

FTI CONSULTING INC
Form 10-Q
August 01, 2014
[Table of Contents](#)

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, 2014

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)

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)
1101 K Street NW,
Washington, D.C.
(Address of Principal Executive Offices)

52-1261113
(I.R.S. Employer
Identification No.)
20005
(Zip Code)

(202) 312-9100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

Class	Outstanding at July 28, 2014
Common stock, par value \$0.01 per share	40,946,943

Table of Contents

FTI CONSULTING, INC. AND SUBSIDIARIES

INDEX

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets June 30, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income Three and Six Months Ended June 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statement of Stockholders Equity Six Months Ended June 30, 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2014 and 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	45
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 3. <u>Defaults Upon Senior Securities</u>	47
Item 4. <u>Mine Safety Disclosures</u>	47
Item 5. <u>Other Information</u>	48
Item 6. <u>Exhibits</u>	48
<u>SIGNATURE</u>	49

Table of Contents**PART I FINANCIAL INFORMATION****FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

(in thousands, except per share amounts)

Item 1. Financial Statements

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 94,412	\$ 205,833
Accounts receivable:		
Billed receivables	423,058	352,411
Unbilled receivables	296,299	233,307
Allowance for doubtful accounts and unbilled services	(139,620)	(109,273)
Accounts receivable, net	579,737	476,445
Current portion of notes receivable	29,911	33,093
Prepaid expenses and other current assets	52,162	61,800
Current portion of deferred tax assets	29,046	26,690
Total current assets	785,268	803,861
Property and equipment, net of accumulated depreciation	83,495	79,007
Goodwill	1,225,403	1,218,733
Other intangible assets, net of amortization	86,270	97,148
Notes receivable, net of current portion	131,707	108,298
Other assets	61,097	57,900
Total assets	\$ 2,373,240	\$ 2,364,947
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable, accrued expenses and other	\$ 96,005	\$ 126,886
Accrued compensation	169,923	222,738
Current portion of long-term debt	6,000	6,014
Billings in excess of services provided	36,946	28,692
Total current liabilities	308,874	384,330
Long-term debt, net of current portion	711,000	711,000
Deferred income taxes	149,130	137,697
Other liabilities	96,316	89,661
Total liabilities	1,265,320	1,322,688
Commitments and contingent liabilities (notes 8, 10 and 11)		
Stockholders' equity		
Preferred stock, \$0.01 par value; shares authorized 5,000; none outstanding		

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Common stock, \$0.01 par value; shares authorized 75,000; shares issued and outstanding 40,936 (2014) and 40,526 (2013)	409	405
Additional paid-in capital	380,193	362,322
Retained earnings	765,985	730,621
Accumulated other comprehensive loss	(38,667)	(51,089)
Total stockholders equity	1,107,920	1,042,259
Total liabilities and stockholders equity	\$ 2,373,240	\$ 2,364,947

See accompanying notes to the condensed consolidated financial statements

Table of Contents**FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income**

(in thousands, except per share data)

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	\$ 454,324	\$ 414,613	\$ 879,876	\$ 821,791
Operating expenses				
Direct cost of revenues	295,549	259,528	569,824	518,008
Selling, general and administrative expense	107,032	96,325	215,419	192,972
Special charges	9,364		9,364	427
Acquisition-related contingent consideration	(5)	(7,452)	(1,848)	(6,721)
Amortization of other intangible assets	3,452	5,953	8,068	11,517
	415,392	354,354	800,827	716,203
Operating income	38,932	60,259	79,049	105,588
Other income (expense)				
Interest income and other	1,448	(387)	2,451	550
Interest expense	(12,908)	(13,071)	(25,563)	(25,786)
	(11,460)	(13,458)	(23,112)	(25,236)
Income before income tax provision	27,472	46,801	55,937	80,352
Income tax provision	10,225	23,315	20,573	33,186
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Earnings per common share basic	\$ 0.43	\$ 0.60	\$ 0.89	\$ 1.20
Earnings per common share diluted	\$ 0.42	\$ 0.58	\$ 0.87	\$ 1.17
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax \$0	\$ 7,694	\$ (11,714)	\$ 12,422	\$ (27,223)
Total other comprehensive income (loss), net of tax	7,694	(11,714)	12,422	(27,223)
Comprehensive income	\$ 24,941	\$ 11,772	\$ 47,786	\$ 19,943

See accompanying notes to the condensed consolidated financial statements

Table of Contents

FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(in thousands)

Unaudited

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	
			Capital		(Loss)	
Balance December 31, 2013	40,526	\$ 405	\$ 362,322	\$ 730,621	\$ (51,089)	\$ 1,042,259
Net income				35,364		35,364
Other comprehensive income:						
Cumulative translation adjustment					12,422	12,422
Issuance of common stock in connection with:						
Exercise of options	148	2	3,145			3,147
Restricted share grants	262	2	(5,093)			(5,091)
Stock units issued under incentive compensation plan			1,674			1,674
Non-employee vesting of stock options			2,951			2,951
Share-based compensation			15,194			15,194
Balance June 30, 2014	40,936	\$ 409	\$ 380,193	\$ 765,985	\$ (38,667)	\$ 1,107,920

See accompanying notes to the condensed consolidated financial statements

Table of Contents**FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows**

(in thousands)

Unaudited

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net income	\$ 35,364	\$ 47,166
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,138	16,022
Amortization of other intangible assets	8,068	11,517
Acquisition-related contingent consideration	(1,848)	(6,721)
Provision for doubtful accounts	8,671	7,478
Non-cash share-based compensation	15,194	17,046
Non-cash interest expense	1,348	1,349
Other	(368)	(197)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(115,787)	(58,827)
Notes receivable	(22,559)	(11,113)
Prepaid expenses and other assets	8,860	(1,485)
Accounts payable, accrued expenses and other	2,645	(1,354)
Income taxes	4,832	14,740
Accrued compensation	(47,418)	(10,467)
Billings in excess of services provided	7,756	(5,785)
Net cash (used in) provided by operating activities	(77,104)	19,369
Investing activities		
Payments for acquisition of businesses, net of cash received	(15,611)	(40,512)
Purchases of property and equipment	(21,778)	(14,130)
Other	(6)	21
Net cash used in investing activities	(37,395)	(54,621)
Financing activities		
Purchase and retirement of common stock	(4,367)	(28,758)
Net issuance of common stock under equity compensation plans	(2,692)	1,245
Deposits	11,580	
Other	(891)	(616)
Net cash provided by (used in) financing activities	3,630	(28,129)
Effect of exchange rate changes on cash and cash equivalents	(552)	(850)
Net decrease in cash and cash equivalents	(111,421)	(64,231)
Cash and cash equivalents, beginning of period	205,833	156,785
Cash and cash equivalents, end of period	\$ 94,412	\$ 92,554

Supplemental cash flow disclosures

Cash paid for interest	\$ 23,541	\$ 22,903
Cash paid for income taxes, net of refunds	15,743	18,446
Non-cash investing and financing activities:		
Issuance of stock units under incentive compensation plans	1,674	3,005
Issuance of common stock to acquire businesses		2,883

See accompanying notes to the condensed consolidated financial statements

Table of Contents**FTI Consulting, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements**

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

Unaudited

1. Basis of Presentation and Significant Accounting Policies

The unaudited condensed consolidated financial statements of FTI Consulting, Inc., including its consolidated subsidiaries (collectively, the Company, we, our or FTI Consulting) presented herein, have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and under the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. Certain prior period amounts have been reclassified to conform to the current period presentation. In management's opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. Results of operations for the interim periods presented herein are not necessarily indicative of results of operations for a full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

2. Earnings Per Common Share

Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjust basic earnings per common share for the effects of potentially dilutive common shares. Potentially dilutive common shares include the dilutive effects of shares issuable under our equity compensation plans, including stock options and restricted stock, each using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator basic and diluted				
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Denominator				
Weighted average number of common shares outstanding basic	39,681	39,143	39,560	39,272
Effect of dilutive stock options	288	589	322	592
Effect of dilutive restricted shares	781	561	722	592
Weighted average number of common shares outstanding diluted	40,750	40,293	40,604	40,456
Earnings per common share basic	\$ 0.43	\$ 0.60	\$ 0.89	\$ 1.20
Earnings per common share diluted	\$ 0.42	\$ 0.58	\$ 0.87	\$ 1.17
Antidilutive stock options and restricted shares	3,637	3,593	3,408	3,541

3. New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or

Table of Contents

services. This guidance is effective for interim and annual periods beginning after December 15, 2016 and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating which transition approach to use and the impact of the adoption of this accounting standard update on its condensed consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, or ASU 2014-08. ASU 2014-08 amends the criteria for reporting a discontinued operation. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. This guidance is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. ASU 2014-08 would impact the Company's consolidated results of operations and financial condition only in the instance of an event or transaction described above.

4. Special Charges

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

During the three months ended March 31, 2013, we recorded adjustments to the special charges for office spaces vacated prior to the end of the second quarter of 2012 of approximately \$0.4 million. These charges reflected the changes to sublease terms and associated costs for those locations for which subleases were entered into during the three months ended March 31, 2013.

The following table details the special charges by segment for the three months ended June 30, 2014 and six months ended June 30, 2014 and 2013. We did not record any special charges for the three months ended June 30, 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2014	2014	2013
Corporate Finance/Restructuring	\$		\$	\$ 68
Forensic and Litigation Consulting				173
Economic Consulting				(4)
Technology				14
Strategic Communications				64
				315
Unallocated Corporate		9,364	9,364	112
Total	\$	9,364	\$ 9,364	\$ 427

During the year ended December 31, 2013, we recorded special charges totaling \$38.4 million, of which \$14.1 million was non-cash. The charges reflect contractual post-employment severance and transition services, equity award and retention bonus expense acceleration primarily related to the transition of the Company's former Executive Chairman and former President and Chief Executive Officer. Special charges also included accelerated expenses related to future payments required to be made under a contractual transition service agreement with a Corporate Finance/Restructuring segment senior client facing professional. We also incurred costs related to actions we took to realign our workforce to address current business demands impacting our

Table of Contents

Corporate Finance/Restructuring and Forensic and Litigation Consulting segments, and to reduce certain corporate overhead within our Europe, Middle East and Africa (EMEA) region, most of which were recorded in the third and fourth quarters of 2013.

