

FTI CONSULTING INC  
Form 10-Q  
August 07, 2008

**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 June 30, 2008

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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|  |  |
|--|--|
| <b>Maryland</b><br>(State or Other Jurisdiction of<br>Incorporation or Organization)<br><b>777 Flagler Drive, Suite 1500,</b><br><b>West Palm Beach, Florida</b><br>(Address of Principal Executive Offices) | <b>52-1261113</b><br>(I.R.S. Employer<br>Identification No.)<br><br><b>33401</b><br>(Zip Code) |
|--|--|

(561) 515-6078  
(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 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 July 31, 2008 |
|--|------------------------------|
| Common stock, par value \$0.01 per share | 50,610,173                   |

**FTI CONSULTING, INC. AND SUBSIDIARIES**

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## FTI Consulting, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(in thousands, except per share data)

|   | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|---------------------------------|----------------------|
| <b>Assets</b>   |                                 |                      |
| <b>Current assets</b>   |                                 |                      |
| Cash and cash equivalents   | \$ 182,574                      | \$ 360,463           |
| Accounts receivable   |                                 |                      |
| Billed receivables  | 250,485                         | 190,900              |
| Unbilled receivables  | 115,264                         | 84,743               |
| Allowance for doubtful accounts and unbilled services   | (42,381)                        | (30,467)             |
|   | 323,368                         | 245,176              |
| Notes receivable  | 15,512                          | 11,687               |
| Prepaid expenses and other current assets   | 25,436                          | 33,657               |
| Deferred income taxes   | 10,475                          | 10,544               |
| Total current assets  | 557,365                         | 661,527              |
| <b>Property and equipment, net of accumulated depreciation</b>  | <b>75,624</b>                   | <b>67,843</b>        |
| <b>Goodwill</b>   | <b>1,079,078</b>                | <b>940,878</b>       |
| <b>Other intangible assets, net of amortization</b>   | <b>154,335</b>                  | <b>84,673</b>        |
| <b>Notes receivable, net of current portion</b>   | <b>55,463</b>                   | <b>52,374</b>        |
| <b>Other assets</b>   | <b>58,416</b>                   | <b>51,329</b>        |
| <b>Total assets</b>   | <b>\$ 1,980,281</b>             | <b>\$ 1,858,624</b>  |
| <b>Liabilities and Stockholders Equity</b>  |                                 |                      |
| <b>Current liabilities</b>  |                                 |                      |
| Accounts payable, accrued expenses and other  | \$ 70,322                       | \$ 103,410           |
| Accrued compensation  | 98,344                          | 102,054              |
| Current portion of long-term debt   | 151,704                         | 157,772              |
| Billings in excess of services provided   | 18,223                          | 17,826               |
| Total current liabilities   | 338,593                         | 381,062              |
| <b>Long-term debt, net of current portion</b>   | <b>416,217</b>                  | <b>415,653</b>       |
| <b>Deferred income taxes</b>  | <b>60,467</b>                   | <b>49,113</b>        |
| <b>Other liabilities</b>  | <b>45,075</b>                   | <b>40,546</b>        |
| <b>Commitments and contingent liabilities (notes 7, 9 and 10)</b>   |                                 |                      |
| <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 50,394 (2008) and 48,979 (2007) | 504                             | 490                  |
| Additional paid-in capital  | 681,838                         | 601,637              |
| Retained earnings   | 427,757                         | 361,058              |
| Accumulated other comprehensive income  | 9,830                           | 9,065                |

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|   |                     |                     |
|---|---------------------|---------------------|
| Total stockholders' equity                        | 1,119,929           | 972,250             |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 1,980,281</b> | <b>\$ 1,858,624</b> |

The accompanying notes are an integral part of these 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>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2008                           | 2007       | 2008                         | 2007       |
| <b>Revenues</b>                             | \$ 337,670                     | \$ 239,692 | \$ 644,772                   | \$ 467,417 |
| <b>Operating expenses</b>                   |                                |            |                              |            |
| Direct cost of revenues                     | 188,166                        | 131,349    | 360,687                      | 257,530    |
| Selling, general and administrative expense | 77,773                         | 61,910     | 150,345                      | 122,268    |
| Amortization of other intangible assets     | 4,457                          | 2,748      | 7,355                        | 5,485      |
|   | 270,396                        | 196,007    | 518,387                      | 385,283    |
| <b>Operating income</b>                     | 67,274                         | 43,685     | 126,385                      | 82,134     |
| <b>Other income (expense)</b>               |                                |            |                              |            |
| Interest income                             | 1,866                          | 1,824      | 4,947                        | 2,320      |
| Interest expense and other                  | (10,080)                       | (10,737)   | (20,468)                     | (21,701)   |
| Litigation settlement losses, net           | (435)                          | (167)      | (436)                        | (908)      |
|   | (8,649)                        | (9,080)    | (15,957)                     | (20,289)   |
| <b>Income before income tax provision</b>   | 58,625                         | 34,605     | 110,428                      | 61,845     |
| <b>Income tax provision</b>                 | 23,215                         | 11,523     | 43,729                       | 23,501     |
| <b>Net income</b>                           | \$ 35,410                      | \$ 23,082  | \$ 66,699                    | \$ 38,344  |
| <b>Earnings per common share basic</b>      | \$ 0.72                        | \$ 0.56    | \$ 1.37                      | \$ 0.92    |
| <b>Earnings per common share diluted</b>    | \$ 0.66                        | \$ 0.53    | \$ 1.25                      | \$ 0.89    |

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

## FTI Consulting, Inc. and Subsidiaries

## Condensed Consolidated Statement of Stockholders Equity and Comprehensive Income

(in thousands)

Unaudited

|   | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total        |
|---|--------------|--------|----------------------------------|----------------------|---|--------------|
|   | Shares       | Amount |                                  |                      |   |              |
| <b>Balance, January 1, 2008</b>                                 | 48,979       | \$ 490 | \$ 601,637                       | \$ 361,058           | \$ 9,065  | \$ 972,250   |
| Comprehensive income:   |              |        |                                  |                      |   |              |
| Cumulative translation adjustment, net of income taxes of \$337 |              |        |                                  |                      | 710   | 710          |
| Unrealized gains on cash equivalents, net of taxes of \$30      |              |        |                                  |                      | 55  | 55           |
| Net income  |              |        |                                  | 66,699               |   | 66,699       |
| Total comprehensive income                                      |              |        |                                  |                      |   | 67,464       |
| Issuance of common stock in connection with:                    |              |        |                                  |                      |   |              |
| Exercise of options, including income tax benefit of \$4,863    | 394          | 4      | 13,480                           |                      |   | 13,484       |
| Employee stock purchase plan                                    | 124          | 1      | 4,004                            |                      |   | 4,005        |
| Restricted share grants, less net settled shares of \$10        | 181          | 2      | (621)                            |                      |   | (619)        |
| Stock units issued under incentive compensation plan            |              |        | 3,496                            |                      |   | 3,496        |
| Business combinations   | 716          | 7      | 46,923                           |                      |   | 46,930       |
| Share-based compensation  |              |        | 12,919                           |                      |   | 12,919       |
| <b>Balance, June 30, 2008</b>                                   | 50,394       | \$ 504 | \$ 681,838                       | \$ 427,757           | \$ 9,830  | \$ 1,119,929 |

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

## FTI Consulting, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(in thousands)

Unaudited

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2008                         | 2007      |
| <b>Operating activities</b>   |                              |           |
| Net income  | \$ 66,699                    | \$ 38,344 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:                       |                              |           |
| Depreciation  | 12,286                       | 8,384     |
| Amortization of other intangible assets   | 7,355                        | 5,485     |
| Provision for doubtful accounts   | 8,564                        | 3,804     |
| Non-cash share-based compensation   | 14,172                       | 11,034    |
| Excess tax benefits from share-based compensation   | (4,682)                      | (2,854)   |
| Non-cash interest expense   | 1,509                        | 1,632     |
| Other   | (165)                        | (284)     |
| Changes in operating assets and liabilities, net of effects from acquisitions:                                    |                              |           |
| Accounts receivable, billed and unbilled  | (63,513)                     | (51,418)  |
| Notes receivable  | (7,158)                      | (25,659)  |
| Prepaid expenses and other assets   | (9,555)                      | (1,156)   |
| Accounts payable, accrued expenses and other  | 6,702                        | 10,943    |
| Accrued special charges   | (2,280)                      | (5,943)   |
| Income taxes  | 28,434                       | (3,175)   |
| Accrued compensation  | (493)                        | (11,074)  |
| Billings in excess of services provided   | (911)                        | 1,424     |
| Net cash provided by (used in) operating activities   | 56,964                       | (20,513)  |
| <b>Investing activities</b>   |                              |           |
| Payments for acquisition of businesses, including contingent payments and acquisition costs, net of cash received | (225,183)                    | (20,476)  |
| Purchases of property and equipment   | (17,843)                     | (22,253)  |
| Other   | (1,059)                      | 386       |
| Net cash used in investing activities   | (244,085)                    | (42,343)  |
| <b>Financing activities</b>   |                              |           |
| Borrowings under revolving line of credit   |                              | 25,000    |
| Payments of revolving line of credit  |                              | (25,000)  |
| Payments of long-term debt  | (7,239)                      | (9)       |
| Purchase and retirement of common stock   |                              | (18,116)  |
| Net issuance of common stock under equity compensation plans  | 12,006                       | 14,751    |
| Excess tax benefits from share-based compensation   | 4,682                        | 2,854     |
| Net cash provided by (used in) financing activities   | 9,449                        | (520)     |
| Effect of exchange rate changes and fair value adjustments on cash and cash equivalents                           | (217)                        | 1,708     |
| Net decrease in cash and cash equivalents   | (177,889)                    | (61,668)  |



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|  |            |           |
|--|------------|-----------|
| Cash and cash equivalents, beginning of period | 360,463    | 91,923    |
| Cash and cash equivalents, end of period       | \$ 182,574 | \$ 30,255 |

**Supplemental cash flow disclosures**

Non cash investing and finance activities:

|  |           |          |
|--|-----------|----------|
| Issuance of common stock to acquire businesses             | \$ 46,930 | \$ 6,422 |
| Issuance of stock units under incentive compensation plans | 3,496     | 1,057    |
| Issuance of notes payable as contingent consideration      | 506       | 8,096    |

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

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements,**

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

Unaudited

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

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and under the rules and regulations of the Securities and Exchange Commission for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules or regulations. In management's opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. You should not expect the results of operations for interim periods to necessarily be an indication of the results for a full year. You should read these financial statements in conjunction with the consolidated financial statements and the notes contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

The Company has included an immaterial prior period reclassification in its Condensed Consolidated Statements of Cash Flows to reflect the twice yearly issuance of shares to employees under its Employee Stock Purchase Plan. The reclassification results in a decrease in net cash used by financing activities and a corresponding increase in net cash used in operating activities. The amount of this correction for the period ended June 30, 2007 is \$3.0 million.

**2. Recent Accounting Pronouncements**

In March 2008, the FASB issued statement 161, *Disclosures about Derivatives and Hedging Activities* (SFAS 161), which amends FASB Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), by requiring expanded disclosures about an entity's derivative instruments and hedging activities for increased qualitative, quantitative, and credit risk factors. As SFAS 161 only contains disclosure provisions, it will not impact our accounting for derivative transactions. SFAS 161 will be effective for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

In April 2008, the FASB issued a final FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). FSP FAS 142-3 will be effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and is not expected to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). This FSP requires issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to separately account for the liability and equity (conversion feature) components of the instruments. As a result, interest expense should be imputed and recognized based upon the entity's nonconvertible debt borrowing rate, which will result in lower net income. Our 3<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes due 2012 issued in August 2005 will be subject to FSP APB 14-1. Prior to FSP APB 14-1, Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants* (APB 14), provided that no portion of the proceeds from the issuance of the instruments should be attributable to the conversion feature. Upon retroactive adoption of APB 14-1 in 2009, interest expense for 2007 and 2008 will increase by \$3.9 million and \$4.2 million, respectively. This will result in an after tax

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements, Continued**

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

Unaudited

reduction in diluted earnings per common share of approximately \$0.05 in both 2007 and 2008. In addition, the carrying amount of the 3<sup>3</sup>/<sub>4</sub>% convertible senior notes will be retroactively adjusted to reflect a discount of \$31.3 million on the date of issuance, with an offsetting increase in additional paid-in capital of \$18.4 million and deferred tax liability of \$12.9 million.

In June 2008, the FASB issued EITF 08-3, Accounting by Lessees for Refundable Maintenance Deposits (EITF 08-3). In EITF 08-3 the task force reached a consensus that lessees should account for nonrefundable maintenance deposits as deposit assets if it is probable that maintenance activities will occur and the deposit is therefore realizable. Amounts on deposit that are not probable of being used to fund future maintenance activities should be charged to expense. The consensus is effective for fiscal years beginning after December 15, 2008 and should be initially applied by recording a cumulative-effect adjustment to opening retained earnings in the period prior to adoption. Early application is not permitted. We are currently evaluating the impact of adopting this EITF on our financial position, results of operations and cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants (AICPA) and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

### 3. Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjusts basic earnings per share for the effects of potentially dilutive common shares. Potentially dilutive common shares primarily include the dilutive effects of shares issuable under our equity compensation plans, including restricted shares using the treasury stock method, and shares issuable upon conversion of our convertible senior subordinated notes assuming the conversion premium was converted into common stock based on the average closing sale price of our stock during the period. The conversion feature of the convertible notes had a dilutive effect on our earnings per share in 2008 and 2007 because the average closing sale price per share of our common stock was \$63.38 and \$61.83 for the three and six months ended June 30, 2008, respectively, and \$36.59 and \$33.67 for the three and six months ended June 30, 2007, respectively, all of which were above the conversion price of the notes of \$31.25.

|  | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                |
|--|--------------------------------|----------------|------------------------------|----------------|
|  | 2008                           | 2007           | 2008                         | 2007           |
| <b>Numerator basic and diluted</b>                           |                                |                |                              |                |
| Net income   | \$ 35,410                      | \$ 23,082      | \$ 66,699                    | \$ 38,344      |
| <b>Denominator</b>   |                                |                |                              |                |
| Weighted average number of common shares outstanding basic   | 49,155                         | 41,333         | 48,740                       | 41,537         |
| Effect of dilutive stock options                             | 1,654                          | 1,053          | 1,643                        | 912            |
| Effect of dilutive convertible notes                         | 2,433                          | 700            | 2,374                        | 345            |
| Effect of dilutive restricted shares                         | 458                            | 326            | 455                          | 288            |
| Weighted average number of common shares outstanding diluted | 53,700                         | 43,412         | 53,212                       | 43,082         |
| <b>Earnings per common share basic</b>                       | <b>\$ 0.72</b>                 | <b>\$ 0.56</b> | <b>\$ 1.37</b>               | <b>\$ 0.92</b> |
| <b>Earnings per common share diluted</b>                     | <b>\$ 0.66</b>                 | <b>\$ 0.53</b> | <b>\$ 1.25</b>               | <b>\$ 0.89</b> |
| <b>Antidilutive stock options and restricted shares</b>      | <b>409</b>                     | <b>1,666</b>   | <b>293</b>                   | <b>2,231</b>   |



## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

**4. Comprehensive Income**

The following table sets forth the components of comprehensive income.

