EBITDA Margin
- Adjusted Segment EBITDA Margin
- Adjusted Net Income
- Adjusted Earnings per Diluted Share

We define Segment Operating Income (Loss) as a segment s share of consolidated operating income. We define Total Segment Operating Income (Loss) as the total of Segment Operating Income (Loss) for all segments, which excludes unallocated corporate expenses. We use Segment Operating Income (Loss) for the purpose of calculating Adjusted Segment EBITDA. We define Adjusted EBITDA as consolidated net income (loss) before income tax provision, other non-operating income (expense), depreciation, amortization of intangible assets, remeasurement of acquisition-related contingent consideration, special charges, goodwill impairment charges and losses on early extinguishment of debt. We define Adjusted Segment EBITDA as a segment s share of consolidated operating income before depreciation, amortization of intangible assets, remeasurement of acquisition-related contingent consideration, special charges and goodwill impairment charges. We define Total Adjusted Segment EBITDA as the total of Adjusted Segment EBITDA for all segments, which excludes unallocated corporate expenses. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of total revenues. We define Adjusted Segment EBITDA Margin as Adjusted Segment EBITDA as a percentage of a segment s share of revenue. We use Adjusted Segment EBITDA to internally evaluate the financial performance of our segments because we believe it is a useful supplemental measure which reflects current core operating performance and provides an indicator of the segment s ability to generate cash. We also believe that these measures, when considered together with our GAAP financial results, provide management and investors with a more complete understanding of our operating results, including underlying trends, by excluding the effects of remeasurement of acquisition-related contingent consideration, special charges and goodwill impairment charges. In addition, EBITDA is a common alternative measure of operating performance used by many of our competitors. It is used by investors, financial analysts, rating agencies and others to value and compare the financial performance of companies in our industry. Therefore, we also believe that these measures, considered along with corresponding GAAP measures, provide management and investors with additional information for comparison of our operating results to the operating results of other companies.

We define Adjusted Net Income and Adjusted Earnings per Diluted Share ( Adjusted EPS ) as net income and earnings per diluted share, respectively, excluding the impact of remeasurement of acquisition-related contingent consideration, special charges, goodwill impairment charges and losses on early extinguishment of debt. We use Adjusted Net Income for the purpose of calculating Adjusted EPS. Management uses Adjusted EPS to assess total company operating performance on a consistent basis. We believe that this measure, when considered together with our GAAP financial results, provides management and investors with a more complete understanding of our business operating results, including underlying trends, by excluding the effects of the remeasurement of acquisition-related contingent consideration, special charges, goodwill impairment charges and losses on early extinguishment of debt.

Non-GAAP financial measures are not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies. Non-GAAP financial measures should be considered in addition to, but not as a substitute for or superior to, the information contained in our Consolidated Statements of Comprehensive Income. Reconciliations of GAAP to non-GAAP financial measures are included elsewhere in this filing.

We define acquisition growth as revenue of acquired companies in the first twelve months following the effective date of an acquisition. Our definition of organic growth is the change in revenue excluding the impact of all such acquisitions.

**EXECUTIVE HIGHLIGHTS**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (dollars in thousands, except per share amounts) | | (dollars in thousands, except per share amounts) | |
| Revenues | $ 449,137 | $ 454,324 | $ 881,475 | $ 879,876 |
| Special charges | $ | $ 9,364 | $ | $ 9,364 |
| Adjusted EBITDA | $ 55,789 | $ 59,903 | $ 114,457 | $ 111,099 |
| Net income | $ 21,709 | $ 17,247 | $ 45,395 | $ 35,364 |
| Earnings per common share diluted | $ 0.52 | $ 0.42 | $ 1.09 | $ 0.87 |
| Adjusted EPS | $ 0.50 | $ 0.55 | $ 1.07 | $ 0.97 |
| Cash provided by (used in) operating activities | $ 20,602 | $ 33,691 | $ (30,731) | $ (77,104) |
| Total number of employees | 4,536 | 4,223 | 4,536 | 4,223 |

**Second Quarter 2015 Executive Highlights**

***Revenues***

Revenues for the three months ended June 30, 2015 decreased $5.2 million, or 1.1%, to $449.1 million, which included a $14.2 million, or 3.1% decrease from the estimated negative impact of foreign currency translation, compared to $454.3 million in the same prior year period. Excluding the impact of foreign currency translation, revenues increased $9.0 million, or 2.0%. The increase in revenues largely resulted from higher demand for North American distressed and non-distressed engagements in our Corporate Finance segment and due to higher demand and success fees in our FLC health solutions practice. These increases were partially offset by decreased demand for our non-M&A related antitrust and financial economics services in our Economic Consulting segment and lower pass through income in our Strategic Communications segment.