The total cash outflow associated with the special charges recorded in 2014, 2013 and 2012 is expected to be \$57.3 million, of which \$34.5 million has been paid as of June 30, 2014. Approximately \$6.2 million is expected to be paid during the remainder of 2014, \$5.0 million is expected to be paid in 2015, \$3.1 million is expected to be paid in 2016, \$3.1 million is expected to be paid in 2017, and the remaining balance of \$5.4 million will be paid from 2018 to 2025. A liability for the current and noncurrent portions of the amounts to be paid is included in Accounts payable, accrued expenses and other and Other liabilities, respectively, on the Condensed Consolidated Balance Sheets.

Activity related to the liability for these costs for the three months ended June 30, 2014 is as follows:

	Employee Termination Costs	Lease Costs	Total
Balance at December 31, 2013	\$ 19,965	\$ 6,096	\$ 26,061
Additions		8,770	8,770
Payments	(2,397)	(9,645)	(12,042)
Foreign currency translation adjustment and other	12		12
Balance at June 30, 2014	\$ 17,580	\$ 5,221	\$ 22,801

5. Allowance for Doubtful Accounts and Unbilled Services

We record adjustments to the allowance for doubtful accounts and unbilled services as a reduction in revenue when there are changes in estimates of fee reductions that may be imposed by bankruptcy courts and other regulatory institutions, for both billed and unbilled receivables. The allowance for doubtful accounts and unbilled services is also adjusted after the related work has been billed to the client and we discover that collectability is not reasonably assured. These adjustments are recorded to Selling, general and administrative expense on the Condensed Consolidated Statements of Comprehensive Income and totaled \$4.2 million and \$8.7 million for the three and six months ended June 30, 2014, respectively, and \$3.4 million and \$7.5 million for the three and six months ended June 30, 2013, respectively.

6. Research and Development Costs

Research and development costs related to software development totaled \$4.6 million and \$9.1 million for the three and six months ended June 30, 2014, respectively, and \$3.5 million and \$7.5 million for the three and six months ended June 30, 2013, respectively. Research and development costs are included in Selling, general and administrative expense on the Condensed Consolidated Statements of Comprehensive Income.

7. Financial Instruments***Fair Value of Financial Instruments***

We consider the recorded value of certain financial assets and liabilities, which consist primarily of cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2014 and December 31, 2013, based on the short-term nature of the assets and liabilities. The fair value of our long-term debt at June 30, 2014 was \$753.8 million compared to a carrying value of \$717.0 million. At December 31, 2013, the fair value of our long-term debt was \$752.8 million compared to a carrying value of \$717.0 million. We determine the fair value of our long-term debt primarily based on quoted market prices for our 6³/₄% Senior Notes Due 2020 (2020 Notes) and 6.0% Senior Notes Due 2022 (2022 Notes). The fair value of our long-term debt is classified within Level 2 of the fair value hierarchy, because it is traded in less active markets.

Table of Contents

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

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

Any change in the fair value of an acquisition's contingent consideration liability results in a remeasurement gain or loss that is recorded as income or expense, respectively, and is included within Acquisition-related contingent consideration in the Condensed Consolidated Statements of Comprehensive Income. During the three and six months ended June 30, 2014, management determined that the fair value of the contingent consideration liability for certain of its acquisitions had declined and recorded a remeasurement gain of \$0.3 million and \$2.4 million, respectively, compared to a remeasurement gain of \$8.2 million for the three and six months ended June 30, 2013.

Accretion expense for acquisition-related contingent consideration totaled \$0.3 million and \$0.5 million for the three and six months ended June 30, 2014, respectively, and \$0.8 million and \$1.5 million for the three and six months ended June 30, 2013, respectively.

The following table represents the changes in the acquisition-related contingent consideration liability during the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance	\$ 6,903	\$ 16,296	\$ 13,329	\$ 16,426
Acquisition ⁽¹⁾		5,377	(4,495)	4,528
Accretion of acquisition-related contingent consideration	255	764	535	1,495
Remeasurement of acquisition-related contingent consideration	(261)	(8,216)	(2,383)	(8,216)
Payments	(314)	(235)	(378)	(235)
Unrealized losses related to currency translation in other comprehensive income	18	(701)	(7)	(713)
Ending balance	\$ 6,601	\$ 13,285	\$ 6,601	\$ 13,285

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

8. Acquisitions

Certain purchase price allocations were preliminary at December 31, 2013. For these acquisitions, we recorded \$4.7 million of acquisition related contingent consideration, \$9.5 million of identifiable intangible assets, \$1.2 million of deferred taxes and \$10.1 million of goodwill in the year ended December 31, 2013. During the first and second quarter of 2014 we finalized the purchase price allocations and recorded adjustments to the

Table of Contents

preliminary purchase price for certain acquisitions completed during the fourth quarter of 2013. These adjustments were immaterial; therefore no retrospective adjustments were made to the fair value of the assets acquired and liabilities assumed in the Condensed Consolidated Balance Sheet as of December 31, 2013.

9. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill by operating segment for the six months ended June 30, 2014, are as follows:

	Corporate Finance/ Restructuring	Forensic and Litigation Consulting	Economic Consulting	Technology	Strategic Communications	Total
Balances at December 31, 2013:						
Goodwill	\$ 449,710	\$ 241,651	\$ 263,474	\$ 118,073	\$ 339,964	\$ 1,412,872
Accumulated goodwill impairment					(194,139)	(194,139)
Goodwill, net at December 31, 2013	449,710	241,651	263,474	118,073	145,825	1,218,733
Acquisitions ⁽¹⁾		(224)				(224)
Foreign currency translation adjustment and other	2,088	1,179	205	62	3,360	6,894
Goodwill	451,798	242,606	263,679	118,135	343,324	1,419,542
Accumulated goodwill impairment					(194,139)	(194,139)
Goodwill, net at June 30, 2014	\$ 451,798	\$ 242,606	\$ 263,679	\$ 118,135	\$ 149,185	\$ 1,225,403

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

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of \$3.5 million and \$8.1 million for the three and six months ended June 30, 2014, respectively, and \$6.0 million and \$11.5 million for the three and six months ended June 30, 2013, respectively. Based solely on the amortizable intangible assets recorded as of June 30, 2014, we estimate amortization expense to be \$6.7 million during the remainder of 2014, \$12.2 million in 2015, \$11.0 million in 2016, \$10.3 million in 2017, \$8.6 million in 2018, \$7.9 million in 2019, and \$23.9 million in years after 2019. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, finalization of asset valuations for newly acquired assets, changes in useful lives, changes in value due to foreign currency translation, and other factors.

10. Debt

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

	June 30, 2014	December 31, 2013
6 ³ / ₄ % senior notes due 2020	\$ 400,000	\$ 400,000
6.0% senior notes due 2022	300,000	300,000
Notes payable to former shareholders of acquired businesses	17,000	17,000
Other		14
Total debt	717,000	717,014
Less current portion	6,000	6,014

Long-term debt, net of current portion	\$ 711,000	\$ 711,000
---	------------	------------

Table of Contents

There were no borrowings outstanding under the Company's senior secured bank credit facility as of June 30, 2014.

11. Commitments and Contingencies***Contingencies***

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

12. Share-Based Compensation***Share-based Awards and Share-based Compensation Expense***

Our officers, employees, non-employee directors and certain individual service providers are eligible to participate in the Company's equity compensation plans, subject to the discretion of the administrator of the plans. During the three months ended June 30, 2014 and March 31, 2014 we granted 183,105 and 645,593, respectively, of share-based awards consisting primarily of restricted stock awards, restricted stock units, and stock options. These awards are recorded as equity on the Company's balance sheet.

On April 1, 2014, certain executive officers of the Company were granted an aggregate of 234,536 cash-based awards under the Company's 2014 executive officer long-term incentive program. These awards include cash-based stock appreciation rights (the Executive SARs) and cash-based units, which vest pro rata on the first through third anniversaries of the date of grant. The Executive SARs expire ten years from the date of grant. The awards also consist of cash-based performance units, subject to performance conditions based on the adjusted total shareholder return of the Company as compared to the adjusted total shareholder return of the adjusted S&P 500 for the three-year period ending March 31, 2017. The Executive SAR represents the right to receive cash upon exercise equal to the product of (i) the aggregate number of shares with respect to which the Executive SAR is exercised and (ii) the excess of (A) the closing price per share as reported on the New York Stock Exchange (the NYSE) of a share of our common stock as of the date of exercise over (B) the exercise price of such Executive SAR. The cash-based units and performance units will have a value equivalent to the closing price per share of our common stock as reported on the NYSE for the applicable vesting or performance measurement date, as the case may be. As these awards will be settled in cash, they have been recorded as liabilities on the Company's balance sheet at fair value. Subsequent changes in the fair value of these awards based on fluctuations in the value of our common stock will be included in the related cash-based compensation expense recorded over the vesting period.

Total share-based compensation expense for the three and six months ended June 30, 2014 and 2013 is detailed in the following table:

Comprehensive Income Statement Classification	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Direct cost of revenues	\$ 3,548	\$ 3,742	\$ 9,370	\$ 10,699
Selling, general and administrative expense	2,773	3,524	6,027	6,500
Total share-based compensation expense	\$ 6,321	\$ 7,266	\$ 15,397	\$ 17,199

13. Income Taxes

The Company has estimated its annual effective tax rate for the full fiscal year 2014 and applied that rate to its income before income taxes in determining its provision for income taxes for the three and six months ended

Table of Contents

June 30, 2014. The Company also records discrete items in each respective period as appropriate. During the second quarter of 2013, we determined that certain deferred tax assets associated with United States (U.S.) future foreign tax credits no longer met the more-likely-than-not test regarding the realization of those assets primarily due to lower forecasted foreign earnings. Accordingly, the Company increased the valuation allowance against its U.S. future foreign tax credit assets, resulting in a discrete adjustment to the income tax provision in the amount of \$6.9 million. As of June 30, 2014 and December 31, 2013, valuation allowances of \$9.6 million and \$10.2 million, respectively, were recorded against the Company's net deferred tax assets.

14. Stockholder's Equity

On June 6, 2012, our Board of Directors authorized a two-year stock repurchase program of up to \$250.0 million (the 2012 Repurchase Program). During the year ended December 31, 2013, we repurchased and retired 1,956,900 shares of our common stock for an average price per share of \$36.35, at a cost of \$71.1 million, of which \$4.4 million was accrued and included in the Condensed Consolidated Balance Sheet, and \$66.7 million was paid at December 31, 2013. In January 2014, we paid the balance due of \$4.4 million on our 2013 share repurchases. No shares were repurchased during the six months ended June 30, 2014. The 2012 Repurchase Program expired on June 5, 2014, with an unused balance of \$128.8 million.

15. Segment Reporting

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

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

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

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

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

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

We evaluate the performance of our operating segments based on Adjusted Segment EBITDA. Beginning with the quarter ended March 31, 2014, the definition of Adjusted Segment EBITDA has been updated to exclude the impact of changes in the fair value of acquisition-related contingent consideration liabilities. Prior period amounts have been reclassified to conform to the current period's presentation.

Table of Contents

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

The table below presents revenues and Adjusted Segment EBITDA for our reportable segments for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Corporate Finance/Restructuring	\$ 104,020	\$ 96,714	\$ 198,002	\$ 195,794
Forensic and Litigation Consulting	119,081	105,120	240,510	205,844
Economic Consulting	117,227	111,014	224,078	226,208
Technology	60,720	51,196	120,783	97,900
Strategic Communications	53,276	50,569	96,503	96,045
Revenues	\$ 454,324	\$ 414,613	\$ 879,876	\$ 821,791
Adjusted Segment EBITDA				
Corporate Finance/Restructuring	\$ 19,133	\$ 17,848	\$ 30,084	\$ 36,933
Forensic and Litigation Consulting	22,271	18,752	48,765	31,563
Economic Consulting	18,043	20,803	31,073	46,997
Technology	15,104	16,888	32,452	30,604
Strategic Communications	5,834	5,219	8,563	8,773
Total Adjusted Segment EBITDA	\$ 80,385	\$ 79,510	\$ 150,937	\$ 154,870

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total Adjusted Segment EBITDA	\$ 80,385	\$ 79,510	\$ 150,937	\$ 154,870
Segment depreciation expense	(7,512)	(6,944)	(15,060)	(13,820)
Amortization of other intangible assets	(3,452)	(5,953)	(8,068)	(11,517)
Special charges	(9,364)		(9,364)	(427)
Unallocated corporate expenses, excluding special charges	(21,386)	(14,570)	(41,779)	(31,734)
Interest income and other	1,448	(387)	2,451	550
Interest expense	(12,908)	(13,071)	(25,563)	(25,786)
Remeasurement of acquisition-related contingent consideration	261	8,216	2,383	8,216
Income before income tax provision	\$ 27,472	\$ 46,801	\$ 55,937	\$ 80,352

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

Substantially all of our domestic subsidiaries are guarantors of borrowings under our senior bank credit facility and 2020 Notes and 2022 Notes (collectively, the Senior Notes). The guarantees are full and unconditional and joint and several. All of the guarantors are 100%-owned, direct or indirect, subsidiaries. The

Table of Contents

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

Table of Contents**Condensed Consolidating Balance Sheet Information as of June 30, 2014**

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 33,141	\$ 156	\$ 61,115	\$	\$ 94,412
Accounts receivable, net	179,545	208,622	191,570		579,737
Intercompany receivables		775,962	15,247	(791,209)	
Other current assets	63,841	21,281	25,997		111,119
Total current assets	276,527	1,006,021	293,929	(791,209)	785,268
Property and equipment, net	32,063	14,875	36,557		83,495
Goodwill	559,318	408,903	257,182		1,225,403
Other intangible assets, net	31,883	18,163	62,648	(26,424)	86,270
Investments in subsidiaries	1,873,211	516,819		(2,390,030)	
Other assets	66,738	79,341	46,725		192,804
Total assets	\$ 2,839,740	\$ 2,044,122	\$ 697,041	\$ (3,207,663)	\$ 2,373,240
Liabilities					
Intercompany payables	\$ 705,096	\$ 39,257	\$ 46,856	\$ (791,209)	\$
Other current liabilities	121,886	88,773	98,215		308,874
Total current liabilities	826,982	128,030	145,071	(791,209)	308,874
Long-term debt, net	700,000	11,000			711,000
Other liabilities	204,838	13,335	27,273		245,446
Total liabilities	1,731,820	152,365	172,344	(791,209)	1,265,320
Stockholders equity	1,107,920	1,891,757	524,697	(2,416,454)	1,107,920
Total liabilities and stockholders equity	\$ 2,839,740	\$ 2,044,122	\$ 697,041	\$ (3,207,663)	\$ 2,373,240

Condensed Consolidating Balance Sheet Information as of December 31, 2013

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 111,943	\$ 494	\$ 93,396	\$	\$ 205,833
Accounts receivable, net	154,357	162,505	159,583		476,445
Intercompany receivables		820,158	18,881	(839,039)	
Other current assets	68,292	20,932	32,359		121,583
Total current assets	334,592	1,004,089	304,219	(839,039)	803,861
Property and equipment, net	31,304	19,047	28,656		79,007
Goodwill	559,820	408,903	250,010		1,218,733
Other intangible assets, net	33,746	19,534	72,221	(28,353)	97,148
Investments in subsidiaries	1,772,130	498,001		(2,270,131)	
Other assets	75,561	56,949	33,688		166,198
Total assets	\$ 2,807,153	\$ 2,006,523	\$ 688,794	\$ (3,137,523)	\$ 2,364,947

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Liabilities									
Intercompany payables	\$	709,628	\$	74,813	\$	54,598	\$	(839,039)	\$
Other current liabilities		154,049		114,883		115,398			384,330
Total current liabilities		863,677		189,696		169,996		(839,039)	384,330
Long-term debt, net		700,000		11,000					711,000
Other liabilities		201,217		15,009		11,132			227,358
Total liabilities		1,764,894		215,705		181,128		(839,039)	1,322,688
Stockholders equity		1,042,259		1,790,818		507,666		(2,298,484)	1,042,259
Total liabilities and stockholders equity	\$	2,807,153	\$	2,006,523	\$	688,794	\$	(3,137,523)	\$ 2,364,947

Table of Contents**Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended****June 30, 2014**

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 155,457	\$ 269,329	\$ 131,805	\$ (102,267)	\$ 454,324
Operating expenses					
Direct cost of revenues	98,574	210,455	88,439	(101,919)	295,549
Selling, general and administrative expense	45,864	30,077	31,439	(348)	107,032
Special charges	9,364				9,364
Acquisition-related contingent consideration	2	200	(207)		(5)
Amortization of other intangible assets	1,086	641	2,697	(972)	3,452
Operating income	567	27,956	9,437	972	38,932
Other (expense) income	(12,262)	(1,969)	2,771		(11,460)
Income (loss) before income tax provision	(11,695)	25,987	12,208	972	27,472
Income tax (benefit) provision	(4,847)	11,858	3,214		10,225
Equity in net earnings of subsidiaries	24,095	8,357		(32,452)	
Net income	17,247	22,486	8,994	(31,480)	17,247
Other comprehensive income, net of tax:					
Foreign currency translation adjustments, net of tax \$0			7,694		7,694
Total other comprehensive income, net of tax			7,694		7,694
Comprehensive income	\$ 17,247	\$ 22,486	\$ 16,688	\$ (31,480)	\$ 24,941

Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended**June 30, 2013**

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 144,390	\$ 254,394	\$ 113,565	\$ (97,736)	\$ 414,613
Operating expenses					
Direct cost of revenues	92,781	192,526	70,725	(96,504)	259,528
Selling, general and administrative expense	38,575	28,614	30,367	(1,231)	96,325
Acquisition-related contingent consideration	92	195	(7,739)		(7,452)
Amortization of other intangible assets	1,095	2,501	3,146	(789)	5,953
Operating income	11,847	30,558	17,066	788	60,259
Other (expense) income	(16,773)	202	3,113		(13,458)
Income (loss) before income tax provision	(4,926)	30,760	20,179	788	46,801
Income tax (benefit) provision	(4,290)	24,090	3,515		23,315

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Equity in net earnings of subsidiaries	24,122	15,679		(39,801)	
Net income	23,486	22,349	16,664	(39,013)	23,486
Other comprehensive loss, net of tax:					
Foreign currency translation adjustments, net of tax					
\$0			(11,714)		(11,714)
Total other comprehensive income, net of tax			(11,714)		(11,714)
Comprehensive income	\$ 23,486	\$ 22,349	\$ 4,950	\$ (39,013)	\$ 11,772

Table of Contents**Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended****June 30, 2014**

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 306,489	\$ 521,412	\$ 252,332	\$ (200,357)	\$ 879,876
Operating expenses					
Direct cost of revenues	198,072	406,154	165,296	(199,698)	569,824
Selling, general and administrative expense	91,162	58,577	66,339	(659)	215,419
Special charges	9,364				9,364
Acquisition-related contingent consideration	(596)	(403)	(849)		(1,848)
Amortization of other intangible assets	2,159	1,370	6,468	(1,929)	8,068
Operating income	6,328	55,714	15,078	1,929	79,049
Other (expense) income	(25,576)	(4,235)	6,699		(23,112)
Income (loss) before income tax provision	(19,248)	51,479	21,777	1,929	55,937
Income tax (benefit) provision	(7,705)	22,904	5,374		20,573
Equity in net earnings of subsidiaries	46,907	14,690		(61,597)	
Net income	35,364	43,265	16,403	(59,668)	35,364
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments, net of tax \$0			12,422		12,422
Total other comprehensive income, net of tax			12,422		12,422
Comprehensive income	\$ 35,364	\$ 43,265	\$ 28,825	\$ (59,668)	\$ 47,786

Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended**June 30, 2013**

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 295,350	\$ 501,055	\$ 221,561	\$ (196,175)	\$ 821,791
Operating expenses					
Direct cost of revenues	193,618	379,873	138,698	(194,181)	518,008
Selling, general and administrative expense	81,471	56,590	56,905	(1,994)	192,972
Special charges	323	104			427
Acquisition-related contingent consideration	179	195	(7,095)		(6,721)
Amortization of other intangible assets	2,322	4,948	5,829	(1,582)	11,517
Operating income	17,437	59,345	27,224	1,582	105,588
Other (expense) income	(31,713)	531	5,946		(25,236)
Income (loss) before income tax provision	(14,276)	59,876	33,170	1,582	80,352
Income tax (benefit) provision	(7,221)	34,062	6,345		33,186

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Equity in net earnings of subsidiaries	54,221	24,114		(78,335)	
Net income	47,166	49,928	26,825	(76,753)	47,166
Other comprehensive income, net of tax:					
Foreign currency translation adjustments, net of tax					
\$0			(27,223)		(27,223)
Total other comprehensive income, net of tax			(27,223)		(27,223)
Comprehensive income	\$ 47,166	\$ 49,928	\$ (398)	\$ (76,753)	\$ 19,943

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

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Operating activities				
Net cash used in operating activities	\$ (26,238)	\$ (33,013)	\$ (17,853)	\$ (77,104)
Investing activities				
Payments for acquisition of businesses, net of cash received	(14,656)		(955)	(15,611)
Purchases of property and equipment	(7,140)	(3,890)	(10,748)	(21,778)
Other	(6)			(6)
Net cash used in investing activities	(21,802)	(3,890)	(11,703)	(37,395)
Financing activities				
Purchase and retirement of common stock	(4,367)			(4,367)
Net issuance of common stock under equity compensation plans	(2,692)			(2,692)
Deposits			11,580	11,580
Other	444	(378)	(957)	(891)
Intercompany transfers	(24,147)	36,943	(12,796)	
Net cash (used in) provided by financing activities	(30,762)	36,565	(2,173)	3,630
Effect of exchange rate changes on cash and cash equivalents			(552)	(552)
Net decrease in cash and cash equivalents	(78,802)	(338)	(32,281)	(111,421)
Cash and cash equivalents, beginning of period	111,943	494	93,396	205,833
Cash and cash equivalents, end of period	\$ 33,141	\$ 156	\$ 61,115	\$ 94,412

Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2013

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Operating activities				
Net cash (used in) provided by operating activities	\$ (59,591)	\$ 50,836	\$ 28,124	\$ 19,369
Investing activities				
Payments for acquisition of businesses, net of cash received	(11,601)	(7,157)	(21,754)	(40,512)
Purchases of property and equipment	(1,505)	(10,386)	(2,239)	(14,130)
Other	21			21
Net cash used in investing activities	(13,085)	(17,543)	(23,993)	(54,621)
Financing activities				
Purchase and retirement of common stock	(28,758)			(28,758)
Net issuance of common stock under equity compensation plans	1,245			1,245
Other	29		(645)	(616)
Intercompany transfers	53,168	(33,595)	(19,573)	
Net cash provided by (used in) financing activities	25,684	(33,595)	(20,218)	(28,129)
Effect of exchange rate changes on cash and cash equivalents			(850)	(850)

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Net decrease in cash and cash equivalents	(46,992)	(302)	(16,937)	(64,231)
Cash and cash equivalents, beginning of period	66,663	610	89,512	156,785
Cash and cash equivalents, end of period	\$ 19,671	\$ 308	\$ 72,575	\$ 92,554

Table of Contents

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

The following is a discussion and analysis of our consolidated financial condition and results of operations for the three and six months ended June 30, 2014 and 2013 and significant factors that could affect our prospective financial condition and results of operations. This discussion should be read together with the accompanying unaudited condensed consolidated financial statements and related notes and with our Annual Report on Form 10-K for the year ended December 31, 2013. Historical results and any discussion of prospective results may not indicate our future performance. See Forward-Looking Statements.

BUSINESS OVERVIEW

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

We report financial results for the following five reportable segments:

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

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

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

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

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

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

Table of Contents

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

Our financial results are primarily driven by:

the number, size and type of engagements we secure;

the rate per hour or fixed charges we charge our clients for services;

the utilization rates of the revenue-generating professionals we employ;

the number of revenue-generating professionals;

fees from clients on a retained basis or other;

licensing of our software products and other technology services;

the types of assignments we are working on at different times;

the length of the billing and collection cycles; and

the geographic locations of our clients or locations in which services are rendered.

Non-GAAP Measures

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

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Segment Operating Income

Total Segment Operating Income

Adjusted EBITDA

Adjusted Segment EBITDA

Total Adjusted Segment EBITDA

Adjusted Net Income

Adjusted Earnings per Diluted Share

Table of Contents

Beginning with the quarter ended March 31, 2014, the definitions of each of these non-GAAP measures have been updated to exclude the impact of changes in the fair value of acquisition-related contingent consideration liabilities. Prior period amounts have been reclassified to conform to the current period's presentation.

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

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

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

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

Table of Contents**EXECUTIVE HIGHLIGHTS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands, except per share amounts)		(dollars in thousands, except per share amounts)	
Revenues	\$ 454,324	\$ 414,613	\$ 879,876	\$ 821,791
Special charges	\$ 9,364	\$	\$ 9,364	\$ 427
Adjusted EBITDA	\$ 59,903	\$ 66,012	\$ 111,099	\$ 125,338
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Earnings per common share - diluted	\$ 0.42	\$ 0.58	\$ 0.87	\$ 1.17
Adjusted EPS	\$ 0.55	\$ 0.38	\$ 0.97	\$ 0.97
Cash provided by (used in) operating activities	\$ 33,691	\$ 21,673	\$ (77,104)	\$ 19,369
Total number of employees at June 30,	4,223	4,040	4,223	4,040

Second Quarter 2014 Executive Highlights***Revenues***

Revenues for the three months ended June 30, 2014 increased \$39.7 million, or 9.6%, to \$454.3 million, compared to \$414.6 million in the same prior year period. The revenue increase largely resulted from organic growth in all segments, with the most significant revenue growth due to higher demand related to disputes and investigations in our North America and Asia Pacific regions in our Forensic and Litigation Consulting (FLC) segment, as well as, complex global investigation matters in our Technology segment. Additionally, our results reflected improved demand in the Corporate Finance/Restructuring (Corporate Finance) North American non-distressed service offerings and our Economics Consulting segment's international arbitration and financial service offering in the Europe, Middle East and Africa (EMEA) region.

Special Charges

We recorded \$9.4 million of special charges in the second quarter, related to the termination of the Company's corporate airplane lease and to the closure of our West Palm Beach executive office and related lease termination.

Adjusted EBITDA (excluding special charges)

Adjusted EBITDA in the second quarter decreased \$6.1 million, or 9.3%, to \$59.9 million, or 13.2% of revenues, compared to \$66.0 million, or 15.9% of revenues, in the same prior year period. Adjusted EBITDA was favorably impacted by revenue increases across the segments but were offset by a related increase in performance-based compensation costs, investments in certain global corporate initiatives, the impact of employment contract extensions of key senior client-service professionals in our Economics Consulting segment, investments in hiring key personnel in our FLC health solutions, Corporate Finance EMEA transaction advisory sub-practices and our Technology segment.

Net Income

Net income for the three months ended June 30, 2014 decreased \$6.2 million to \$17.2 million, compared to \$23.5 million in the same prior year period. Net income for the quarter was impacted by the segment results and the special charges described above. Net income for the prior year quarter was impacted by a \$8.2 million fair value adjustment related to contingent consideration offset by a \$6.9 million income tax valuation allowance against our U.S. future foreign tax credits.

Table of Contents***Earnings per diluted share and Adjusted EPS***

Earnings per diluted share for the three months ended June 30, 2014 decreased \$0.16 to \$0.42 from \$0.58 in the same prior year period. Earnings per diluted share were impacted by the results as outlined above, including the impact of the special charge of \$9.4 million recorded in the quarter, which reduced earnings per share by \$0.14. Adjusted earnings per diluted share for the three months ended June 30, 2014 were \$0.55 as compared to \$0.38 in the same prior year period.

Liquidity highlights

Cash provided by operating activities increased \$12.0 million to \$33.7 million for the three months ended June 30, 2014 compared to \$21.7 million for the same prior year period primarily as a result of lower funding of employee notes receivable and higher revenue driven cash collections partially offset by increased compensation payments and the lease termination payment for our corporate airplane. Days sales outstanding (DSO), which is one measure of the collections cycle, was 108 days at June 30, 2014 and 99 days at June 30, 2013. Current DSO compared to the prior year has been impacted by the mix of revenues between our segments, an increase in unbilled receivables related to our Asia Pacific liquidation business which is subject to lengthy regulatory proceedings and extended payment terms which have been granted to certain large scale engagements.

Our financing activities during the three months ended June 30, 2014, included the repayment of short-term net borrowings of \$20.0 million on our revolving line of credit under our senior secured bank credit facility, and \$11.6 million of refundable deposits related to one of our foreign entities. The Company did not repurchase any common stock during the second quarter of 2014.

Headcount

As of June 30, 2014 our total headcount of 4,223 increased by 183 employees from June 30, 2013 largely driven by investments in our FLC segment, which includes the impact of acquisitions, as well as our Technology segment, and growth in our regional support teams. For the six months ended June 30, 2014 net total headcount increased by 16. Billable headcount additions for the same periods, by segment are referenced in the table below.

	Corporate Finance/ Restructuring	Forensic and Litigation Consulting	Economic Consulting	Technology	Strategic Communications	Total
<u>Billable Headcount</u>						
December 31, 2013	737	1,061	530	306	590	3,224
Additions (reductions)	(11)	15	8	15	(6)	21
March 31, 2014	726	1,076	538	321	584	3,245
Additions (reductions)	(13)	(17)	(13)	7	(18)	(54)
June 30, 2014	713	1,059	525	328	566	3,191

Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS****Segment and Consolidated Operating Results:**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (in thousands, except per share amounts)	2013 (in thousands, except per share amounts)	2014 (in thousands, except per share amounts)	2013 (in thousands, except per share amounts)
Revenues				
Corporate Finance/Restructuring	\$ 104,020	\$ 96,714	\$ 198,002	\$ 195,794
Forensic and Litigation Consulting	119,081	105,120	240,510	205,844
Economic Consulting	117,227	111,014	224,078	226,208
Technology	60,720	51,196	120,783	97,900
Strategic Communications	53,276	50,569	96,503	96,045
Revenues	\$ 454,324	\$ 414,613	\$ 879,876	\$ 821,791
Operating income				
Corporate Finance/Restructuring	\$ 17,068	\$ 21,436	\$ 25,675	\$ 38,135
Forensic and Litigation Consulting	20,839	19,177	46,241	30,279
Economic Consulting	16,840	19,530	29,270	44,525
Technology	10,905	11,292	23,971	19,374
Strategic Communications	4,030	3,394	5,035	5,121
Total segment operating income	69,682	74,829	130,192	137,434
Unallocated corporate expenses	(30,750)	(14,570)	(51,143)	(31,846)
Operating income	38,932	60,259	79,049	105,588
Other income (expense)				
Interest income and other	1,448	(387)	2,451	550
Interest expense	(12,908)	(13,071)	(25,563)	(25,786)
	(11,460)	(13,458)	(23,112)	(25,236)
Income before income tax provision	27,472	46,801	55,937	80,352
Income tax provision	10,225	23,315	20,573	33,186
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Earnings per common share basic	\$ 0.43	\$ 0.60	\$ 0.89	\$ 1.20
Earnings per common share diluted	\$ 0.42	\$ 0.58	\$ 0.87	\$ 1.17

Table of Contents**Reconciliation of Net Income to Adjusted EBITDA:**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Add back:				
Income tax provision	10,225	23,315	20,573	33,186
Other income (expense), net	11,460	13,458	23,112	25,236
Depreciation and amortization	8,416	8,016	17,001	16,022
Amortization of other intangible assets	3,452	5,953	8,068	11,517
Special charges	9,364		9,364	427
Remeasurement of acquisition-related contingent consideration	(261)	(8,216)	(2,383)	(8,216)
Adjusted EBITDA	\$ 59,903	\$ 66,012	\$ 111,099	\$ 125,338

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Add back:				
Special charges, net of tax effect ⁽¹⁾	5,523		5,523	253
Remeasurement of acquisition-related contingent consideration, net of tax effect ⁽²⁾	(164)	(8,216)	(1,514)	(8,216)
Adjusted net income	\$ 22,606	\$ 15,270	\$ 39,373	\$ 39,203
Earnings per common share diluted	\$ 0.42	\$ 0.58	\$ 0.87	\$ 1.17
Add back:				
Special charges, net of tax effect ⁽¹⁾	0.14		0.14	
Remeasurement of acquisition-related contingent consideration, net of tax effect ⁽²⁾	(0.01)	(0.20)	(0.04)	(0.20)
Adjusted earnings per common share diluted	\$ 0.55	\$ 0.38	\$ 0.97	\$ 0.97
Weighted average number of common shares outstanding diluted	40,750	40,293	40,604	40,456

⁽¹⁾ The tax effect takes into account the tax treatment and related tax rate(s) that apply to each adjustment in the applicable tax jurisdiction(s). As a result, the effective tax rate for the adjustments related to special charges for the three and six months ended June 30, 2014 was 41.0%. The tax expense related to the adjustment for special charges for the three and six months ended June 30, 2014 were \$3.8 million, or a \$0.09 impact on diluted earnings per share. The effective tax rate for the adjustments related to special charges for the six months ended June 30, 2013 was 40.7%. The tax expense related to the adjustment for special charges for the six months ended June 30, 2013 was \$0.2 million with no impact on diluted earnings per share. In the three months ended June 30, 2013, there were no special charges.

Edgar Filing: FTI CONSULTING INC - Form 10-Q

- ⁽²⁾ The tax effect takes into account the tax treatment and related tax rate(s) that apply to each adjustment in the applicable tax jurisdiction(s). As a result, the effective tax rates for the adjustments related to the remeasurement of acquisition-related contingent consideration for the three and six months ended June 30, 2014 were 37.2% and 36.5%, respectively. The tax expense related to the remeasurement of acquisition-related contingent consideration for the three and six months ended June 30, 2014 was \$0.1 million with no impact on diluted earnings per share and, \$0.9 million, or a \$0.02 impact on diluted earnings per share. The adjustments related to remeasurement of acquisition-related contingent consideration for the three and six months ended June 30, 2013 were not taxable.

Table of Contents

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Revenues and operating income

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

Unallocated corporate expenses

Unallocated corporate expenses increased \$16.2 million to \$30.8 million for the three months ended June 30, 2014 from \$14.6 million for the same prior year period. Excluding the impact of special charges of \$9.4 million in the three months ended June 30, 2014; unallocated corporate expenses increased \$6.8 million. The increase was primarily due to higher costs related to performance based compensation for U.S. and regional teams, increased third party costs related to executive search activities and strategic development efforts.

Interest income and other

Interest income and other, which includes foreign currency transaction gains and losses, increased by \$1.8 million to \$1.4 million for the three months ended June 30, 2014 from a loss of \$0.4 million for the same prior year period. The increase was primarily due to net foreign currency transaction gains in the period ended June 30, 2014 as compared to net losses in the same prior year period. Transaction gains and losses, both realized and unrealized, relate to the remeasurement or settlement of monetary assets and liabilities that are denominated in a currency other than an entity's functional currency. These monetary assets and liabilities include current intercompany receivables and payables.

Interest expense

Interest expense decreased \$0.2 million to \$12.9 million for the three months ended June 30, 2014 from \$13.1 million for the same prior year period. Interest expense in 2014 was favorably impacted by lower average borrowings.

Special charges

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

We did not record any special charges for the three months ended June 30, 2013.

Income tax provision

Our provision for income taxes in interim periods is computed by applying our estimated annual effective tax rate against income before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur or become known. The effective tax rate was 37.2% for the three months ended June 30, 2014 as compared to 49.8% for the same prior year period. During the second quarter of 2013, we recorded a deferred tax valuation reserve related to foreign tax credits, primarily due to lower forecasted foreign earnings, resulting in an increase to the income tax provision in the amount of \$6.9 million. Excluding the impact of the discrete item, the effective tax rate for the three months ended June 30, 2013 would have been 34.6%.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Revenues and operating income

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

Table of Contents***Unallocated corporate expenses***

Unallocated corporate expenses increased \$19.3 million to \$51.1 million for the six months ended June 30, 2014 from \$31.8 million for the same prior year period. Excluding the impact of special charges of \$9.4 million in the six months ended June 30, 2014; unallocated corporate expenses increased \$10.0 million. The increase was primarily due to higher performance-based compensation costs and increased costs to support certain global corporate initiatives.

Interest income and other

Interest income and other, which includes foreign currency transaction gains and losses, increased by \$1.9 million to \$2.5 million for the six months ended June 30, 2014 from \$0.6 million for the same prior year period. The increase was primarily due to lower net foreign currency transaction losses in the period ended June 30, 2014 as compared to net losses in the same prior year period. Transaction gains and losses, both realized and unrealized, relate to the remeasurement or settlement of monetary assets and liabilities that are denominated in a currency other than an entity's functional currency. These monetary assets and liabilities include current intercompany receivables and payables.

Interest expense

Interest expense was \$25.6 million for the six months ended June 30, 2014, which decreased from \$25.8 million for the same prior year period. Interest expense in 2014 was favorably impacted by lower average borrowings.

Special charges

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

During the six months ended June 30, 2013, we recorded adjustments to the special charges recorded in 2012 of approximately \$0.4 million, primarily related to the consolidation of office spaces previously vacated. These charges reflect the changes to sublease terms and associated costs for those locations for which actual subleases were entered into during the six months ended June 30, 2013, as well as the impact of updated forecasts of expected sublease income and employee termination costs.

The following table details the special charge adjustments by segment for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Corporate Finance/Restructuring	\$	\$ 68
Forensic and Litigation Consulting		173
Economic Consulting		(4)
Technology		14
Strategic Communications		64
		315
Unallocated Corporate	9,364	112
Total	\$ 9,364	\$ 427

Table of Contents**Income tax provision**

Our provision for income taxes in interim periods is computed by applying our estimated annual effective tax rate against income before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur or become known. The effective tax rate was 36.8% for the six months ended June 30, 2014 as compared to 41.3% for the same prior year period. During the six months ended June 30, 2013, we recorded a deferred tax valuation reserve related to foreign tax credits, primarily due to lower forecasted foreign earnings, resulting in a discrete increase to the income tax provision in the amount of \$6.9 million. We also recognized the impact of a discrete benefit related to the favorable resolution of an income tax contingency in the amount of \$2.2 million. Excluding the impact of these discrete items, the effective tax rate for the six months ended June 30, 2013 would have been 35.6%.

SEGMENT RESULTS**Total Adjusted Segment EBITDA**

The following table reconciles net income to Total Segment Operating Income and Total Adjusted Segment EBITDA for the three and six months ended June 30, 2014 and 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (in thousands)	2013 (in thousands)	2014 (in thousands)	2013 (in thousands)
Net income	\$ 17,247	\$ 23,486	\$ 35,364	\$ 47,166
Add back:				
Income tax provision	10,225	23,315	20,573	33,186
Other income (expense), net	11,460	13,458	23,112	25,236
Unallocated corporate expense	30,750	14,570	51,143	31,846
Total Segment Operating Income	\$ 69,682	\$ 74,829	\$ 130,192	\$ 137,434
Add back:				
Segment depreciation expense	7,512	6,944	15,060	13,820
Amortization of other intangible assets	3,452	5,953	8,068	11,517
Segment special charges				315
Remeasurement of acquisition-related contingent consideration	(261)	(8,216)	(2,383)	(8,216)
Total Adjusted Segment EBITDA	\$ 80,385	\$ 79,510	\$ 150,937	\$ 154,870

Table of Contents**Other Segment Operating Data**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Number of revenue-generating professionals (at period end):				
Corporate Finance/Restructuring	713	718	713	718
Forensic and Litigation Consulting	1,059	969	1,059	969
Economic Consulting	525	499	525	499
Technology	328	285	328	285
Strategic Communications	566	611	566	611
Total revenue-generating professionals	3,191	3,082	3,191	3,082
Utilization rates of billable professionals: ⁽¹⁾				
Corporate Finance/Restructuring	71%	62%	71%	66%
Forensic and Litigation Consulting	71%	67%	73%	65%
Economic Consulting	78%	82%	75%	86%
Average billable rate per hour: ⁽²⁾				
Corporate Finance/Restructuring	\$ 412	\$ 416	\$ 396	\$ 412
Forensic and Litigation Consulting	323	307	319	314
Economic Consulting	522	505	519	501

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

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

Table of Contents**CORPORATE FINANCE/RESTRUCTURING**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (dollars in thousands, except rate per hour)	2013 (dollars in thousands, except rate per hour)	2014 (dollars in thousands, except rate per hour)	2013 (dollars in thousands, except rate per hour)
Revenues	\$ 104,020	\$ 96,714	\$ 198,002	\$ 195,794
Operating expenses:				
Direct cost of revenues	67,510	59,516	131,479	121,949
Selling, general and administrative expenses	18,191	19,730	37,977	37,420
Special charges				68
Acquisition-related contingent consideration	40	(5,800)	(555)	(5,161)
Amortization of other intangible assets	1,211	1,832	3,426	3,383
	86,952	75,278	172,327	157,659
Segment operating income	17,068	21,436	25,675	38,135
Add back:				
Depreciation and amortization of intangible assets	2,065	2,687	5,071	5,005
Special charges				68
Remeasurement of acquisition-related contingent consideration		(6,275)	(662)	(6,275)
Adjusted Segment EBITDA	\$ 19,133	\$ 17,848	\$ 30,084	\$ 36,933
Gross profit ⁽¹⁾	\$ 36,510	\$ 37,198	\$ 66,523	\$ 73,845
Gross profit margin ⁽²⁾	35.1%	38.5%	33.6%	37.7%
Adjusted Segment EBITDA as a percent of revenues	18.4%	18.5%	15.2%	18.9%
Number of revenue generating professionals (at period end)	713	718	713	718
Utilization rates of billable professionals	71%	62%	71%	66%
Average billable rate per hour	\$ 412	\$ 416	\$ 396	\$ 412

⁽¹⁾ Revenues less direct cost of revenues

⁽²⁾ Gross profit as a percent of revenues

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Revenues increased \$7.3 million, or 7.6%, to \$104.0 million for the quarter ended June 30, 2014 compared to \$96.7 million for the same prior year period. The increase in revenues was due to growth in our non-distressed engagements in our North America core business; partially offset by continued slowness in global bankruptcy restructuring.

Gross profit decreased \$0.7 million, or 1.8%, to \$36.5 million for the quarter ended June 30, 2014 compared to \$37.2 million for the same prior year period. Gross profit margin decreased to 35.1% for the quarter ended June 30, 2014 compared to 38.5% for the same prior year period. The decrease in gross profit margin was due to higher demand and net average realized bill rates in North America bankruptcy and restructuring; more than offset by higher performance-based compensation expense and the investment in the European transaction advisory practice.

Selling, general and administrative (SG&A) expense decreased \$1.5 million, or 7.8%, to \$18.2 million for the quarter ended June 30, 2014 compared to \$19.7 million for the same prior year period. SG&A expense was 17.5% of revenues for the quarter ended June 30, 2014, compared to 20.4% for the same prior year period. The decrease in SG&A expense was due to the absence of non-recurring acquisition costs recorded in the same prior year period.

Table of Contents

Amortization of other intangible assets was \$1.2 million for the quarter ended June 30, 2014 compared to \$1.8 million for the same prior year period.

Adjusted Segment EBITDA increased \$1.3 million, or 7.2%, to \$19.1 million for the quarter ended June 30, 2014 compared to \$17.8 million for the same prior year period.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Revenues increased \$2.2 million, or 1.1%, to \$198.0 million for the six months ended June 30, 2014 compared to \$195.8 million for the same prior year period. Revenues increased \$4.4 million, or 2.2%, due to acquisitions as compared to the same prior year period. Revenues decreased organically \$2.2 million, or 1.1%, primarily due to continued slowness in global bankruptcy restructuring practice; partially offset by the increase in non-distressed engagements in North America.

Gross profit decreased \$7.3 million, or 9.9%, to \$66.5 million for the six months ended June 30, 2014 compared to \$73.8 million for the same prior year period. Gross profit margin decreased 4.1% to 33.6% for the six months ended June 30, 2014 compared to 37.7% for the same prior year period. The decrease in gross profit margin was due to the investment in the European transaction advisory practice, higher performance-based compensation expense, and slowness in global bankruptcy restructuring.

SG&A expense increased \$0.6 million, or 1.5%, to \$38.0 million for the six months ended June 30, 2014 compared to \$37.4 million for the same prior year period. SG&A expense was 19.2% of revenues for the six months ended June 30, 2014, compared to 19.1% for the same prior year period. The increase in SG&A expense was due to the overhead costs related to the acquired practices and the investment in the European transaction advisory practice partially offset by absence of the non-recurring acquisition costs of \$1.8 million recorded in the same prior year period.

Amortization of other intangible assets was \$3.4 million for the six months ended June 30, 2014 compared to \$3.4 million for the same prior year period.

Adjusted Segment EBITDA decreased \$6.8 million, or 18.5%, to \$30.1 million for the six months ended June 30, 2014 compared to \$36.9 million for the same prior year period.

Table of Contents**FORENSIC AND LITIGATION CONSULTING**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (dollars in thousands, except rate per hour)	2013 (dollars in thousands, except rate per hour)	2014 (dollars in thousands, except rate per hour)	2013 (dollars in thousands, except rate per hour)
Revenues	\$ 119,081	\$ 105,120	\$ 240,510	\$ 205,844
Operating expenses:				
Direct cost of revenues	75,332	66,861	149,133	134,835
Selling, general and administrative expenses	22,481	20,351	44,602	41,222
Special charges				173
Acquisition-related contingent consideration	(245)	(1,848)	(890)	(1,756)
Amortization of other intangible assets	674	579	1,424	1,091
	98,242	85,943	194,269	175,565
Segment operating income	20,839	19,177	46,241	30,279
Add back:				
Depreciation and amortization of intangible assets	1,693	1,516	3,458	3,052
Special charges				173
Remeasurement of acquisition-related contingent consideration	(261)	(1,941)	(934)	(1,941)
Adjusted Segment EBITDA	\$ 22,271	\$ 18,752	\$ 48,765	\$ 31,563
Gross profit ⁽¹⁾	\$ 43,749	\$ 38,259	\$ 91,377	\$ 71,009
Gross profit margin ⁽²⁾	36.7%	36.4%	38.0%	34.5%
Adjusted Segment EBITDA as a percent of revenues	18.7%	17.8%	20.3%	15.3%
Number of revenue generating professionals (at period end)	1,059	969	1,059	969
Utilization rates of billable professionals	71%	67%	73%	65%
Average billable rate per hour	\$ 323	\$ 307	\$ 319	\$ 314

⁽¹⁾ Revenues less direct cost of revenues

⁽²⁾ Gross profit as a percent of revenues

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Revenues increased \$14.0 million, or 13.3%, to \$119.1 million for the three months ended June 30, 2014 from \$105.1 million for the same prior year period which included 2.9% from acquisitions. Revenues increased organically \$10.9 million, or 10.4%, due to higher demand related primarily to disputes and investigations in our North America and Asia Pacific regions.

Gross profit increased \$5.4 million, or 14.1%, to \$43.7 million for the three months ended June 30, 2014 from \$38.3 million for the same prior year period. Gross profit margin increased to 36.7% for the three months ended June 30, 2014 from 36.4% for the same prior year period. The increase in gross profit margin was related to higher utilization and improved leverage in our North America and Asia Pacific regions partially offset by increased performance based compensation, lower utilization on increased headcount, and the impact of lower success fees in our health solutions practice.