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2008                           | 2007      | 2008                         | 2007      |
| Net income                              | \$ 35,410                      | \$ 23,082 | \$ 66,699                    | \$ 38,344 |
| Other comprehensive income, net of tax: |                                |           |                              |           |
| Cumulative translation adjustment       | 276                            | 770       | 710                          | 962       |
| Unrealized gain on cash equivalents     |                                |           | 55                           |           |
| Comprehensive income                    | \$ 35,686                      | \$ 23,852 | \$ 67,464                    | \$ 39,306 |

**5. Provision for Doubtful Accounts**

The provision for doubtful accounts relates to a client's inability or unwillingness to make required payments, and is recorded within selling, general and administrative expense. The provisions for doubtful accounts were \$4.0 million and \$8.6 million for the three and six months ended June 30, 2008, respectively and \$1.6 million and \$3.8 million for the three and six months ended June 30, 2007, respectively.

**6. Fair Value Measurements**

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) as they relate to our financial assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles in the United States (GAAP) and enhances disclosures about fair value measurements.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The adoption of SFAS 157 did not change our fair value measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis at June 30, 2008.

| Description         | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total  |
|---------------------|--|---|--|--------|
| Interest rate swaps | \$   | \$ 337  | \$   | \$ 337 |
| Total assets        | \$   | \$ 337  | \$   | \$ 337 |

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|                                    |    |    |     |    |        |
|------------------------------------|----|----|-----|----|--------|
| Hedge adjustment on long-term debt | \$ | \$ | 337 | \$ | \$ 337 |
| Total liabilities                  | \$ | \$ | 337 | \$ | \$ 337 |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements, Continued**

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

Unaudited

The fair value of the interest rate swaps was based on the present value of expected future cash flows using discount rates appropriate with the risks involved. We entered into interest rate swaps to hedge the risk of changes in fair value attributed to changes in market interest rates associated with \$60 million of our 7<sup>5</sup>/<sub>8</sub>% senior notes due 2013. These interest rate swaps qualify for hedge accounting using the short cut method under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. As a result, the changes in fair value of the interest rate swaps and the changes in the fair value of the hedged debt are assumed to be equal and offsetting and have no effect on our results of operations. The fair value adjustment related to the interest rate swap is included in other assets on the condensed consolidated balance sheet

**7. Acquisitions**

During the second quarter of 2008, we completed two business combinations for a total acquisition cost of \$159.7 million, consisting of \$127.6 million of cash and transaction costs and 467,447 restricted shares of our common stock valued at \$32.1 million.

During the first quarter of 2008, we completed seven business combinations for a total acquisition cost of \$75.8 million, consisting of \$61.0 million of cash and transaction costs (\$56.6 million, net of cash received) and 248,837 restricted shares of our common stock valued at \$14.8 million. The foregoing numbers include the impact of the exercise by FTI of a put option in the second quarter of 2008, granted in favor of FTI by three of the security holders of a company acquired by FTI in the first quarter of 2008. This transaction increased the number of restricted shares issued by 33,309

Certain purchase agreements for these business combinations contain provisions that include contingent consideration payments based on the achievement of annual financial targets in each of the next five years. Contingent consideration is evaluated in accordance with the guidance proscribed in EITF 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination. EITF 95-8 details the factors or indicators that should be considered in evaluating whether an arrangement for contingent consideration based on earnings or other performance measures in future periods is, in substance, additional purchase price of the acquired enterprise or compensation for services, use of property, or profit sharing. Based on our initial evaluation of the terms for contingent consideration, any contingent consideration payable in the future will be considered additional purchase price and applied to goodwill when the outcome of the contingency is determinable beyond a reasonable doubt.

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 stock restrictions lapse. The future settlement of any contingency related to security price will be recorded as an adjustment to additional paid-in capital.

The business combinations consummated in 2008, both individually and in the aggregate, did not materially impact our results of operations; therefore, pro forma results have not been presented. Preliminary allocations of the initial purchase price of each acquisition has been made to the major categories of assets and liabilities based on the information available and are currently subject to change during the allocation period. The excess of purchase price over the preliminary estimated values of the tangible and identifiable intangible assets was recorded as goodwill. Finite lived acquired intangibles are amortized over a straight-line basis according to their estimated useful lives.

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

## 8. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill for the six months ended June 30, 2008, are as follows:

|   | Technology | Corporate<br>Finance/<br>Restructuring | Economic<br>Consulting | Strategic<br>Communications | Forensic and<br>Litigation<br>Consulting | Total        |
|---|------------|--|------------------------|-----------------------------|--|--------------|
| <b>Balance, January 1, 2008</b>             | \$ 37,590  | \$ 298,571                             | \$ 181,669             | \$ 273,740                  | \$ 149,308                               | \$ 940,878   |
| Goodwill acquired during the period         | 21,469     | 68,383                                 |                        | 3,774                       | 54,670                                   | 148,296      |
| Contingent consideration                    |            |  |                        | 219                         |  | 219          |
| Net asset adjustments                       | 169        |  |                        | (5,788)                     | (4,378)                                  | (9,997)      |
| FAS 109 deferred tax adjustment             |            | (681)                                  |                        |                             |  | (681)        |
| Cumulative translation adjustment and other | (2)        |  |                        | (334)                       | 699                                      | 363          |
| <b>Balance, June 30, 2008</b>               | \$ 59,226  | \$ 366,273                             | \$ 181,669             | \$ 271,611                  | \$ 200,299                               | \$ 1,079,078 |

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of \$7.4 million for the six months ended June 30, 2008 and \$5.5 million for the six months ended June 30, 2007. Based solely on the amortizable intangible assets recorded as of June 30, 2008, we estimate amortization expense to be \$9.4 million during the remainder of 2008, \$17.3 million in 2009, \$15.2 million in 2010, \$14.3 million in 2011, \$13.8 million in 2012, \$11.9 million in 2013, and \$57.9 million in years after 2013. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, finalization of asset valuations for newly acquired assets, changes in useful lives or other relevant factors.

|                                      | Useful<br>Life<br>in Years | June 30, 2008            |                             | December 31, 2007        |                             |
|--------------------------------------|----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                                      |                            | Gross Carrying<br>Amount | Accumulated<br>Amortization | Gross Carrying<br>Amount | Accumulated<br>Amortization |
| <b>Amortized intangible assets</b>   |                            |                          |                             |                          |                             |
| Contract backlog                     | 1 to 2                     | \$ 624                   | \$ 156                      | \$                       | \$                          |
| Customer relationships               | 3 to 15                    | 133,488                  | 16,169                      | 69,286                   | 11,402                      |
| Non-competition agreements           | 1 to 10                    | 16,384                   | 4,417                       | 12,277                   | 3,138                       |
| Software                             | 5                          | 4,400                    | 2,933                       | 4,400                    | 2,493                       |
| Tradenames                           | 1 to 5                     | 9,572                    | 936                         | 1,432                    | 167                         |
|                                      |                            | 164,468                  | 24,611                      | 87,395                   | 17,200                      |
| <b>Unamortized intangible assets</b> |                            |                          |                             |                          |                             |
| Tradenames                           | Indefinite                 | 14,478                   |                             | 14,478                   |                             |
|                                      |                            | \$ 178,946               | \$ 24,611                   | \$ 101,873               | \$ 17,200                   |



## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

## 9. Long-term Debt and Capital Lease Obligations

|   | June 30,<br>2008  | December 31,<br>2007 |
|---|-------------------|----------------------|
| 7 <sup>5</sup> / <sub>8</sub> % senior notes due 2013, including a fair value hedge adjustment of \$337 June 30, 2008 and \$371 December 31, 2007 | \$ 200,337        | \$ 200,371           |
| 7 <sup>3</sup> / <sub>4</sub> % senior notes due 2016   | 215,000           | 215,000              |
| 3 <sup>3</sup> / <sub>4</sub> % convertible senior subordinated notes due 2012  | 149,967           | 150,000              |
| Notes payable to former shareholders of acquired business   | 1,360             | 7,720                |
| Other   | 1,257             | 334                  |
| <b>Total debt</b>   | <b>567,921</b>    | <b>573,425</b>       |
| Less current portion  | 151,704           | 157,772              |
| <b>Long-term debt, net of current portion</b>   | <b>\$ 416,217</b> | <b>\$ 415,653</b>    |

On October 15, 2007, the \$150 million aggregate principal amount of 3<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes (Notes) due July 15, 2012 became convertible at the option of the holders and is currently convertible through October 15, 2008 as provided in the indenture covering the Notes. The Notes became convertible as a result of the closing price of our common stock exceeding the conversion threshold price of \$37.50 per share (120% of the applicable conversion price of \$31.25 per share) for at least 20 days in the 30 consecutive trading days of each of the periods ended October 15, 2007, January 15, 2008, April 15, 2008 and July 15, 2008.

Upon surrendering any 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 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 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 \$150 million principal amount of the 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 to settle the conversion feature.

## 10. Commitments and Contingencies

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

**Special Termination Charges.** During the third quarter of 2006, we recorded special termination charges totaling \$22.1 million consisting of severance and other contractual employee related costs associated with reductions in workforce. As of December 31, 2007, the liability balance for the special termination charges was \$4.8 million. During the six months ended June 30, 2008, we made payments of approximately \$2.3 million against this liability. As of June 30, 2008, the balance of the liability for special termination charges was \$2.5 million and is included in accounts payable, accrued expenses and other on the condensed consolidated balance sheet.



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**FTI Consulting, Inc. and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements, Continued**

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

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**Loss on Subleased Facilities.** As of December 31, 2007, our liability for losses on abandoned and subleased facilities was \$1.1 million. During the six months ended June 30, 2008, we made payments of approximately \$0.2 million against the liability. As of June 30, 2008, the balance in the liability for losses on abandoned and subleased facilities was \$0.9 million and is included in other liabilities on the condensed consolidated balance sheet.

**11. Share-Based Compensation**

Our officers, employees, non-employee directors and certain individual service providers are eligible for incentive compensation in the form of share-based awards. During the six months ended June 30, 2008, share-based awards included stock option grants of 350,986 shares, stock unit grants of 54,331 shares and restricted stock awards of 192,327 shares.

Total share-based compensation expense for the three and six months ended June 30, 2008 and 2007 is detailed in the following table.

| Income Statement Classification             | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|---|--------------------------------|----------|------------------------------|-----------|
|   | 2008                           | 2007     | 2008                         | 2007      |
| Direct cost of revenues                     | \$ 3,957                       | \$ 1,989 | \$ 7,717                     | \$ 3,754  |
| Selling, general and administrative expense | 3,508                          | 3,656    | 6,455                        | 7,280     |
| Total share-based compensation expense      | \$ 7,465                       | \$ 5,645 | \$ 14,172                    | \$ 11,034 |

**12. Income Taxes**

We are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits would significantly increase or decrease within the next twelve months. As of June 30, 2008, there have been no material changes to the liability for uncertain tax positions. Interest and penalties related to uncertain tax positions are classified as such and excluded from the income tax provision. As of June 30, 2008, our accrual for the payment of tax-related interest and penalties was not material.

We file numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and in many city, state and foreign jurisdictions. A federal tax examination of our 2006 U.S. federal income tax return is in process and is expected to be finalized in the fourth quarter of 2008. We are no longer subject to U.S. federal income tax examinations for years prior to 2004 and are no longer subject to state and local or foreign tax examinations for years prior to 2000. In addition, open tax years related to state and foreign jurisdictions remain subject to examination, but are not considered material to our financial position, results of operations or cash flows.

**13. Segment Reporting**

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

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

Our Technology segment provides products, services and consulting to law firms, companies, courts and government entities worldwide with the principal business focus on the collection, preservation, review and production of electronically stored information. Our Corporate Finance/Restructuring segment provides consulting and advisory services relating to turnaround, performance improvement, lending solutions, financial and operational restructuring, restructuring advisory, mergers and acquisitions, transaction advisory and interim management. Our Economic Consulting segment provides law firms, companies, government entities and other interested parties with clear analysis of complex economic issues for use in legal and regulatory proceedings, strategic decision making and public policy debates in the U.S. and internationally. Our Strategic Communications segment provides advice and consulting services related to financial communications, brand communications, public affairs and issues management and business consulting. Our Forensic and Litigation Consulting segment provides an extensive range of services to assist clients in all phases of investigation and litigation, including pre-filing, discovery, trial preparation, expert testimony and other trial support services.

We evaluate the performance of our operating segments based on segment operating income before depreciation and amortization of intangible assets, plus litigation settlements, which we refer to as segment EBITDA. Segment EBITDA consists of the revenues generated by that segment, less the direct costs of revenues and selling, general and administrative expenses that are incurred directly by that segment as well as an allocation of certain centrally managed costs, such as information technology services, marketing and facility costs. Although segment EBITDA is not a measure of financial condition or performance in accordance with generally accepted accounting principles, we use it to evaluate and compare the performance of our segments and it is one of the primary measures used to determine employee compensation. Inter-segment revenues and profits have been eliminated.

