

FTI CONSULTING INC  
Form 10-Q  
November 09, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-14875

**FTI CONSULTING, INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Maryland**  
(State or Other Jurisdiction of  
Incorporation or Organization)  
777 South Flagler Drive, Suite 1500 West Tower,  
West Palm Beach, Florida  
(Address of Principal Executive Offices)

52-1261113  
(I.R.S. Employer  
Identification No.)

33401  
(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  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  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

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 November 2, 2011 |
|--|---------------------------------|
| Common stock, par value \$0.01 per share | 40,971,306                      |

**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)

Unaudited

**Item 1. Financial Statements**

|  | September 30,<br>2011 | December 31,<br>2010<br>As Revised |
|--|-----------------------|------------------------------------|
|  |                       | (Note 2)                           |
| <b>Assets</b>  |                       |                                    |
| <b>Current assets</b>  |                       |                                    |
| Cash and cash equivalents  | \$ 128,230            | \$ 384,570                         |
| Restricted cash  | 10,231                | 10,518                             |
| Accounts receivable:   |                       |                                    |
| Billed receivables   | 348,480               | 268,386                            |
| Unbilled receivables   | 200,999               | 120,896                            |
| Allowance for doubtful accounts and unbilled services                | (80,443)              | (63,205)                           |
| Accounts receivable, net   | 469,036               | 326,077                            |
| Current portion of notes receivable                                  | 26,558                | 28,397                             |
| Prepaid expenses and other current assets                            | 30,784                | 28,174                             |
| Income taxes receivable  | 11,997                | 13,246                             |
| Deferred income taxes  | 667                   |                                    |
| Total current assets   | 677,503               | 790,982                            |
| Property and equipment, net of accumulated depreciation              | 75,027                | 73,238                             |
| Goodwill   | 1,295,679             | 1,269,447                          |
| Other intangible assets, net of amortization                         | 124,623               | 134,970                            |
| Notes receivable, net of current portion                             | 83,370                | 76,539                             |
| Other assets   | 70,317                | 60,312                             |
| <b>Total assets</b>  | <b>\$ 2,326,519</b>   | <b>\$ 2,405,488</b>                |
| <b>Liabilities and Stockholders Equity</b>                           |                       |                                    |
| <b>Current liabilities</b>   |                       |                                    |
| Accounts payable, accrued expenses and other                         | \$ 108,050            | \$ 105,864                         |
| Accrued compensation   | 158,263               | 143,971                            |
| Current portion of long-term debt and capital lease obligations      | 152,047               | 7,559                              |
| Billings in excess of services provided                              | 27,726                | 27,836                             |
| Deferred income taxes  |                       | 1,072                              |
| Total current liabilities  | 446,086               | 286,302                            |
| Long-term debt and capital lease obligations, net of current portion | 645,488               | 785,563                            |
| Deferred income taxes  | 96,801                | 85,956                             |
| Other liabilities  | 86,375                | 80,061                             |

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|   |                     |                     |
|---|---------------------|---------------------|
| <b>Total liabilities</b>  | 1,274,750           | 1,237,882           |
| Commitments and contingent liabilities (notes 9, 11 and 12)   |                     |                     |
| <b>Stockholders equity</b>  |                     |                     |
| 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 40,954 (2011) and 46,144 (2010) |                     |                     |
|   | 410                 | 461                 |
| Additional paid-in capital  | 365,746             | 546,336             |
| Retained earnings   | 738,321             | 674,299             |
| Accumulated other comprehensive loss  | (52,708)            | (53,490)            |
| <b>Total stockholders equity</b>  | 1,051,769           | 1,167,606           |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 2,326,519</b> | <b>\$ 2,405,488</b> |

See accompanying notes to the condensed consolidated financial statements

## FTI Consulting, Inc. and Subsidiaries

## Condensed Consolidated Statements of Income

(in thousands, except per share data)

Unaudited

|   | Three Months Ended<br>September 30, |                    | Nine Months Ended<br>September 30, |                    |
|---|-------------------------------------|--------------------|------------------------------------|--------------------|
|   | 2011                                | 2010<br>As Revised | 2011                               | 2010<br>As Revised |
|   |                                     | (Note 2)           |                                    | (Note 2)           |
| <b>Revenues</b>                             | \$ 413,802                          | \$ 346,140         | \$ 1,176,055                       | \$ 1,045,213       |
| <b>Operating expenses</b>                   |                                     |                    |                                    |                    |
| Direct cost of revenues                     | 249,975                             | 206,831            | 723,903                            | 617,640            |
| Selling, general and administrative expense | 98,562                              | 86,115             | 282,902                            | 253,196            |
| Special charges                             |                                     |                    | 15,212                             | 29,356             |
| Amortization of other intangible assets     | 5,843                               | 6,286              | 16,795                             | 18,229             |
|   | 354,380                             | 299,232            | 1,038,812                          | 918,421            |
| <b>Operating income</b>                     | 59,422                              | 46,908             | 137,243                            | 126,792            |
| <b>Other income (expense)</b>               |                                     |                    |                                    |                    |
| Interest income and other                   | 486                                 | 2,527              | 5,409                              | 4,740              |
| Interest expense                            | (14,319)                            | (11,904)           | (44,129)                           | (34,600)           |
| Loss on early extinguishment of debt        |                                     | (5,161)            |                                    | (5,161)            |
|   | (13,833)                            | (14,538)           | (38,720)                           | (35,021)           |
| <b>Income before income tax provision</b>   | 45,589                              | 32,370             | 98,523                             | 91,771             |
| <b>Income tax provision</b>                 | 16,150                              | 12,206             | 34,501                             | 34,642             |
| <b>Net income</b>                           | \$ 29,439                           | \$ 20,164          | \$ 64,022                          | \$ 57,129          |
| <b>Earnings per common share basic</b>      | \$ 0.73                             | \$ 0.44            | \$ 1.54                            | \$ 1.25            |
| <b>Earnings per common share diluted</b>    | \$ 0.70                             | \$ 0.43            | \$ 1.47                            | \$ 1.19            |

See accompanying notes to the condensed consolidated financial statements

FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity and Comprehensive Income

(in thousands)

Unaudited

|   | Common Stock  |               | Additional         | Retained          | Accumulated        | Total               |
|---|---------------|---------------|--------------------|-------------------|--------------------|---------------------|
|   | Shares        | Amount        | Paid-in<br>Capital |                   | Earnings           |                     |
| <b>Balance January 1, 2011 As Revised (Note 2)</b>                                | 46,144        | \$ 461        | \$ 546,336         | \$ 674,299        | \$ (53,490)        | \$ 1,167,606        |
| Comprehensive income:   |               |               |                    |                   |                    |                     |
| Cumulative translation adjustment, including income tax benefit of \$1,568        |               |               |                    |                   | 782                | 782                 |
| Net income  |               |               |                    | 64,022            |                    | 64,022              |
| <b>Total comprehensive income</b>   |               |               |                    |                   |                    | <b>64,804</b>       |
| Issuance of common stock in connection with:                                      |               |               |                    |                   |                    |                     |
| Exercise of options, including income tax benefit from share-based awards of \$75 | 174           | 2             | 4,411              |                   |                    | 4,413               |
| Restricted share grants, less net settled shares of 97                            | 369           | 4             | (3,545)            |                   |                    | (3,541)             |
| Stock units issued under incentive compensation plan                              |               |               | 4,241              |                   |                    | 4,241               |
| Business combinations   |               |               | (5,455)            |                   |                    | (5,455)             |
| Purchase and retirement of common stock   | (5,733)       | (57)          | (209,343)          |                   |                    | (209,400)           |
| Share-based compensation  |               |               | 29,101             |                   |                    | 29,101              |
| <b>Balance September 30, 2011</b>   | <b>40,954</b> | <b>\$ 410</b> | <b>\$ 365,746</b>  | <b>\$ 738,321</b> | <b>\$ (52,708)</b> | <b>\$ 1,051,769</b> |

See accompanying notes to the condensed consolidated financial statements

## FTI Consulting, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(in thousands)

Unaudited

|   | Nine Months Ended<br>September 30, |                    |
|---|------------------------------------|--------------------|
|   | 2011                               | 2010<br>As Revised |
|   | (Note 2)                           |                    |
| <b>Operating activities</b>   |                                    |                    |
| Net income  | \$ 64,022                          | \$ 57,129          |
| Adjustments to reconcile net income to net cash provided by operating activities:           |                                    |                    |
| Depreciation, amortization and accretion  | 24,046                             | 24,317             |
| Amortization of other intangible assets   | 16,795                             | 18,229             |
| Provision for doubtful accounts   | 9,483                              | 7,179              |
| Non-cash share-based compensation   | 29,043                             | 25,205             |
| Excess tax benefits from share-based compensation   | (198)                              | (761)              |
| Non-cash interest expense   | 6,322                              | 10,132             |
| Other   | (559)                              | 454                |
| Changes in operating assets and liabilities, net of effects from acquisitions:              |                                    |                    |
| Accounts receivable, billed and unbilled  | (130,132)                          | (34,845)           |
| Notes receivable  | (4,914)                            | (20,091)           |
| Prepaid expenses and other assets   | (3,670)                            | 1,994              |
| Accounts payable, accrued expenses and other  | 14,489                             | 9,120              |
| Income taxes  | 1,061                              | 6,164              |
| Accrued compensation  | 21,098                             | (4,188)            |
| Billings in excess of services provided   | (38)                               | (4,172)            |
| Net cash provided by operating activities   | 46,848                             | 95,866             |
| <b>Investing activities</b>   |                                    |                    |
| Payments for acquisition of businesses, including contingent payments, net of cash received | (62,346)                           | (60,273)           |
| Purchases of property and equipment   | (24,595)                           | (14,833)           |
| Proceeds from sale or maturity of short-term investment                                     |                                    | 15,000             |
| Other   | (127)                              | (467)              |
| Net cash used in investing activities   | (87,068)                           | (60,573)           |
| <b>Financing activities</b>   |                                    |                    |
| Borrowings under revolving line of credit   | 25,000                             | 20,000             |
| Payments of revolving line of credit  | (25,000)                           | (20,000)           |
| Payments of long-term debt and capital lease obligations                                    | (6,967)                            | (190,452)          |
| Issuance of debt securities, net  |                                    | 391,647            |
| Payments of debt financing fees   |                                    | (2,843)            |
| Purchase and retirement of common stock   | (209,400)                          | (26,138)           |
| Net issuance of common stock under equity compensation plans                                | 797                                | 4,604              |
| Excess tax benefits from share-based compensation   | 198                                | 761                |
| Other   | (1)                                | 442                |
| Net cash (used in) provided by financing activities   | (215,373)                          | 178,021            |



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|   |            |            |
|---|------------|------------|
| Effect of exchange rate changes on cash and cash equivalents              | (747)      | (1,004)    |
| Net (decrease) increase in cash and cash equivalents                      | (256,340)  | 212,310    |
| Cash and cash equivalents, beginning of period                            | 384,570    | 118,872    |
| Cash and cash equivalents, end of period                                  | \$ 128,230 | \$ 331,182 |
| <b>Supplemental cash flow disclosures</b>                                 |            |            |
| Cash paid for interest  | \$ 31,725  | \$ 34,504  |
| Cash paid for income taxes, net of refunds                                | 33,443     | 28,124     |
| Non-cash investing and financing activities:                              |            |            |
| Issuance of notes payable to acquire businesses                           |            | 39,772     |
| Issuance of stock units under incentive compensation plans                | 4,241      | 6,531      |
| See accompanying notes to the condensed consolidated financial statements |            |            |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

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

Unaudited

**1. Basis of Presentation and Significant Accounting Policies**

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and under the rules and regulations of the Securities and Exchange Commission ( SEC ) for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In management 's opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals, except as otherwise disclosed. Results of operations for the interim periods presented herein are not necessarily indicative of results of operations for a full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

**2. Revision to Previously Reported Financial Information**

During the third quarter of 2011, we conducted a re-examination of our accounting related to our Senior Managing Director Incentive Compensation Program and related agreements ( ICP ). As a result of this review, we revised our accounting to reflect an acceleration of expense related to certain forgivable loans and/or share-based awards and corrected an immaterial error in our previously reported results for the six-months ended June 30, 2011 and for the annual reporting periods 2006 through 2010. As previously disclosed in the Current Report on Form 8-K that we filed with the SEC on November 2, 2011, we are revising our previously reported financial information in the third quarter 2011 filing to reflect the impact of the correction of the immaterial error. We intend to revise our previously reported consolidated financial statements for certain comparative quarterly and annual periods through subsequent periodic filings.

The ICP is a program designed to compensate and retain the Company 's top senior managing directors. There are currently 82 employees who participate in this program. Employees who are invited to participate in the program are eligible to receive share-based awards and forgivable loans on a discretionary and periodic basis. As a result of a re-examination of the ICP provisions related to retirement and non-renewal or resignation by the employee, and the corresponding non-compete periods, the Company determined that it should have recorded compensation expense for certain forgivable loans and/or share-based awards over a shorter period.

We assessed the materiality of these errors in accordance with SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ), and determined the error was immaterial to the previously reported amounts contained in our periodic filings. Although the error was immaterial to prior periods, recording the cumulative impact of the out-of-period correction in the third quarter of 2011 would be material. Therefore, we applied the guidance for accounting changes and error corrections and revised our prior period financial statements presented per SAB 108. The impact of the correction of the immaterial error was a decrease to net income of \$4.1 million in the six months ended June 30, 2011 and \$5.9 million, \$3.2 million, \$2.0 million, \$1.6 million and \$0.5 million in the annual reporting periods 2010, 2009, 2008, 2007 and 2006, respectively.

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The effect of recording the correction of the immaterial error on impacted line items of the consolidated statements of income for the three and nine months ended September 30, 2010 is presented below:

| (in thousands, except per share data)       | For the Three Months Ended |               | For the Nine Months Ended |                |
|---|----------------------------|---------------|---------------------------|----------------|
|   | September 30,              |               | September 30,             |                |
|   | As Reported                | As Revised    | As Reported               | As Revised     |
|   |                            |               |                           |                |
| Direct cost of revenues                     | \$ 204,095                 | \$ 206,831    | \$ 610,586                | \$ 617,640     |
| Selling, general and administrative expense | 85,796                     | 86,115        | 252,399                   | 253,196        |
| Special charges                             |                            |               | 30,245                    | 29,356         |
| <b>Operating income</b>                     | <b>49,963</b>              | <b>46,908</b> | <b>133,754</b>            | <b>126,792</b> |
| <b>Income before income tax provision</b>   | <b>35,425</b>              | <b>32,370</b> | <b>98,733</b>             | <b>91,771</b>  |
| Income tax provision                        | 13,462                     | 12,206        | 37,519                    | 34,642         |
| <b>Net income</b>                           | <b>21,963</b>              | <b>20,164</b> | <b>61,214</b>             | <b>57,129</b>  |
| <b>Earnings per common share:</b>           |                            |               |                           |                |
| Basic                                       | \$ 0.48                    | \$ 0.44       | \$ 1.34                   | \$ 1.25        |
| Diluted                                     | \$ 0.47                    | \$ 0.43       | \$ 1.28                   | \$ 1.19        |

The effect of recording the correction of the immaterial error on impacted line items of the consolidated balance sheet at December 31, 2010 is presented below:

| (in thousands)                                   | December 31,     |                  |
|--|------------------|------------------|
|  | As Reported      | As Revised       |
| Current portion notes receivable                 | \$ 26,130        | \$ 28,397        |
| Total current assets                             | 788,715          | 790,892          |
| Notes receivable, net of current portion         | 87,677           | 76,539           |
| <b>Total assets</b>                              | <b>2,414,359</b> | <b>2,405,488</b> |
| Deferred income taxes                            | 4,052            | 1,072            |
| Total current liabilities                        | 289,282          | 286,302          |
| Deferred income taxes                            | 92,134           | 85,956           |
| <b>Total liabilities</b>                         | <b>1,247,040</b> | <b>1,237,882</b> |
| Additional paid-in capital                       | 532,929          | 546,336          |
| Retained earnings                                | 687,419          | 674,299          |
| <b>Total stockholders equity</b>                 | <b>1,167,319</b> | <b>1,167,606</b> |
| <b>Total liabilities and stockholders equity</b> | <b>2,414,359</b> | <b>2,405,488</b> |

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

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



## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*. This accounting update is intended to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. The new standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company plans to adopt this update early. The value of the Company's goodwill will not be affected by the adoption of this standard.

**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 include the dilutive effects of shares issuable under our equity compensation plans, including stock options and restricted stock, and shares issuable upon conversion of our 3<sup>3/4</sup>% senior subordinated convertible notes due 2012 ( Convertible Notes ) assuming the conversion premium was converted into common stock based on the average closing price per share of our stock during the period, each using the treasury stock method. The conversion feature of our Convertible Notes had a dilutive effect on our earnings per share for the periods presented below because the average closing price per share of our common stock for such periods was above the conversion price of the Convertible Notes of \$31.25 per share.

|  | Three Months<br>Ended September 30, |                | Nine Months<br>Ended September 30, |                |
|--|-------------------------------------|----------------|------------------------------------|----------------|
|  | 2011                                | 2010           | 2011                               | 2010           |
| <b>Numerator basic and diluted</b>                           |                                     |                |                                    |                |
| Net income   | \$ 29,439                           | \$ 20,164      | \$ 64,022                          | \$ 57,129      |
| <b>Denominator</b>   |                                     |                |                                    |                |
| Weighted average number of common shares outstanding basic   | 40,182                              | 45,471         | 41,535                             | 45,708         |
| Effect of dilutive stock options                             | 884                                 | 803            | 895                                | 947            |
| Effect of dilutive convertible notes                         | 647                                 | 449            | 722                                | 950            |
| Effect of dilutive restricted shares                         | 554                                 | 258            | 519                                | 285            |
| Weighted average number of common shares outstanding diluted | 42,267                              | 46,981         | 43,671                             | 47,890         |
| <b>Earnings per common share basic</b>                       | <b>\$ 0.73</b>                      | <b>\$ 0.44</b> | <b>\$ 1.54</b>                     | <b>\$ 1.25</b> |
| <b>Earnings per common share diluted</b>                     | <b>\$ 0.70</b>                      | <b>\$ 0.43</b> | <b>\$ 1.47</b>                     | <b>\$ 1.19</b> |
| <b>Antidilutive stock options and restricted shares</b>      | <b>2,612</b>                        | <b>2,059</b>   | <b>2,330</b>                       | <b>1,671</b>   |

**5. Special Charges**

During the year ended December 31, 2010, we recorded special charges of \$51.1 million, of which \$31.4 million was non-cash. The non-cash charges primarily included trade name impairment charges related to our global FTI Consulting branding strategy and other strategic branding decisions. The remaining charges related to



**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

Unaudited

a realignment of our workforce and a consolidation of four office locations. The charges reflect actions we took to support our corporate positioning, as well as actions taken to better align capacity with expected demand, to eliminate certain redundancies resulting from acquisitions and to provide for appropriate levels of administrative support.

During the nine months ended September 30, 2011, we recorded special charges of \$15.2 million, of which \$4.8 million was non-cash. The charges reflect actions we took to reduce senior management related overhead in connection with our realignment of our segment management on a global basis and to align our workforce with expected market trends. These actions included a reduction in workforce totaling 37 employees. The special charges consisted of:

\$10.4 million of salary continuance and other contractual employee related costs associated with the reduction in workforce;

\$2.0 million related to loan forgiveness and accelerated recognition of compensation cost of share-based awards related to the reduction in workforce; and

\$2.8 million of deferred costs under a service contract without a substantive future economic benefit to the Company.

The following table details the special charges by segment for the nine months ended September 30, 2011:

|                                    |           |
|------------------------------------|-----------|
| Corporate Finance/Restructuring    | \$ 9,440  |
| Forensic and Litigation Consulting | 839       |
| Economic Consulting                | 2,093     |
|                                    | 12,372    |
| Unallocated Corporate              | 2,840     |
| Total                              | \$ 15,212 |

The total cash outflow associated with the 2010 special charges is expected to be \$19.7 million, of which \$19.2 million has been paid as of September 30, 2011. The total cash outflow associated with the 2011 special charges is expected to be \$10.4 million, of which \$3.8 million has been paid as of September 30, 2011. Of the remaining liability of \$7.1 million at September 30, 2011, \$2.7 million is expected to be paid during the remainder of 2011 and the balance of approximately \$4.4 million is expected to be paid during 2012. A liability for the amounts to be paid is included in Accounts payable, accrued expenses and other on the Condensed Consolidated Balance Sheets. Activity related to the liability for these costs for the nine months ended September 30, 2011 is as follows:

|                                    | Employee<br>Termination<br>Costs | Lease<br>Termination<br>Costs | Total    |
|------------------------------------|----------------------------------|-------------------------------|----------|
| <b>Balances at January 1, 2011</b> | \$ 1,920                         | \$ 2,762                      | \$ 4,682 |
| Additions                          | 10,370                           |                               | 10,370   |

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|   |                 |           |                 |
|---|-----------------|-----------|-----------------|
| Payments  | (5,111)         | (2,646)   | (7,757)         |
| Foreign currency translation adjustment and other | (73)            | (116)     | (189)           |
| <b>Balances at September 30, 2011</b>             | <b>\$ 7,106</b> | <b>\$</b> | <b>\$ 7,106</b> |



**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

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**6. Provision for Doubtful Accounts**

The provision for doubtful accounts is recorded after the related work has been billed to the client and we determine that full collectability is not reasonably assured. It is classified in Selling, general and administrative expense on the Condensed Consolidated Statements of Income. The provision for doubtful accounts totaled \$3.7 million and \$9.5 million for the three and nine months ended September 30, 2011, respectively, and \$2.6 million and \$7.2 million for the three and nine months ended September 30, 2010, respectively.

**7. Research and Development Costs**

Research and development costs related to software development totaled \$5.1 million and \$16.9 million for the three and nine months ended September 30, 2011, respectively, and \$8.1 million and \$18.8 million for the three and nine months ended September 30, 2010, respectively. Research and development costs are included in Selling, general and administrative expense on the Condensed Consolidated Statements of Income.

**8. Financial Instruments**

*Fair Value of Financial Instruments*

We consider the recorded value of certain of our financial assets and liabilities, which consist primarily of cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at September 30, 2011, based on the short-term nature of the assets and liabilities. The fair value of our long-term debt at September 30, 2011 was \$816.1 million compared to a carrying value of \$815.4 million. At December 31, 2010, the fair value of our long-term debt was \$847.2 million compared to a carrying value of \$810.8 million. We determine the fair value of our long-term debt primarily based on quoted market prices for our 7<sup>3</sup>/<sub>4</sub>% senior notes due 2016 ( 7<sup>3</sup>/<sub>4</sub>% Senior Notes ), 6<sup>1</sup>/<sub>4</sub>% senior notes due 2020 ( 6<sup>1</sup>/<sub>4</sub>% Senior Notes ) and Convertible Notes. The carrying value of long-term debt includes the \$18.0 million equity component of our Convertible Notes which is recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets.

*Derivative Financial Instruments*

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

Accordingly, to achieve the desired mix of fixed and floating interest rate debt, we entered into four interest rate swap agreements in March 2011, which qualify and have been designated as fair value hedges. The interest rate swaps mature on October 1, 2016. Under the terms of the interest rate swaps, we receive interest on the \$215.0 million notional amount of the 7<sup>3</sup>/<sub>4</sub>% Senior Notes at a fixed rate of 7<sup>3</sup>/<sub>4</sub>% and pay a variable rate of interest, based on LIBOR as the benchmark interest rate. For the three months ended September 30, 2011, our variable interest rate was 5.43%. The maturity, payment dates and other critical terms of these swaps exactly match those of the hedged 7<sup>3</sup>/<sub>4</sub>% Senior Notes. These interest rate swaps qualified for hedge accounting using the short-cut method under ASC 815-20-25, *Derivatives and Hedging* (formerly SFAS No. 133), which assumes no hedge ineffectiveness. As a result, changes in the fair value of the interest rate swaps and changes in the fair value of the hedged debt were assumed to be equal and offsetting. As of September 30, 2011, the fair value of our interest rate swaps was an asset of \$7.5 million, which is recorded in Other assets on the Condensed

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

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Consolidated Balance Sheets. The impact of effectively converting the interest rate of the 7<sup>3</sup>/<sub>4</sub>% Senior Notes from fixed rate to variable rate decreased interest expense by \$2.6 million for the nine months ended September 30, 2011 and \$1.2 million for the three months ended September 30, 2011.

**9. Acquisitions**

In March 2011, we completed acquisitions of certain practices of LECG Corporation in Europe, the United States and Latin America with services relating to those provided through our Economic Consulting, Forensic and Litigation Consulting, and Corporate Finance/Restructuring segments. The acquisition-date fair value of the total consideration transferred is approximately \$30.0 million, which consisted of \$27.0 million of cash paid at the closings of these acquisitions, a portion of which is subject to certain working capital and other adjustments, and contingent consideration with an estimated fair value of \$3.0 million. As part of the preliminary purchase price allocation, we recorded an aggregate of \$24.1 million in accounts receivable, \$6.3 million in identifiable intangible assets, \$20.7 million of assumed liabilities and \$15.0 million in goodwill. Aggregate acquisition-related costs of approximately \$1.5 million have been recognized in earnings in 2011. Pro forma results of operations have not been presented because the acquisitions were not material in relation to our consolidated financial position or results of operations for the periods presented.

Certain acquisition-related restricted stock agreements entered into prior to January 1, 2009 contain stock price guarantees that may result in cash payments in the future if our share price falls below a specified per share market value on the date that the applicable stock restrictions lapse (the determination date). For those acquisitions, the future settlement of any contingency related to our common stock price will be recorded as a reduction to additional paid-in capital. During the nine months ended September 30, 2011, we paid \$6.2 million in cash in relation to the stock price guarantees on certain shares of common stock that became unrestricted, which was recorded as a reduction to additional paid-in capital. We did not make any stock price guarantee payments during the three months ended September 30, 2011. Our remaining common stock price guarantee provisions have stock floor prices that range from \$28.47 to \$69.48 per share and have determination dates that range from 2012 to 2013.

**10. Goodwill and Other Intangible Assets**

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

|   | Corporate<br>Finance/<br>Restructuring | Forensic and<br>Litigation<br>Consulting | Economic<br>Consulting | Technology | Strategic<br>Communications | Total        |
|---|--|--|------------------------|------------|-----------------------------|--------------|
| <b>Balances at January 1, 2011</b>                | \$ 434,439                             | \$ 197,234                               | \$ 202,689             | \$ 117,960 | \$ 317,125                  | \$ 1,269,447 |
| Goodwill acquired during the period               | 2,154                                  | 976                                      | 11,884                 |            |                             | 15,014       |
| Contingent consideration <sup>(1)</sup>           |  | 32                                       |                        |            | 11,687                      | 11,719       |
| Foreign currency translation adjustment and other | (563)                                  | (60)                                     | (267)                  | 18         | 371                         | (501)        |
| <b>Balances at September 30, 2011</b>             | \$ 436,030                             | \$ 198,182                               | \$ 214,306             | \$ 117,978 | \$ 329,183                  | \$ 1,295,679 |

<sup>(1)</sup> Contingent consideration related to business combinations consummated prior to January 1, 2009.



## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

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Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of \$5.8 million and \$16.8 million for the three and nine months ended September 30, 2011, respectively, and \$6.3 million and \$18.2 million for the three and nine months ended September 30, 2010, respectively. Based solely on the amortizable intangible assets recorded as of September 30, 2011, we estimate amortization expense to be \$5.5 million during the remainder of 2011, \$21.8 million in 2012, \$20.1 million in 2013, \$11.6 million in 2014, \$10.7 million in 2015, \$9.2 million in 2016 and \$40.1 million in years after 2016. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, finalization of asset valuations for newly acquired assets, changes in useful lives, changes in value due to foreign currency translation or other factors. During the nine months ended September 30, 2011, we wrote-off \$26.5 million of fully amortized intangible assets related to our customer relationships, non-competition agreements, tradenames and contract backlog with a net book value of zero.

|                                      | Useful<br>Life<br>in Years | September 30, 2011          |                             | December 31, 2010           |                             |
|--------------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                      |                            | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| <b>Amortized intangible assets</b>   |                            |                             |                             |                             |                             |
| Customer relationships               | 1 to 15                    | \$ 147,791                  | \$ 48,595                   | \$ 149,278                  | \$ 46,146                   |
| Non-competition agreements           | 1 to 10                    | 15,422                      | 9,218                       | 19,796                      | 11,722                      |
| Software                             | 5 to 6                     | 33,300                      | 19,677                      | 37,700                      | 19,536                      |
| Tradenames                           | 1 to 5                     |                             |                             | 9,610                       | 9,610                       |
| Contract backlog                     | 1                          |                             |                             | 333                         | 333                         |
|                                      |                            | 196,513                     | 77,490                      | 216,717                     | 87,347                      |
| <b>Unamortized intangible assets</b> |                            |                             |                             |                             |                             |
| Tradenames                           | Indefinite                 | 5,600                       |                             | 5,600                       |                             |
|                                      |                            | \$ 202,113                  | \$ 77,490                   | \$ 222,317                  | \$ 87,347                   |

## 11. Long-Term Debt and Capital Lease Obligations

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

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| 7 <sup>3</sup> / <sub>4</sub> % senior notes due 2016 <sup>(a)</sup>                          | \$ 222,464            | \$ 215,000           |
| 6 <sup>3</sup> / <sub>4</sub> % senior notes due 2020   | 400,000               | 400,000              |
| 3 <sup>3</sup> / <sub>4</sub> % senior subordinated convertible notes due 2012 <sup>(b)</sup> | 145,491               | 141,515              |
| Notes payable to former shareholders of acquired businesses                                   | 29,458                | 36,307               |
| <b>Total debt</b>   | 797,413               | 792,822              |
| Less current portion  | 151,949               | 7,307                |
| <b>Long-term debt, net of current portion</b>   | 645,464               | 785,515              |

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|   |                   |                   |
|---|-------------------|-------------------|
| Total capital lease obligations   | 122               | 300               |
| Less current portion  | 98                | 252               |
| <b>Capital lease obligations, net of current portion</b>                    | 24                | 48                |
| <b>Long-term debt and capital lease obligations, net of current portion</b> | <b>\$ 645,488</b> | <b>\$ 785,563</b> |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

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(a) Balance includes a fair value hedge adjustment of \$7.5 million relating to interest rate swaps entered into on March 9, 2011.

(b) Balance includes \$149.9 million principal amount of Convertible Notes net of discount of \$4.5 million at September 30, 2011 and \$8.4 million at December 31, 2010.

***Convertible Notes***

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

When the Convertible Notes are convertible at the option of the holder, they are classified as current on our Consolidated Balance Sheet. When the Convertible Notes are not convertible at the option of the holder, and the scheduled maturity is not within one year after the balance sheet date, they are classified as long-term. As of September 30, 2011, the Convertible Notes are classified as short-term given that the scheduled maturity is within one year of the balance sheet date.

***6<sup>3</sup>/<sub>4</sub>% Senior Notes Due 2020***

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

**12. Commitments and Contingencies**

***Contingencies***

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

**13. 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 nine months ended September 30, 2011, aggregate share-based awards granted included stock



**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

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options exercisable for up to 802,147 shares of common stock upon vesting, restricted stock awards of up to 451,611 shares of common stock upon vesting, restricted stock units equivalent to up to 378,209 shares of common stock upon vesting and 63,000 stock appreciation rights. The stock appreciation rights will be settled with cash upon vesting and exercise.

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

| Income Statement Classification             | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2011                                | 2010     | 2011                               | 2010      |
| Direct cost of revenues                     | \$ 4,111                            | \$ 5,264 | \$ 19,932                          | \$ 15,746 |
| Selling, general and administrative expense | 3,029                               | 2,668    | 8,667                              | 7,940     |
| Special charges <sup>(a)</sup>              |                                     |          | 833                                | 1,932     |
| Total share-based compensation expense      | \$ 7,140                            | \$ 7,932 | \$ 29,432                          | \$ 25,618 |

<sup>(a)</sup> Expense relates to accelerated recognition of compensation cost of share-based awards.

#### **14. Stockholders' Equity**

##### ***Common Stock Repurchase Program***

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

On March 2, 2011, we entered into a supplemental confirmation with Goldman Sachs for a \$209.4 million accelerated stock buyback transaction (the 2011 ASB), pursuant to the Master Agreement. On March 7, 2011, we paid \$209.4 million to Goldman Sachs using available cash on hand and received 4,433,671 shares of FTI Consulting common stock, representing a majority of the total number of shares expected to be delivered pursuant to the 2011 ASB. On May 17, 2011, the Company received additional shares bringing the total number of shares of our common stock delivered pursuant to the 2011 ASB to 5,061,558 shares. As permitted by the Master Agreement and the 2011 ASB, on September 2, 2011, Goldman Sachs accelerated the termination date of the 2011 ASB which was to occur no later than December 2, 2011. On September 8, 2011, the Company received an additional 671,647 shares of FTI Consulting common stock, bringing the total number of shares of our common stock delivered pursuant to the 2011 ASB to 5,733,205. The repurchase of shares was accounted for as a share retirement resulting in a reduction of common stock issued and outstanding of 5,733,205 shares and a corresponding reduction in common stock and additional paid-in capital of \$209.4 million. The completion of the 2011 ASB completed the Repurchase Program.



**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

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**15. Segment Reporting**

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

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

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

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

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

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

We evaluate the performance of our operating segments based on Adjusted Segment EBITDA. We define Adjusted Segment EBITDA as a segment's share of consolidated operating income before depreciation, amortization of intangible assets, accretion of contingent consideration and special charges. Adjusted Segment EBITDA for 2010 has been presented in a consistent manner. Although Adjusted Segment EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, we use Adjusted Segment EBITDA to evaluate and compare the operating performance of our segments.

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

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The table below presents revenues and Adjusted Segment EBITDA for our reportable segments for the three and nine months ended September 30, 2011 and 2010:

|                                    | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                     |
|------------------------------------|-------------------------------------|-------------------|------------------------------------|---------------------|
|                                    | 2011                                | 2010              | 2011                               | 2010                |
| <b>Revenues</b>                    |                                     |                   |                                    |                     |
| Corporate Finance/Restructuring    | \$ 110,311                          | \$ 109,736        | \$ 319,461                         | \$ 338,298          |
| Forensic and Litigation Consulting | 99,064                              | 84,023            | 275,345                            | 243,455             |
| Economic Consulting                | 95,662                              | 59,417            | 264,401                            | 191,276             |
| Technology                         | 56,972                              | 42,721            | 165,137                            | 128,885             |
| Strategic Communications           | 51,793                              | 50,243            | 151,711                            | 143,299             |
| <b>Total revenues</b>              | <b>\$ 413,802</b>                   | <b>\$ 346,140</b> | <b>\$ 1,176,055</b>                | <b>\$ 1,045,213</b> |

**Adjusted Segment EBITDA**

|                                      |                  |                  |                   |                   |
|--------------------------------------|------------------|------------------|-------------------|-------------------|
| Corporate Finance/Restructuring      | \$ 28,350        | \$ 24,739        | \$ 61,443         | \$ 82,031         |
| Forensic and Litigation Consulting   | 19,202           | 19,528           | 53,285            | 57,663            |
| Economic Consulting                  | 18,650           | 11,853           | 50,635            | 36,682            |
| Technology                           | 19,619           | 13,754           | 58,362            | 46,643            |
| Strategic Communications             | 7,429            | 7,210            | 19,267            | 21,563            |
| <b>Total Adjusted Segment EBITDA</b> | <b>\$ 93,250</b> | <b>\$ 77,084</b> | <b>\$ 242,992</b> | <b>\$ 244,582</b> |

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

|   | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|---|-------------------------------------|------------------|------------------------------------|------------------|
|   | 2011                                | 2010             | 2011                               | 2010             |
| Total Adjusted Segment EBITDA                             | \$ 93,250                           | \$ 77,084        | \$ 242,992                         | \$ 244,582       |
| Segment depreciation expense                              | (6,115)                             | (7,476)          | (17,729)                           | (20,114)         |
| Amortization of other intangible assets                   | (5,843)                             | (6,286)          | (16,795)                           | (18,229)         |
| Special charges   |                                     |                  | (15,212)                           | (29,356)         |
| Accretion of contingent consideration                     | (944)                               | (179)            | (2,539)                            | (179)            |
| Unallocated corporate expenses, excluding special charges | (20,926)                            | (16,235)         | (53,474)                           | (49,912)         |
| Interest income and other                                 | 486                                 | 2,527            | 5,409                              | 4,740            |
| Interest expense  | (14,319)                            | (11,904)         | (44,129)                           | (34,600)         |
| Loss on early extinguishment of debt                      |                                     | (5,161)          |                                    | (5,161)          |
| <b>Income before income tax provision</b>                 | <b>\$ 45,589</b>                    | <b>\$ 32,370</b> | <b>\$ 98,523</b>                   | <b>\$ 91,771</b> |

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

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

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

The following financial information presents condensed consolidating balance sheets, statements of income and statements of cash flows for FTI Consulting, Inc., all the guarantor subsidiaries, all the non-guarantor subsidiaries and the eliminations necessary to arrive at the consolidated information for FTI Consulting, Inc. 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 September 30, 2011

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|--|-------------------------|---------------------------|-------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                    |                         |                           |                               |                       |                     |
| Cash and cash equivalents                        | \$ 57,930               | \$ 410                    | \$ 69,890                     | \$                    | \$ 128,230          |
| Restricted cash                                  | 8,632                   |                           | 1,599                         |                       | 10,231              |
| Accounts receivable, net                         | 172,452                 | 176,418                   | 120,166                       |                       | 469,036             |
| Intercompany receivables                         | 133,156                 | 509,991                   | 66,338                        | (709,485)             |                     |
| Other current assets                             | 26,413                  | 14,782                    | 28,811                        |                       | 70,006              |
| <b>Total current assets</b>                      | <b>398,583</b>          | <b>701,601</b>            | <b>286,804</b>                | <b>(709,485)</b>      | <b>677,503</b>      |
| Property and equipment, net                      | 45,070                  | 13,041                    | 16,916                        |                       | 75,027              |
| Goodwill   | 547,784                 | 423,557                   | 324,338                       |                       | 1,295,679           |
| Other intangible assets, net                     | 40,279                  | 37,270                    | 47,074                        |                       | 124,623             |
| Investments in subsidiaries                      | 1,492,271               | 524,135                   |                               | (2,016,406)           |                     |
| Other assets                                     | 68,283                  | 63,968                    | 21,436                        |                       | 153,687             |
| <b>Total assets</b>                              | <b>\$ 2,592,270</b>     | <b>\$ 1,763,572</b>       | <b>\$ 696,568</b>             | <b>\$ (2,725,891)</b> | <b>\$ 2,326,519</b> |
| <b>Liabilities</b>                               |                         |                           |                               |                       |                     |
| Intercompany payables                            | \$ 529,628              | \$ 97,857                 | \$ 82,000                     | \$ (709,485)          | \$                  |
| Other current liabilities                        | 275,148                 | 106,377                   | 64,561                        |                       | 446,086             |
| <b>Total current liabilities</b>                 | <b>804,776</b>          | <b>204,234</b>            | <b>146,561</b>                | <b>(709,485)</b>      | <b>446,086</b>      |
| Long-term debt, net                              | 622,488                 | 23,000                    |                               |                       | 645,488             |
| Other liabilities                                | 113,237                 | 44,107                    | 25,832                        |                       | 183,176             |
| <b>Total liabilities</b>                         | <b>1,540,501</b>        | <b>271,341</b>            | <b>172,393</b>                | <b>(709,485)</b>      | <b>1,274,750</b>    |
| <b>Stockholders equity</b>                       | <b>1,051,769</b>        | <b>1,492,231</b>          | <b>524,175</b>                | <b>(2,016,406)</b>    | <b>1,051,769</b>    |
| <b>Total liabilities and stockholders equity</b> | <b>\$ 2,592,270</b>     | <b>\$ 1,763,572</b>       | <b>\$ 696,568</b>             | <b>\$ (2,725,891)</b> | <b>\$ 2,326,519</b> |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

## Condensed Consolidating Balance Sheet Information as of December 31, 2010

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|--|-------------------------|---------------------------|-------------------------------|----------------|--------------|
| <b>Assets</b>                                    |                         |                           |                               |                |              |
| Cash and cash equivalents                        | \$ 292,738              | \$ 1,430                  | \$ 90,402                     | \$             | \$ 384,570   |
| Restricted cash                                  | 8,633                   |                           | 1,885                         |                | 10,518       |
| Accounts receivable, net                         | 109,663                 | 140,328                   | 76,086                        |                | 326,077      |
| Intercompany receivables                         | 51,702                  | 495,306                   | 96,160                        | (643,168)      |              |
| Other current assets                             | 28,374                  | 15,533                    | 25,910                        |                | 69,817       |
| <b>Total current assets</b>                      | 491,110                 | 652,597                   | 290,443                       | (643,168)      | 790,982      |
| Property and equipment, net                      | 47,091                  | 13,893                    | 12,254                        |                | 73,238       |
| Goodwill   | 426,866                 | 541,395                   | 301,186                       |                | 1,269,447    |
| Other intangible assets, net                     | 5,906                   | 79,984                    | 49,080                        |                | 134,970      |
| Investments in subsidiaries                      | 1,618,032               | 512,070                   |                               | (2,130,102)    |              |
| Other assets                                     | 57,998                  | 58,560                    | 20,293                        |                | 136,851      |
| <b>Total assets</b>                              | \$ 2,647,003            | \$ 1,858,499              | \$ 673,256                    | \$ (2,773,270) | \$ 2,405,488 |
| <b>Liabilities</b>                               |                         |                           |                               |                |              |
| Intercompany payables                            | \$ 488,860              | \$ 70,622                 | \$ 83,686                     | \$ (643,168)   | \$           |
| Other current liabilities                        | 132,765                 | 103,983                   | 49,554                        |                | 286,302      |
| <b>Total current liabilities</b>                 | 621,625                 | 174,605                   | 133,240                       | (643,168)      | 286,302      |
| Long-term debt, net                              | 756,515                 | 29,048                    |                               |                | 785,563      |
| Other liabilities                                | 101,257                 | 39,813                    | 24,947                        |                | 166,017      |
| <b>Total liabilities</b>                         | 1,479,397               | 243,466                   | 158,187                       | (643,168)      | 1,237,882    |
| <b>Stockholders equity</b>                       | 1,167,606               | 1,615,033                 | 515,069                       | (2,130,102)    | 1,167,606    |
| <b>Total liabilities and stockholders equity</b> | \$ 2,647,003            | \$ 1,858,499              | \$ 673,256                    | \$ (2,773,270) | \$ 2,405,488 |

## Condensed Consolidating Statement of Income for the Three Months Ended September 30, 2011

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                             | \$ 157,053              | \$ 253,165                | \$ 103,795                    | \$ (100,211) | \$ 413,802   |
| <b>Operating expenses</b>                   |                         |                           |                               |              |              |
| Direct cost of revenues                     | 99,635                  | 181,359                   | 66,111                        | (97,130)     | 249,975      |
| Selling, general and administrative expense | 43,053                  | 31,347                    | 27,243                        | (3,081)      | 98,562       |
| Amortization of other intangible assets     | 1,467                   | 2,667                     | 1,709                         |              | 5,843        |

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|  |           |           |          |             |           |
|--|-----------|-----------|----------|-------------|-----------|
| <b>Operating income</b>                          | 12,898    | 37,792    | 8,732    |             | 59,422    |
| <b>Other (expense) income</b>                    | (14,067)  | (1,890)   | 2,124    |             | (13,833)  |
| <b>Income (loss) before income tax provision</b> | (1,169)   | 35,902    | 10,856   |             | 45,589    |
| <b>Income tax provision</b>                      | 209       | 15,082    | 859      |             | 16,150    |
| <b>Equity in net earnings of subsidiaries</b>    | 30,817    | (8,498)   |          | (22,319)    |           |
| <b>Net income</b>                                | \$ 29,439 | \$ 12,322 | \$ 9,997 | \$ (22,319) | \$ 29,439 |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

## Condensed Consolidating Statement of Income for the Three Months Ended September 30, 2010

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                                  | \$ 126,096              | \$ 284,454                | \$ 78,860                     | \$ (143,270) | \$ 346,140   |
| <b>Operating expenses</b>                        |                         |                           |                               |              |              |
| Direct cost of revenues                          | 74,811                  | 221,606                   | 51,209                        | (140,795)    | 206,831      |
| Selling, general and administrative expense      | 36,458                  | 34,287                    | 17,845                        | (2,475)      | 86,115       |
| Amortization of other intangible assets          | 698                     | 3,912                     | 1,676                         |              | 6,286        |
| <b>Operating income</b>                          | 14,129                  | 24,649                    | 8,130                         |              | 46,908       |
| <b>Other (expense) income</b>                    | (15,134)                | 3,627                     | (3,031)                       |              | (14,538)     |
| <b>Income (loss) before income tax provision</b> | (1,005)                 | 28,276                    | 5,099                         |              | 32,370       |
| <b>Income tax provision (benefit)</b>            | (4,067)                 | 12,949                    | 3,324                         |              | 12,206       |
| <b>Equity in net earnings of subsidiaries</b>    | 17,102                  | 1,497                     | 2,168                         | (20,767)     |              |
| <b>Net income</b>                                | \$ 20,164               | \$ 16,824                 | \$ 3,943                      | \$ (20,767)  | \$ 20,164    |

## Condensed Consolidating Statement of Income for the Nine Months Ended September 30, 2011

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                                  | \$ 427,804              | \$ 760,553                | \$ 284,186                    | \$ (296,488) | \$ 1,176,055 |
| <b>Operating expenses</b>                        |                         |                           |                               |              |              |
| Direct cost of revenues                          | 281,576                 | 545,080                   | 185,699                       | (288,452)    | 723,903      |
| Selling, general and administrative expense      | 119,639                 | 96,038                    | 75,261                        | (8,036)      | 282,902      |
| Special charges                                  | 8,561                   | 228                       | 6,423                         |              | 15,212       |
| Amortization of other intangible assets          | 2,346                   | 9,526                     | 4,923                         |              | 16,795       |
| <b>Operating income</b>                          | 15,682                  | 109,681                   | 11,880                        |              | 137,243      |
| <b>Other (expense) income</b>                    | (39,747)                | (1,333)                   | 2,360                         |              | (38,720)     |
| <b>Income (loss) before income tax provision</b> | (24,065)                | 108,348                   | 14,240                        |              | 98,523       |
| <b>Income tax (benefit) provision</b>            | (9,998)                 | 45,216                    | (717)                         |              | 34,501       |
| <b>Equity in net earnings of subsidiaries</b>    | 78,089                  | (4,121)                   |                               | (73,968)     |              |
| <b>Net income</b>                                | \$ 64,022               | \$ 59,011                 | \$ 14,957                     | \$ (73,968)  | \$ 64,022    |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

## Condensed Consolidating Statement of Income for the Nine Months Ended September 30, 2010

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                                  | \$ 388,355              | \$ 887,300                | \$ 225,294                    | \$ (455,736) | \$ 1,045,213 |
| <b>Operating expenses</b>                        |                         |                           |                               |              |              |
| Direct cost of revenues                          | 233,467                 | 688,992                   | 144,085                       | (448,904)    | 617,640      |
| Selling, general and administrative expense      | 110,917                 | 99,656                    | 49,455                        | (6,832)      | 253,196      |
| Special charges                                  | 17,669                  | 10,842                    | 845                           |              | 29,356       |
| Amortization of other intangible assets          | 2,118                   | 11,933                    | 4,178                         |              | 18,229       |
| <b>Operating income</b>                          | 24,184                  | 75,877                    | 26,731                        |              | 126,792      |
| <b>Other (expense) income</b>                    | (35,584)                | 8,369                     | (7,806)                       |              | (35,021)     |
| <b>Income (loss) before income tax provision</b> | (11,400)                | 84,246                    | 18,925                        |              | 91,771       |
| <b>Income tax provision</b>                      | (4,788)                 | 36,119                    | 3,311                         |              | 34,642       |
| <b>Equity in net earnings of subsidiaries</b>    | 63,741                  | 14,463                    | 6,441                         | (84,645)     |              |
| <b>Net income</b>                                | \$ 57,129               | \$ 62,590                 | \$ 22,055                     | \$ (84,645)  | \$ 57,129    |

## Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 2011

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|
| <b>Operating activities</b>   |                         |                           |                               |              |
| Net cash (used in) provided by operating activities   | \$ (18,645)             | \$ 77,208                 | \$ (11,715)                   | \$ 46,848    |
| <b>Investing activities</b>   |                         |                           |                               |              |
| Payments for acquisition of businesses, including contingent payments, net of cash received | (33,735)                |                           | (28,611)                      | (62,346)     |
| Purchases of property and equipment   | (7,644)                 | (10,210)                  | (6,741)                       | (24,595)     |
| Other   | (127)                   |                           |                               | (127)        |
| <b>Net cash used in investing activities</b>  | (41,506)                | (10,210)                  | (35,352)                      | (87,068)     |
| <b>Financing activities</b>   |                         |                           |                               |              |
| Borrowings under revolving line of credit   | 25,000                  |                           |                               | 25,000       |
| Payments under revolving line of credit   | (25,000)                |                           |                               | (25,000)     |
| Payments of long-term debt and capital lease obligations                                    | (6,806)                 | (161)                     |                               | (6,967)      |
| Net issuance of common stock and other  | 796                     |                           |                               | 796          |
| Purchase and retirement of common stock   | (209,400)               |                           |                               | (209,400)    |
| Excess tax benefits from share-based compensation   | 198                     |                           |                               | 198          |
| Intercompany transfers  | 40,555                  | (67,857)                  | 27,302                        |              |



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|  |                  |                |                  |                   |
|--|------------------|----------------|------------------|-------------------|
| Net cash (used in) provided by financing activities          | (174,657)        | (68,018)       | 27,302           | (215,373)         |
| Effect of exchange rate changes on cash and cash equivalents |                  |                | (747)            | (747)             |
| <b>Net decrease in cash and cash equivalents</b>             | <b>(234,808)</b> | <b>(1,020)</b> | <b>(20,512)</b>  | <b>(256,340)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>        | <b>292,738</b>   | <b>1,430</b>   | <b>90,402</b>    | <b>384,570</b>    |
| <b>Cash and cash equivalents, end of period</b>              | <b>\$ 57,930</b> | <b>\$ 410</b>  | <b>\$ 69,890</b> | <b>\$ 128,230</b> |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Continued)

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

Unaudited

## Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 2010

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|
| <b>Operating activities</b>   |                         |                           |                               |              |
| Net cash provided by (used in) operating activities   | \$ 21,428               | \$ 80,032                 | \$ (5,594)                    | \$ 95,866    |
| <b>Investing activities</b>   |                         |                           |                               |              |
| Payments for acquisition of businesses, including contingent payments, net of cash received | (60,273)                |                           |                               | (60,273)     |
| Purchases of property and equipment and other   | (5,907)                 | (6,338)                   | (3,055)                       | (15,300)     |
| Proceeds from sale or maturity of short-term investments                                    | 15,000                  |                           |                               | 15,000       |
| Net cash used in investing activities   | (51,180)                | (6,338)                   | (3,055)                       | (60,573)     |
| <b>Financing activities</b>   |                         |                           |                               |              |
| Borrowings under revolving line of credit   | 20,000                  |                           |                               | 20,000       |
| Payments of revolving line of credit  | (20,000)                |                           |                               | (20,000)     |
| Payments of long-term debt and capital lease obligations                                    | (190,024)               | (428)                     |                               | (190,452)    |
| Issuance of debt securities, net  | 391,647                 |                           |                               | 391,647      |
| Payments of debt financing fees   | (2,843)                 |                           |                               | (2,843)      |
| Purchase and retirement of common stock   | (26,138)                |                           |                               | (26,138)     |
| Net issuance of common stock and other  | 5,046                   |                           |                               | 5,046        |
| Excess tax benefits from share-based compensation   | 761                     |                           |                               | 761          |
| Intercompany transfers  | 48,625                  | (72,148)                  | 23,523                        |              |
| Net cash provided by (used in) financing activities   | 227,074                 | (72,576)                  | 23,523                        | 178,021      |
| Effect of exchange rate changes on cash   |                         |                           | (1,004)                       | (1,004)      |
| <b>Net increase in cash and cash equivalents</b>  | 197,322                 | 1,118                     | 13,870                        | 212,310      |
| <b>Cash and cash equivalents, beginning of period</b>                                       | 60,720                  | 665                       | 57,487                        | 118,872      |
| <b>Cash and cash equivalents, end of period</b>   | \$ 258,042              | \$ 1,783                  | \$ 71,357                     | \$ 331,182   |

**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 nine month periods ended September 30, 2011 and 2010 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, 2010. Historical results and any discussion of prospective results may not indicate our future performance. See Forward Looking Statements.

**Revision to Previously Reported Financial Information**

During the third quarter of 2011, we conducted a re-examination of our accounting related to our Senior Managing Director Incentive Compensation Program and related agreements. The re-examination arose as part of a review of the treatment of unamortized compensation expense under the ICP in respect of two employees who retired during the quarter. As a result of this review, we revised our accounting to reflect an acceleration of expense related to certain forgivable loans and/or share-based awards and corrected the resulting immaterial error in our previously reported results for the six-months ended June 30, 2011 and for the annual reporting periods 2006 through 2010. As previously disclosed in the Current Report on Form 8-K that we filed with the Securities Exchange Commission on November 2, 2011, we are revising our previously reported financial information in the third quarter 2011 filing to reflect the impact of the correction of the immaterial error. We intend to revise our previously reported consolidated financial statements for certain comparative quarterly and annual periods through subsequent periodic filings.

The following table presents the impact of the correction of the immaterial error on earnings per share, Adjusted Earnings Per Diluted Share, Adjusted EBITDA and Adjusted Segment EBITDA for the three and nine months ended September 30, 2010:

|   | Three Months Ended September 30, 2010 |            |            | Nine Months Ended September 30, 2010 |            |            |
|---|---------------------------------------|------------|------------|--------------------------------------|------------|------------|
|   | As Reported                           | Revision   | As Revised | As Reported                          | Revision   | As Revised |
| <b>Earnings per common share basic</b>            | \$ 0.48                               | \$ (0.04)  | \$ 0.44    | \$ 1.34                              | \$ (0.09)  | \$ 1.25    |
| <b>Earnings per common share diluted</b>          | \$ 0.47                               | \$ (0.04)  | \$ 0.43    | \$ 1.28                              | \$ (0.09)  | \$ 1.19    |
| <b>Adjusted earnings per common share diluted</b> | \$ 0.54                               | \$ (0.04)  | \$ 0.50    | \$ 1.73                              | \$ (0.10)  | \$ 1.63    |
| <b>Adjusted EBITDA</b>                            | \$ 65,026                             | \$ (2,876) | \$ 62,150  | \$ 206,366                           | \$ (7,672) | \$ 198,694 |
| <b>Adjusted Segment EBITDA</b>                    |                                       |            |            |                                      |            |            |
| Corporate Finance/Restructuring                   | \$ 26,708                             | \$ (1,969) | \$ 24,739  | \$ 87,404                            | \$ (5,373) | \$ 82,031  |
| Forensic and Litigation Consulting                | 20,189                                | (661)      | 19,528     | 59,319                               | (1,656)    | 57,663     |
| Economic Consulting                               | 11,932                                | (79)       | 11,853     | 36,905                               | (223)      | 36,682     |
| Technology  | 13,908                                | (154)      | 13,754     | 47,026                               | (383)      | 46,643     |
| Strategic Communications                          | 7,223                                 | (13)       | 7,210      | 21,600                               | (37)       | 21,563     |
| <b>Total Adjusted Segment EBITDA</b>              | \$ 79,960                             | \$ (2,876) | \$ 77,084  | \$ 252,254                           | \$ (7,672) | \$ 244,582 |

**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 and legislation and litigation. We assist clients in addressing a broad range of business challenges, such as restructuring (including bankruptcy), financings and credit issues and indebtedness, interim business management, forensic accounting and litigation services, mergers and acquisitions ( M&A ), antitrust and

competition matters, electronic discovery ( e-discovery ), management and retrieval of electronically stored information, 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 operating segments:

Our **Corporate Finance/Restructuring** segment focuses on strategic, operational, financial and capital needs of businesses around the world and provides consulting and advisory services on a wide range of matters, such as restructuring (including bankruptcy), financings, claims management, 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, data analytics, business intelligence assessments and risk mitigation services.

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

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

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

We derive substantially all of our revenues from providing professional services to both U.S. and international clients. Over the past several years the growth in our revenues and profitability has resulted from our ability to attract new and recurring engagements and from the acquisitions we have completed.

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 and the number of users licensing our Ringtail® software products for installation within their own environments. We license these products directly to end users as well as indirectly through our channel partner relationships. 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; and

licensing of our software products and other technology services.

We define Adjusted EBITDA as consolidated operating income before depreciation, amortization of intangible assets, accretion of contingent consideration and special charges. We define Adjusted Segment EBITDA as a segment's share of consolidated operating income before depreciation, amortization of intangible assets, accretion of contingent consideration and special charges. Adjusted EBITDA and Adjusted Segment EBITDA are not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same. We define Adjusted Net Income and Adjusted Earnings Per Diluted Share as net income and earnings per diluted share, respectively, excluding the impact of the special charges and loss on early extinguishment of debt that were incurred in that period, and their related income tax effects. These non-GAAP measures should be considered in addition to, but not as a substitute for or superior to, the information contained in our statements of income. We believe that each of these measures can be a useful operating performance measure for evaluating our results of operations as compared from period-to-period and as compared to our competitors.

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

## EXECUTIVE HIGHLIGHTS

|  | Three Months Ended<br>September 30,              |            | Nine Months Ended<br>September 30, |              |
|--|--|------------|------------------------------------|--------------|
|  | 2011   | 2010       | 2011                               | 2010         |
|  | (dollars in thousands, except per share amounts) |            |                                    |              |
| Revenues                                     | \$ 413,802                                       | \$ 346,140 | \$ 1,176,055                       | \$ 1,045,213 |
| Earnings per common share - diluted          | \$ 0.70  | \$ 0.43    | \$ 1.47                            | \$ 1.19      |
| Adjusted earnings per common share - diluted | \$ 0.70  | \$ 0.50    | \$ 1.68                            | \$ 1.63      |
| Operating income                             | \$ 59,422  | \$ 46,908  | \$ 137,243                         | \$ 126,792   |
| Adjusted EBITDA                              | \$ 73,628  | \$ 62,150  | \$ 193,296                         | \$ 198,694   |
| Cash provided by operating activities        | \$ 59,672  | \$ 73,911  | \$ 46,848                          | \$ 95,866    |
| Total number of employees at September 30,   | 3,824  | 3,514      | 3,824                              | 3,514        |

### Third Quarter 2011 Executive Highlights

#### Revenues

Revenues for the quarter ended September 30, 2011 increased by 19.5%, or \$67.7 million, to \$413.8 million, compared to \$346.1 million in the same prior year period, with approximately 10.1% of the increase due to organic growth and 8.4% due to acquisition growth. The remainder of approximately 1.1% is due to favorable currency translation related primarily to our UK based operations.

Our third quarter revenue results reflected growth in our Economic Consulting, Technology and FLC segments which included the impact from our acquisitions of several practices from LECG Corporation ( LECG ) at the end of March 2011. Our Corporate Finance/Restructuring segment saw growth in the communication, media and entertainment and healthcare practices, although the segment continues to be affected by a decline in restructuring activity compared to the prior year.

***Adjusted EBITDA***

Adjusted EBITDA, as previously defined, increased 18.5%, or \$11.5 million, to \$73.6 million, or 17.8% of revenues, compared to \$62.2 million, or 18.0% of revenues, in the same prior year period. Adjusted EBITDA margins were impacted by strong revenue performance offset by the impact of integrating the acquired practices, investment in other senior professionals and the investment in our regional infrastructure. Adjusted EBITDA for the quarter ended September 30, 2010 included a charge of \$1.4 million related to the Company's decision to expense certain previously capitalized development efforts and prepaid software licensing costs for an offering that was replaced with alternative technologies.

***Earnings per common share and adjusted earnings per common share - diluted***

Earnings per diluted share for the three months ended September 30, 2011 were \$0.70 compared to \$0.43 in the same prior year period, which included a \$5.2 million loss on early extinguishment of debt. Adjusted Earnings Per Diluted Share, as previously defined, for the three months ended September 30, 2011 were \$0.70, compared to \$0.50 in the same prior year period due to the improvement in the operating results described above and the impact of a reduction of 5.7 million shares outstanding as a result of our completion of a share repurchase program.

***Cash provided by operating activities***

Cash provided by operating activities for the three months ended September 30, 2011 was \$59.7 million as compared to \$73.9 million for the three months ended September 30, 2010. The decline was primarily a result of a shift in the relative mix of receivables towards clients and geographic regions that traditionally have longer billing and collection cycles. Overall, cash collections for the quarter were strong at approximately \$383 million.

***Headcount***

Headcount of 3,824 at September 30, 2011 increased by 310, or 8.8%, compared to the same period a year ago primarily related to the approximate 200 professionals who joined the Company from LECG in the first quarter of 2011. Additionally, headcount increased most notably in our Economic Consulting and FLC segments, through hiring to support the growth of these segments. Headcount in the Corporate Finance/Restructuring segment decreased primarily due to the staff reductions made in 2011 to balance current demands with resource requirements.

***Other strategic activities***

On March 3, 2011, we announced that we had entered into a \$209.4 million accelerated stock buyback transaction with Goldman, Sachs. On September 2, 2011, Goldman Sachs accelerated the termination date of the 2011 accelerated stock buyback transaction ( 2011 ASB ) which was to occur no later than December 2, 2011. On September 8, 2011, we received an additional 671,647 shares bringing the total shares delivered pursuant to the 2011 ASB to 5,733,205 shares of FTI Consulting common stock for an average price per share of \$36.52.

**CONSOLIDATED RESULTS OF OPERATIONS****Segment and Consolidated Operating Results:**

|   | Three Months Ended<br>September 30,      |                   | Nine Months Ended<br>September 30, |                     |
|---|--|-------------------|------------------------------------|---------------------|
|   | 2011                                     | 2010              | 2011                               | 2010                |
|   | (in thousands, except per share amounts) |                   |                                    |                     |
| <b>Revenues</b>                           |  |                   |                                    |                     |
| Corporate Finance/Restructuring           | \$ 110,311                               | \$ 109,736        | \$ 319,461                         | \$ 338,298          |
| Forensic and Litigation Consulting        | 99,064                                   | 84,023            | 275,345                            | 243,455             |
| Economic Consulting                       | 95,662                                   | 59,417            | 264,401                            | 191,276             |
| Technology                                | 56,972                                   | 42,721            | 165,137                            | 128,885             |
| Strategic Communications                  | 51,793                                   | 50,243            | 151,711                            | 143,299             |
| <b>Total revenues</b>                     | <b>\$ 413,802</b>                        | <b>\$ 346,140</b> | <b>\$ 1,176,055</b>                | <b>\$ 1,045,213</b> |
| <b>Operating income</b>                   |  |                   |                                    |                     |
| Corporate Finance/Restructuring           | \$ 25,141                                | \$ 21,798         | \$ 42,770                          | \$ 68,135           |
| Forensic and Litigation Consulting        | 17,581                                   | 17,751            | 47,746                             | 46,898              |
| Economic Consulting                       | 17,469                                   | 10,998            | 45,565                             | 27,079              |
| Technology                                | 14,662                                   | 7,480             | 44,026                             | 25,544              |
| Strategic Communications                  | 5,495                                    | 5,116             | 13,449                             | 13,989              |
| <b>Segment operating income</b>           | <b>80,348</b>                            | <b>63,143</b>     | <b>193,556</b>                     | <b>181,645</b>      |
| Unallocated corporate expenses            | (20,926)                                 | (16,235)          | (56,313)                           | (54,853)            |
| <b>Total operating income</b>             | <b>59,422</b>                            | <b>46,908</b>     | <b>137,243</b>                     | <b>126,792</b>      |
| <b>Other income (expense)</b>             |  |                   |                                    |                     |
| Interest income and other                 | 486                                      | 2,527             | 5,409                              | 4,740               |
| Interest expense                          | (14,319)                                 | (11,904)          | (44,129)                           | (34,600)            |
| Loss on early extinguishment of debt      |  | (5,161)           |                                    | (5,161)             |
|   | (13,833)                                 | (14,538)          | (38,720)                           | (35,021)            |
| <b>Income before income tax provision</b> | <b>45,589</b>                            | <b>32,370</b>     | <b>98,523</b>                      | <b>91,771</b>       |
| <b>Income tax provision</b>               | <b>16,150</b>                            | <b>12,206</b>     | <b>34,501</b>                      | <b>34,642</b>       |
| <b>Net income</b>                         | <b>\$ 29,439</b>                         | <b>\$ 20,164</b>  | <b>\$ 64,022</b>                   | <b>\$ 57,129</b>    |
| <b>Earnings per common share basic</b>    | <b>\$ 0.73</b>                           | <b>\$ 0.44</b>    | <b>\$ 1.54</b>                     | <b>\$ 1.25</b>      |
| <b>Earnings per common share diluted</b>  | <b>\$ 0.70</b>                           | <b>\$ 0.43</b>    | <b>\$ 1.47</b>                     | <b>\$ 1.19</b>      |

**Reconciliation of Total Operating Income to Adjusted EBITDA:**

|                               | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|-------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
|                               | 2011                                | 2010             | 2011                               | 2010              |
|                               | (in thousands)                      |                  |                                    |                   |
| <b>Total operating income</b> | <b>\$ 59,422</b>                    | <b>\$ 46,908</b> | <b>\$ 137,243</b>                  | <b>\$ 126,792</b> |
| Add back:                     |                                     |                  |                                    |                   |

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|   |                  |                  |                   |                   |
|---|------------------|------------------|-------------------|-------------------|
| Depreciation and amortization           | 7,419            | 8,777            | 21,507            | 24,138            |
| Amortization of other intangible assets | 5,843            | 6,286            | 16,795            | 18,229            |
| Accretion of contingent consideration   | 944              | 179              | 2,539             | 179               |
| Special charges                         |                  |                  | 15,212            | 29,356            |
| <b>Adjusted EBITDA</b>                  | <b>\$ 73,628</b> | <b>\$ 62,150</b> | <b>\$ 193,296</b> | <b>\$ 198,694</b> |



**Reconciliation of Net Income to Adjusted Net Income and Earnings Per Shares to Adjusted Earnings Per Share:**

|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2011</b>                                 | <b>2010</b> | <b>2011</b>                                | <b>2010</b> |
| <b>Net income</b>   | \$ 29,439                                   | \$ 20,164   | \$ 64,022                                  | \$ 57,129   |
| Add back: Special charges, net of tax                               |   |             | 9,285                                      | 17,549      |
| Add back: Loss on early extinguishment of debt, net of tax          |   | 3,200       |  | 3,200       |
| <b>Adjusted Net Income</b>  | \$ 29,439                                   | \$ 23,364   | \$ 73,307                                  | \$ 77,878   |
| <b>Earnings per common share diluted</b>                            | \$ 0.70                                     | \$ 0.43     | \$ 1.47                                    | \$ 1.19     |
| <b>Adjusted earnings per common share diluted</b>                   | \$ 0.70                                     | \$ 0.50     | \$ 1.68                                    | \$ 1.63     |
| <b>Weighted average number of common shares outstanding diluted</b> | 42,267                                      | 46,981      | 43,671                                     | 47,890      |

**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010*****Revenues and operating income***

See Segment Results for an expanded discussion of segment revenues and operating income.

***Unallocated corporate expenses***

Unallocated corporate expenses increased \$4.7 million, or 28.9%, to \$20.9 million for the three months ended September 30, 2011, from \$16.2 million for the three months ended September 30, 2010. The increase was primarily due to \$2.4 million of higher performance-based compensation costs and \$2.4 million of investment in regional infrastructure.

***Interest income and other***

Interest income and other, which includes foreign currency transaction gains and losses, decreased by \$2.0 million to \$0.5 million for the three months ended September 30, 2011 from \$2.5 million for the three months ended September 30, 2010. The decrease is primarily due to a \$2.9 million unfavorable impact from net foreign currency transaction gains and losses resulting from the remeasurement of receivables and payables required to be settled in a currency other than an entity's functional currency, partially offset by equity in earnings of affiliates.

***Interest expense***

Interest expense increased \$2.4 million to \$14.3 million for the three months ended September 30, 2011 from \$11.9 million for the three months ended September 30, 2010. The increase is due to additional senior debt from the issuance of \$400.0 million aggregate principal amount of 6<sup>3</sup>/<sub>4</sub>% senior notes due 2020 in the third quarter of 2010 and the loan notes issued as a portion of the consideration in connection with the business in Asia, which we acquired in August 2010. This increase was partially offset by a \$1.2 million favorable impact of lower interest rates on interest rate swap agreements entered into in March 2011.

***Income tax provision***

Our provision for income taxes in interim periods is computed by applying our estimated annual effective tax rate against income before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur or become known. The effective tax rate was 35.4% for the three months ended September 30, 2011 as compared to 37.7% for the three months ended September 30, 2010. For

the three months ended September 30, 2011, the effective tax rate was favorably impacted by lower taxes on foreign earnings and a discrete item recorded in the quarter for a change in estimate related to the prior year tax provision.

### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

#### ***Revenues and operating income***

See Segment Results for an expanded discussion of segment revenues and operating income.

#### ***Unallocated corporate expenses***

Unallocated corporate expenses increased \$1.5 million, or 2.7%, to \$56.3 million for the nine months ended September 30, 2011, from \$55.0 million for the nine months ended September 30, 2010. Excluding the impact of special charges of \$2.8 million recorded in the nine months ended September 30, 2011 and \$4.9 million recorded in the nine months ended September 30, 2010, unallocated corporate expenses increased \$3.6 million, or 7.1%, from the prior year. The increase was primarily due to \$4.4 million of higher performance-based compensation costs, \$4.1 million of regional infrastructure investment and \$1.2 million related to global brand integration. These increases were partially offset by a \$2.4 million increase in allocation of certain system development and support costs and a \$2.3 million reclassification of certain personnel to operating segments.

#### ***Interest income and other***

Interest income and other, which includes foreign currency transaction gains and losses, increased by \$0.7 million to \$5.4 million for the nine months ended September 30, 2011 from \$4.7 million for the nine months ended September 30, 2010. This increase is primarily due to increased interest income and equity in earnings of affiliates in the current year partially offset by a \$1.0 million unfavorable impact from net foreign currency transaction gains and losses resulting from the remeasurement of receivables and payables required to be settled in a currency other than an entity's functional currency.

#### ***Interest expense***

Interest expense increased \$9.5 million to \$44.1 million for the nine months ended September 30, 2011 from \$34.6 million for the nine months ended September 30, 2010. The increase is due to additional senior debt from the issuance of \$400.0 million aggregate principal amount of 6<sup>3</sup>/<sub>4</sub>% senior notes due 2020 in the third quarter of 2010 and the loan notes issued as a portion of the consideration in connection with the business in Asia, which we acquired in August 2010. This increase was partially offset by a \$2.6 million favorable impact of lower interest rates on interest rate swap agreements entered into in March 2011.

#### ***Special charges***

During the nine months ended September 30, 2011, we recorded special charges of \$15.2 million, of which \$4.8 million was non-cash. The charges reflect actions we took to reduce senior management related overhead in connection with our realignment of our segment management on a global basis and to align our workforce with expected market trends. These actions included a reduction in workforce totaling 37 employees. The special charges consisted of:

\$10.4 million of salary continuance and other contractual employee related costs associated with the reduction in workforce;

\$2.0 million related to loan forgiveness and accelerated recognition of compensation cost of share-based awards related to the reduction in workforce; and

\$2.8 million of deferred costs under a service contract without a substantive future economic benefit to the Company.

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The following table details the special charges by segment and the decreases in headcount that resulted from the reduction in workforce during the nine months ended September 30, 2011:

|                                    | Special<br>Charges | Total<br>Headcount |
|------------------------------------|--------------------|--------------------|
| <b>(dollars in thousands)</b>      |                    |                    |
| Corporate Finance/Restructuring    | \$ 9,440           | 22                 |
| Forensic and Litigation Consulting | 839                | 7                  |
| Economic Consulting                | 2,093              | 6                  |
|                                    | 12,372             | 35                 |
| Unallocated Corporate              | 2,840              | 2                  |
| Total                              | \$ 15,212          | 37                 |

During the nine months ended September 30, 2010, we recorded special charges totaling \$29.4 million, primarily related to a realignment of our workforce and a consolidation of four office locations, of which \$8.0 million was non-cash. The charges reflected actions we took to better align capacity with expected demand, to eliminate certain redundancies resulting from acquisitions and to provide for appropriate levels of administrative support. The special charges consisted of:

\$18.5 million of salary continuance and other contractual employee related costs associated with the reduction in workforce of 144 employees, including reserves against employee advances, costs related to loan forgiveness and accelerated recognition of compensation cost of share-based awards;

\$7.8 million of expense associated with lease terminations related to the consolidation of four office locations; and

\$3.1 million of accelerated amortization related to a software solution which will no longer be utilized by the Company.

The following table details the special charges by segment and the decreases in headcount that resulted from the reduction in workforce during the nine months ended September 30, 2010:

|                                    | Special<br>Charges | Total<br>Headcount |
|------------------------------------|--------------------|--------------------|
| <b>(dollars in thousands)</b>      |                    |                    |
| Corporate Finance/Restructuring    | \$ 6,059           | 71                 |
| Forensic and Litigation Consulting | 5,355              | 20                 |
| Economic Consulting                | 6,814              | 19                 |
| Technology                         | 4,927              | 16                 |
| Strategic Communications           | 1,260              | 1                  |
|                                    | 24,415             | 127                |
| Unallocated Corporate              | 4,941              | 17                 |
| Total                              | \$ 29,356          | 144                |

***Income tax provision***

Our provision for income taxes in interim periods is computed by applying our estimated annual effective tax rate against income before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur or become known. The effective tax rate was 35.0% for the nine months ended September 30, 2011 as compared to 37.7% for the nine months ended September 30,

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2010. For the nine months ended September 30, 2011, the effective tax rate was favorably impacted by lower taxes on foreign earnings and tax benefits recognized for discrete items primarily related to the reversal of previously recognized deferred tax liabilities which are no longer required. In addition, our effective average U.S. state income tax rate was lower due to the mix of earnings by jurisdiction.

**SEGMENT RESULTS****Adjusted Segment EBITDA**

The following table reconciles segment operating income to Adjusted Segment EBITDA for the three and nine months ended September 30, 2011 and 2010.

|   | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|---|-------------------------------------|------------------|------------------------------------|-------------------|
|   | 2011                                | 2010             | 2011                               | 2010              |
|   | (in thousands)                      |                  |                                    |                   |
| <b>Segment operating income</b>         | \$ 80,348                           | \$ 63,143        | \$ 193,556                         | \$ 181,645        |
| Add back:                               |                                     |                  |                                    |                   |
| Depreciation and amortization           | 6,115                               | 7,476            | 17,729                             | 20,114            |
| Amortization of other intangible assets | 5,843                               | 6,286            | 16,795                             | 18,229            |
| Accretion of contingent consideration   | 944                                 | 179              | 2,539                              | 179               |
| Special charges                         |                                     |                  | 12,373                             | 24,415            |
| <b>Total Adjusted Segment EBITDA</b>    | <b>\$ 93,250</b>                    | <b>\$ 77,084</b> | <b>\$ 242,992</b>                  | <b>\$ 244,582</b> |

**Other Segment Operating Data**

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|--------------|------------------------------------|--------------|
|  | 2011                                | 2010         | 2011                               | 2010         |
| <b>Number of revenue-generating professionals (at period end):</b> |                                     |              |                                    |              |
| Corporate Finance/Restructuring                                    | 711                                 | 740          | 711                                | 740          |
| Forensic and Litigation Consulting                                 | 872                                 | 799          | 872                                | 799          |
| Economic Consulting  | 424                                 | 292          | 424                                | 292          |
| Technology   | 284                                 | 248          | 284                                | 248          |
| Strategic Communications   | 590                                 | 579          | 590                                | 579          |
| <b>Total revenue-generating professionals</b>                      | <b>2,881</b>                        | <b>2,658</b> | <b>2,881</b>                       | <b>2,658</b> |

**Utilization rates of billable professionals:<sup>(1)</sup>**

|                                    |     |     |     |     |
|------------------------------------|-----|-----|-----|-----|
| Corporate Finance/Restructuring    | 75% | 71% | 70% | 70% |
| Forensic and Litigation Consulting | 69% | 69% | 69% | 72% |
| Economic Consulting                | 85% | 70% | 86% | 78% |

**Average billable rate per hour:<sup>(2)</sup>**

|                                    |        |        |        |        |
|------------------------------------|--------|--------|--------|--------|
| Corporate Finance/Restructuring    | \$ 406 | \$ 421 | \$ 422 | \$ 440 |
| Forensic and Litigation Consulting | 331    | 338    | 331    | 327    |
| Economic Consulting                | 487    | 481    | 486    | 472    |

<sup>(1)</sup> We calculate the utilization rate for our billable professionals by dividing the number of hours that all of our billable professionals worked on client assignments during a period by the total available working hours for all of our billable professionals during the same period. Available hours are determined by the standard hours worked by each employee, adjusted for part-time hours, local country standard work weeks and local country holidays. Available working hours include vacation and professional training days, but exclude holidays. Utilization rates are presented for our segments that primarily bill clients on an hourly basis. We have not presented a utilization rate for our Technology segment and Strategic Communications segment as most of the revenues of these segments are not generated on an hourly basis.

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- (2) For engagements where revenues are based on number of hours worked by our billable professionals, average billable rate per hour is calculated by dividing revenues for a period by the number of hours worked on client assignments during the same period. We have not presented an average billable rate per hour for our Technology and Strategic Communications segments as most of the revenues of these segments are not based on billable hours.

## CORPORATE FINANCE/RESTRUCTURING

|  | Three Months Ended<br>September 30,          |            | Nine Months Ended<br>September 30, |            |
|--|--|------------|------------------------------------|------------|
|  | 2011   | 2010       | 2011                               | 2010       |
|  | (dollars in thousands, except rate per hour) |            |                                    |            |
| <b>Revenues</b>  | \$ 110,311                                   | \$ 109,736 | \$ 319,461                         | \$ 338,298 |
| <b>Operating expenses:</b>                                 |  |            |                                    |            |
| Direct cost of revenues                                    | 65,862                                       | 68,134     | 206,730                            | 207,184    |
| Selling, general and administrative expenses               | 17,801                                       | 17,909     | 56,175                             | 52,050     |
| Special charges  |  |            | 9,441                              | 6,059      |
| Amortization of other intangible assets                    | 1,507  | 1,895      | 4,345                              | 4,870      |
|  | 85,170                                       | 87,938     | 276,691                            | 270,163    |
| <b>Segment operating income</b>                            | 25,141                                       | 21,798     | 42,770                             | 68,135     |
| <b>Add back:</b>   |  |            |                                    |            |
| Depreciation and amortization of intangible assets         | 2,354  | 2,770      | 6,962                              | 7,666      |
| Accretion of contingent consideration                      | 855  | 171        | 2,270                              | 171        |
| Special charges  |  |            | 9,441                              | 6,059      |
| <b>Adjusted Segment EBITDA</b>                             | \$ 28,350                                    | \$ 24,739  | \$ 61,443                          | \$ 82,031  |
| Gross profit <sup>(1)</sup>                                | \$ 44,449                                    | \$ 41,602  | \$ 112,731                         | \$ 131,114 |
| Gross profit margin <sup>(2)</sup>                         | 40.3%  | 37.9%      | 35.3%                              | 38.8%      |
| Adjusted Segment EBITDA as a percent of revenues           | 25.7%  | 22.5%      | 19.2%                              | 24.2%      |
| Number of revenue-generating professionals (at period end) | 711  | 740        | 711                                | 740        |
| Utilization rates of billable professionals                | 75%  | 71%        | 70%                                | 70%        |
| Average billable rate per hour                             | \$ 406                                       | \$ 421     | \$ 422                             | \$ 440     |

<sup>(1)</sup> Revenues less direct cost of revenues

<sup>(2)</sup> Gross profit as a percent of revenues

### Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Revenues increased \$0.6 million, or 0.5%, to \$110.3 million for the three months ended September 30, 2011 from \$109.7 million for the three months ended September 30, 2010 with 0.7% growth from the estimated positive impact of foreign currency translation, primarily due to the strengthening of the British pound, Canadian dollar and the Euro relative to the U.S. dollar. Acquisition related revenue from the Asia practice acquired in the third quarter of 2010 and the European Tax Group from LECG acquired in the first quarter of 2011 totaled \$4.1 million, or 3.7%. Organic revenue declined \$4.2 million, or 3.9%, due to fewer consulting hours and lower average billable rates per hour in North America bankruptcy and restructuring practices along with lower volumes in the real estate practice. These declines were partially offset by higher communications, media and entertainment, healthcare and transaction advisory services revenues.

Gross profit increased \$2.8 million, or 6.8%, to \$44.4 million for the three months ended September 30, 2011 from \$41.6 million for the three months ended September 30, 2010. Gross profit margin increased 2.4 percentage points to 40.3% for the three months ended September 30, 2011 from 37.9% for the three months ended September 30, 2010. The increase in gross profit margin is due to better utilization as a result of headcount reductions taken in 2010 and 2011 and reduced compensation expense as a result of the completion of the amortization periods of certain forgivable loan and equity awards, partially offset by lower pricing as the mix of business shifted from large core restructuring bankruptcy matters to middle market engagements and other subpractices.

SG&A expense decreased \$0.1 million, or 0.6%, to \$17.8 million for the three months ended September 30, 2011 from \$17.9 million for the three months ended September 30, 2010. SG&A expense was





16.1% of revenue for the three months ended September 30, 2011, down from 16.3% for the three months ended September 30, 2010. The decrease in SG&A expense was primarily due to lower outside legal services and marketing expenses partially offset by higher overhead expenses related to the acquired practices. Bad debt expense was 0.5% of revenue for the three months ended September 30, 2011, compared to no bad debt for the three months ended September 30, 2010.

Amortization of other intangible assets decreased to \$1.5 million for the three months ended September 30, 2011 from \$1.9 million for the three months ended September 30, 2010.

Adjusted Segment EBITDA increased \$3.6 million, or 14.6%, to \$28.4 million for the three months ended September 30, 2011 from \$24.7 million for the three months ended September 30, 2010.

#### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

Revenues decreased \$18.8 million, or 5.6%, to \$319.5 million for the nine months ended September 30, 2011 from \$338.3 million for the nine months ended September 30, 2010 with 0.6% growth from the estimated positive impact of foreign currency translation, primarily due to the strengthening of the British pound, Canadian dollar and the Euro relative to the U.S. dollar. Acquisition related revenue from the Asia practice acquired in the third quarter of 2010 and the European Tax Group from LECG acquired in the first quarter of 2011 totaled was \$18.0 million, or 5.3%. Organic revenue declined \$38.9 million, or 11.5%, due to fewer consulting hours and lower average billable rates per hour as the demand for bankruptcy and restructuring services decreased in North America and Europe along with lower volumes in the real estate practice. These declines were partially offset by higher healthcare services revenues.

Gross profit decreased \$18.4 million, or 14.0%, to \$112.7 million for the nine months ended September 30, 2011 from \$131.1 million for the nine months ended September 30, 2010. Gross profit margin decreased 3.5 percentage points to 35.3% for the nine months ended September 30, 2011 from 38.8% for the nine months ended September 30, 2010. The gross profit margin decline was primarily due to lower revenues from the higher margin bankruptcy and restructuring practices in North America and Europe, coupled with lower gross profit in the real estate practice. These declines were partially offset by improvements in healthcare services and from the acquired Asia practice.

SG&A expense increased \$4.1 million, or 7.9%, to \$56.2 million for the nine months ended September 30, 2011 from \$52.1 million for the nine months ended September 30, 2010. SG&A expense was 17.6% of revenue for the nine months ended September 30, 2011, up from 15.4% for the nine months ended September 30, 2010. The increase in SG&A expense was due to overhead related to the acquired practices partially offset by lower marketing expenses. Bad debt expense was 0.3% of revenue for the nine months ended September 30, 2011, compared to 0.1% of revenue for the nine months ended September 30, 2010.

Amortization of other intangible assets decreased to \$4.3 million for the nine months ended September 30, 2011 from \$4.9 million for the nine months ended September 30, 2010.

Adjusted Segment EBITDA decreased \$20.6 million, or 25.1%, to \$61.4 million for the nine months ended September 30, 2011 from \$82.0 million for the nine months ended September 30, 2010.

**FORENSIC AND LITIGATION CONSULTING**

|  | Three Months Ended<br>September 30,          |           | Nine Months Ended<br>September 30, |            |
|--|--|-----------|------------------------------------|------------|
|  | 2011   | 2010      | 2011                               | 2010       |
|  | (dollars in thousands, except rate per hour) |           |                                    |            |
| <b>Revenues</b>  | \$ 99,064                                    | \$ 84,023 | \$ 275,345                         | \$ 243,455 |
| <b>Operating expenses:</b>                                 |  |           |                                    |            |
| Direct cost of revenues                                    | 63,249                                       | 50,284    | 173,738                            | 144,338    |
| Selling, general and administrative expenses               | 17,569                                       | 15,019    | 51,170                             | 43,934     |
| Special charges  |  |           | 839                                | 5,355      |
| Amortization of other intangible assets                    | 665  | 969       | 1,852                              | 2,930      |
|  | 81,483                                       | 66,272    | 227,599                            | 196,557    |
| <b>Segment operating income</b>                            | 17,581                                       | 17,751    | 47,746                             | 46,898     |
| Add back:  |  |           |                                    |            |
| Depreciation and amortization of intangible assets         | 1,532  | 1,769     | 4,431                              | 5,402      |
| Accretion of contingent consideration                      | 89   | 8         | 269                                | 8          |
| Special charges  |  |           | 839                                | 5,355      |
| <b>Adjusted Segment EBITDA</b>                             | \$ 19,202                                    | \$ 19,528 | \$ 53,285                          | \$ 57,663  |
| Gross profit <sup>(1)</sup>                                | \$ 35,815                                    | \$ 33,739 | \$ 101,607                         | \$ 99,117  |
| Gross profit margin <sup>(2)</sup>                         | 36.2%  | 40.2%     | 36.9%                              | 40.7%      |
| Adjusted Segment EBITDA as a percent of revenues           | 19.4%  | 23.2%     | 19.4%                              | 23.7%      |
| Number of revenue-generating professionals (at period end) | 872  | 799       | 872                                | 799        |
| Utilization rates of billable professionals                | 69%  | 69%       | 69%                                | 72%        |
| Average billable rate per hour                             | \$ 331                                       | \$ 338    | \$ 331                             | \$ 327     |

(1) Revenues less direct cost of revenues

(2) Gross profit as a percent of revenues

**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010**

Revenues increased \$15.0 million, or 17.9%, to \$99.1 million for the three months ended September 30, 2011 from \$84.0 million for the three months ended September 30, 2010 with 0.7% growth from the estimated positive impact foreign currency translation, which was primarily due to the strengthening of the British pound and Brazilian real relative to the U.S. dollar. Revenue from the practices acquired from LECG in the first quarter of 2011 was \$6.8 million, or 8.1%, primarily driven by the disputes and forensic accounting and environmental solution practices in North America. The organic revenue growth of \$7.7 million, or 9.1%, was due to an increase in consulting hours and higher average billable rates per hour in the data analytics practice, more consulting hours in the North America construction solutions and greater demand in the Asia Pacific region for our construction solutions, global risk, forensic accounting and litigation support services. These improvements were partially offset by a decline in the core North America practice from lower average billable rates per hour.

Gross profit increased \$2.1 million, or 6.2%, to \$35.8 million for the three months ended September 30, 2011 from \$33.7 million for the three months ended September 30, 2010. Gross profit margin decreased 4.0 percentage points to 36.2% for the three months ended September 30, 2011 from 40.2% for the three months ended September 30, 2010. The gross profit margin decline was due to increased headcount which offset higher consulting volume.

SG&A expense increased \$2.6 million, or 17.0%, to \$17.6 million for the three months ended September 30, 2011 from \$15.0 million for the three months ended September 30, 2010. SG&A expense was 17.7% of revenue for the three months ended September 30, 2011, down from 17.9% for the three months ended September 30,



2010. The increase in SG&A expense was due to overhead expenses related to the acquired practices, increased facilities and information technology costs to support growing operations. Bad debt expense was 0.7% of revenues for the three months ended September 30, 2011 compared to 1.0% for the three months ended September 30, 2010.

Amortization of other intangible assets decreased to \$0.7 million for the three months ended September 30, 2011 from \$1.0 million for the three months ended September 30, 2010. The decrease in amortization of other intangible assets was due primarily to the timing of certain acquired intangible assets becoming fully amortized in 2010.

Adjusted Segment EBITDA decreased \$0.3 million, or 1.7%, to \$19.2 million for the three months ended September 30, 2011 from \$19.5 million for the three months ended September 30, 2010.

#### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

Revenues increased \$31.9 million, or 13.1%, to \$275.3 million for the nine months ended September 30, 2011 from \$243.5 million for the nine months ended September 30, 2010 with 0.8% growth from the estimated positive impact foreign currency translation, which was primarily due to the strengthening of the British pound and Brazilian real relative to the U.S. dollar. Revenue from the practices acquired from LECG in the first quarter of 2011 was \$12.8 million, or 5.3%, primarily driven by the disputes and forensic accounting and environmental solution practices in North America. The organic revenue growth of \$17.1 million, or 7.0%, was attributed to increases in demand for construction solutions, global risk, forensic accounting and litigation support services in the Asia Pacific and Europe, Middle East and Africa regions, an increase in consulting hours and higher average billable rates per hour in the data analytics practice and more consulting hours in the North America construction solutions practice. These improvements were partially offset by a decline in the core North America practice from lower average billable rates per hour.

Gross profit increased \$2.5 million, or 2.5%, to \$101.6 million for the nine months ended September 30, 2011 from \$99.1 million for the nine months ended September 30, 2010. Gross profit margin decreased 3.8 percentage points to 36.9% for the nine months ended September 30, 2011 from 40.7% for the nine months ended September 30, 2010. The gross profit margin decline was due to lower utilization and increased headcount from investments in key practices which offset higher consulting volume.

SG&A expense increased \$7.2 million, or 16.5%, to \$51.2 million for the nine months ended September 30, 2011 from \$43.9 million for the nine months ended September 30, 2010. SG&A expense was 18.6% of revenue for the nine months ended September 30, 2011, up from 18.0% for the nine months ended September 30, 2010. The increase in SG&A expense was due to overhead expenses related to the acquired practices, increased facilities and information technology costs to support growing operations. Bad debt expense was 0.9% of revenues for the nine months ended September 30, 2011 compared to 1.1% for the nine months ended September 30, 2010.

Amortization of other intangible assets decreased to \$1.9 million for the nine months ended September 30, 2011 from \$2.9 million for the nine months ended September 30, 2010. The decrease in amortization of other intangible assets was due primarily to the timing of certain acquired intangible assets becoming fully amortized in 2010.

Adjusted Segment EBITDA decreased \$4.4 million, or 7.6%, to \$53.3 million for the nine months ended September 30, 2011 from \$57.7 million for the nine months ended September 30, 2010.

**ECONOMIC CONSULTING**

|  | Three Months Ended<br>September 30,          |           | Nine Months Ended<br>September 30, |            |
|--|--|-----------|------------------------------------|------------|
|  | 2011   | 2010      | 2011                               | 2010       |
|  | (dollars in thousands, except rate per hour) |           |                                    |            |
| <b>Revenues</b>  | \$ 95,662                                    | \$ 59,417 | \$ 264,401                         | \$ 191,276 |
| <b>Operating expenses:</b>                                 |  |           |                                    |            |
| Direct cost of revenues                                    | 64,770                                       | 39,119    | 180,826                            | 128,530    |
| Selling, general and administrative expenses               | 12,922                                       | 9,000     | 34,823                             | 27,933     |
| Special charges  |  |           | 2,093                              | 6,814      |
| Amortization of other intangible assets                    | 501  | 300       | 1,094                              | 920        |
|  | 78,193                                       | 48,419    | 218,836                            | 164,197    |
| <b>Segment operating income</b>                            | 17,469                                       | 10,998    | 45,565                             | 27,079     |
| Add back:  |  |           |                                    |            |
| Depreciation and amortization of intangible assets         | 1,181  | 855       | 2,977                              | 2,789      |
| Special charges  |  |           | 2,093                              | 6,814      |
| <b>Adjusted Segment EBITDA</b>                             | \$ 18,650                                    | \$ 11,853 | \$ 50,635                          | \$ 36,682  |
| Gross profit <sup>(1)</sup>                                | \$ 30,892                                    | \$ 20,298 | \$ 83,575                          | \$ 62,746  |
| Gross profit margin <sup>(2)</sup>                         | 32.3%  | 34.2%     | 31.6%                              | 32.8%      |
| Adjusted Segment EBITDA as a percent of revenues           | 19.5%  | 19.9%     | 19.2%                              | 19.2%      |
| Number of revenue-generating professionals (at period end) | 424  | 292       | 424                                | 292        |
| Utilization rates of billable professionals                | 85%  | 70%       | 86%                                | 78%        |
| Average billable rate per hour                             | \$ 487                                       | \$ 481    | \$ 486                             | \$ 472     |

(1) Revenues less direct cost of revenues

(2) Gross profit as a percent of revenues

**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010**

Revenues increased \$36.2 million, or 61.0%, to \$95.7 million for the three months ended September 30, 2011 from \$59.4 million for the three months ended September 30, 2010. Revenue from the competition policy, financial advisory, international arbitration, electric power and airline competition practices acquired from LECG in the first quarter of 2011 was \$18.3 million, or 30.7%. Excluding the estimated positive impact of foreign currency translation, organic revenue growth was \$17.7 million, or 29.9%, due to increased demand in antitrust and M&A, financial economics and the European international arbitration, regulatory and valuation practices compared to the three months ended September 30, 2010.

Gross profit increased \$10.6 million, or 52.2%, to \$30.9 million for the three months ended September 30, 2011 from \$20.3 million for the three months ended September 30, 2010. Gross profit margin decreased to 32.3% for the three months ended September 30, 2011 from 34.2% for the three months ended September 30, 2010. The gross profit margin decline was attributed to higher variable compensation costs relative to 2010, despite higher utilization and higher average billable rates per hour.

SG&A expense increased \$3.9 million, or 43.6%, to \$12.9 million for the three months ended September 30, 2011 from \$9.0 million for the three months ended September 30, 2010. SG&A expense was 13.5% of revenue for the three months ended September 30, 2011 compared to 15.1% for the three months ended September 30, 2010. The increase in SG&A expense was primarily due to overhead in the acquired practices and higher outside legal services costs. Bad debt expense was 2.1% of revenue for the three months ended September 30, 2011 compared to 2.9% of revenue for the three months ended September 30, 2010.



Amortization of other intangible assets increased to \$0.5 million for the three months ended September 30, 2011 from \$0.3 million for the three months ended September 30, 2010.

Adjusted Segment EBITDA increased \$6.8 million, or 57.3%, to \$18.7 million for the three months ended September 30, 2011 from \$11.9 million for the three months ended September 30, 2010.

**Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

Revenues increased \$73.1 million, or 38.2%, to \$264.4 million for the nine months ended September 30, 2011 from \$191.3 million for the nine months ended September 30, 2010. Revenue from the competition policy, financial advisory, international arbitration, electric power and airline competition practices acquired from LECG in the first quarter of 2011 was \$37.3 million, or 19.5%. Excluding the estimated positive impact of foreign currency, organic revenue growth was \$34.9 million, or 18.2%, due to increased demand in antitrust and M&A, financial economics, the international arbitration, regulatory and valuation practices compared to the nine months ended September 30, 2010.

Gross profit increased \$20.8 million, or 33.2%, to \$83.6 million for the nine months ended September 30, 2011 from \$62.7 million for the nine months ended September 30, 2010. Gross profit margin decreased to 31.6% for the nine months ended September 30, 2011 from 32.8% for the nine months ended September 30, 2010. The gross profit margin decline was primarily due to increased variable compensation costs compared to the nine months ended September 30, 2010 despite higher utilization and higher average billable rates per hour.

SG&A expense increased \$6.9 million, or 24.7%, to \$34.8 million for the nine months ended September 30, 2011 from \$27.9 million for the nine months ended September 30, 2010. SG&A expense was 13.2% of revenue for the nine months ended September 30, 2011 compared to 14.6% for the nine months ended September 30, 2010. The increase in SG&A expense was primarily due to overhead in the acquired practices. Bad debt expense was 1.7% of revenue for the nine months ended September 30, 2011 compared to 2.2% of revenue for the nine months ended September 30, 2010.

Amortization of other intangible assets increased to \$1.1 million for the nine months ended September 30, 2011 from \$0.9 million for the nine months ended September 30, 2010.

Adjusted Segment EBITDA increased \$14.0 million, or 38.0%, to \$50.6 million for the nine months ended September 30, 2011 from \$36.7 million for the nine months ended September 30, 2010.

**TECHNOLOGY**

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|-----------|------------------------------------|------------|
|   | 2011                                | 2010      | 2011                               | 2010       |
|   | (dollars in thousands)              |           |                                    |            |
| <b>Revenues</b>   | \$ 56,972                           | \$ 42,721 | \$ 165,137                         | \$ 128,885 |
| <b>Operating expenses:</b>  |                                     |           |                                    |            |
| Direct cost of revenues   | 23,678                              | 16,624    | 66,192                             | 47,686     |
| Selling, general and administrative expenses                              | 16,657                              | 16,785    | 48,990                             | 45,081     |
| Special charges   |                                     |           |                                    | 4,927      |
| Amortization of other intangible assets                                   | 1,975                               | 1,832     | 5,929                              | 5,647      |
|   | 42,310                              | 35,241    | 121,111                            | 103,341    |
| <b>Segment operating income</b>   | 14,662                              | 7,480     | 44,026                             | 25,544     |
| Add back:   |                                     |           |                                    |            |
| Depreciation and amortization of intangible assets                        | 4,957                               | 6,274     | 14,336                             | 16,172     |
| Special charges   |                                     |           |                                    | 4,927      |
| <b>Adjusted Segment EBITDA</b>  | \$ 19,619                           | \$ 13,754 | \$ 58,362                          | \$ 46,643  |
| Gross profit <sup>(1)</sup>   | \$ 33,294                           | \$ 26,097 | \$ 98,945                          | \$ 81,199  |
| Gross profit margin <sup>(2)</sup>  | 58.4%                               | 61.1%     | 59.9%                              | 63.0%      |
| Adjusted Segment EBITDA as a percent of revenues                          | 34.4%                               | 32.2%     | 35.3%                              | 36.2%      |
| Number of revenue-generating professionals (at period end) <sup>(3)</sup> | 284                                 | 248       | 284                                | 248        |

(1) Revenues less direct cost of revenues

(2) Gross profit as a percent of revenues

(3) Includes personnel involved in direct client assistance and revenue-generating consultants

**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010**

Revenues increased \$14.3 million, or 33.4%, to \$57.0 million for the three months ended September 30, 2011 from \$42.7 million for the three months ended September 30, 2010. Excluding the estimated positive impact of foreign currency translation, organic revenue growth of \$14.3 million, or 33.2%, was due to increased revenues from our Acuity offering, unit based services and our consulting practice. Unit based revenues increased primarily due to greater demand for processing, hosting, and review services partially offset by lower per unit pricing and a change in the mix of offerings. Consulting revenues increased due to higher volumes from certain litigation matters.

Unit based revenue is defined as revenue billed on a per item, per page, or using some other unit based method and includes revenue from data processing and storage, 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.

Gross profit increased by \$7.2 million, or 27.6%, to \$33.3 million for the three months ended September 30, 2011 from \$26.1 million for the three months ended September 30, 2010. Gross profit margin decreased 2.7 percentage points to 58.4% for the three months ended September 30, 2011 from 61.1% for the three months ended September 30, 2010. The gross profit margin decline was due to a change in the mix of revenue with higher third party costs related to an increase in certain litigation engagements relative to the three months ended September 30, 2010.





SG&A expense decreased \$0.1 million, or 0.8%, to \$16.7 million for the three months ended September 30, 2011 from \$16.8 million for the three months ended September 30, 2010. SG&A expense was 29.2% of revenue for the three months ended September 30, 2011, down from 39.3% for the three months ended September 30, 2010. The decrease in SG&A expense was primarily due to lower personnel costs and higher capitalization of certain software development costs. Research and development expense for the three months ended September 30, 2010 included a charge of \$2.8 million (of which \$1.4 million was recorded to depreciation expense) related to the Company's decision to expense certain previously capitalized development efforts and prepaid software licensing costs for an offering that was replaced with alternative technologies. Excluding this charge in the prior year, research and development expense of \$5.1 million in the three months ended September 30, 2011 decreased by \$0.2 million compared to \$5.3 million in the three months ended September 30, 2010. Bad debt expense was 0.3% of revenues for the three months ended September 30, 2011 compared to no bad debt expense for the three months ended September 30, 2010.

Amortization of other intangible assets increased to \$2.0 million for the three months ended September 30, 2011 from \$1.8 million for the three months ended September 30, 2010.

Adjusted Segment EBITDA increased \$5.9 million, or 42.6%, to \$19.6 million for the three months ended September 30, 2011 from \$13.8 million for the three months ended September 30, 2010. Excluding the \$1.4 million charge in the prior year, Adjusted Segment EBITDA increased \$4.5 million, or 29.6%, for the three months ended September 30, 2011 compared to \$15.2 million for the three months ended September 30, 2010.

#### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

Revenues increased \$36.3 million, or 28.1%, to \$165.1 million for the nine months ended September 30, 2011 from \$128.9 million for the nine months ended September 30, 2010. Excluding the estimated positive impact of foreign currency translation, organic revenue growth of \$35.9 million, or 27.8%, was due to increased revenues from our Acuity offering, unit based services, consulting practice and product licensing. Unit based revenues increased primarily due to greater demand for hosting and review services partially offset by lower per unit pricing related to a change in the mix of offerings, and consulting revenues increased due to higher volumes from certain litigation matters.

Gross profit increased \$17.7 million, or 21.9%, to \$98.9 million for the nine months ended September 30, 2011 from \$81.2 million for the nine months ended September 30, 2010. Gross profit margin decreased 3.1 percentage points to 59.9% for the nine months ended September 30, 2011 from 63.0% for the nine months ended September 30, 2010. The gross profit margin decline was due to a change in the mix of revenue due to higher third party costs related to an increase in certain litigation engagements relative to the nine months ended September 30, 2010.

SG&A expense increased \$3.9 million, or 8.7%, to \$49.0 million for the nine months ended September 30, 2011 from \$45.1 million for the nine months ended September 30, 2010. SG&A expense was 29.7% of revenue for the nine months ended September 30, 2011, down from 35.0% for the nine months ended September 30, 2010. The increase in SG&A expense is primarily due to higher variable compensation and an increase in bad debt expense driven by fewer favorable resolution or collections on previously reserved items compared to the nine months ended September 30, 2010. Bad debt expense was 0.3% of revenues for the nine months ended September 30, 2011 compared to net recoveries of bad debt of \$0.9 million for the nine months ended September 30, 2010. Research and development expense for the nine months ended September 30, 2010 included a charge of \$2.8 million (of which \$1.4 million was recorded to depreciation expense) related to the Company's decision to expense certain previously capitalized development efforts and prepaid software licensing costs for an offering that was replaced with alternative technologies. Excluding this charge in the prior year, research and development expense for the nine months ended September 30, 2011 of \$16.9 million increased by \$0.9 million compared to \$16.0 million for the nine months ended September 30, 2010.

Amortization of other intangible assets increased to \$5.9 million for the nine months ended September 30, 2011 from \$5.6 million for the nine months ended September 30, 2010.

Adjusted Segment EBITDA increased \$11.7 million, or 25.1%, to \$58.4 million for the nine months ended September 30, 2011 from \$46.6 million for the nine months ended September 30, 2010. Excluding the \$1.4 million charge in the prior year, Adjusted Segment EBITDA increased \$10.3 million, or 21.5%, for the nine months ended September 30, 2011 compared to \$48.0 million for the nine months ended September 30, 2010.

## STRATEGIC COMMUNICATIONS

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2011                                | 2010      | 2011                               | 2010       |
|  | (dollars in thousands)              |           |                                    |            |
| <b>Revenues</b>  | \$ 51,793                           | \$ 50,243 | \$ 151,711                         | \$ 143,299 |
| <b>Operating expenses:</b>                                 |                                     |           |                                    |            |
| Direct cost of revenues                                    | 32,415                              | 32,670    | 96,415                             | 89,902     |
| Selling, general and administrative expenses               | 12,688                              | 11,167    | 38,272                             | 34,286     |
| Special charges  |                                     |           |                                    | 1,260      |
| Amortization of other intangible assets                    | 1,195                               | 1,290     | 3,575                              | 3,862      |
|  | 46,298                              | 45,127    | 138,262                            | 129,310    |
| <b>Segment operating income</b>                            | 5,495                               | 5,116     | 13,449                             | 13,989     |
| Add back:  |                                     |           |                                    |            |
| Depreciation and amortization of intangible assets         | 1,934                               | 2,094     | 5,818                              | 6,314      |
| Special charges  |                                     |           |                                    | 1,260      |
| <b>Adjusted Segment EBITDA</b>                             | \$ 7,429                            | \$ 7,210  | \$ 19,267                          | \$ 21,563  |
| Gross profit <sup>(1)</sup>                                | \$ 19,378                           | \$ 17,573 | \$ 55,296                          | \$ 53,397  |
| Gross profit margin <sup>(2)</sup>                         | 37.4%                               | 35.0%     | 36.4%                              | 37.3%      |
| Adjusted Segment EBITDA as a percent of revenues           | 14.3%                               | 14.4%     | 12.7%                              | 15.0%      |
| Number of revenue-generating professionals (at period end) | 590                                 | 579       | 590                                | 579        |

<sup>(1)</sup> Revenues less direct cost of revenues

<sup>(2)</sup> Gross profit as a percent of revenues

### Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Revenues increased \$1.6 million, or 3.1%, to \$51.8 million for the three months ended September 30, 2011 from \$50.2 million for the three months ended September 30, 2010 with 4.2% growth from the estimated positive impact of foreign currency translation, which was primarily due to the strengthening of the Australian dollar, British pound and the Euro relative to the U.S. dollar. Organic revenue declined \$0.5 million, or 1.1%, as economic pressures impacted client discretionary spending and capital markets activity resulting in lower project volumes and fees partially offset by higher retainer revenues.

Gross profit increased \$1.8 million, or 10.3%, to \$19.4 million for the three months ended September 30, 2011 from \$17.6 million for the three months ended September 30, 2010. Gross profit margin increased 2.4 percentage points to 37.4% for the three months ended September 30, 2011 from 35.0% for the three months ended September 30, 2010. The increase in gross profit margin was primarily due to lower variable compensation costs.

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SG&A expense increased \$1.5 million, or 13.6%, to \$12.7 million for the three months ended September 30, 2011 from \$11.2 million for the three months ended September 30, 2010. SG&A expense was

24.5% of revenue for the three months ended September 30, 2011, up from 22.2% of revenue for the three months ended September 30, 2010. The increase in SG&A expense was primarily related to the estimated negative impact of foreign currency translation, higher facilities costs, marketing expenses and information technology costs to support operations. Bad debt expense was 0.4% of revenues for the three months ended September 30, 2011 compared to no bad debt expense for the three months ended September 30, 2010.

Amortization of other intangible assets decreased to \$1.2 million for the three months ended September 30, 2011 from \$1.3 million for the three months ended September 30, 2010.

Adjusted Segment EBITDA increased \$0.2 million, or 3.0%, to \$7.4 million for the three months ended September 30, 2011 from \$7.2 million for the three months ended September 30, 2010.

#### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

Revenues increased \$8.4 million, or 5.9%, to \$151.7 million for the nine months ended September 30, 2011 from \$143.3 million for the nine months ended September 30, 2010 with 4.6% growth from the estimated positive impact of foreign currency translation, which was primarily due to the strengthening of the British pound, Australian dollar and the Euro relative to the U.S. dollar. Organic revenue grew \$1.8 million, or 1.3%, due to an increase in retainer revenue partially offset by economic pressures impacting client discretionary spending and capital markets activity resulting in lower project income.

Gross profit increased \$1.9 million, or 3.6%, to \$55.3 million for the nine months ended September 30, 2011 from \$53.4 million for the nine months ended September 30, 2010. Gross profit margin decreased 0.9 percentage points to 36.4% for the nine months ended September 30, 2011, from 37.3% for the nine months ended September 30, 2010. The gross profit margin decline was primarily due to competitive fee pressure on high margin project engagements.

SG&A expense increased by \$4.0 million, or 11.6%, to \$38.3 million for the nine months ended September 30, 2011 from \$34.3 million for the nine months ended September 30, 2010. SG&A expense was 25.2% of revenue for the nine months ended September 30, 2011, up from 23.9% of revenue for the nine months ended September 30, 2010. The increase in SG&A expense was primarily related to the estimated negative impact of foreign currency translation, increased facilities and information technology costs to support operations. Bad debt expense was 0.7% of revenues for the nine months ended September 30, 2011 compared to 0.8% of revenues for the nine months ended September 30, 2010.

Amortization of other intangible assets decreased to \$3.6 million for the nine months ended September 30, 2011 from \$3.9 million for the nine months ended September 30, 2010.

Adjusted Segment EBITDA decreased \$2.3 million, or 10.6%, to \$19.3 million for the nine months ended September 30, 2011 from \$21.6 million for the nine months ended September 30, 2010.

#### **CRITICAL ACCOUNTING POLICIES**

There have been no material changes to our critical accounting policies and estimates from the information provided in Part II, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

**LIQUIDITY AND CAPITAL RESOURCES***Cash flows*

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2011</b>                                | <b>2010</b> |
|   | <b>(dollars in thousands)</b>              |             |
| Net cash provided by operating activities           | \$ 46,848                                  | \$ 95,866   |
| Net cash used in investing activities               | (87,068)                                   | (60,573)    |
| Net cash (used in) provided by financing activities | (215,373)                                  | 178,021     |

We have generally financed our day-to-day operations, capital expenditures and acquisition-related contingent payments through cash flows from operations. During the first quarter of our fiscal year, our cash needs generally exceed our cash flows from operations due to the payment of annual incentive compensation and acquisition-related contingent payment amounts. Our operating cash flows generally exceed our cash needs subsequent to the first quarter of each year.

Our operating assets and liabilities consist primarily of billed and unbilled accounts receivable, notes receivable from employees, accounts payable, accrued expenses and accrued compensation expense. The timing of billings and collections of receivables as well as payments for compensation arrangements affect the changes in these balances.

Net cash provided by operating activities for the nine months ended September 30, 2011 was \$46.8 million as compared to \$95.9 million for the nine months ended September 30, 2010. Although revenues were significantly ahead of last year, the operating cash flow decline is due in part to slower receivable collections coupled with higher investments in certain key practices and programs. Our collection efforts relative to the prior year have been impacted by a shift in the mix of receivables toward clients and geographic regions that traditionally have longer billing and collection cycles.

Net cash used in investing activities for the nine months ended September 30, 2011 was \$87.1 million as compared to \$60.6 million for the nine months ended September 30, 2010. Payments for acquisitions of businesses were \$62.3 million in the current year as compared to \$60.3 million for the nine months ended September 30, 2010. Payments for acquisitions for the nine months ended September 30, 2011 included \$25.7 million of payments, net of cash received, related to the acquisition of practices from LECG in the first quarter of 2011 and \$36.6 million for payments for contingent consideration and purchase price adjustments related to prior year acquisitions. Payments for acquisitions for the nine months ended September 30, 2010 included \$29.5 million of payments for businesses primarily located in Hong Kong acquired in the third quarter of 2010 and other non-U.S jurisdictions, including \$8.6 million of cash held in escrow, payable upon final determination of the acquired working capital balance, and payments for contingent consideration and purchase price adjustments related to prior year acquisitions of \$30.8 million. Capital expenditures were \$24.6 million for the nine months ended September 30, 2011 as compared to \$14.8 million for the nine months ended September 30, 2010. Capital expenditures in both 2011 and 2010 primarily related to leasehold improvements and the purchase of information technology equipment. In addition, the Company received \$15.0 million from the maturity of short-term investments in the nine months ended September 30, 2010.

Net cash used in financing activities for the nine months ended September 30, 2011 was \$215.4 million as compared to net cash provided by financing activities of \$178.0 million for the nine months ended September 30, 2010. Our financing activities for the nine months ended September 30, 2011 included \$209.4 million in cash used to repurchase and retire 5,733,205 million shares of the Company's common stock pursuant to the 2011 ASB. Financing activities in the nine months ended September 30, 2010 included \$391.6 million in proceeds from the issuance of the 6<sup>3/4</sup>% senior notes due 2020, partially offset by cash outflows of \$190.5 million for the repayment of long-term debt and \$26.1 million for the purchase and retirement of common stock.

### **Capital Resources**

As of September 30, 2011, our capital resources included \$128.2 million of cash and cash equivalents and available borrowing capacity of \$249.3 million under a \$250.0 million revolving line of credit under our senior secured bank credit facility ( bank credit facility ). As of September 30, 2011, we had no outstanding indebtedness under our bank credit facility, however, \$0.7 million of outstanding letters of credit reduced the availability of borrowing under the bank credit facility. We use letters of credit primarily in lieu of security deposits for our leased office facilities.

### **Future Cash Needs**

We anticipate that our future cash needs will principally consist of funds required for:

operating and general corporate expenses relating to the operation of our businesses;

capital expenditures, primarily for information technology equipment, office furniture and leasehold improvements;

debt service requirements;

funds required to compensate designated senior managing directors under our senior managing director incentive compensation program;

potential contingent consideration obligations and stock floor guarantees related to our acquisitions; and

potential acquisitions of businesses that would allow us to diversify or expand our businesses.

We currently anticipate aggregate capital expenditures will range between \$4 million to \$11 million to support our organization during the remainder of 2011, including direct support for specific client engagements. Our estimate takes into consideration the needs of our existing businesses but does not include the impact of expenditures related to future acquisitions or specific client engagements that are not currently contemplated. Our capital expenditure requirements may change if our staffing levels or information technology needs change significantly from what we currently anticipate, if we purchase additional equipment specifically to support a client engagement or if we pursue and complete additional acquisitions.

In certain business combinations consummated prior to January 1, 2009, a portion of our purchase price is in the form of contingent consideration, often referred to as earn-outs. The use of contingent consideration allows us to shift some of the valuation risk, inherent at the time of acquisition, to the sellers based upon the outcome of future financial targets that the sellers contemplate in the valuations of the companies, assets or businesses they sell. Contingent consideration is payable annually as agreed upon performance targets are met and is generally subject to a maximum amount within a specified time period. Our obligations change from period-to-period primarily as a result of payments made during the current period, changes in the acquired entities' performance and changes in foreign currency exchange rates. In addition, 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 the applicable stock restrictions lapse.

In connection with our required adoption of the new accounting principles for business combinations, contingent consideration included in business combinations consummated subsequent to December 31, 2008 are recorded as liabilities on our consolidated balance sheet and re-measured to fair value at each subsequent reporting date with an offset to current period earnings. Contingent consideration accounted for under the new accounting principles for business combinations are \$24.7 million at September 30, 2011.

Holders of our 3<sup>3</sup>/<sub>4</sub>% senior subordinated convertible notes ( Convertible Notes ) may convert them only under certain circumstances, including certain stock price related conversion contingencies. Upon conversion, the principal portion of the Convertible Notes will be paid in cash and any excess of the conversion value over the





principal portion of the Convertible Notes will be paid either in cash, shares of our common stock or a combination of cash and shares of our common stock at our option. The conversion value of each note is the average closing price of our shares over the conversion reference period, as defined in the Indenture, multiplied by the initial conversion rate of 31.998 shares of our common stock for each \$1,000 principal amount of the Convertible Notes, subject to adjustment upon specified events.

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

When the Convertible Notes are convertible at the option of the holder, they are classified as current on our Consolidated Balance Sheet. When the Convertible Notes are not convertible at the option of the holder, and the scheduled maturity is not within one year after the balance sheet date, they are classified as long-term. As of September 30, 2011, the Convertible Notes are classified as short-term given that the scheduled maturity is within one year of the balance sheet date.

Upon surrendering any Convertible Note for conversion, in accordance with the Indenture, the holder of such note shall receive cash in the amount of the lesser of (i) the \$1,000 principal amount of such note or (ii) the conversion value of the note as defined in the Indenture. The conversion feature results in a premium over the face amount of the notes equal to the difference between our stock price as determined by the calculation set forth in the Indenture and the conversion price of \$31.25 times the conversion ratio of 31.998 shares of our common stock for each \$1,000 principal amount of the 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. Assuming conversion of the full \$149.9 million principal amount of the Convertible Notes, for every \$1.00 the market price of our common stock exceeds \$31.25 per share, we will be required, at our option, either to pay an additional \$4.8 million or to issue shares of our common stock with a then market price equivalent to \$4.8 million, or a combination of cash and shares with a value of \$4.8 million, to settle the conversion feature.

The Convertible Notes are registered securities. As of September 30, 2011, the Convertible Notes had a market price of \$1,235 per \$1,000 principal amount of Convertible Notes, compared to an estimated conversion value of approximately \$1,178 per \$1,000 principal amount of Convertible Notes. Because the Convertible Notes have historically traded at market prices above the estimated conversion values, we do not anticipate holders will elect to convert their Convertible Notes in the near future, if convertible, unless the value ratio should change. However, we believe we have adequate capital resources to fund potential conversions.

#### ***Off-Balance Sheet Arrangements***

We have no off-balance sheet arrangements other than operating leases and we have not entered into any transactions involving special purpose entities.

#### ***Future Contractual Obligations***

There have been no significant changes in our future contractual obligations since December 31, 2010.

#### ***Future Outlook***

We believe that our anticipated operating cash flows and our total liquidity, consisting of our cash on hand and \$249.3 million of availability under our bank credit facility are sufficient to fund our capital and liquidity needs for at least the next twelve months. In making this assessment, we have considered:

our \$128.2 million of cash and cash equivalents at September 30, 2011;

funds required for debt service payments, including interest payments on our long-term debt;

funds required for capital expenditures during the remainder of 2011 of about \$4 million to \$11 million;

funds required to satisfy potential contingent payments and other obligations in relation to our acquisitions;

funds required to compensate designated senior managing directors and other key professionals by issuing unsecured forgivable loans;

funds required to satisfy conversion of the Convertible Notes; and

other known future contractual obligations.

For the last several years, our cash flows from operations have exceeded our cash needs for capital expenditures and debt service requirements. We believe that our cash flows from operations, supplemented by short-term borrowings under our bank credit facility, as necessary, will provide adequate cash to fund our long-term cash needs from normal operations.

Our conclusion that we will be able to fund our cash requirements by using existing capital resources and cash generated from operations does not take into account the impact of any future acquisition transactions, any unexpected changes in significant numbers of employees or other expenditures that are not currently contemplated. The anticipated cash needs of our businesses could change significantly if we pursue and complete additional business acquisitions, if our business plans change, if economic conditions change from those currently prevailing or from those now reasonably anticipated, or if other unexpected circumstances arise that have a material effect on the cash flow or profitability of our business. Any of these events or circumstances, including any new business opportunities, could involve significant additional funding needs in excess of the identified currently available sources and could require us to raise additional debt or equity funding to meet those needs. Our ability to raise additional capital, if necessary, is subject to a variety of factors that we cannot predict with certainty, including:

our future profitability;

the quality of our accounts receivable;

our relative levels of debt and equity;

the volatility and overall condition of the capital markets; and

the market prices of our securities.

Any new debt funding, if available, may be on terms less favorable to us than our bank credit facility or the Indentures that govern our senior notes. See Forward-Looking Statements.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve uncertainties and risks. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues, future results and performance, future capital expenditures, expectations, plans or intentions relating to acquisitions and other matters, business trends and other information that is not historical and may appear under the headings Part 1 Item 2. Management's Discussion and Analysis of Financial

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Condition and Results of Operations, Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2010 filed with the SEC on February 25, 2011, including the risks set forth under Risks Related to Our Business Segments and Risks Related to Our Operations, and the other documents we file with the SEC. When used in this quarterly report, words such as *estimates*, *expects*, *anticipates*, *projects*, *plans*, *intends*, *believes*, or *forecasts* and variations of

such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of historical operating trends, are based upon our historical performance and our current plans, estimates and expectations at the time we make them and various assumptions. Our expectations, beliefs, estimates and projections are expressed in good faith and we believe there is a reasonable basis for them. There can be no assurance that management's expectations, beliefs, estimates and projections will result or be achieved. Our actual financial results, performance or achievements could differ materially from those expressed in, or implied by, any forward-looking statements. The inclusion of any forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Given these risks, uncertainties and other factors, you should not place undue reliance on any forward-looking statements.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in, or implied by, this Quarterly Report on Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q, include the following:

changes in demand for our services or products or the mix of services or products that we provide to clients;

our ability to attract and retain qualified professionals and senior management;

conflicts resulting in our inability to represent certain clients;

our former employees joining competing businesses;

our ability to manage our professionals' utilization and billing rates and maintain or increase the pricing of our services and products;

our ability to make acquisitions and integrate the operations of acquisitions as well as the costs of integration;

our ability to adapt to and manage the risks associated with operating in non-U.S. markets;

our ability to replace senior managers and practice leaders who have highly specialized skills and experience;

our ability to identify suitable acquisition candidates, negotiate advantageous terms and take advantage of opportunistic acquisition situations;

periodic fluctuations in revenues, operating income and cash flows;

damage to our reputation as a result of claims involving the quality of our services;

legislation or judicial rulings regarding data privacy and the discovery process;

fee discounting or renegotiation, lower pricing, less advantageous contract terms and unexpected terminations of client engagements;

competition;

general economic factors, industry trends, restructuring and bankruptcy rates, capital market conditions, merger and acquisition activity, major litigation activity and other events outside of our control, which could impact each of our business segments differently;

our ability to manage growth;

risk of non-payment of receivables;

our outstanding indebtedness; and

proposed changes in accounting principles.

There may be other factors that may cause our actual results to differ materially from our forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included herein. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances and do not intend to do so.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding our exposure to certain market risks see Item 7A Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes in our market risk exposure since December 31, 2010, except as noted below.

**Equity Price Sensitivity**

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 the applicable stock restrictions lapse ( the determination date ). The future settlement of any contingency related to our common stock price would require a cash outflow. There are no determination dates remaining in 2011. The following table details by year the cash outflows that would result from the remaining stock price guarantee payments if, on the applicable determination dates, our common stock price was at \$36.81 per share (our closing share price on September 30, 2011), 20% above or 20% below that price.

|  | 2012     | 2013<br>(in thousands) | Total    |
|--|----------|------------------------|----------|
| <b>Cash outflow, assuming:</b>                       |          |                        |          |
| Closing share price of \$36.81 at September 30, 2011 | \$ 3,821 | \$ 4,566               | \$ 8,387 |
| 20% increase in share price                          | 2,926    | 3,331                  | 6,257    |
| 20% decrease in share price                          | 4,717    | 5,800                  | 10,517   |

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures.** An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) were effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) included, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting.** There have not been any changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time in the ordinary course of business, we are subject to claims, asserted or unasserted, or named as a party to lawsuits or investigations. Litigation, in general, and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings cannot be predicted with any certainty and in the case of more complex legal proceedings such as intellectual property and securities litigation, the results are difficult to predict at all. We are not aware of any asserted or unasserted legal proceedings or claims that we believe would have a material adverse effect on our financial condition or results of our operations.

### Item 1A. Risk Factors

There have been no material changes in any risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission (the "SEC") on February 25, 2011. We may disclose changes to risk factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

*Unregistered sales of equity securities.*

None

*Repurchases of our common stock.* The following table provides information with respect to purchases we made of our common stock during the third quarter ended September 30, 2011 (in thousands, except per share amounts).

|  | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program | Approximate<br>Dollar<br>Value<br>That May Yet<br>Be<br>Purchased<br>Under the<br>Program <sup>(4)</sup> |
|--|--|---------------------------------------|--|--|
| July 1 through July 31, 2011           | 8 <sup>(1)</sup>                             | \$ 36.05                              |  | \$   |
| August 1 through August 31, 2011       | 3 <sup>(2)</sup>                             | \$ 35.38                              |  | \$   |
| September 1 through September 30, 2011 | 673 <sup>(3)</sup>                           | \$ 36.52                              | 672  | \$   |
| <b>Total</b>                           | 684  |                                       | 672  |  |

<sup>(1)</sup> Represents 8,116 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.

<sup>(2)</sup> Represents 2,870 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.

<sup>(3)</sup> Represents 671,647 shares purchased as part of the 2011 ASB (as defined in footnote (4) below) and 1,631 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.

- (4) In November 2009, our Board of Directors authorized a two-year stock repurchase program of up to \$500.0 million (the Repurchase Program ) and terminated the \$50.0 million stock repurchase program authorized in February 2009. As of December 31, 2010, a balance of \$209.4 million remained available under the Repurchase Program to fund stock repurchases by the Company.



On March 2, 2011, we entered into a supplemental confirmation with Goldman Sachs for a \$209.4 million accelerated stock buyback transaction (the 2011 ASB ), pursuant to the collared accelerated stock buyback master confirmation agreement dated November 9, 2009 between the Company and Goldman Sachs. On March 7, 2011, 4,433,671 shares of FTI Consulting common stock were repurchased pursuant to the 2011 ASB. On May 17, 2011, the Company received an additional 627,887 shares pursuant to the 2011 ASB. On September 2, 2011, Goldman Sachs accelerated the termination date of the 2011 ASB which was to occur no later than December 2, 2011. On September 8, 2011, the Company received an additional 671,647 shares bringing the total shares delivered pursuant to the 2011 ASB to 5,733,205 shares of FTI Consulting common stock. The completion of the 2011 ASB completed the Repurchase Program.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**(a) Exhibits**

| Exhibit Number | Exhibit Description   |
|----------------|---|
| 3.1            | Articles of Incorporation of FTI Consulting, Inc., as amended and restated. (Filed with the SEC on May 23, 2003 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated May 21, 2003 and incorporated herein by reference.)  |
| 3.2            | Articles of Amendment of FTI Consulting, Inc. (Filed with the SEC on June 2, 2011 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 1, 2011 and incorporated herein by reference.)  |
| 3.3            | Bylaws of FTI Consulting, Inc., as amended and restated on June 1, 2011. (Filed with the SEC on June 2, 2011 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 1, 2011 and incorporated herein by reference.)   |
| 31.1           | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended (Section 302 of the Sarbanes-Oxley Act of 2002).  |
| 31.2           | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended (Section 302 of the Sarbanes-Oxley Act of 2002).  |
| 32.1           | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).  |
| 32.2           | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).  |
| 101**          | The following financial information from the Quarterly Report on Form 10-Q of FTI Consulting, Inc. for the quarter ended September 30, 2011, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Income; (iii) Condensed Consolidated Statement of Stockholders' Equity and Comprehensive Income; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to the Condensed Consolidated Financial Statements. |

Filed herewith.

\*\* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2011

FTI CONSULTING, INC.

By */s/ Catherine M. Freeman*  
**Catherine M. Freeman**  
**Senior Vice President, Controller and**  
  
**Chief Accounting Officer**  
**(principal accounting officer)**