SG&A expense increased \$2.1 million, or 10.5%, to \$22.5 million for the three months ended June 30, 2014 from \$20.4 million for the same prior year period. SG&A expense was 18.9% of revenue for the three months ended June 30, 2014, down from 19.4% for the same prior year period. The increase in SG&A expense was due to higher overhead expenses due to acquired businesses and higher administrative expenses.

Table of Contents

Amortization of other intangible assets increased \$0.1 million to \$0.7 million for the three months ended June 30, 2014 compared to \$0.6 million for the same prior year period.

Adjusted Segment EBITDA increased by \$3.5 million, or 18.8%, to \$22.3 million for the three months ended June 30, 2014 from \$18.8 million for the same prior year period.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Revenues increased \$34.7 million, or 16.8%, to \$240.5 million for the six months ended June 30, 2014 from \$205.8 million for the same prior year period. Revenues increased \$6.0 million, or 2.9%, due to acquisitions as compared to the same prior year period. Revenues increased organically \$28.7 million, or 13.9%, due to higher demand in our North America and Asia Pacific regions; partially offset by the impact of lower success fees in our health solutions practice.

Gross profit increased \$20.4 million, or 28.7%, to \$91.4 million for the six months ended June 30, 2014 from \$71.0 million for the same prior year period. Gross profit margin increased to 38.0% for the six months ended June 30, 2014 from 34.5% for the same prior year period. The increase in gross profit margin was related to higher utilization and improved leverage in our practices in North America and Asia Pacific regions; partially offset by the impact of lower success fees in our health solutions practice and increased performance based compensation.

SG&A expense increased \$3.4 million, or 8.2%, to \$44.6 million for the six months ended June 30, 2014 from \$41.2 million for the same prior year period. SG&A expense was 18.5% of revenue for the six months ended June 30, 2014, down from 20.0% for the same prior year period. The increase in SG&A expense was due to acquired overhead expense, increased compensation costs, and higher administrative expenses; partially offset by lower bad debt expense.

Amortization of other intangible assets increased \$0.3 million to \$1.4 million for the six months ended June 30, 2014 compared to \$1.1 million for the same prior year period.

Adjusted Segment EBITDA increased by \$17.2 million, or 54.5%, to \$48.8 million for the six months ended June 30, 2014 from \$31.6 million for the same prior year period.

Table of Contents**ECONOMIC CONSULTING**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (dollars in thousands, except rate per hour)	2013 (dollars in thousands, except rate per hour)	2014 (dollars in thousands, except rate per hour)	2013 (dollars in thousands, except rate per hour)
Revenues	\$ 117,227	\$ 111,014	\$ 224,078	\$ 226,208
Operating expenses:				
Direct cost of revenues	84,855	76,671	162,825	152,622
Selling, general and administrative expenses	15,242	14,356	32,122	28,210
Special charges				(4)
Acquisition-related contingent consideration	68	47	(667)	47
Amortization of other intangible assets	222	410	528	808
	100,387	91,484	194,808	181,683
Segment operating income	16,840	19,530	29,270	44,525
Add back:				
Depreciation and amortization of intangible assets	1,203	1,273	2,590	2,476
Special charges				(4)
Remeasurement of acquisition-related contingent consideration			(787)	
Adjusted Segment EBITDA	\$ 18,043	\$ 20,803	\$ 31,073	\$ 46,997
Gross profit ⁽¹⁾	\$ 32,372	\$ 34,343	\$ 61,253	\$ 73,586
Gross profit margin ⁽²⁾	27.6%	30.9%	27.3%	32.5%
Adjusted Segment EBITDA as a percent of revenues	15.4%	18.7%	13.9%	20.8%
Number of revenue generating professionals (at period end)	525	499	525	499
Utilization rates of billable professionals	78%	82%	75%	86%
Average billable rate per hour	\$ 522	\$ 505	\$ 519	\$ 501

(1) Revenues less direct cost of revenues

(2) Gross profit as a percent of revenues

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Revenues increased \$6.2 million, or 5.6%, to \$117.2 million for the three months ended June 30, 2014 compared to \$111.0 million for the same prior year period. Revenues increased organically \$5.7 million, or 5.2%, partially due to a 1.5% increase from the estimated positive impact from foreign currency translation. The increase in revenue was primarily due to increased demand in our EMEA antitrust litigation practice and international arbitration and valuation practices, along with higher net realized average bill rates in our EMEA international arbitration and valuation practices; partially offset by lower demand in our financial economics practice.

Gross profit decreased \$2.0 million, or 5.7%, to \$32.4 million for the three months ended June 30, 2014 compared to \$34.3 million for the same prior year period. Gross profit margin decreased to 27.6% for the three months ended June 30, 2014 from 30.9% for the same prior year period. The decrease in gross profit margin was the result of increased demand in EMEA offset by increased compensation expense related to employment contract extensions of key senior client-service professionals, and lower utilization on increased headcount in our North American financial economics practice.

Edgar Filing: FTI CONSULTING INC - Form 10-Q

SG&A expense increased \$0.9 million, or 6.2%, to \$15.2 million for the three months ended June 30, 2014 compared to \$14.4 million for the same prior year period. SG&A expense was 13.0% of revenues for the three months ended June 30, 2014 compared to 12.9% for the same prior year period. The increase in SG&A expense was due to higher administrative costs and travel and entertainment expenses related to marketing and business development.

Table of Contents

Bad debt expense was \$2.0 million or 1.7% of revenues for the three months ended June 30, 2014 compared to \$1.9 million or 1.7% of revenues for the same prior year period.

Amortization of other intangible assets decreased to \$0.2 million for the three months ended June 30, 2014, compared to \$0.4 million for the same prior year period.

Adjusted Segment EBITDA decreased \$2.8 million, or 13.3%, to \$18.0 million for the three months ended June 30, 2014, compared to \$20.8 million for the same prior year period.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Revenues decreased \$2.1 million, or 0.9%, to \$224.1 million for the six months ended June 30, 2014 compared to \$226.2 million for the same prior year period, which included a 1.2% increase from the estimated positive impact of foreign currency translation. Revenues increased \$2.2 million, or 1.0%, due to acquisitions as compared to the same prior year period. Revenues decreased organically \$4.4 million, or 1.9%, primarily due to decreased demand in our financial economics practice in the North America region; partially offset by higher demand for our antitrust practice in the EMEA region.

Gross profit decreased \$12.3 million, or 16.8%, to \$61.3 million for the six months ended June 30, 2014 compared to \$73.6 million for the same prior year period. Gross profit margin decreased to 27.3% for the six months ended June 30, 2014 from 32.5% for the same prior year period. The decrease in gross profit margin was the result of employment contract extensions of key senior client-service professionals and lower demand for the financial economics practice in the North America region; partially offset by higher demand for our antitrust practice in the EMEA region.

SG&A expense increased \$3.9 million, or 13.9%, to \$32.1 million for the six months ended June 30, 2014 compared to \$28.2 million for the same prior year period. SG&A expense was 14.3% of revenues for the six months ended June 30, 2014 compared to 12.5% for the same prior year period. The increase in SG&A expense was due to higher administrative costs, bad debt expense, and facilities costs. Bad debt expense was \$4.6 million or 2.0% of revenues for the six months ended June 30, 2014 compared to \$3.9 million or 1.7% of revenues for the same prior year period.

Amortization of other intangible assets decreased to \$0.5 million for the six months ended June 30, 2014, compared to \$0.8 million for the same prior year period.

Adjusted Segment EBITDA decreased \$15.9 million, or 33.9%, to \$31.1 million for the six months ended June 30, 2014, compared to \$47.0 million for the same prior year period.

Table of Contents**TECHNOLOGY**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (dollars in thousands)	2013 (dollars in thousands)	2014 (dollars in thousands)	2013 (dollars in thousands)
Revenues	\$ 60,720	\$ 51,196	\$ 120,783	\$ 97,900
Operating expenses:				
Direct cost of revenues	32,949	23,126	63,649	44,987
Selling, general and administrative expenses	16,648	14,793	32,727	29,555
Special charges				14
Amortization of other intangible assets	218	1,985	436	3,970
	49,815	39,904	96,812	78,526
Segment operating income	10,905	11,292	23,971	19,374
Add back:				
Depreciation and amortization of intangible assets	4,199	5,596	8,481	11,216
Special charges				14
Adjusted Segment EBITDA	\$ 15,104	\$ 16,888	\$ 32,452	\$ 30,604
Gross profit ⁽¹⁾	\$ 27,771	\$ 28,070	\$ 57,134	\$ 52,913
Gross profit margin ⁽²⁾	45.7%	54.8%	47.3%	54.0%
Adjusted Segment EBITDA as a percent of revenues	24.9%	33.0%	26.9%	31.3%
Number of revenue generating professionals (at period end) ⁽³⁾	328	285	328	285

⁽¹⁾ Revenues less direct cost of revenues

⁽²⁾ Gross profit as a percent of revenues

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

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Revenue increased by \$9.5 million, or 18.6%, to \$60.7 million for the three months ended June 30, 2014 compared to \$51.2 million for the same prior year period. The increase in revenue is due to higher demand for complex global investigation matters.

Gross profit decreased by \$0.3 million to \$27.8 million for the three months ended June 30, 2014 compared to the \$28.1 million for the same prior year period. Gross profit margin decreased to 45.7% of revenue from 54.8% of revenue compared to the same period in the same prior year period. The gross profit margin percentage decline was due to an increased mix of lower margin services.

SG&A increased by \$1.9 million, or 12.5%, to \$16.6 million for the three months ended June 30, 2014 compared to \$14.8 million for the same prior year period. SG&A expense was 27.4% of revenue for the three months ending June 30, 2014 compared to 28.9% of revenue for the same prior year period. The SG&A expense increase was related to hiring to support research and development and business development activities. Research and development expense was \$4.6 million for the three months ended June 30, 2014 compared to \$3.5 million for the same prior year period. Bad debt expense decreased by \$0.3 million due to the recoveries of previously reserved balances.