***Adjusted EBITDA***

Adjusted EBITDA for the three months ended June 30, 2015 decreased $4.1 million, or 6.9%, to $55.8 million, or 12.4% of revenues, compared to $59.9 million, or 13.2% of revenues, in the same prior year period. Adjusted EBITDA was unfavorably impacted due to lower utilization in our FLC and Economic Consulting segments, the mix impact of engagements within our Technology segment, and investments in headcount to support certain segments strategic plans for the future. These declines were partially offset by higher demand and higher utilization in North America and the Europe, Middle East and Africa ( EMEA ) region distressed and non-distressed services in our Corporate Finance segment.

***Net Income***

Net income for the three months ended June 30, 2015 increased $4.5 million to $21.7 million, compared to $17.2 million in the same prior year period. Net income for the current quarter was impacted by the segment results described above and also included a $0.9 million positive impact related to the termination of a contingent consideration arrangement. The prior year quarter included a $9.4 million special charge related to the termination of an airplane lease and certain office closures.

***Earnings per diluted share and Adjusted EPS***

Earnings per share for the three months ended June 30, 2015 increased $0.10 to $0.52 from $0.42 in the same prior year period. Earnings per share were impacted by the results as outlined above and the contingent liability reversal, which increased earnings per share by $0.02. Earnings per share for the three months ended

June 30, 2014 included the impact of the special charge of $9.4 million, which reduced earnings per share by $0.14. Adjusted EPS for the three months ended June 30, 2015 were $0.50 as compared to $0.55 in the same prior year period.

***Liquidity highlights***

Cash used in operating activities decreased $46.4 million, or 60.1%, to $30.7 million for the six months ended June 30, 2015 compared to $77.1 million for the same prior year period with higher compensation and forgivable loan payments partially offset by higher cash collections. DSO, which is one measure of the collections cycle, was 104 days at June 30, 2015 compared to 108 days at June 30, 2014 reflecting improved collections. We calculate DSO at the end of each reporting period by dividing net accounts receivable reduced by billings in excess of services provided, by revenue for the quarter, adjusted for changes in foreign exchange rates. We multiply the result by the number of days in the quarter.

Our financing activities during the three months ended June 30, 2015, included entering into the five-year, $550.0 million 2015 Credit Facility. The 2015 Credit Facility effectively amends and extends the maturity date of the Company s prior $350.0 million credit facility from November 27, 2017 to June 26, 2020. Borrowings under the 2015 Credit Facility may be used as permitted under the terms of the 2015 Credit Facility to finance working capital, for capital expenditures and for other general corporate purposes, to repay or redeem existing debt, including under the Company s existing credit facilities or senior notes, and for permitted acquisitions. The Company had no outstanding borrowings under the 2015 Credit Facility as of June 30, 2015.

The Company currently intends, on or before October 1, 2015 and subject to market conditions and other factors, to retire its $400.0 million of 6.75% Notes due 2020 (the 2020 Notes ), funded by a combination of approximately $275.0 million of borrowings under the 2015 Credit Facility and approximately $140.0 million of cash on hand. While this is its current intention, the Company is not providing a notice of redemption or otherwise making an irrevocable commitment to retire the 2020 Notes as described above, and any such decision will, among other things, be subject to further review and final approval by the Company s Board of Directors. There can be no assurance that the Company will decide to retire the 2020 Notes in the manner described above or at all. Should the Company retire the 2020 Notes, on or before October 1, 2015, it estimates it would incur a charge for early retirement of debt, including remaining unamortized issuance expenses of approximately $19.0 million before taxes.

***Headcount***

As of June 30, 2015, our total headcount of 4,536 increased by a net of 132 employees from December 31, 2014 and billable headcount increased a net of 69 employees from the beginning of 2015.

Billable headcount additions for the six-months ended June 30, 2015 are referenced in the table below.

| | Corporate Finance/ Restructuring (1) | Forensic and Litigation Consulting | Economic Consulting | Technology | Strategic Communications | Total |
|---|---|---|---|---|---|---|
| **Billable Headcount** | | | | | | |
| **December 31, 2014** | 706 | 1,154 | 574 | 344 | 566 | 3,344 |
| Additions (reductions), net | 29 | (9) | (8) | 16 | (10) | 18 |
| **March 31, 2015** | 735 | 1,145 | 566 | 360 | 556 | 3,362 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Additions (reductions), net | 40 | 24 | (12) | 4 | (5) | 51 |
| **June 30, 2015** | 775 | 1,169 | 554 | 364 | 551 | 3,413 |

(1) Includes 9 billable employees acquired by our Corporate Finance segment s European tax advisory business in the 3 months ended June 30, 2015.

**CONSOLIDATED RESULTS OF OPERATIONS**

**Segment and Consolidated Operating Results:**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |