FTI CONSULTING INC
Form 10-Q
August 10, 2009
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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, 2009

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 ¨ 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 30, 2009**
Common stock, par value $0.01 per share	51,726,513

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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, 2009 (Unaudited)	December 31, 2008 As Adjusted (Note 2)
Assets		
Current assets		
Cash and cash equivalents	$ 213,092	$ 191,842
Accounts receivable:		
Billed receivables	267,734	237,009
Unbilled receivables	127,200	98,340
Allowance for doubtful accounts and unbilled services	(64,581)	(45,309)
Accounts receivable, net	330,353	290,040
Notes receivable	20,238	15,145
Prepaid expenses and other current assets	25,624	31,055
Deferred income taxes	24,607	24,372
Total current assets	613,914	552,454
Property and equipment, net of accumulated depreciation	76,760	78,575
Goodwill	1,177,325	1,151,388
Other intangible assets, net of amortization	184,318	189,304
Notes receivable, net of current portion	72,099	56,500
Other assets	53,645	59,349
Total assets	$ 2,178,061	$ 2,087,570
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable, accrued expenses and other	$ 45,099	$ 109,036
Accrued compensation	114,535	133,103
Current portion of long-term debt and capital lease obligations	149,347	132,915
Billings in excess of services provided	30,569	30,872
Total current liabilities	339,550	405,926
Long-term debt and capital lease obligations, net of current portion	418,187	418,592
Deferred income taxes	92,725	83,777
Other liabilities	49,780	45,037
Total liabilities	900,242	953,332
Commitments and contingent liabilities (notes 9, 11 and 12)		
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 51,695 (2009) and 50,934 (2008)	517	509
Additional paid-in capital	768,173	735,180
Retained earnings	547,779	478,882
Accumulated other comprehensive income	(38,650)	(80,333)
Total stockholders equity	1,277,819	1,134,238
Total liabilities and stockholders equity	$ 2,178,061	$ 2,087,570

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, 2009	Three Months Ended June 30, 2008 As Adjusted (Note 2)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 As Adjusted (Note 2)
Revenues	$ 360,525	$ 337,670	$ 708,371	$ 644,772
Operating expenses				
Direct cost of revenues	194,181	188,166	386,593	360,687
Selling, general and administrative expense	88,842	77,773	177,595	150,345
Amortization of other intangible assets	6,149	4,457	12,199	7,355
	289,172	270,396	576,387	518,387
Operating income	71,353	67,274	131,984	126,385
Other income (expense)				
Interest income and other	702	2,089	2,755	5,400
Interest expense	(11,030)	(11,307)	(22,043)	(22,906)
Litigation settlement gains (losses), net		(435)	250	(436)
	(10,328)	(9,653)	(19,038)	(17,942)
Income before income tax provision	61,025	57,621	112,946	108,443
Income tax provision	23,800	22,813	44,049	42,935
Net income	$ 37,225	$ 34,808	$ 68,897	$ 65,508
Earnings per common share basic	$ 0.74	$ 0.71	$ 1.37	$ 1.34
Earnings per common share diluted	$ 0.69	$ 0.65	$ 1.29	$ 1.23

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 Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance January 1, 2009 As Adjusted (Note 2)	50,934	$ 509	$ 735,180	$ 478,882	$ (80,333)	$ 1,134,238
Comprehensive income:						
Cumulative translation adjustment, net of income taxes of $0					41,683	41,683
Net income				68,897		68,897
Total comprehensive income						110,580
Issuance of common stock in connection with:						
Exercise of options, including income tax benefit of $2,831	337	4	11,372			11,376
Employee stock purchase plan	138	1	5,236			5,237
Restricted share grants, less net settled shares of 15	286	3	(687)			(684)
Stock units issued under incentive compensation plan			5,308			5,308
Business combinations			(130)			(130)
Reacquisition of equity component of convertible debt			(3)			(3)
Share-based compensation			11,897			11,897
Balance June 30, 2009	51,695	$ 517	$ 768,173	$ 547,779	$ (38,650)	$ 1,277,819

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flow

(in thousands)

Unaudited

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (a) As Adjusted (Note 2)
Operating activities		
Net income	$ 68,897	$ 65,508
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,109	12,286
Amortization of other intangible assets	12,199	7,355
Provision for doubtful accounts	12,212	8,564
Non-cash share-based compensation	13,349	14,172
Excess tax benefits from share-based compensation	(2,761)	(4,682)
Non-cash interest expense	3,698	3,517
Other	1,308	(188)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(47,807)	(63,513)
Notes receivable	(19,511)	(7,158)
Prepaid expenses and other assets	3,796	(9,555)
Accounts payable, accrued expenses and other	(15,836)	4,422
Income taxes	14,151	27,640
Accrued compensation	(10,371)	(493)
Billings in excess of services provided	(679)	(911)
Net cash provided by operating activities	46,754	56,964
Investing activities		
Payments for acquisition of businesses, including contingent payments and acquisition costs, net of cash received	(37,654)	(225,183)
Purchases of property and equipment	(11,687)	(17,843)
Other	307	(1,059)
Net cash used in investing activities	(49,034)	(244,085)
Financing activities		
Payments of long-term debt and capital lease obligations	(551)	(7,239)
Cash received for settlement of interest rate swaps	2,288	
Issuance of common stock under equity compensation plans	13,098	12,006
Excess of tax benefits from share-based compensation	2,761	4,682
Net cash provided by financing activities	17,596	9,449
Effect of exchange rate changes and fair value adjustments on cash and cash equivalents	5,934	(217)
Net increase (decrease) in cash and cash equivalents	21,250	(177,889)
Cash and cash equivalents, beginning of period	191,842	360,463

Cash and cash equivalents, end of period	$ 213,092	$ 182,574
Supplemental cash flow disclosures		
Cash paid for interest	$ 19,189	$ 19,534
Cash paid for income taxes, net of refunds	29,898	15,405
Non-cash investing and financing activities:		
Issuance of common stock to acquire businesses		46,930
Issuance of stock units under incentive compensation plans	5,308	3,496
Issuance of notes payable as contingent consideration	12,778	506

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(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 or regulations. In management s opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. 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, 2008. Subsequent events have been evaluated through August 9, 2009, the date the financial statements were issued.

2. Change in Accounting Principle

On January 1, 2009 we adopted the Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1) which requires issuers of convertible debt securities within its scope to separate those securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP APB 14-1 requires that convertible debt within its scope reflect a company s nonconvertible debt borrowing rate when interest expense is recognized. The provisions of FSP APB 14-1 are retrospective upon adoption, and prior period amounts have been adjusted to apply the new method of accounting. This new pronouncement applies to our 3 $^{3}/4$% Convertible Senior Subordinated Notes due 2012 (Convertible Notes) issued in August 2005. The cumulative effect of the accounting change for years prior to 2009 was to decrease net income and thus retained earnings by $7.6 million. Additional information on the impact of this change in accounting principle is presented in Note 11 to the condensed consolidated financial statements.

The following table presents the effect of the adoption of FSP APB 14-1 on the financial statement line items of the Condensed Consolidated Income Statement for the three months and six months ended June 30, 2008:

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
	As Previously Reported	Effect of FSP APB 14-1	As Adjusted	As Previously Reported	Effect of FSP APB 14-1	As Adjusted
Interest expense	$ (10,303)	$ (1,004)	$ (11,307)	$ (20,921)	$ (1,985)	$ (22,906)
Income before income tax provision	58,625	(1,004)	57,621	110,428	(1,985)	108,443
Income tax provision	23,215	(402)	22,813	43,729	(794)	42,935
Net income	35,410	(602)	34,808	66,699	(1,191)	65,508
Earnings per common share basic	0.72	(0.01)	0.71	1.37	(0.03)	1.34
Earnings per common share diluted	0.66	(0.01)	0.65	1.25	(0.02)	1.23

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The following table presents the effect of the adoption of FSP APB 14-1 on the affected financial statement line items of the Condensed Consolidated Balance Sheet as of December 31, 2008:

	December 31, 2008		
	As Previously Reported	**Effect of FSP APB 14-1**	**As Adjusted**
Other assets noncurrent	$ 59,948	$ (599)	$ 59,349
Total assets	2,088,169	(599)	2,087,570
Current portion of long-term debt and capital lease obligations	150,898	(17,983)	132,915
Total current liabilities	423,909	(17,983)	405,926
Deferred income taxes noncurrent	76,804	6,973	83,777
Total liabilities	964,342	(11,010)	953,332
Additional paid-in capital	717,158	18,022	735,180
Retained earnings	486,493	(7,611)	478,882
Total stockholders equity	1,123,827	10,411	1,134,238
Total liabilities and stockholders equity	2,088,169	(599)	2,087,570

3. Recent Accounting Pronouncements

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (Statement No. 165). Statement No. 165 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. The statement also sets forth the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. Furthermore, this statement identifies the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It is effective for interim or annual financial periods ending after June 15, 2009.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, (FSP FAS 141(R)-1), which amends and clarifies Statement of Financial Accounting Standards No. 141(R), Business Combinations (Statement 141(R)). FSP FAS 141(R)-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with FASB Statement No. 5, Accounting for Contingencies, and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss. Further, the FASB decided to remove the subsequent accounting guidance for assets and liabilities arising from contingencies from Statement 141(R), and carry forward without significant revision the guidance in FASB Statement No. 141, Business Combinations. FSP FAS 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

4. 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 primarily include the dilutive effects of shares issuable under our equity compensation plans, including restricted shares using the

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

treasury stock method, and shares issuable upon conversion of our 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. The conversion feature of our Convertible Notes had a dilutive effect on our earnings per share in 2009 and 2008 because the average closing price per share of our common stock was above the conversion price of the Convertible Notes of $31.25 per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008 (a)**	**2009**	**2008 (a)**
Numerator basic and diluted				
Net income	$ 37,225	$ 34,808	$ 68,897	$ 65,508
Denominator				
Weighted average number of common shares outstanding basic	50,384	49,155	50,278	48,740
Effect of dilutive stock options	1,302	1,654	1,203	1,643
Effect of dilutive convertible notes	1,848	2,433	1,653	2,374
Effect of dilutive restricted shares	301	458	290	455
	53,835	53,700	53,424	53,212
Earnings per common share basic	$ 0.74	$ 0.71	$ 1.37	$ 1.34
Earnings per common share diluted	$ 0.69	$ 0.65	$ 1.29	$ 1.23
Antidilutive stock options and restricted shares	1,092	409	1,012	293

(a) Net income and earnings per common share (basic and diluted) are as adjusted. See note 2 to the condensed consolidated financial statements.

5. Comprehensive Income

The following table sets forth the components of comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Net income	$ 37,225	$ 34,808	$ 68,897	$ 65,508
Other comprehensive income, net of tax:				
Cumulative translation adjustment	47,748	276	41,683	710
Unrealized gain on cash equivalents				55

Comprehensive income	$ 84,973	$ 35,084	$ 110,580	$ 66,273

6. Provision for Doubtful Accounts

The provision for doubtful accounts relates to a client s inability or unwillingness to make required payments, and is classified in selling, general and administrative expense. The provision for doubtful accounts totaled $5.4 million and $12.2 million for the three and six months ended June 30, 2009, respectively and $4.0 million and $8.6 million for the three and six months ended June 30, 2008, respectively.

7. Research and Development Costs

Research and development costs related to software development charged to expense totaled $5.3 million and $10.7 million for the three and six months ended June 30, 2009, respectively, and $3.1 million and $6.1 million for

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

the three and six months ended June 30, 2008, respectively. Research and development costs are included in selling, general and administrative expense on the Condensed Consolidated Statements of Income in 2009. For the three and six months ended June 30, 2008, $2.4 million and $4.9 million, respectively, of research and development expenses were classified as direct cost of revenues, and $0.7 million and $1.2 million, respectively, of research and development costs were classified as selling, general and administrative expense.

8. Financial Instruments

Derivative financial instruments

We enter into derivative contracts to manage our exposure to interest rate changes by achieving a desired proportion of fixed rate versus variable rate debt. In June 2009, the counterparties to our two interest rate swaps, with an aggregate $60.0 million notional amount, exercised their right to terminate these agreements. Prior to their termination, these interest rate swaps effectively converted $60.0 million of our 7 5/8% senior notes due 2013 (7 5/8% Notes) from a fixed rate to a variable rate. (See Note 11 to the condensed consolidated financial statements for information on the swap termination). These interest rate swaps were previously designated as fair value hedges of fixed rate debt in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement No. 133). The interest rate swaps qualified for hedge accounting using the short-cut method under Statement 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 and had no effect on our results of operations.

Fair value of financial instruments

We consider the recorded value of certain of our financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2009, based on the short-term nature of the assets and liabilities. The fair value of our long-term debt at June 30, 2009 was $663.6 million compared to a carrying value of $566.4 million. We determined the fair value of our long-term debt based on quoted market prices for our 7 5/8% senior notes due 2013, 7 3/4% senior notes due 2016, and 3 3/4% convertible senior subordinated notes due 2012.

As of June 30, 2009, there were no financial instruments carried at fair value on our financial statements. At December 31, 2008, interest rate swaps with an aggregate $60.0 million notional amount were carried at fair value based on estimates to settle the agreements as of the balance sheet date. The following table summarizes the assets measured at fair value on a recurring basis at December 31, 2008:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2008				
Interest rate swaps (recorded in other assets)	$	$ 2,884	$	$ 2,884
Total assets	$	$ 2,884	$	$ 2,884

9. Acquisitions

Certain acquisition related restricted stock agreements 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 applicable stock restrictions lapse (the determination date). The future settlement of any contingency related to common stock

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

price will be recorded as a reduction to additional paid-in capital. During the first quarter of 2009, we paid $0.1 million in cash in relation to the price protection provision 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 $22.26 to $69.62 per share and have determination dates that range from 2009 to 2013.

10. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill by business segment for the six months ended June 30, 2009, are as follows:

	Corporate Finance/ Restructuring	Forensic and Litigation Consulting	Strategic Communications	Technology	Economic Consulting	Total
Balance January 1, 2009	$ 389,934	$ 189,129	$ 262,740	$ 118,541	$ 191,044	$ 1,151,388
Goodwill acquired during the period			3,206			3,206
Contingent consideration		66	(1,015)		(113)	(1,062)
Adjustments to allocation of purchase price	(3,066)		(132)			(3,198)
Foreign currency translation adjustment and other	187	4,450	22,027	333	(6)	26,991
Balance June 30, 2009	$ 387,055	$ 193,645	$ 286,826	$ 118,874	$ 190,925	$ 1,177,325

Other intangible assets with finite lives are amortized over their estimated applicable useful lives. For intangible assets with finite lives, we recorded amortization expense of $6.1 million and $12.2 million for the three and six months ended June 30, 2009, respectively, and $4.5 million and $7.4 million for the three and six months ended June 30, 2008, respectively. Based solely on the amortizable intangible assets recorded as of June 30, 2009, we estimate amortization expense to be $12.1 million during the remainder of 2009, $21.8 million in 2010, $21.0 million in 2011, $20.4 million in 2012, $17.5 million in 2013, $9.9 million in 2014, and $55.9 million in years after 2014. 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 or other relevant factors.

		June 30, 2009		December 31, 2008	
	Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets					
Contract backlog	1	$ 288	$ 168	$ 273	$ 23
Customer relationships	3 to 15	140,206	26,710	133,113	19,897
Non-competition agreements	1 to 10	18,078	7,267	17,194	5,735
Software	5 to 6	37,700	9,868	37,700	6,401
Tradenames	1 to 5	9,554	3,173	9,555	2,153
		205,826	47,186	197,835	34,209
Unamortized intangible assets					
Tradenames	Indefinite	25,678		25,678	

$ 231,504	$ 47,186	$ 223,513	$ 34,209

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

11. Long-term Debt and Capital Lease Obligations

	June 30, 2009	December 31, 2008
7 5/8% senior notes due 2013[1][2]	$ 202,267	$ 202,884
7 3/4% senior notes due 2016	215,000	215,000
3 3/4% convertible senior subordinated notes due 2012[3]	134,178	131,968
Notes payable to former shareholders of acquired business	14,924	47
Total debt	566,369	549,899
Less current portion	149,102	132,015
Long-term debt, net of current portion	417,267	417,884
Total capital lease obligations	1,165	1,608
Less current portion	245	900
Capital lease obligations, net of current portion	920	708
Long-term debt and capital lease obligations, net of current portion	$ 418,187	$ 418,592

(1) Includes unamortized proceeds from interest rate swap terminations of $2,267 at June 30, 2009.

(2) Includes a fair value hedge adjustment of $2,884 at December 31, 2008.

(3) Includes discount of $15,767 at June 30, 2009 and $17,983 at December 31, 2008.

Convertible Notes

As of January 1, 2009, we adopted the provisions of FSP APB 14-1 with retrospective application to prior periods. FSP APB 14-1 addresses the accounting and disclosure requirements for convertible debt that may be settled in cash upon conversion. FSP APB 14-1 requires an issuer to separately account for the liability and equity components of convertible debt in a manner that reflects the issuer s nonconvertible borrowing rate resulting in higher interest expense over the life of the instrument due to the amortization of the discount. Our Convertible Notes are subject to FSP APB 14-1. We applied FSP APB 14-1 retrospectively to all periods presented.

The following table summarizes the liability and equity components of our Convertible Notes:

	June 30, 2009	December 31, 2008
Liability component:		
Principal	$ 149,945	$ 149,951
Unamortized discount	(15,767)	(17,983)
Equity component (recorded in additional paid-in capital)	18,019	18,022

FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The discount on the liability component will be amortized over the remaining term of the Convertible Notes through July 15, 2012 using the effective interest method. The effective interest rate on the Convertible Notes is 7 5/8%. The components of interest cost on the Convertible Notes for the three and six months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Contractual interest	$ 1,406	$ 1,406	$ 2,812	$ 2,812
Amortization of debt discount	1,138	1,056	2,255	2,092
Amortization of deferred note issue costs	160	160	320	320
Total interest expense	$ 2,704	$ 2,622	$ 5,387	$ 5,224

On October 15, 2007, the $150.0 million aggregate principal amount of the Convertible Notes became convertible at the option of the holders and is currently convertible through October 15, 2009 as provided in the Indenture covering the Convertible Notes. The Convertible Notes became convertible as a result of the closing price per share of our common stock exceeding the conversion threshold price of $37.50 per share (120% of the applicable conversion price of $31.25 per share) for at least 20 days in the 30 consecutive trading days of each of the periods ended October 15, 2007, January 15, 2008, April 15, 2008, July 15, 2008, October 15, 2008, January 15, 2009, April 15, 2009 and July 15, 2009.

Upon surrendering any Convertible Note for conversion, in accordance with the Indenture, the holder of such Convertible Note shall receive cash in the amount of the lesser of (i) the $1,000 principal amount of such Convertible Note or (ii) the conversion value of the Convertible Note as defined in the indenture. The conversion feature results in a premium over the face amount of the Convertible Notes equal to the excess of our stock price as determined by the calculation set forth in the Indenture and the conversion price per share of $31.25 multiplied by the conversion ratio of 31.998 shares of common stock for each $1,000 principal amount of the Convertible Notes. We retain our option to satisfy any conversion value in excess of each $1,000 principal amount of the Convertible Notes with shares of common stock, cash or a combination of both cash and shares. The premium will be calculated using the stock price calculation defined in the Indenture. Based on our closing stock price at June 30, 2009, the aggregate Convertible Notes conversion value exceeds their aggregate principal amount by $93.4 million.

Interest Rate Swaps

In August 2005, we entered into two interest rate swap contracts with a notional amount of $60.0 million to receive interest at 7 5/8% and pay a variable rate of interest based upon LIBOR. We designated these swaps as fair value hedges of the changes in fair value of $60.0 million of our 7 5/8% Notes. The counterparties to the swaps exercised their right to terminate the swaps as of June 15, 2009. The $2.3 million gain on termination will be amortized as a reduction to interest expense over the remaining term of the 7 5/8% Notes, resulting in an effective interest rate of 6.5% per annum on $60.0 million of 7 5/8% Notes.

12. Commitments and Contingencies

Future contractual obligations related to operating leases entered into during 2009 have resulted in an increase in our total contractual obligations under operating leases of $2.4 million for 2010, $3.4 million for 2011, $3.3 million for 2012, $3.2 million for 2013 and $27.5 million thereafter.

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

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.

13. Share-Based Compensation

Amendment and restatement of equity-based compensation plan

On March 31, 2009, the Board of Directors (the Board) of FTI Consulting, Inc. (FTI) approved the amendment and restatement of the FTI Consulting, Inc. Deferred Compensation Plan for Key Employees and Non-Employee Directors, as previously amended (the Deferred Compensation Plan), (to be renamed the FTI Consulting, Inc. 2009 Omnibus Incentive Compensation Plan (the Omnibus Plan)), subject to the approval of our stockholders. On April 8, 2009 the Board confirmed its approval and authorized that the proposal to amend and restate the Deferred Compensation Plan (and rename it the Omnibus Plan) be submitted to stockholders for approval at the 2009 annual meeting of stockholders held June 3, 2009. The Omnibus Plan was approved by the stockholders of FTI on June 3, 2009 at the 2009 annual meeting.

The 2009 Omnibus Plan provides incentive compensation in the form of equity and equity-based awards. All employees, officers, non-employee directors and individual service providers of FTI are eligible to participate in the Omnibus Plan, subject to the discretion of the administrator to make awards. The Omnibus Plan provides for the grants of incentive and non-qualified stock options and stock appreciation rights and stock-based awards, including restricted stock, unrestricted stock, performance stock, phantom stock, stock unit and restricted stock unit awards, of which an aggregate of 900,000 shares of common stock would be available for restricted and unrestricted stock awards as well as other stock-based awards, including phantom stock, performance awards, stock units, restricted stock units and performance units.

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 s equity compensation plans, subject to the discretion of the administrator of the plans. During the six months ended June 30, 2009, share-based awards included stock option grants exercisable for 484,089, restricted stock awards of 308,614 shares of common stock and deferred stock units of 115,827.

Total share-based compensation expense for the three and six months ended June 30, 2009 and 2008 is detailed in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Statement Classification	**2009**	**2008**	**2009**	**2008**
Direct cost of revenues	$ 3,167	$ 3,957	$ 5,997	$ 7,717
Selling, general and administrative expense	3,736	3,508	7,352	6,455
Total share-based compensation expense	$ 6,903	$ 7,465	$ 13,349	$ 14,172

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

14. Income Taxes

We are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits would significantly increase or decrease within the next twelve months. As of June 30, 2009, there have been no material changes to the liability for uncertain tax positions. Interest and penalties related to uncertain tax positions are classified as such and excluded from the income tax provision. As of June 30, 2009, our accrual for the payment of tax-related interest and penalties was not material.

We file numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and in many city, state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations for years prior to 2004 and are no longer subject to state and local or foreign tax examinations for years prior to 2000. In addition, open tax years related to state and foreign jurisdictions remain subject to examination, but are not considered material to our financial position, results of operations or cash flows.

15. Segment Reporting

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

The Corporate Finance/Restructuring segment focuses on strategic, operational, financial and capital needs of businesses around the world and provides consulting and advisory services relating to turnaround, bankruptcy, performance improvement, lending solutions, financial and operational restructuring, restructuring advisory, mergers and acquisitions, transaction advisory and interim management. The Forensic and Litigation Consulting segment provides law firms, companies, government clients and other interested parties with dispute advisory, investigations, forensic accounting, business intelligence assessments and risk mitigation services. The Strategic Communications segment provides advice and consulting services relating to financial communications, brand communications, public affairs and reputation management and business consulting. The Technology segment provides products, services and consulting to law firms, companies, courts and government agencies worldwide with the principal business focus on the collection, preservation, review and production of electronically stored information. The 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, anti-trust and competition matters, strategic decision making, international arbitration and public policy debates in the U.S. and internationally.

We evaluate the performance of our operating segments based on operating income excluding depreciation, amortization of other intangible assets, unallocated corporate expenses plus non-operating litigation settlements, which we refer to as segment EBITDA. Segment EBITDA consists of the revenues generated by that segment, less the direct costs of revenues and selling, general and administrative costs that are incurred directly by that segment as well as an allocation of certain centrally managed costs, such as information technology services, accounting, marketing and facility costs. Although segment EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, we use it to evaluate and compare the operating performance of our segments and it is one of the primary measures used to determine employee incentive compensation. Unallocated corporate expenses include costs related to centrally managed administrative functions which have not been allocated to the segments. These administrative costs include corporate office support costs, human resources, legal and company-wide business development functions, as well as costs related to overall corporate management. In addition, certain accounting and information technology costs are unallocated.

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The table below presents revenues and segment EBITDA for our reportable segments for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenues				
Corporate Finance/Restructuring	$ 133,970	$ 96,123	$ 261,512	$ 175,406
Forensic and Litigation Consulting	65,502	69,310	132,352	129,565
Strategic Communications	44,550	62,197	87,321	116,811
Technology	59,380	56,275	115,227	112,810
Economic Consulting	57,123	53,765	111,959	110,180
Total Revenues	$ 360,525	$ 337,670	$ 708,371	$ 644,772
Segment EBITDA				
Corporate Finance/Restructuring	$ 47,445	$ 29,624	$ 88,166	$ 51,534
Forensic and Litigation Consulting	16,238	15,717	31,951	30,373
Strategic Communications	5,879	16,428	11,675	29,107
Technology	23,804	21,213	43,130	44,535
Economic Consulting	10,345	13,987	20,664	27,303
Total segment EBITDA	$ 103,711	$ 96,969	$ 195,586	$ 182,852

The table below reconciles segment EBITDA to income before income tax provision.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Segment EBITDA	$ 103,711	$ 96,969	$ 195,586	$ 182,852
Segment depreciation expense	(5,550)	(4,850)	(10,993)	(9,482)
Amortization of intangible assets	(6,149)	(4,457)	(12,199)	(7,355)
Unallocated corporate expenses	(20,659)	(20,823)	(40,410)	(40,066)
Interest income and other	702	2,089	2,755	5,400
Interest expense	(11,030)	(11,307)	(22,043)	(22,906)
Corporate litigation settlement gains			250	
Income before income tax provision	$ 61,025	$ 57,621	$ 112,946	$ 108,443

16. 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 subsidiaries.

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(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 flow for FTI Consulting, Inc., all the guarantor subsidiaries, all the non-guarantor subsidiaries and the eliminations necessary to arrive at the consolidated information for FTI 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, 2009

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 146,676	$ 10,085	$ 56,331	$	$ 213,092
Accounts receivable, net	114,612	170,082	45,659		330,353
Intercompany receivables	42,488	231,174	81,630	(355,292)	
Other current assets	46,285	20,867	10,223	(6,906)	70,469
Total current assets	350,061	432,208	193,843	(362,198)	613,914
Property and equipment, net	43,426	22,992	10,342		76,760
Goodwill	416,005	525,428	235,892		1,177,325
Other intangible assets, net	3,765	131,687	48,866		184,318
Investments in subsidiaries	1,345,862	849,546	754,316	(2,949,724)	
Other assets	60,719	164,801	15,839	(115,615)	125,744
Total assets	$ 2,219,838	$ 2,126,662	$ 1,259,098	$ (3,427,537)	$ 2,178,061
Liabilities					
Intercompany payables	$ 184,103	$ 80,006	$ 91,183	$ (355,292)	$
Other current liabilities	241,009	77,011	28,436	(6,906)	339,550
Total current liabilities	425,112	157,017	119,619	(362,198)	339,550
Long-term debt, net	417,267	920			418,187
Other liabilities	99,640	38,138	120,342	(115,615)	142,505
Total liabilities	942,019	196,075	239,961	(477,813)	900,242
Stockholders equity	1,277,819	1,930,587	1,019,137	(2,949,724)	1,277,819