The table below presents revenues and segment EBITDA for our reportable segments for the three and six months ended June 30, 2008 and 2007.

|                                    | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|------------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
|                                    | 2008                           | 2007              | 2008                         | 2007              |
| <b>Revenues:</b>                   |                                |                   |                              |                   |
| Technology                         | \$ 56,275                      | \$ 37,432         | \$ 112,810                   | \$ 70,482         |
| Corporate Finance/Restructuring    | 96,123                         | 63,005            | 175,406                      | 125,107           |
| Economic Consulting                | 53,765                         | 43,983            | 110,180                      | 83,980            |
| Strategic Communications           | 62,197                         | 42,013            | 116,811                      | 80,226            |
| Forensic and Litigation Consulting | 69,310                         | 53,259            | 129,565                      | 107,622           |
| <b>Total revenues</b>              | <b>\$ 337,670</b>              | <b>\$ 239,692</b> | <b>\$ 644,772</b>            | <b>\$ 467,417</b> |
| <b>Segment EBITDA:</b>             |                                |                   |                              |                   |
| Technology                         | \$ 21,213                      | \$ 14,178         | \$ 44,535                    | \$ 24,785         |
| Corporate Finance/Restructuring    | 29,624                         | 16,661            | 51,534                       | 31,589            |
| Economic Consulting                | 13,987                         | 13,059            | 27,303                       | 24,167            |
| Strategic Communications           | 16,428                         | 10,955            | 29,107                       | 20,926            |
| Forensic and Litigation Consulting | 15,717                         | 13,264            | 30,373                       | 27,369            |
| <b>Total segment EBITDA</b>        | <b>\$ 96,969</b>               | <b>\$ 68,117</b>  | <b>\$ 182,852</b>            | <b>\$ 128,836</b> |

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements, Continued**

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

Unaudited

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

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2008</b>               | <b>2007</b> | <b>2008</b>             | <b>2007</b> |
| Segment EBITDA                         | \$ 96,969                 | \$ 68,117   | \$ 182,852              | \$ 128,836  |
| Segment depreciation expense           | (4,850)                   | (3,273)     | (9,482)                 | (6,236)     |
| Unallocated corporate expenses         | (20,823)                  | (18,578)    | (40,066)                | (35,698)    |
| Amortization of intangible assets      | (4,457)                   | (2,748)     | (7,355)                 | (5,485)     |
| Corporate litigation settlement losses |                           |             |                         | (191)       |
| Interest and other expense, net        | (8,214)                   | (8,913)     | (15,521)                | (19,381)    |
| Income before income tax provision     | \$ 58,625                 | \$ 34,605   | \$ 110,428              | \$ 61,845   |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

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

Substantially all of our domestic subsidiaries are guarantors of borrowings under our senior notes and our convertible notes. The guarantees are full and unconditional and joint and several. All of our guarantors are wholly-owned subsidiaries. There are no significant restrictions on our ability or the ability of any guarantor to obtain funds from our subsidiaries by dividend or loan.

The following financial information presents condensed consolidating balance sheets, income statements and statements of cash flows for FTI Consulting, Inc., all guarantor subsidiaries, all 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 June 30, 2008

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|--|-------------------------|---------------------------|-------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                    |                         |                           |                               |                       |                     |
| Cash and cash equivalents                        | \$ 140,039              | \$ 2,119                  | \$ 40,416                     | \$                    | \$ 182,574          |
| Accounts receivable, net                         | 146,918                 | 120,335                   | 56,115                        |                       | 323,368             |
| Intercompany receivables                         | 10,686                  | 142,083                   | 58,511                        | (211,280)             |                     |
| Other current assets                             | 35,600                  | 15,767                    | 8,394                         | (8,338)               | 51,423              |
| <b>Total current assets</b>                      | <b>333,243</b>          | <b>280,304</b>            | <b>163,436</b>                | <b>(219,618)</b>      | <b>557,365</b>      |
| Property and equipment, net                      | 43,901                  | 22,978                    | 8,745                         |                       | 75,624              |
| Goodwill   | 414,208                 | 420,860                   | 244,010                       |                       | 1,079,078           |
| Other intangible assets, net                     | 4,846                   | 90,615                    | 58,874                        |                       | 154,335             |
| Investments in subsidiaries                      | 1,042,304               | 553,964                   | 802,433                       | (2,398,701)           |                     |
| Other assets                                     | 74,149                  | 172,645                   | 6,694                         | (139,609)             | 113,879             |
| <b>Total assets</b>                              | <b>\$ 1,912,651</b>     | <b>\$ 1,541,366</b>       | <b>\$ 1,284,192</b>           | <b>\$ (2,757,928)</b> | <b>\$ 1,980,281</b> |
| <b>Liabilities</b>                               |                         |                           |                               |                       |                     |
| Intercompany payables                            | \$ 92,887               | \$ 58,682                 | \$ 59,711                     | \$ (211,280)          | \$                  |
| Other current liabilities                        | 200,355                 | 78,042                    | 68,534                        | (8,338)               | 338,593             |
| <b>Total current liabilities</b>                 | <b>293,242</b>          | <b>136,724</b>            | <b>128,245</b>                | <b>(219,618)</b>      | <b>338,593</b>      |
| Long-term debt, net                              | 415,337                 | 880                       |                               |                       | 416,217             |
| Other liabilities                                | 84,143                  | 14,829                    | 146,179                       | (139,609)             | 105,542             |
| <b>Total liabilities</b>                         | <b>792,722</b>          | <b>152,433</b>            | <b>274,424</b>                | <b>(359,227)</b>      | <b>860,352</b>      |
| <b>Stockholders equity</b>                       | <b>1,119,929</b>        | <b>1,388,933</b>          | <b>1,009,768</b>              | <b>(2,398,701)</b>    | <b>1,119,929</b>    |
| <b>Total liabilities and stockholders equity</b> | <b>\$ 1,912,651</b>     | <b>\$ 1,541,366</b>       | <b>\$ 1,284,192</b>           | <b>\$ (2,757,928)</b> | <b>\$ 1,980,281</b> |



## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

## Condensed Consolidating Balance Sheet Information as of December 31, 2007

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|--|-------------------------|---------------------------|-------------------------------|----------------|--------------|
| <b>Assets</b>                                    |                         |                           |                               |                |              |
| Cash and cash equivalents                        | \$ 328,505              | \$ 1,273                  | \$ 30,685                     | \$             | \$ 360,463   |
| Accounts receivable, net                         | 135,158                 | 70,597                    | 39,421                        |                | 245,176      |
| Intercompany receivables                         | 10,686                  | 116,616                   | 47,712                        | (175,014)      |              |
| Other current assets                             | 46,145                  | 4,117                     | 5,626                         |                | 55,888       |
| <b>Total current assets</b>                      | 520,494                 | 192,603                   | 123,444                       | (175,014)      | 661,527      |
| Property and equipment, net                      | 47,962                  | 11,792                    | 8,089                         |                | 67,843       |
| Goodwill   | 414,889                 | 322,697                   | 203,292                       |                | 940,878      |
| Other intangible assets, net                     | 5,409                   | 36,455                    | 42,809                        |                | 84,673       |
| Investments in subsidiaries                      | 746,834                 | 258,356                   | 166,087                       | (1,171,277)    |              |
| Other assets                                     | 67,484                  | 173,927                   | 7,031                         | (144,739)      | 103,703      |
| <b>Total assets</b>                              | \$ 1,803,072            | \$ 995,830                | \$ 550,752                    | \$ (1,491,030) | \$ 1,858,624 |
| <b>Liabilities</b>                               |                         |                           |                               |                |              |
| Intercompany payables                            | \$ 73,737               | \$ 46,544                 | \$ 54,733                     | \$ (175,014)   | \$           |
| Other current liabilities                        | 269,322                 | 46,742                    | 67,755                        | (2,757)        | 381,062      |
| <b>Total current liabilities</b>                 | 343,059                 | 93,286                    | 122,488                       | (177,771)      | 381,062      |
| Long-term debt, net                              | 415,653                 |                           |                               |                | 415,653      |
| Other liabilities                                | 72,110                  | 12,580                    | 146,951                       | (141,982)      | 89,659       |
| <b>Total liabilities</b>                         | 830,822                 | 105,866                   | 269,439                       | (319,753)      | 886,374      |
| <b>Stockholders equity</b>                       | 972,250                 | 889,964                   | 281,313                       | (1,171,277)    | 972,250      |
| <b>Total liabilities and stockholders equity</b> | \$ 1,803,072            | \$ 995,830                | \$ 550,752                    | \$ (1,491,030) | \$ 1,858,624 |



## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

## Condensed Consolidating Income Statement Information for the Three Months Ended June 30, 2008

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                               | \$ 161,505              | \$ 255,041                | \$ 68,083                     | \$ (146,959) | \$ 337,670   |
| <b>Operating expenses</b>                     |                         |                           |                               |              |              |
| Direct cost of revenues                       | 85,550                  | 209,583                   | 39,015                        | (145,982)    | 188,166      |
| Selling, general and administrative expense   | 50,073                  | 17,293                    | 11,384                        | (977)        | 77,773       |
| Amortization of other intangible assets       | 282                     | 2,593                     | 1,582                         |              | 4,457        |
| <b>Operating income</b>                       | 25,600                  | 25,572                    | 16,102                        |              | 67,274       |
| <b>Other income (expense)</b>                 | (9,113)                 | (2,140)                   | 2,604                         |              | (8,649)      |
| <b>Income before income tax benefit</b>       | 16,487                  | 23,432                    | 18,706                        |              | 58,625       |
| <b>Income tax provision</b>                   | 7,161                   | 10,964                    | 5,090                         |              | 23,215       |
| <b>Equity in net earnings of subsidiaries</b> | 26,084                  | 13,616                    | 4                             | (39,704)     |              |
| <b>Net income</b>                             | \$ 35,410               | \$ 26,084                 | \$ 13,620                     | \$ (39,704)  | \$ 35,410    |

## Condensed Consolidating Income Statement Information for the Three Months Ended June 30, 2007

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                               | \$ 130,194              | \$ 172,092                | \$ 38,044                     | \$ (100,638) | \$ 239,692   |
| <b>Operating expenses</b>                     |                         |                           |                               |              |              |
| Direct cost of revenues                       | 73,561                  | 138,644                   | 19,782                        | (100,638)    | 131,349      |
| Selling, general and administrative expense   | 41,363                  | 10,255                    | 10,292                        |              | 61,910       |
| Amortization of other intangible assets       | 428                     | 1,490                     | 830                           |              | 2,748        |
| <b>Operating income</b>                       | 14,842                  | 21,703                    | 7,140                         |              | 43,685       |
| <b>Other income (expense)</b>                 | (9,728)                 | (545)                     | 1,193                         |              | (9,080)      |
| <b>Income before income tax provision</b>     | 5,114                   | 21,158                    | 8,333                         |              | 34,605       |
| <b>Income tax (benefit) provision</b>         | (658)                   | 7,893                     | 4,288                         |              | 11,523       |
| <b>Equity in net earnings of subsidiaries</b> | 17,310                  | 3,527                     | 1,590                         | (22,427)     |              |
| <b>Net income</b>                             | \$ 23,082               | \$ 16,792                 | \$ 5,635                      | \$ (22,427)  | \$ 23,082    |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

## Condensed Consolidating Income Statement Information for the Six Months Ended June 30, 2008

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                               | \$ 320,578              | \$ 476,584                | \$ 122,499                    | \$ (274,889) | \$ 644,772   |
| <b>Operating expenses</b>                     |                         |                           |                               |              |              |
| Direct cost of revenues                       | 170,970                 | 393,672                   | 69,470                        | (273,425)    | 360,687      |
| Selling, general and administrative expense   | 99,838                  | 30,529                    | 21,442                        | (1,464)      | 150,345      |
| Amortization of other intangible assets       | 563                     | 4,199                     | 2,593                         |              | 7,355        |
| <b>Operating income</b>                       | 49,207                  | 48,184                    | 28,994                        |              | 126,385      |
| <b>Other income (expense)</b>                 | (16,727)                | 3,745                     | (2,975)                       |              | (15,957)     |
| <b>Income before income tax benefit</b>       | 32,480                  | 51,929                    | 26,019                        |              | 110,428      |
| <b>Income tax provision</b>                   | 14,259                  | 22,845                    | 6,625                         |              | 43,729       |
| <b>Equity in net earnings of subsidiaries</b> | 48,478                  | 19,393                    | 5,561                         | (73,432)     |              |
| <b>Net income</b>                             | \$ 66,699               | \$ 48,477                 | \$ 24,955                     | \$ (73,432)  | \$ 66,699    |

## Condensed Consolidating Income Statement Information for the Six Months Ended June 30, 2007

|   | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Revenues</b>                               | \$ 261,361              | \$ 334,424                | \$ 72,265                     | \$ (200,633) | \$ 467,417   |
| <b>Operating expenses</b>                     |                         |                           |                               |              |              |
| Direct cost of revenues                       | 148,883                 | 274,039                   | 35,241                        | (200,633)    | 257,530      |
| Selling, general and administrative expense   | 83,155                  | 19,192                    | 19,921                        |              | 122,268      |
| Amortization of other intangible assets       | 856                     | 2,973                     | 1,656                         |              | 5,485        |
| <b>Operating income</b>                       | 28,467                  | 38,220                    | 15,447                        |              | 82,134       |
| <b>Other income (expense)</b>                 | (20,590)                | (631)                     | 932                           |              | (20,289)     |
| <b>Income before income tax provision</b>     | 7,877                   | 37,589                    | 16,379                        |              | 61,845       |
| <b>Income tax provision</b>                   | 1,056                   | 14,722                    | 7,723                         |              | 23,501       |
| <b>Equity in net earnings of subsidiaries</b> | 31,523                  | 7,190                     | 3,425                         | (42,138)     |              |
| <b>Net income</b>                             | \$ 38,344               | \$ 30,057                 | \$ 12,081                     | \$ (42,138)  | \$ 38,344    |

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements, Continued**

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

Unaudited

**Condensed Consolidating Statement of Cash Flow Information for the Six Months Ended June 30, 2008**

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated      |
|--|-------------------------|---------------------------|-------------------------------|-------------------|
| <b>Operating activities</b>                                  |                         |                           |                               |                   |
| Net cash provided by operating activities                    | \$ 42,621               | \$ 7,828                  | \$ 6,515                      | \$ 56,964         |
| <b>Investing activities</b>                                  |                         |                           |                               |                   |
| Payments for acquisition of businesses, net of cash received | (218,527)               | (3,860)                   | (2,796)                       | (225,183)         |
| Purchases of property and equipment and other                | (3,261)                 | (12,965)                  | (2,676)                       | (18,902)          |
| Net cash used in investing activities                        | (221,788)               | (16,825)                  | (5,472)                       | (244,085)         |
| <b>Financing activities</b>                                  |                         |                           |                               |                   |
| Payment of long-term debt                                    | (7,147)                 | (92)                      |                               | (7,239)           |
| Issuance of common stock and other                           | 12,006                  |                           |                               | 12,006            |
| Excess tax benefits from share based equity                  | 4,682                   |                           |                               | 4,682             |
| Intercompany transfers                                       | (18,895)                | 9,935                     | 8,960                         |                   |
| Net cash (used in) provided by financing activities          | (9,354)                 | 9,843                     | 8,960                         | 9,449             |
| Effects of exchange rate changes on cash                     | 55                      |                           | (272)                         | (217)             |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | <b>(188,466)</b>        | <b>846</b>                | <b>9,731</b>                  | <b>(177,889)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>        | <b>328,505</b>          | <b>1,273</b>              | <b>30,685</b>                 | <b>360,463</b>    |
| <b>Cash and cash equivalents, end of period</b>              | <b>\$ 140,039</b>       | <b>\$ 2,119</b>           | <b>\$ 40,416</b>              | <b>\$ 182,574</b> |

## FTI Consulting, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements, Continued

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

Unaudited

## Condensed Consolidating Statement of Cash Flow Information for the Six Months Ended June 30, 2007

|  | FTI<br>Consulting, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated     |
|--|-------------------------|---------------------------|-------------------------------|------------------|
| <b>Operating activities</b>                                  |                         |                           |                               |                  |
| Net cash (used in) provided by operating activities          | \$ (23,380)             | \$ 4,212                  | \$ (1,345)                    | \$ (20,513)      |
| <b>Investing activities</b>                                  |                         |                           |                               |                  |
| Payments for acquisition of businesses, net of cash received | (20,394)                | 18                        | (100)                         | (20,476)         |
| Purchases of property and equipment and other                | (18,318)                | (724)                     | (2,825)                       | (21,867)         |
| Net cash used in investing activities                        | (38,712)                | (706)                     | (2,925)                       | (42,343)         |
| <b>Financing activities</b>                                  |                         |                           |                               |                  |
| Capital contributions  | (500)                   |                           | 500                           |                  |
| Purchase and retirement of common stock                      | (18,116)                |                           |                               | (18,116)         |
| Intercompany transfers                                       | 1,385                   | (5,998)                   | 4,613                         |                  |
| Issuance of common stock and other                           | 17,583                  |                           | 13                            | 17,596           |
| Net cash (used in) provided by financing activities          | 352                     | (5,998)                   | 5,126                         | (520)            |
| Effect of exchange rate changes on cash                      |                         |                           | 1,708                         | 1,708            |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | <b>(61,740)</b>         | <b>(2,492)</b>            | <b>2,564</b>                  | <b>(61,668)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>        | <b>70,010</b>           | <b>3,592</b>              | <b>18,321</b>                 | <b>91,923</b>    |
| <b>Cash and cash equivalents, end of period</b>              | <b>\$ 8,270</b>         | <b>\$ 1,100</b>           | <b>\$ 20,885</b>              | <b>\$ 30,255</b> |

## 15. Subsequent Events

During the second quarter of 2008, the Company entered into a merger agreement with Attenex Corporation, a leading eDiscovery software provider, whereby Attenex would merge with a wholly-owned subsidiary of the Company and be the surviving company in a cash transaction valued at approximately \$88.0 million. The transaction closed on July 2, 2008.

On August 6, 2008, the Company announced that it intends to sell a minority interest in its Technology business through an initial public offering ( IPO ) of a to be newly formed company. The Company further intends to distribute the remaining shares of the new company to its stockholders within twelve months of completion of the IPO in a spin-off, split-off or a combination of these transactions. It is expected that a registration statement will be filed by the end of this year. The proceeds from the offering will be used primarily to retire existing indebtedness of the Company. A portion of the proceeds will be retained by the Technology business to use for general corporate purposes.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**INTRODUCTION AND OVERVIEW**

The following is a discussion and analysis of our consolidated financial condition and results of operations for the three month and six month periods ended June 30, 2008 and 2007 and significant factors that could affect our prospective financial condition and results of operations. You should read this discussion 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, 2007. Historical results and any discussion of prospective results may not indicate our future performance. See Forward Looking Statements.

**BUSINESS OVERVIEW**

We are a leading global consulting firm to organizations confronting the critical legal, financial and reputational issues that shape their futures. Our experienced teams of professionals, many of whom are widely recognized as experts in their fields, provide high caliber consulting services to a broad range of clients. We believe clients retain us because of our recognized expertise and capabilities in highly specialized areas, as well as our reputation for satisfying clients' needs. We operate through five business segments: Technology, Corporate Finance/Restructuring, Economic Consulting, Strategic Communications and Forensic and Litigation Consulting.

Our Technology segment provides products, services and consulting to law firms, companies, courts and government entities worldwide. We assist with internal investigations, regulatory investigations, early case assessment, litigation and joint defense, antitrust and competition investigations, including Second Requests under the Hart Scott Rodino Antitrust Improvements Act of 1976 (HSR Act) and knowledge management for critical corporate information. We provide a comprehensive suite of application tools and related services to help clients locate and produce electronically stored information (ESI), including e-mail, computer files, voicemail, instant messaging, and financial and transactional data. Our services also help to identify, convert, categorize and produce relevant hard copy documents into electronically searchable format. We have the capacity to identify, analyze, process and present potentially relevant electronic information for interested parties, and ultimately manage the presentation of information to our clients. Our proprietary Ringtail® technology is used to provide litigation support and knowledge management. Our Ringtail® technology is designed to ensure quality, reduce risk, increase productivity and improve cost effectiveness in the review, preparation and production of large amounts of ESI.

Our Corporate Finance/Restructuring segment focuses on strategic, operational, financial and capital needs of businesses around the world. We address the full spectrum of financial and transactional challenges facing our clients, which include companies, boards of directors, private equity sponsors, banks, lenders and other financing sources, law firms and other parties-in-interest. We advise on a wide range of areas, including restructuring, bankruptcy, claims management, mergers and acquisitions (M&A), post-acquisition integration, valuations, tax issues and performance improvement. We also provide expert witness testimony, bankruptcy and insolvency litigation support and trustee and examiner services. We have particular expertise in the automotive, chemicals, communications, media and entertainment, energy and utilities, healthcare, real estate, financial services and retail industries.

Our Economic Consulting segment provides law firms, companies, government entities and other interested parties with clear analysis of complex economic issues for use in legal and regulatory proceedings, strategic decision making and public policy debates in the U.S. and internationally. We deliver sophisticated economic analysis and modeling of issues arising in M&A, complex antitrust litigation, commercial disputes, regulatory proceedings and securities litigation. Our statistical and economic experts help our clients analyze complex economic issues such as the economic impact of deregulation on a particular industry or the amount of commercial damages suffered by a business. We have deep industry experience in such areas as commercial and

investment banking, telecommunications, energy, transportation, healthcare, IT/Internet and pharmaceuticals. Our professionals regularly provide expert testimony on damages, rates and prices, valuations (including valuations of complex derivatives), competitive effects and intellectual property disputes. They also provide analyses and advice relating to antitrust and competition cases, regulatory proceedings and business valuations.

Our Strategic Communications segment provides advice and consulting services relating to financial communications, brand communications, public affairs and reputation management and business consulting. We have developed a unique, integrated offering that incorporates a broad scope of services, diverse sector coverage and global reach that distinguishes it from other strategic communications consultancies. Our professionals are able to advise clients from almost every major business center in the world. We combine our core investor relations, public relations and public affairs capabilities with our other services to present clients with integrated business communications solutions.

Our Forensic and Litigation Consulting segment provides law firms, companies, government entities and other interested constituencies around the world with end-to-end forensic and litigation services. We assist our clients in all phases of investigations and litigation, including pre-filing assessments, discovery, trial preparation, expert testimony and other trial support services. We have particular expertise in the pharmaceutical, healthcare and financial services industries.

### EXECUTIVE HIGHLIGHTS

|                                       | Three Months Ended<br>June 30,           |            | Six Months Ended<br>June 30, |            |
|---------------------------------------|--|------------|------------------------------|------------|
|                                       | 2008                                     | 2007       | 2008                         | 2007       |
|                                       | (in thousands, except per share amounts) |            |                              |            |
| Revenues                              | \$ 337,670                               | \$ 239,692 | \$ 644,772                   | \$ 467,417 |
| Operating income                      | \$ 67,274                                | \$ 43,685  | \$ 126,385                   | \$ 82,134  |
| Net income                            | \$ 35,410                                | \$ 23,082  | \$ 66,699                    | \$ 38,344  |
| Earnings per common share diluted     | \$ 0.66                                  | \$ 0.53    | \$ 1.25                      | \$ 0.89    |
| EBITDA <sup>(1)</sup>                 | \$ 77,556                                | \$ 50,692  | \$ 145,590                   | \$ 95,095  |
| Total number of employees at June 30, | 3,144                                    | 2,228      | 3,144                        | 2,228      |

- (1) We define EBITDA as operating income before depreciation and amortization of intangible assets plus litigation settlements. Although EBITDA is not a measure of financial condition or performance determined in accordance with accounting principles generally accepted in the United States (GAAP), we believe that it can be a useful operating performance measure for evaluating our results of operation as compared from period to period and as compared to our competitors. EBITDA is a common alternative performance measure of operating performance used by investors, financial analysts and rating agencies to value and compare the financial performance of companies within our industry. We use EBITDA to evaluate and compare the operating performance of our segments and it is one of the primary measures used to determine employee bonuses. We also use EBITDA to value the businesses we acquire or anticipate acquiring. EBITDA is 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. This non-GAAP measure should be considered in addition to, but not as a substitute for or superior to, the information contained in our statements of income.

Total revenue in the second quarter of 2008 increased 40.9% from a year ago to a record \$337.7 million, compared to \$239.7 million a year ago. Market demand for our services remained strong across our segments and geographic regions, and drove organic growth of 25% in the quarter. Acquisitions made over the past year contributed the balance of the revenue growth.

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

Net income was \$35.4 million, or \$0.66 per diluted share, up from \$23.1 million, or \$0.53 per diluted share, in the prior year. Included in the calculation of earnings per share was an increase in the weighted average share count of 10.3 million, or 24%, reflecting shares issued in our public offering in 2007, exercises of stock options, shares issued for acquisitions and increases in the dilution adjustments for the Company's convertible notes and options.

EBITDA in the quarter increased 53% to \$77.6 million, equal to 23.0% of revenue, compared to \$50.7 million, or 21.1% of revenue, in the same period last year. The margin increase was the result of significantly higher margins in the Corporate Finance/Restructuring segment and leveraging of corporate expense by the growth of the business, partially offset by lower margins at the Economic Consulting and Forensic and Litigation Consulting segments.

In the 2008 second quarter, the Technology segment again had the highest organic growth of all our segments in terms of revenue, driven by a significant product liability case and strong demand for services related to Antitrust Second Requests and from financial services companies for interpretation of complex financial and transactional data and financial systems investigations.

Our other segments maintained their momentum through the second quarter. The global credit crisis continues to be a significant driver of engagements for FTI, especially our Corporate Finance/Restructuring segment, which was actively engaged in restructuring assignments in industries being impacted by the global credit crisis such as automotive, sub-prime lenders, monoline insurers, financial institutions and the homebuilding/real estate/construction markets. The segment also benefited from the contribution from Schonbraun McCann Group, which was acquired in April 2008.

Strategic M&A was the primary driver of growth in our Economic Consulting segment, which is experiencing strong demand from companies in the financial services, hospital, airline and industrial markets. In addition, during the quarter the segment began to see an increasing number of engagements related to the sub-prime and credit crises. The network industries strategies practice experienced an increase in railroad commercial litigation and regulatory work as a result of a more predictable regulatory environment.

While equity capital market activity was slow, Strategic Communications experienced solid growth in its core UK and U.S. businesses from M&A and crisis and issues management projects from both retained and new clients. This was augmented by strong performances in Asia, Australia and the Middle East as well as contributions from acquisitions.

During the quarter the company entered into a merger agreement with Attenex Corporation, a leading eDiscovery software provider, whereby Attenex would merge with a wholly-owned subsidiary of the Company and be the surviving company in a cash transaction valued at approximately \$88.0 million. The transaction closed on July 2, 2008. FTI also entered into a strategic partnership with Endeca Technologies, Inc., an information access software company, to develop applications that allow for the search and discovery of financial information, transactional databases and other structured and unstructured electronically stored information incorporating Endeca intellectual property.

On August 6, 2008, the Company announced that it intends to sell a minority interest in its Technology business through an initial public offering ( IPO ) of a to be newly formed company. The Company further intends to distribute the remaining shares of the new company to its shareholders within twelve months of completion of the IPO in a spin-off, split-off or a combination of these transactions. It is expected that a registration statement will be filed by the end of this year. The proceeds from the offering will be used primarily to retire existing indebtedness of the Company. A portion of the proceeds will be retained by the Technology business to use for general corporate purposes.

**CONSOLIDATED RESULTS OF OPERATIONS**

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2008                           | 2007             | 2008                         | 2007             |
| (in thousands, except per share amounts)  |                                |                  |                              |                  |
| <b>Revenues</b>                           |                                |                  |                              |                  |
| Technology                                | \$ 56,275                      | \$ 37,432        | \$ 112,810                   | \$ 70,482        |
| Corporate Finance/Restructuring           | 96,123                         | 63,005           | 175,406                      | 125,107          |
| Economic Consulting                       | 53,765                         | 43,983           | 110,180                      | 83,980           |
| Strategic Communications                  | 62,197                         | 42,013           | 116,811                      | 80,226           |
| Forensic and Litigation Consulting        | 69,310                         | 53,259           | 129,565                      | 107,622          |
| <b>Total revenues</b>                     | <b>337,670</b>                 | <b>239,692</b>   | <b>644,772</b>               | <b>467,417</b>   |
| <b>Operating Income</b>                   |                                |                  |                              |                  |
| Technology                                | 18,720                         | 12,399           | 39,137                       | 21,328           |
| Corporate Finance/Restructuring           | 27,492                         | 16,254           | 48,841                       | 31,390           |
| Economic Consulting                       | 13,035                         | 11,468           | 25,298                       | 21,078           |
| Strategic Communications                  | 14,572                         | 9,702            | 25,378                       | 18,439           |
| Forensic and Litigation Consulting        | 14,278                         | 12,440           | 27,797                       | 25,597           |
| <b>Segment operating income</b>           | <b>88,097</b>                  | <b>62,263</b>    | <b>166,451</b>               | <b>117,832</b>   |
| Unallocated corporate expenses            | (20,823)                       | (18,578)         | (40,066)                     | (35,698)         |
| <b>Operating income</b>                   | <b>67,274</b>                  | <b>43,685</b>    | <b>126,385</b>               | <b>82,134</b>    |
| <b>Other Income (Expense)</b>             |                                |                  |                              |                  |
| Interest income                           | 1,866                          | 1,824            | 4,947                        | 2,320            |
| Interest expense and other                | (10,080)                       | (10,737)         | (20,468)                     | (21,701)         |
| Litigation settlement losses, net         | (435)                          | (167)            | (436)                        | (908)            |
|   | (8,649)                        | (9,080)          | (15,957)                     | (20,289)         |
| <b>Income before income tax provision</b> | <b>58,625</b>                  | <b>34,605</b>    | <b>110,428</b>               | <b>61,845</b>    |
| <b>Income tax provision</b>               | <b>23,215</b>                  | <b>11,523</b>    | <b>43,729</b>                | <b>23,501</b>    |
| <b>Net income</b>                         | <b>\$ 35,410</b>               | <b>\$ 23,082</b> | <b>\$ 66,699</b>             | <b>\$ 38,344</b> |
| <b>Earnings per common share basic</b>    | <b>\$ 0.72</b>                 | <b>\$ 0.56</b>   | <b>\$ 1.37</b>               | <b>\$ 0.92</b>   |
| <b>Earnings per common share diluted</b>  | <b>\$ 0.66</b>                 | <b>\$ 0.53</b>   | <b>\$ 1.25</b>               | <b>\$ 0.89</b>   |



**RECONCILIATION OF OPERATING INCOME TO EBITDA**

We define EBITDA as operating income before depreciation and amortization of intangible assets plus litigation settlements. Although EBITDA is not a measure of financial condition or performance determined in accordance with GAAP we believe that it can be a useful operating performance measure for evaluating our results of operation as compared from period to period and as compared to our competitors. EBITDA is a common alternative measure of operating performance used by investors, financial analysts and rating agencies to value and compare the financial performance of companies in our industry. We use EBITDA to evaluate and compare the operating performance of our segments and it is one of the primary measures used to determine employee bonuses. We also use EBITDA to value the businesses we acquire or anticipate acquiring. EBITDA is 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. This non-GAAP measure should be considered in addition to, but not as a substitute for or superior to, the information contained in our statements of income. The following table provides a reconciliation of operating income to EBITDA.

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2008                           | 2007             | 2008                         | 2007             |
|   | (in thousands)                 |                  |                              |                  |
| <b>Operating income</b>                 | \$ 67,274                      | \$ 43,685        | \$ 126,385                   | \$ 82,134        |
| Depreciation                            | 6,260                          | 4,426            | 12,286                       | 8,384            |
| Amortization of other intangible assets | 4,457                          | 2,748            | 7,355                        | 5,485            |
| Litigation settlement losses, net       | (435)                          | (167)            | (436)                        | (908)            |
| <b>EBITDA</b>                           | <b>\$ 77,556</b>               | <b>\$ 50,692</b> | <b>\$ 145,590</b>            | <b>\$ 95,095</b> |

**Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007****Revenues**

Revenues for the three months ended June 30, 2008 increased \$98.0 million or 41%, to \$337.7 million from \$239.7 million for the three months ended June 30, 2007. Organic revenue growth was approximately \$60 million or 25%, while acquisition growth was approximately \$38 million or 16%. While revenue increased in all operating segments, the primary drivers of organic revenue growth were an increase in unit based revenue in our Technology segment due to continued revenue from a large product liability engagement, an increase in consulting revenue and success fees in our Corporate Finance/Restructuring segment and an increase in consulting revenue in our Economic Consulting segment. See *Segment Results* for an expanded discussion of segment revenue.

**Operating Income**

Operating income for the three months ended June 30, 2008 increased \$23.6 million, or 54%, as compared to the three months ended June 30, 2007. Organic growth was approximately \$17.0 million or 38%, while acquisition growth was approximately \$7.0 million or 16%. While the operating income of all segments improved, higher operating income in our Corporate Finance/Restructuring and Technology segments was the primary driver of the growth. Unallocated corporate expenses for the three months ended June 30, 2008 increased by \$2.2 million as compared to the three months ended June 30, 2007, primarily due to an increase in salaries attributable to the hiring of additional corporate employees to support our growing organization and increased bonus expense. See *Segment Results* for an expanded discussion of segment operating results.

***Other Income (Expense)***

Interest expense and other decreased approximately \$0.7 million for the three months ended June 30, 2008 compared to the three months ended June 30, 2007 primarily due to the favorable impact of variable interest rates on our hedged debt.

***Income Tax Provision***

Our effective tax rate for the three months ended June 30, 2008 increased to 39.6% from 33.3% for the three months ended June 30, 2007. The increase in the rate is primarily due to a non recurring benefit that was recognized in the second quarter of 2007 related to a change in our international tax structure that substantially reduced the amount of foreign earnings that will be subject to U.S. federal income tax. In addition, the second quarter of 2007 also included a favorable adjustment to the state and local tax rate.

**Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

***Revenues***

Revenues for the six months ended June 30, 2008 increased \$177.4 million or 38%, to \$644.8 million from \$467.4 million for the six months ended June 30, 2007. Organic growth was approximately \$127 million or 27%, while acquisition growth was approximately \$50.0 million or 11%. While revenue increased in all operating segments, the primary drivers of organic revenue growth were the increased revenue of the Corporate Finance/Restructuring, Technology and Economic Consulting segments. The growth in Corporate Finance/Restructuring revenue was attributable to increased consulting revenue from restructuring services and an increase in success fees in 2008. Technology revenue growth was attributable to growth in unit based revenue attributable to a large product liability engagement. Economic Consulting revenue growth was primarily attributable to growth in consulting income. See Segment Results for an expanded discussion of segment revenue.

***Operating Income***

Operating income for the six months ended June 30, 2008 increased \$44.3 million, or 54%, to \$126.4 million from \$82.1 million for the six months ended June 30, 2007. Organic growth was approximately \$34.0 million or 42%, while acquisition growth was approximately \$10.0 million or 12%. While the operating income of all segments improved, higher operating income in our Technology and Corporate Finance/Restructuring segments was the primary driver of the growth. Unallocated corporate expenses for the six months ended June 30, 2008 increased by \$4.4 million as compared to the six months ended June 30, 2007, primarily due to an increase in salaries attributable to the hiring of additional corporate employees to support our growing organization and increased bonus expense. See Segment Results for an expanded discussion of segment operating results.

***Other Income (Expense)***

Interest income for the six months ended June 30, 2008 increased \$2.6 million as compared to the six months ended June 30, 2007 due to the investment in the first six months of 2008 of excess cash from our public stock offering that closed in the fourth quarter of 2007. Interest expense and other decreased \$1.2 million in 2008 as compared to 2007 because there was a decrease in average debt outstanding, including lower revolving credit borrowings.

***Income Tax Provision***

Our effective tax rate for the six months ended June 30, 2008 increased to 39.6% from 38.0 % for the six months ended June 30, 2007. The increase in the rate is primarily due to a non recurring benefit that was recognized in the second quarter of 2007 related to a change in our international tax structure that substantially reduced the amount of foreign earnings that will be subject to U.S. federal income tax. In addition, the second quarter of 2007 also included a favorable adjustment to the state and local tax rate.

**SEGMENT RESULTS**

We evaluate the performance of our operating segments based on segment operating income before depreciation and amortization of intangible assets plus litigation settlements, which we refer to as segment EBITDA. Segment EBITDA consists of the revenues generated by that segment, less the direct costs of revenues and selling, general and administrative expenses that are incurred directly by that segment as well as an allocation of certain centrally managed costs, such as information technology services, marketing and facility costs. Although segment EBITDA is not a measure of financial condition or performance in accordance with generally accepted accounting principles, we use it to evaluate and compare the performance of our segments and it is one of the primary measures used to determine employee incentive compensation. The following table reconciles segment operating income to segment EBITDA at June 30, 2008 and 2007.

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|------------------|------------------------------|-------------------|
|   | 2008                           | 2007             | 2008                         | 2007              |
|   | (in thousands)                 |                  |                              |                   |
| Segment operating income                | \$ 88,097                      | \$ 62,263        | \$ 166,451                   | \$ 117,832        |
| Depreciation                            | 4,850                          | 3,273            | 9,482                        | 6,236             |
| Amortization of other intangible assets | 4,457                          | 2,748            | 7,355                        | 5,485             |
| Litigation settlement losses, net       | (435)                          | (167)            | (436)                        | (717)             |
| <b>Total segment EBITDA</b>             | <b>\$ 96,969</b>               | <b>\$ 68,117</b> | <b>\$ 182,852</b>            | <b>\$ 128,836</b> |

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, assuming a 40-hour work week and a 52-week year. 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. Where presented, utilization is based on a 2,032 hour year.

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 segment and Strategic Communications segment as most of the revenues of these segments are not generated on an hourly basis.

**TECHNOLOGY**

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2008                           | 2007      | 2008                         | 2007      |
|   | (in thousands)                 |           |                              |           |
| <b>Revenues</b>   | \$ 56,275                      | \$ 37,432 | \$ 112,810                   | \$ 70,482 |
| <b>Operating expenses:</b>                                  |                                |           |                              |           |
| Direct cost of revenues                                     | 25,217                         | 17,971    | 50,639                       | 34,769    |
| Selling, general and administrative expenses                | 12,076                         | 6,745     | 22,209                       | 13,751    |
| Amortization of other intangible assets                     | 262                            | 317       | 825                          | 634       |
|   | 37,555                         | 25,033    | 73,673                       | 49,154    |
| <b>Segment operating income</b>                             | 18,720                         | 12,399    | 39,137                       | 21,328    |
| Depreciation  | 2,466                          | 1,462     | 4,808                        | 2,823     |
| Amortization of other intangible assets                     | 262                            | 317       | 825                          | 634       |
| Litigation settlement gains (losses), net                   | (235)                          |           | (235)                        |           |
| <b>Segment EBITDA</b>                                       | \$ 21,213                      | \$ 14,178 | \$ 44,535                    | \$ 24,785 |
| Gross profit margin <sup>(1)</sup>                          | 55.2%                          | 52.0%     | 55.1%                        | 50.7%     |
| Segment EBITDA as a percent of revenues                     | 37.7%                          | 37.9%     | 39.5%                        | 35.2%     |
| Number of revenue generating professionals: (at period end) | 402                            | 296       | 402                          | 296       |

(1) Revenues net of direct costs, as a percentage of revenues

**Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007**

A number of factors affect the demand for our Technology services including the number of large complex litigations, class action proceedings, merger and acquisition activity and governmental and internal investigations. During 2008, we experienced increased demand for our services. Unit-based revenue has grown at a higher rate than consulting revenue and represents a larger percentage of the overall revenue in 2008.

Revenues increased \$18.8 million, or 50.3%, in 2008 as compared to 2007. Acquisitions accounted for approximately \$3.3 million of the increase in revenue in the second quarter of 2008. Excluding acquisitions, organic revenue increased \$15.5 million. Organic revenues generated from unit-based and other sales in our software as a service business increased approximately \$15.2 million while organic revenues related to our consulting services increased approximately \$0.6 million. Unit-based revenue is defined as revenue from services that are billed on a per item, per page or some other unit based method and would include revenue from data processing and storage, software usage and software licensing. Unit-based revenue growth was primarily attributable to continued revenue from a large product liability engagement. Offsetting these revenue increases was a decrease in other fee revenue and pass through costs of approximately \$0.3 million.

Our gross profit margin increased 3.2 percentage points in 2008 as compared to 2007, due to a higher percentage of our revenue coming from unit-based sales, which yield higher profit margins than our hourly based consulting revenues.

Selling, general and administrative expenses increased \$5.3 million in 2008 as compared to 2007. Investment in customer support, marketing and sales functions to accommodate a growing customer base resulted in an increase in salaries and other employee-related costs and rent and occupancy costs. Travel-related expenses have also increased relative to the second quarter of 2007.

Segment EBITDA increased \$7.0 million, or 49.6%, in 2008 as compared to 2007 due to revenue growth coupled with improved gross profit margins. Segment EBITDA as a percent of revenue was 37.7% in 2008 as compared to 37.9% in 2007. Improved gross profit margins were offset by a higher level of selling, general and administrative expenses as a percent of revenue in 2008 due to investment in customer support, sales and marketing resulting in a decrease in segment EBITDA as a percent of revenues.



**Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

Revenues increased \$42.3 million, or 60.1%, in 2008 as compared to 2007. Acquisitions accounted for approximately \$5.9 million of the increase in revenue in the first six months of 2008. Excluding acquisitions, organic revenue increased approximately \$36.4 million. Organic revenue generated from unit-based and other sales in our software as a service business increased approximately \$32.6 million while organic revenues related to our consulting services increased approximately \$4.1 million. Unit-based revenue and consulting revenue growth was primarily attributable to revenue from a large product liability engagement. Increased demand for our services and acquisitions resulted in an increase of 106 revenue-generating professionals in 2008 as compared to 2007. Offsetting these revenue increases was a decrease in other fee revenue and pass through costs of approximately \$0.3 million.

Our gross profit margin increased 4.4 percentage points in 2008 as compared to 2007, due to a higher percentage of our revenue coming from unit-based sales, which yield higher profit margins than our hourly based consulting revenues.

Selling, general and administrative expenses increased \$8.5 million in 2008 as compared to 2007. Investment in customer support, marketing and sales functions to accommodate a growing customer base resulted in an increase in salaries and other employee-related costs and rent and occupancy costs. Marketing and travel-related expenses increased relative to 2007 due to sales and marketing activities directed at increasing brand awareness, expanding our channel sales program and expanding our international presence.

Segment EBITDA increased \$19.8 million, or 79.7 %, in 2008 as compared to 2007 due to revenue growth coupled with improved margins. Segment EBITDA as a percent of revenue was 39.5% in 2008 as compared to 35.2% in 2007. Higher margin unit-based sales were a greater percentage of our revenues in 2008, resulting in improved segment EBITDA as a percent of revenues.

**CORPORATE FINANCE/RESTRUCTURING**

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|---|--------------------------------|-----------|------------------------------|------------|
|   | 2008                           | 2007      | 2008                         | 2007       |
|   | (in thousands)                 |           |                              |            |
| <b>Revenues</b>   | \$ 96,123                      | \$ 63,005 | \$ 175,406                   | \$ 125,107 |
| <b>Operating expenses:</b>                                  |                                |           |                              |            |
| Direct cost of revenues                                     | 53,649                         | 36,965    | 98,508                       | 72,994     |
| Selling, general and administrative expenses                | 13,516                         | 9,746     | 26,551                       | 20,642     |
| Amortization of other intangible assets                     | 1,466                          | 40        | 1,506                        | 81         |
|   | 68,631                         | 46,751    | 126,565                      | 93,717     |
| <b>Segment operating income</b>                             | 27,492                         | 16,254    | 48,841                       | 31,390     |
| Depreciation  | 666                            | 354       | 1,187                        | 655        |
| Amortization of other intangible assets                     | 1,466                          | 40        | 1,506                        | 81         |
| Litigation settlement gains (losses), net                   |                                | 13        |                              | (537)      |
| <b>Segment EBITDA</b>                                       | \$ 29,624                      | \$ 16,661 | \$ 51,534                    | \$ 31,589  |
| Gross profit margin <sup>(1)</sup>                          | 44.2%                          | 41.3%     | 43.8%                        | 41.7%      |
| Segment EBITDA as a percent of revenues                     | 30.8%                          | 26.4%     | 29.4%                        | 25.2%      |
| Number of revenue generating professionals: (at period end) | 599                            | 360       | 599                          | 360        |
| Utilization rates of billable professionals                 | 75%                            | 77%       | 78%                          | 81%        |
| Average billable rate per hour                              | \$ 464                         | \$ 438    | \$ 452                       | \$ 426     |

(1) Revenues net of direct costs, as a percentage of revenues

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**Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007**

A number of factors affect the demand for our Corporate Finance/Restructuring services including general economic conditions, the availability of credit, leverage levels, lending activity, over-expansion of businesses, competition, M&A activity and management crises. We often see weak demand for one or more of our service offerings being counterbalanced by stronger demand for other service offerings. For example, demand for our transaction advisory or post-acquisition integration services may increase during a period of reduced bankruptcy or restructuring activity. If demand for one or more of our Corporate Finance/Restructuring services weakens, we are often able to shift professionals to work on engagements in other service offerings or our other business segments. The demand for our restructuring services has been strong in 2008 due to continued instability in the sub-prime mortgage, financial institution and housing related markets.

Total revenues increased \$33.1 million, or 52.6%, in 2008 as compared to 2007. Acquisitions added \$12.9 million in revenues for the quarter. The remaining \$20.2 million in organic revenue growth was due to a combination of additional chargeable hours, annual bill rate increases and success fees. Chargeable hour growth was due to the increased demand for restructuring services in the U.S. from the sub-prime mortgage, mortgage, monoline insurer, financial institution and housing related markets. Revenues from consulting billed on an hourly basis increased approximately \$13.6 million, or 28%, in 2008 as compared to 2007. In addition, the second quarter of 2008 included \$5.6 million in success fees as compared to \$2.7 million of success fees in 2007. Revenues from healthcare consulting billed on a retainer fee basis increased approximately \$2.9 million in 2008 as compared to the same period in 2007 due to demand for turnaround, consulting and restructuring services.

Our gross profit margin improved by 2.9 percentage points in 2008 as compared to 2007. The improvement in our gross profit margin was primarily due to a change in the mix of employees working on engagements, the positive impact of acquisitions on our gross profit margin, an increase in success fees in the current quarter which have a higher gross profit margin than other consulting income and a lower level of pass through costs as a percentage of total revenues in the current quarter.

Selling, general and administrative costs increased \$3.8 million, or 38.7%, in 2008 as compared to 2007. Acquisitions added \$2.2 million in selling, general and administrative expenses. Excluding the impact of acquisitions, selling, general and administrative expenses increased \$1.6 million due to growth in rent and occupancy costs, travel expenses and training costs.

Segment EBITDA increased \$13.0 million, or 77.8%, in 2008 as compared to 2007. Acquisitions accounted for \$4.3 million of the increase. The remaining increase was primarily due to revenue growth in 2008. Segment EBITDA as a percent of revenue improved to 30.8% of revenues from 26.4% in 2007. Segment EBITDA as a percent of revenue increased due to higher gross profit margins and a decrease in selling, general and administrative expenses as a percent of revenue.

**Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

Total revenues increased \$50.3 million, or 40.2%, in 2008 as compared to 2007. Acquisitions added \$12.9 million in revenues. The remaining \$37.4 million in organic revenue growth was due to a combination of additional chargeable hours, annual bill rate increases and success fees. Chargeable hour growth was due to the increased demand for restructuring services in the U.S. from the sub-prime mortgage, mortgage, monoline insurer, financial institution and housing related markets. Revenues from consulting billed on an hourly basis increased approximately \$27.1 million, or 28%, in 2008 as compared to 2007. In addition, revenue in 2008 included \$10.6 million in success fees as compared to \$4.1 million of success fees in 2007. Revenue from healthcare consulting billed on a retainer fee basis increased approximately \$5.7 million in 2008 as compared to the same period in 2007 due to continued demand for turnaround, consulting and restructuring services. Offsetting these increases was a decline of approximately \$3.3 million in revenue related to outside contract consultants who provided specific expertise on certain consulting engagements in 2007.

Our gross profit margin improved by 2.1 percentage points in 2008 as compared to 2007. The improvement in our gross profit margin was primarily due to a change in the mix of employees working on engagements, an increase in success fees which have a higher gross profit margin than other consulting income and acquisitions which had a positive impact on our gross profit margin.

Selling, general and administrative costs increased \$5.9 million, or 28.6%, in 2008 as compared to 2007. Acquisitions added \$2.2 million in selling, general and administrative expenses. Excluding the impact of acquisitions, selling, general and administrative expenses increased \$3.7 million. The increase in selling, general and administrative costs is primarily due to growth in rent and occupancy costs, travel expenses, training and recruiting expenses and bad debt expense which has increased in relative proportion to revenue growth.

Segment EBITDA increased \$19.9 million, or 63.1%, in 2008 as compared to 2007. Acquisitions accounted for approximately \$4.3 million of the increase. The remaining increase was primarily due to organic revenue growth in 2008. Segment EBITDA as a percent of revenue improved to 29.4% of revenues from 25.2% in 2007. Segment EBITDA as a percent of revenue increased due to higher gross profit margins and a decrease in selling, general and administrative expenses as a percent of revenue.

## ECONOMIC CONSULTING

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2008                           | 2007      | 2008                         | 2007      |
|   | (in thousands)                 |           |                              |           |
| <b>Revenues</b>   | \$ 53,765                      | \$ 43,983 | \$ 110,180                   | \$ 83,980 |
| <b>Operating expenses:</b>                                  |                                |           |                              |           |
| Direct cost of revenues                                     | 34,015                         | 26,132    | 71,153                       | 50,462    |
| Selling, general and administrative expenses                | 6,145                          | 5,229     | 12,589                       | 10,133    |
| Amortization of other intangible assets                     | 570                            | 1,154     | 1,140                        | 2,307     |
|   | 40,730                         | 32,515    | 84,882                       | 62,902    |
| <b>Segment operating income</b>                             | 13,035                         | 11,468    | 25,298                       | 21,078    |
| Depreciation  | 382                            | 437       | 865                          | 782       |
| Amortization of other intangible assets                     | 570                            | 1,154     | 1,140                        | 2,307     |
| <b>Segment EBITDA</b>                                       | \$ 13,987                      | \$ 13,059 | \$ 27,303                    | \$ 24,167 |
| Gross profit margin <sup>(1)</sup>                          | 36.7%                          | 40.6%     | 35.4%                        | 39.9%     |
| Segment EBITDA as a percent of revenues                     | 26.0%                          | 29.7%     | 24.8%                        | 28.8%     |
| Number of revenue generating professionals: (at period end) | 243                            | 213       | 243                          | 213       |
| Utilization rates of billable professionals                 | 83%                            | 89%       | 86%                          | 87%       |
| Average billable rate per hour                              | \$ 450                         | \$ 410    | \$ 449                       | \$ 404    |

(1) Revenues net of direct costs, as a percentage of revenues

### Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

A number of factors affect the demand for our Economic Consulting services including M&A activity (particularly large mergers of competitors within a single industry), general economic conditions, competition and governmental investigations. Demand for our services has been high in 2008 with engagements focused on financial economics and strategic mergers and acquisitions. The large number of U.S. merger engagements in the fourth quarter of 2007 allowed us to enter 2008 with a high level of analytical work. M&A activity in 2008 shifted from private equity firms to corporate buyers. In both the first and second quarters of 2008 there was increased corporate M&A activity across many business sectors, including financial services, hospitals, airlines,



and industrial corporations and we obtained a significant number of engagements in these areas. The credit market turmoil has also caused an upswing in financial consulting engagements, as private equity buyers were unwilling or unable to close deals at originally agreed prices, and private actions were brought against companies and boards of directors alleging various forms of negligence. We also continued to experience an increased volume of rail commercial litigation and regulatory work in 2008 as a result of revised regulatory standards.

Total revenues increased \$9.8 million, or 22.2%, in 2008 as compared to 2007. Revenue from consulting billed on an hourly basis increased approximately \$7.2 million in 2008 as compared to 2007. The increase in hourly consulting revenue was primarily due an increase in the average billable rate per hour in 2008 and to a lesser extent an increase in chargeable hours in the current year due to increased headcount. The average billable rate per hour increased due to billing rate increases in January 2008 for most of the Economic Consulting segment and an increase in the number of billable hours of senior managing directors and managing directors who bill at higher rates. Outside consultant revenue also increased by approximately \$0.9 million in 2008 as compared to 2007 due to the need for highly specialized resources on large complex cases. The remaining increase in revenue was primarily due to an increase in other fee revenue and pass through costs of approximately \$1.7 million.

Our gross profit margin decreased by 3.9 percentage points in 2008 as compared to 2007 primarily due to an increase in incentive compensation as a percent of revenue. This increase in incentive compensation was required to attract and retain key management personnel who are in high demand in the marketplace.

Selling, general and administrative expenses increased \$0.9 million in 2008 as compared to 2007. The primary drivers of the increase in selling, general and administrative expenses were an increase in occupancy costs due to additional space needs prompted by increased headcount and an increase in bad debt expense.

Segment EBITDA increased \$0.9 million, or 7.1%, in 2008 as compared to 2007. The primary reason for the increase in segment EBITDA was revenue growth. Segment EBITDA as a percent of revenues decreased to 26.0% in 2008 from 29.7 % in 2007. The decrease in the segment EBITDA as a percent of revenues in 2008 was driven by a lower gross profit margin, partially offset by a decrease in selling, general and administrative expenses as a percent of revenues in 2008.

#### **Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

Total revenues increased \$26.2 million, or 31.2%, in 2008 as compared to 2007. Revenue from consulting billed on an hourly basis increased approximately \$19.8 million in 2008 as compared to 2007. The increase in hourly consulting revenue was due to increased billable headcount and an increase in the average billable rate per hour in 2008. The number of revenue-generating professionals increased by 30 over 2007 due to hiring associated with the increased demand for our services. The average billable rate per hour increased due to billing rate increases in January 2008 for most of the Economic Consulting segment and an increase in the number of billable hours of senior managing directors and managing directors who bill at higher rates. Outside consultant revenue also increased by approximately \$3.5 million in 2008 as compared to 2007 due to the need for highly specialized resources on large complex cases. The remaining increase in revenue in 2008 was primarily due to an increase in other fee revenue of approximately \$2.9 million.

Our gross profit margin decreased by 4.5 percentage points in 2008 as compared to 2007 primarily due to an increase in incentive compensation as a percent of revenue. This increase in incentive compensation was required to attract and retain key management personnel who are in high demand in the marketplace.

Selling, general and administrative expenses increased \$2.5 million in 2008 as compared to 2007. The primary drivers of the increase in selling, general and administrative expenses were an increase in bad debt expense, occupancy costs and employee related overhead costs.

Segment EBITDA increased \$3.1 million, or 13.0%, in 2008 as compared to 2007. The primary reason for the increase in segment EBITDA was revenue growth. Segment EBITDA as a percent of revenues decreased to 24.8% in 2008 from 28.8% in 2007. The decrease in segment EBITDA as a percent of revenues in 2008 was driven by a lower gross profit margin, partially offset by a decrease in selling, general and administrative expenses as a percent of revenues in 2008.

## STRATEGIC COMMUNICATIONS

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2008                           | 2007      | 2008                         | 2007      |
|   | (in thousands)                 |           |                              |           |
| <b>Revenues</b>   | \$ 62,197                      | \$ 42,013 | \$ 116,811                   | \$ 80,226 |
| <b>Operating expenses:</b>                                  |                                |           |                              |           |
| Direct cost of revenues                                     | 34,221                         | 20,097    | 65,234                       | 38,647    |
| Selling, general and administrative expenses                | 12,044                         | 11,477    | 23,627                       | 21,666    |
| Amortization of other intangible assets                     | 1,360                          | 737       | 2,572                        | 1,474     |
|   | 47,625                         | 32,311    | 91,433                       | 61,787    |
| <b>Segment operating income</b>                             | 14,572                         | 9,702     | 25,378                       | 18,439    |
| Depreciation  | 696                            | 521       | 1,358                        | 1,018     |
| Amortization of other intangible assets                     | 1,360                          | 737       | 2,572                        | 1,474     |
| Litigation settlement losses, net                           | (200)                          | (5)       | (201)                        | (5)       |
| <b>Segment EBITDA</b>                                       | \$ 16,428                      | \$ 10,955 | \$ 29,107                    | \$ 20,926 |
| Gross profit margin <sup>(1)</sup>                          | 45.0%                          | 52.2%     | 44.2%                        | 51.8%     |
| Segment EBITDA as a percent of revenues                     | 26.4%                          | 26.1%     | 24.9%                        | 26.1%     |
| Number of revenue generating professionals: (at period end) | 563                            | 407       | 563                          | 407       |

(1) Revenues net of direct costs, as a percentage of revenues

### Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

A number of factors affect the demand for our Strategic Communications services, including M&A activity, public stock offerings, business crises and governmental legislation and regulation. The capital markets project based revenue that contributed to our 2007 growth, has started to slow in 2008; however, we continue to be involved in a number of high profile financial crisis communications projects.

Total revenues increased \$20.2 million, or 48.0%, in 2008 as compared to 2007. Acquisitions accounted for approximately \$10.8 million of the revenue growth. The remaining \$9.4 million of organic revenue growth was driven by an increase in retained revenues of approximately \$3.9 million (including a growing contribution from offices outside of the core UK and U.S. operations), and an increase in project-based revenues of approximately \$3.1 million driven mainly by completion fees on a number of M&A transactions as well as several high profile issues management projects. An increase in direct costs passed through to clients contributed approximately \$2.4 million of the revenue growth.

Our gross profit margin decreased by 7.2 percentage points in 2008 as compared to 2007. The gross profit margin was impacted by a change in the classification of staff bonuses in 2008. Staff bonuses were correctly classified as direct costs in 2008, however, in 2007 staff bonuses were classified as selling, general and administrative expenses. If the two periods were presented on a comparable basis, the gross profit margin would be slightly lower in 2008.

Selling, general and administrative expenses increased \$0.6 million in 2008 as compared to 2007. Acquisitions accounted for an increase of approximately \$1.8 million in 2008. Excluding the impact of acquisitions, selling, general and administrative expenses were down from 2007 due to the change in classification of staff bonuses in 2008. If the two periods were presented on a comparable basis, selling, general and administrative expenses would be slightly higher in 2008 versus 2007 largely driven by a higher bad debt provision related to the bankruptcy of a past client.

Segment EBITDA increased \$5.5 million, or 50.0%, in 2008 as compared to 2007. This growth was attributable to a combination of acquisitions and organic revenue growth. Segment EBITDA as a percent of revenue was 26.4% in the second quarter of 2008 as compared to 26.1% in 2007. Acquisitions and completion fees in the current quarter positively impacted segment EBITDA as a percent of revenues, offsetting the impact of higher pass through costs and bad debt expense.

#### **Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

Total revenues increased \$36.6 million, or 45.6%, in 2008 as compared to 2007. Acquisitions accounted for approximately \$19.1 million of the revenue growth. The remaining \$17.5 million of revenue growth was driven by an increase in retained revenues of approximately \$6.8 million from the organic business, (including a growing contribution from offices outside of the UK and U.S.), an increase in direct costs passed through to clients of approximately \$5.8 million, and an increase in project-based revenues of approximately \$4.9 million driven mainly by completion fees on a number of M&A transactions as well as several high profile issues management projects. The number of revenue-generating professionals increased by 156 over 2007 primarily due to professionals added as the result of acquisitions.

Our gross profit margin decreased by 7.6 percentage points in 2008 as compared to 2007. The gross profit margin was impacted by a change in the classification of staff bonuses in 2008. Staff bonuses were correctly classified as direct costs in 2008, however, in 2007 staff bonuses were classified as selling, general and administrative expenses. If the two periods were presented on a comparable basis, the gross profit margin would be slightly lower in 2008.

Selling, general and administrative expenses increased \$2.0 million in 2008 as compared to 2007. Acquisitions accounted for an increase of approximately \$3.1 million in 2008. Excluding the impact of acquisitions, selling, general and administrative expenses were down from 2007 due to the change in classification of staff bonuses in 2008. If the two periods were presented on a comparable basis, selling, general and administrative expenses would be slightly higher in 2008 versus 2007 largely driven by a higher bad debt provision related to the bankruptcy of a past client.

Segment EBITDA increased \$8.2 million, or 39.1%, in 2008 as compared to 2007. This growth was attributable to a combination of acquisitions and organic revenue. Segment EBITDA as a percent of revenue was 24.9% for the six months ended June 30, 2008 as compared to 26.1% in 2007. Acquisitions and completion fees positively impacted segment EBITDA as a percent of revenues, offsetting the impact of higher pass through costs and bad debt expense.

**FORENSIC AND LITIGATION CONSULTING**

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|---|--------------------------------|-----------|------------------------------|------------|
|   | 2008                           | 2007      | 2008                         | 2007       |
|   | (in thousands)                 |           |                              |            |
| <b>Revenues</b>   | \$ 69,310                      | \$ 53,259 | \$ 129,565                   | \$ 107,622 |
| <b>Operating expenses:</b>                                  |                                |           |                              |            |
| Direct cost of revenues                                     | 41,064                         | 30,184    | 75,153                       | 60,658     |
| Selling, general and administrative expenses                | 13,169                         | 10,135    | 25,303                       | 20,378     |
| Amortization of other intangible assets                     | 799                            | 500       | 1,312                        | 989        |
|   | 55,032                         | 40,819    | 101,768                      | 82,025     |
| <b>Segment operating income</b>                             | 14,278                         | 12,440    | 27,797                       | 25,597     |
| Depreciation  | 640                            | 499       | 1,264                        | 958        |
| Amortization of other intangible assets                     | 799                            | 500       | 1,312                        | 989        |
| Litigation and settlement losses, net                       |                                | (175)     |                              | (175)      |
| <b>Segment EBITDA</b>                                       | \$ 15,717                      | \$ 13,264 | \$ 30,373                    | \$ 27,369  |
| Gross profit margin <sup>(1)</sup>                          | 40.8%                          | 43.3%     | 42.0%                        | 43.6%      |
| Segment EBITDA as a percent of revenues                     | 22.7%                          | 24.9%     | 23.4%                        | 25.4%      |
| Number of revenue generating professionals: (at period end) | 627                            | 410       | 627                          | 410        |
| Utilization rates of billable professionals <sup>(2)</sup>  | 73%                            | 75%       | 74%                          | 76%        |
| Average billable rate per hour <sup>(2)</sup>               | \$ 339                         | \$ 319    | \$ 356                       | \$ 322     |

(1) Revenues net of direct costs, as a percentage of revenues

(2) The calculation for utilization and average billable rate per hour excludes the impact of revenue billed on an other than time and materials basis and the impact of certain newly acquired businesses.

**Three Months Ended June 30, 2008 as Compared to Three Months Ended June 30, 2007**

A number of factors affect the demand for our Forensic and Litigation Consulting services, including the number of large complex litigations, governmental and regulatory investigations, class-action suits, M&A, business espionage investigations and illegal or fraudulent activity investigations. Demand for core disputes and core financial investigation services has remained stable to the 2007 levels in North America and we experienced continued strength in both investigation and dispute driven projects for regulated industries (e.g. pharmaceutical, healthcare and insurance). The U.S. economic downturn and its impact on investment into Asian markets is negatively impacting investigative due diligence work in those markets, but we are seeing increasing demand for our Foreign Corrupt Practices Act investigations, general fraud investigations and business intelligence services in Latin American markets.

Total revenue increased \$16.1 million, or 30.1%, in 2008 as compared to 2007. Acquisitions contributed approximately \$10.8 million in revenue growth in 2008. The remaining \$5.3 million of organic revenue growth was driven by an increase in billing rates and more billable hours in the North American financial consulting practice. The average billable rate per hour increased due to yearly billing rate increases that took effect in September 2007 and to a lesser extent a change in the mix of professionals utilized.

Our gross profit margin decreased by 2.5 percentage points in 2008 as compared to 2007. The decrease in gross profit margin was primarily the result of lower margins on our acquired businesses mainly due to integration costs such as employee retention bonuses and increased rent in the short-term as office co-locations take place. Gross profit margin was also slightly impacted by an increase in compensation expense as a percentage of revenues.

Selling, general and administrative costs increased \$3.0 million in 2008 as compared to 2007. Acquisitions accounted for approximately \$2.0 million of the increase. The remaining \$1.0 million increase was primarily due to increased occupancy costs, increased travel expenses and increased allocations for internal services.



Segment EBITDA increased \$2.5 million in 2008 as compared to 2007. Excluding \$1.0 million of incremental segment EBITDA generated by acquired businesses, segment EBITDA increased \$1.5 million due to organic revenue growth. Segment EBITDA as a percent of revenue was 22.7% in 2008, down from 24.9% in 2007. The decrease in the segment EBITDA as a percent of revenues was primarily the result of lower margins on our acquired businesses.

#### **Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

Total revenue increased \$21.9 million, or 20.4%, in 2008 as compared to 2007. Acquisitions contributed approximately \$12.7 million in revenue growth in 2008. The remaining \$9.2 million of organic revenue growth was driven primarily by an increase in billing rates and billable hours in the North American consulting practice. Offsetting the growth in revenue was a \$1.0 million one-time performance based fee earned in the first quarter of 2007. The number of revenue-generating professionals increased by 217 over 2007 due primarily to professionals added as the result of acquisitions. The average billable rate per hour increased due to yearly billing rate increases that took effect in September 2007 and some slight effect of a differing mix of professionals utilized.

Our gross profit margin decreased by 1.6 percentage points in 2008 as compared to 2007. The decrease in gross profit margin was primarily the result of lower margins on our acquired businesses mainly due to integration costs such as employee retention bonuses and increased rent in the short term as office co-locations take place. Gross profit margin was also slightly impacted by an increase in compensation expense as a percentage of revenues.

Selling, general and administrative costs increased \$4.9 million in 2008 as compared to 2007. Acquisitions accounted for approximately \$2.3 million of the increase. The remaining \$2.6 million increase was primarily due to increased bad debt expense, increased occupancy costs, higher recruiting and training expenses, and increased allocations for internal services.

Segment EBITDA increased \$3.0 million in 2008 as compared to 2007. Excluding \$1.5 million of incremental segment EBITDA generated by acquired businesses, segment EBITDA increased \$1.5 million due to organic revenue growth. Segment EBITDA as a percent of revenue was 23.4% in 2008, down from 25.4% in 2007. The lower gross profit margin coupled with growth in selling, general and administrative expenses at a greater rate than revenue growth in 2008 caused a decline in segment EBITDA as a percentage of revenue.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary financing needs, including capital expenditures and debt service, continue to be funded by the operation of our business. In addition, we may also need to fund new acquisitions and potential contingent obligations related to our acquisitions and satisfy the conversion of convertible notes. We currently anticipate that capital expenditures will range from \$43.0 million to \$47.0 million during 2008, including direct support for specific client engagements. Our estimate takes into consideration the needs of our existing business as well as the needs of our recently completed acquisitions, but does not include the impact of future acquisitions or specific client engagements that are not currently contemplated.

Our current sources of liquidity include cash and cash equivalents which totaled \$182.6 million at June 30, 2008, cash generated by operations, and our senior secured bank credit facility. At June 30, 2008, we had \$140.8 million of available credit under our senior secured bank credit facility after deducting \$9.2 million of outstanding letters of credit secured by the facility. The terms of our senior secured bank credit facility are discussed in Part II, Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources in our Annual Report on Form 10-K for the year ended December 31, 2007. As of June 30, 2008, we were in compliance with all covenants as stipulated in the senior secured bank credit facility and the indentures governing our senior notes.

On July 28, 2008, FTI Consulting, Inc. (FTI) and guarantor subsidiaries entered into an amendment to the Credit Agreement governing our senior secured bank credit facility with the bank group lenders, effective as of June 30, 2008. The amendment changes certain provisions of the Credit Agreement to permit an increase of the principal amount of the loan commitments under the revolving credit facility by up to \$25.0 million (for a maximum of \$175.0 million) if existing or new lenders agree to provide increased commitments and to allow borrowings in foreign currencies, including the British Pound Sterling and Euro. Additionally, the requirements for permitted acquisitions were modified with respect to the notice requirements and applicable financial covenants. The amendment also includes a number of technical modifications to the covenant restrictions intended to improve our ability to operate internationally. Specifically, the covenant related to investments was modified to allow any investment made prior to June 30, 2008, permit investments in foreign subsidiaries by other foreign subsidiaries, permit additional investments in foreign subsidiaries by FTI and its domestic subsidiaries in an amount outstanding at any one time of up to \$30.0 million and permit other investments in an amount up to \$5.0 million. The covenant restrictions on liens were modified to allow liens granted by a foreign subsidiary to FTI or another subsidiary to secure indebtedness of such foreign subsidiary and to allow liens by a foreign subsidiary to secure indebtedness of up to \$20.0 million. Restrictions on indebtedness were changed to allow borrowings by a foreign subsidiary not to exceed \$20.0 million and guarantees of such borrowings. The restricted payment covenant was modified to allow each subsidiary to make restricted payments to the owners of their own capital stock.

On October 15, 2007, the \$150.0 million aggregate principal amount of 3<sup>3</sup>/<sub>4</sub>% convertible notes (Notes) due July 15, 2012 became convertible at the option of the holders and are currently convertible through October 15, 2008 as provided in the indenture covering the Notes. The Notes became convertible as a result of the closing price of our common stock exceeding the conversion threshold price of \$37.50 per share (120% of the applicable conversion price of \$31.25 per share) for at least 20 days in the 30 consecutive trading days of each of the periods ended October 15, 2007, January 15, 2008, April 15, 2008 and July 15, 2008.

Upon surrendering any 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 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 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 \$150.0 million principal amount of the 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 to settle the conversion feature.

These Notes are registered securities and are freely tradable. As of June 30, 2008, the Notes had a most recent market price of \$2,316 per \$1,000 principal amount of Notes, compared to an estimated conversion value of approximately \$2,191 per \$1000 principal amount of Notes. Because these Notes have historically traded at market prices above the estimated conversion values we do not anticipate holders will elect to convert their Notes. However, we believe we have adequate capital resources to fund potential conversions.

**Cash flows**

|   | <b>Six Months Ended</b>       |             |
|---|-------------------------------|-------------|
|   | <b>June 30,</b>               |             |
|   | <b>2008</b>                   | <b>2007</b> |
|   | <b>(dollars in thousands)</b> |             |
| Net cash provided by (used in) operating activities | \$ 56,934                     | \$ (20,513) |
| Net cash used in investing activities               | (244,085)                     | (42,343)    |
| Cash provided by (used in) financing activities     | 9,449                         | (520)       |

The Company has included an immaterial prior period reclassification in its Condensed Consolidated Statements of Cash Flows to reflect the twice yearly issuance of shares to employees under its Employee Stock Purchase Plan. The reclassification results in an decrease in net cash used by financing activities and a corresponding increase in net cash used in operating activities. The amount of this correction for the period ended June 30, 2007 is \$3.0 million.

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

Cash provided by operating activities for the first six months of 2008 was \$56.9 million, as compared to cash used in operating activities of \$20.5 million for the six months ended June 30, 2007. The increase in cash from operating activities was primarily due to an increase in net income before noncash items in the current year, the receipt of 2007 income tax refunds of approximately \$15 million in 2008, and the funding of fewer forgivable employee loans in 2008. During the six months ended June 30, 2008 we funded approximately \$13.9 million in forgivable employee loans as compared to forgivable employee loans funded in the six month ended June 30, 2007 of approximately \$31.2 million. Operating cash flows in 2007 benefited from the receipt of \$10.8 million from one of our landlords to fund tenant improvements. This payment is accounted for as a reduction of rent expense over the life of the related lease.

Our operating assets and liabilities consist primarily of billed and unbilled accounts receivable, notes receivable, 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 used in investing activities for the six months ended June 30, 2008 was \$244.1 million as compared to cash used in investing activities of \$42.3 million for the six months ended June 30, 2007. The increase in cash used in investing activities is primarily due to an increase in cash used to fund acquisitions. For the six months ended June 30, 2008, net cash used in investing activities included \$184.5 million paid to fund acquisitions and \$40.7 million of acquisition contingent payments. For the six months ended June 30, 2007, net cash used in investing activities included \$5.3 million used to acquire the remaining 3% of share capital of FD, \$7.6 million of acquisition contingent payments, and \$7.6 million related to other acquisition activities.

Capital expenditures were \$17.8 million during the six months ended June 30, 2008 as compared to \$22.3 million for the six months ended June 30, 2007. Capital expenditures in 2008 primarily related to leasehold improvements, the purchase of software and the purchase of data processing equipment. Capital expenditures in 2007 primarily related to leasehold improvements to support the expansion and renovation of our offices. We had no material outstanding purchase commitments as of June 30, 2008.

Our financing activities consisted principally of borrowings and repayments under long-term debt arrangements as well as issuances of common stock. During the six months ended June 30, 2008, our financing activities consisted of a \$7.2 million repayment of notes payable, primarily to former shareholders of an acquired business and \$12.0 million of cash received from the issuance of common stock under equity compensation plans. During the six months ended June 30, 2007, our financing activities consisted of the borrowing and repayment of \$25.0 million on our senior secured bank line of credit, \$18.1 million of cash used to repurchase shares of our common stock under our share repurchase programs and \$14.8 million of cash received from the issuance of common stock under equity compensation plans.

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

In July 2008, we used \$95.1 million of our cash on hand to fund the purchase of Attenex Corporation and related transaction costs. We believe that our anticipated operating cash flows and our total liquidity, consisting of our cash on hand and \$140.8 million of availability under our senior secured bank credit facility, are sufficient



to fund our capital and liquidity needs for at least the next twelve months. The anticipated cash needs of our business could change significantly if we pursue and complete additional business acquisitions, our business plans change, economic conditions change from those currently prevailing or from those now anticipated, or if other unexpected circumstances arise that may 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 price of our securities.

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

#### ***Off-balance sheet arrangements***

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

#### ***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, 2007.

#### ***Recently Issued Accounting Pronouncements***

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivatives and Hedging Activities* (SFAS 161), which amends FASB Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), by requiring expanded disclosures about an entity's derivative instruments and hedging activities for increased qualitative, quantitative, and credit risk factors. As SFAS 161 only contains disclosure provisions, it will not impact our accounting for derivative transactions. SFAS 161 will be effective for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

In April 2008, the FASB issued a final FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB statement No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). FSP FAS 142-3 will be effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and is not expected to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). This FSP requires issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to separately account for the liability and equity (conversion feature) components of the



instruments. As a result, interest expense should be imputed and recognized based upon the entity's nonconvertible debt borrowing rate, which will result in lower net income. Our 3<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes due 2012 issued in August 2005 will be subject to FSP APB 14-1. Prior to FSP APB 14-1, Accounting Principles Board Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants (APB 14), provided that no portion of the proceeds from the issuance of the instruments should be attributable to the conversion feature. Upon retroactive adoption of APB 14-1 in 2009, interest expense for 2007 and 2008 will increase by \$3.9 million and \$4.2 million, respectively. This will result in an after tax reduction in diluted earnings per common share of approximately \$0.05 in both 2007 and 2008. In addition, the carrying amount of the 3<sup>3</sup>/<sub>4</sub>% convertible senior notes will be retroactively adjusted to reflect a discount of \$31.3 million on the date of issuance, with an offsetting increase in additional paid-in capital of \$18.4 million and deferred tax liability of \$12.9 million.

In June 2008, the FASB issued EITF 08-3, Accounting by Lessees for Refundable Maintenance Deposits (EITF 08-3). In EITF 08-3 the task force reached a consensus that lessees should account for nonrefundable maintenance deposits as deposit assets if it is probable that maintenance activities will occur and the deposit is therefore realizable. Amounts on deposit that are not probable of being used to fund future maintenance activities should be charged to expense. The consensus is effective for fiscal years beginning after December 15, 2008 and should be initially applied by recording a cumulative-effect adjustment to opening retained earnings in the period prior to adoption. Early application is not permitted. We are currently evaluating the impact of adopting this EITF on our financial position, results of operations and cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants (AICPA) and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. 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. Managements Discussion and Analysis of Financial Condition and Results of Operations, Item 1A Risk Factors in our Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission or SEC on February 29, 2008, Part II Item 1A of this Quarterly Report on Form 10-Q and the other documents we file with the SEC. When used in this quarterly report, the words such as *estimates, expects, anticipates, projects, plans, intends, believes, 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 expectations at the time we make them and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs 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. 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:

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;

our ability to integrate the operations of acquisitions and 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 find suitable acquisition candidates or 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;

unexpected terminations of client engagements;

competition;

general economic factors, industry trends, bankruptcy rates, capital market conditions, merger and acquisition activity, major litigation activity and other events outside of our control;

our ability to manage growth;

changes in demand for our services;

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 the 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, 2007. There have been no significant changes in our market risk exposure since our December 31, 2007 year end except as noted below.

**Equity Price Sensitivity.** Certain 2008 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 stock restrictions lapse. The future settlement of any contingency related to security price will be recorded as an adjustment to additional paid-in capital. In the past, we have granted sellers of other acquired businesses similar contractual protection against a decline in the value of the common stock issued to them as consideration for their acquisition. These agreements are discussed under Equity Price Sensitivity in Item 7A Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for the year ended December 31, 2007. Based on the price of our common stock on June 30, 2008, we would not be obligated to make any price protection related payments under existing contractual arrangements.

**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 amended), 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 June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**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**

This section sets forth below an additional risk factor that could affect FTI that is in addition to the risk factors previously discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 29, 2008 (our 2007 Annual Report ). The following information should be considered together with the risk factors in our 2007 Annual Report. 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.

**There are risks associated with our previously- announced proposed initial public offering of FTI s technology business.**

We announced on August 6, 2008, our present intention to file a registration statement by the end of 2008 to sell a minority interest of our technology business through an initial public offering (an IPO ) and, if the IPO is consummated, distribute our remaining interest to our stockholders through a spinoff, splitoff or a combination of these transactions sometime next year. We may not complete the IPO and related transactions, which are subject to, among other things, market conditions. In such case, we will have incurred significant expenses which we will be unable to recover, and for which we will not receive any benefit.

There is no assurance on what the market price of our common stock would be after the IPO. We cannot assure you that the IPO, if completed, will produce any increase for our stockholders in the market value of their holdings in FTI. In addition, the market price of our common stock could be volatile for several months after the IPO and related transactions and may continue to be more volatile than our common stock would have been if the IPO and related transactions had not occurred.

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

*Unregistered sales of equity securities.* Information required by this Item has previously been provided in the Company s Current Report on Form 8-K dated March 31, 2008 filed with the SEC on April 4, 2008.

As of June 3, 2008, the Company issued an additional 33,309 shares of common stock, par value \$0.01, per share (the Shares ) upon exercise of the put options granted in favor of the Company pursuant to the Put Agreement dated as of February 28, 2008, as amended, among the Company and three persons residing in Brazil, for cash consideration of approximately \$54.33 per share (the value per share being based on the average closing price of one share of FTI s common stock as reported on the NYSE for the five trading days prior to February 28, 2008). The Shares were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act ), in reliance on Section 4(2) of the Securities Act and Regulation S promulgated by the SEC with respect to stock issuances to persons who are not citizens or residents of the U.S. in offshore transactions. We did not engage in general solicitation, advertising and directed selling efforts in connection with the offering of the Shares.

*Repurchases of our common stock.* The following table provides information with respect to purchases we made of our common stock during the first quarter of 2008 (in thousands, except per share amounts).

|                                | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced<br>Program | Approximate Dollar<br>Value that May Yet Be<br>Purchased Under<br>the Program <sup>(2)</sup> |
|--------------------------------|--|------------------------------------|--|--|
| April 1 through April 30, 2008 | 1 <sup>(1)</sup>                       | \$ 63.49                           |  | \$ 50,000  |
| May 1 through May 31, 2008     | 1 <sup>(1)</sup>                       | 63.07                              |  | \$ 50,000  |
| June 1 through June 30, 2008   | 1 <sup>(1)</sup>                       | 59.26                              |  | \$ 50,000  |
| <b>Total</b>                   | <b>3</b>                               |                                    |  |  |

- (1) Represents 3,185 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.  
 (2) In October 2003, our Board of Directors initially approved a share repurchase program under which we are authorized to purchase shares of our common stock. From time to time since then, our Board has increased the amount of authorized share repurchases under the program. On February 25, 2008, our Board of Directors authorized up to \$50.0 million of stock purchases through February 25, 2009.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

We held our 2008 annual meeting of stockholders on June 10, 2008. At the 2008 annual meeting, our stockholders voted on the election of three Class III directors identified below. The terms of the Class I directors, Denis J. Callaghan, Matthew F. McHugh and Gary C. Wendt, and the Class II directors, Brenda J. Bacon, James W. Crownover, Dennis J. Shaughnessy and George P. Stamas, continued following the meeting and will expire at the annual meetings of stockholders to be held in 2009 and 2010, respectively. In addition to the election of the Class III directors, two additional proposals were submitted to a vote of our stockholders at the 2008 annual meeting. The Company also presented Proposal 2 to approve the addition of 1,000,000 shares of common stock of the Company to the FTI Consulting, Inc. 2006 Global Long-Term Incentive Plan (the 2006 Plan ) and Proposal 3 to ratify the appointment of KPMG LLP to serve as the Company s independent registered public accounting firm for its fiscal year ending December 31, 2008.

The election of the Class III directors and Proposal 3 to ratify the appointment of KPMG LLP to serve as the Company s independent registered public accounting firm for its fiscal year ending December 31, 2008 were approved by stockholders at the 2008 annual meeting. Proposal 2 to approve the addition of 1,000,000 shares of common stock of the Company to the 2006 Plan was not approved by stockholders of the Company at the 2008 annual meeting.

The voting results on each of the three proposals submitted to stockholders at the 2008 annual meeting are presented below.

**Proposal 1** Election of Three Class III Directors.

|                    | Number of Votes |                    |
|--------------------|-----------------|--------------------|
|                    | For             | Authority Withheld |
| Mark H. Berey      | 43,559,358      | 349,257            |
| Jack B. Dunn, IV   | 43,301,711      | 606,904            |
| Gerard E. Holthaus | 41,203,681      | 2,704,934          |





**Proposal 2** Approve the addition of 1,000,000 shares of common stock of the Company to the FTI Consulting, Inc. 2006 Global Long-Term Incentive Plan.

| Number of Votes |            |         |                     |
|-----------------|------------|---------|---------------------|
| For             | Against    | Abstain | Broker<br>Non-Votes |
| 15,746,357      | 23,866,546 | 201,167 | 4,094,545           |

**Proposal 3** Ratify the appointment of KPMG LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008.

| Number of Votes |         |         |
|-----------------|---------|---------|
| For             | Against | Abstain |
| 42,558,734      | 310,852 | 26,089  |

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**(a) Exhibits**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 2.1                   | Agreement and Plan of Merger, dated as of June 9, 2008, by and among FTI Consulting, Inc., Attenex Corporation, Ace Acquisition Corporation, and Richard B. Dodd and William McAleer, as the Shareholder Representatives. The Company will furnish supplementally a copy of any omitted exhibit or schedule to the SEC upon request. (Filed with the SEC on June 12, 2008 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 9, 2008 and incorporated herein by reference.) |
| 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                   | By-laws of FTI Consulting, Inc., as amended and restated through September 17, 2004. (Filed with the SEC on November 9, 2004 as an exhibit to FTI Consulting, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.)   |
| 10.1*                 | FTI Consulting, Inc. Deferred Compensation Plan for Key Employees and Non-Employee Directors [Amended and Restated Effective as of May 14, 2008]   |
| 10.2*                 | Form of Restricted Stock Unit Agreement for Non-Employee Directors under the Non-Employee Director Compensation Plan, as Amended and Restated Effective as of February 20, 2008.   |
| 10.3*                 | Form of Stock Unit Agreement for Non-Employee Directors under the Non-Employee Director Compensation Plan, as Amended and Restated Effective as of February 20, 2008.  |
| 10.4*                 | FTI Consulting, Inc. 2004 Long-Term Incentive Plan [Amended and Restated Effective as of<br>May 14, 2008].   |
| 10.5*                 | Form of FTI Consulting, Inc. 2004 Long-Term Incentive Plan Incentive Stock Option Agreement.   |
| 10.6*                 | FTI Consulting, Inc. 2006 Global Long-Term Incentive Plan [Amended and Restated Effective as of May 14, 2008]  |
| 10.7*                 | Form of FTI Consulting, Inc. 2006 Global Long-Term Incentive Plan Restricted Stock Agreement Under the Non-Employee Director Compensation Plan, as Amended and Restated Effective as of February 20, 2008.   |
| 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).   |

\* Management or Director contract or compensatory plan or arrangement. Filed herewith.

**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.

FTI CONSULTING, INC.

Date: August 7, 2008

by

/s/ CATHERINE M. FREEMAN  
**Catherine M. Freeman**

**Senior Vice President and Chief Accounting Officer**

**(principal accounting officer)**