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Amortization of other intangible assets decreased \$1.8 million for the three months ended June 30, 2014 compared to the same prior year period. The decrease was due to the impact of certain acquisition costs being fully amortized at the end of 2013.

Adjusted Segment EBITDA decreased by \$1.8 million, or 10.6%, for the three months ended June 30, 2014 compared to the same prior year period.

Table of Contents**Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013**

Revenue increased by \$22.9 million, or 23.4%, to \$120.8 million for the six months ended June 30, 2014 compared to the \$97.9 million for the same prior year period. The increase was due to higher volumes on complex global investigation matters, as well as an increase in consulting volume partially offset by reduced pricing for services.

Gross profit increased by \$4.2 million, or 8.0%, to \$57.1 million for the six months ended June 30, 2014 compared to the \$52.9 million for the same prior year period. Gross profit margin percentage decreased to 47.3% of revenue from 54.0%, or by 6.7% compared to the same prior year period. The gross profit margin percentage decrease was due to a change in the mix of revenue with higher margin unit-based revenue comprising a smaller percentage of total revenue, higher third party costs to support the increased document review volumes, and higher personnel costs.

SG&A increased by \$3.2 million, or 10.7%, to \$32.7 million for the six months ended June 30, 2014 compared to the \$29.6 million for the same prior year period. SG&A expense was 27.1% of revenue for the six months ending June 30, 2014 compared to 30.2% of revenue for the same prior year period. The SG&A expense increase was related to higher personnel costs in research and development, corporate allocations in support of growing operations, rent in support of the additional personnel, and reduced capitalization of software development costs. Research and development expense was \$9.1 million for the six months ended June 30, 2014 compared to \$7.5 million for the same prior year period. Bad debt expense decreased by \$0.3 million due to increased recoveries of previously reserved balances.

Amortization of other intangible assets decreased \$3.5 million for the six months ended June 30, 2014 compared to the same prior year period. The decrease is due to the impact of certain acquisition costs being fully amortized at the end of 2013.

Adjusted Segment EBITDA increased by \$1.8 million, or 6.0%, to \$32.5 million for the six months ended June 30, 2014 compared to \$30.6 million for the same prior year period.

STRATEGIC COMMUNICATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (dollars in thousands)	2013 (dollars in thousands)	2014 (dollars in thousands)	2013 (dollars in thousands)
Revenues	\$ 53,276	\$ 50,569	\$ 96,503	\$ 96,045
Operating expenses:				
Direct cost of revenues	34,903	33,354	62,738	63,615
Selling, general and administrative expenses	13,084	12,525	26,212	24,831
Special charges				64
Acquisition-related contingent consideration	132	149	264	149
Amortization of other intangible assets	1,127	1,147	2,254	2,265
	49,246	47,175	91,468	90,924
Segment operating income	4,030	3,394	5,035	5,121
Add back:				
Depreciation and amortization of intangible assets	1,804	1,825	3,528	3,588
Special charges				64
Adjusted Segment EBITDA	\$ 5,834	\$ 5,219	\$ 8,563	\$ 8,773
Gross profit ⁽¹⁾	\$ 18,373	\$ 17,215	\$ 33,765	\$ 32,430
Gross profit margin ⁽²⁾	34.5%	34.0%	35.0%	33.8%
Adjusted Segment EBITDA as a percent of revenues	10.9%	10.3%	8.9%	9.1%
Number of revenue generating professionals (at period end)	566	611	566	611

(1) Revenues less direct cost of revenues

(2) Gross profit as a percent of revenues

Table of Contents

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Revenues increased \$2.7 million, or 5.4%, to \$53.3 million for the three months ended June 30, 2014 from \$50.6 million for the same prior year period, including a 2.8% increase from the estimated positive impact of foreign currency translation, which was primarily due to the strengthening of the British pound relative to the U.S. dollar. The revenue increase was primarily due to an increase in the number of retained relationships in our EMEA region.

Gross profit increased \$1.2 million, or 6.7%, to \$18.4 million for the three months ended June 30, 2014 from \$17.2 million for the same prior year period. Gross profit margin increased 0.5 percentage points to 34.5% for the three months ended June 30, 2014 from 34.0% for the same prior year period. The increase in gross profit margin was primarily due to the estimated impact of foreign currency translation and higher margin pass-through revenue.

SG&A expense increased \$0.6 million, or 4.5%, to \$13.1 million for the three months ended June 30, 2014 from \$12.5 million for the same prior year period, including a 2.5% increase from the estimated impact of foreign currency translation. SG&A expense was 24.6% of revenue for the three months ended June 30, 2014, down from 24.8% of revenue for the same prior year period. The increase in SG&A was primarily due to severance expense recorded in the EMEA region.

Amortization of other intangible assets was \$1.1 million for the three months ended June 30, 2014 which was in line with the corresponding charge for the same prior year period.

Adjusted Segment EBITDA increased \$0.6 million, or 11.8%, to \$5.8 million for the three months ended June 30, 2014 from \$5.2 million for the same prior year period.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Revenues increased \$0.5 million, or 0.5%, to \$96.5 million for the six months ended June 30, 2014 from \$96.0 million for the same prior year period, which included a 2.0% increase from the estimated positive impact of foreign currency translation, which was primarily due to the strengthening of the British pound relative to the U.S. dollar. The remaining revenue increase was primarily due to an increase in retainer-based revenue in our EMEA region offset by lower pass-through revenues in our North America and EMEA regions.

Gross profit increased \$1.3 million, or 4.1%, to \$33.8 million for the six months ended June 30, 2014 from \$32.4 million for the same prior year period. Gross profit margin increased 1.2% to 35.0% for the six months ended June 30, 2014 from 33.8% for the same prior year period. The increase in gross profit margin was primarily due to higher margin on pass-through revenues in our EMEA and North America regions.

SG&A expense increased \$1.4 million, or 5.6%, to \$26.2 million for the six months ended June 30, 2014 from \$24.8 million for the same prior year period. SG&A expense was 27.2% of revenue for the six months ended June 30, 2014, up from 25.9% of revenue for the same prior year period. The increase in SG&A was primarily due to higher facilities expenses related to the transition to our new London office and severance expense recorded in the EMEA region.

Amortization of other intangible assets was \$2.3 million for the six months ended June 30, 2014 which was in line with the corresponding charge for the same prior year period.

Adjusted Segment EBITDA decreased \$0.2 million, or 2.4%, to \$8.6 million for the six months ended June 30, 2014 from \$8.8 million for the same prior year period.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which we have prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 describes the significant accounting policies and methods used in preparation of the Consolidated Financial Statements and is hereby incorporated by reference herein. We evaluate our estimates, including those related to bad debts, goodwill, income taxes and contingencies on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue recognition

Allowance for doubtful accounts and unbilled services

Goodwill and other intangible assets

Business combinations

Share-based compensation

Income taxes

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, 2013 filed with the SEC on February 24, 2014.

Goodwill and Other Intangible Assets

On a quarterly basis, we monitor the key drivers of fair value to detect events or other changes that would warrant an interim impairment test of our goodwill and intangible assets. Factors we consider important which could trigger an interim impairment review include, but are not limited to the following: significant underperformance relative to historical or projected future operating results; a significant change in the manner of our use of the acquired asset or strategy for our overall business; a significant negative industry or economic trend; and our market capitalization relative to net book value. Through our assessment, we determined that there were no events or circumstances that more likely than not would reduce the fair value of any of our reporting units below their carrying value. Accordingly, we did not perform an interim impairment test in either of the quarters in the six months ended June 30, 2014.

There can be no assurance that the estimates and assumptions used in our goodwill impairment testing will prove to be accurate predictions of the future. If our assumptions regarding forecasted cash flows are not achieved, we may be required to perform the two-step quantitative goodwill impairment analysis prior to our next annual impairment test. In addition, if the aforementioned factors have the effect of changing one of the critical assumptions or estimates we use to calculate the value of our goodwill or intangible assets, we may be required to record goodwill and/or intangible asset impairment charges in future periods, whether in connection with our next annual impairment test or if a triggering event occurs outside of the quarter during which the annual goodwill impairment test is performed. It is not possible at this time to determine if any future impairment charge would result or, if it does, whether such charge would be material.

Table of Contents**SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This guidance is effective for interim and annual periods beginning after December 15, 2016 and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU and management is currently evaluating which transition approach to use. The Company is currently evaluating the impact of the adoption of this accounting standard update on its condensed consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, or ASU 2014-08. ASU 2014-08 amends the criteria for reporting a discontinued operation. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. This guidance is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. ASU 2014-08 would impact the Company's consolidated results of operations and financial condition only in the instance of an event or transaction described above.

LIQUIDITY AND CAPITAL RESOURCES*Cash Flows*

	Six Months Ended June 30,	
	2014	2013
	(dollars in thousands)	
Net cash (used in) provided by operating activities	\$ (77,104)	\$ 19,369
Net cash used in investing activities	\$ (37,395)	\$ (54,621)
Net cash used in financing activities	\$ 3,630	\$ (28,129)
DSO	108	99

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

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

DSO is a performance measure used to assess how quickly revenues are collected by the Company. We calculate DSO at the end of each reporting period by dividing net accounts receivable reduced by billings in excess of services provided, by revenue for the quarter, adjusted for changes in foreign exchange rates. We multiply the result by the number of days in the quarter. Our DSO typically reaches its lowest point at December 31 each year and has consistently increased during the following quarters.

Table of Contents

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Cash used in operating activities was \$77.1 million for the six months ended June 30, 2014 compared to cash provided by operating activities of \$19.4 million for the same prior year period. The primary driver for the \$84.9 million decrease in operating cash flows relative to the prior year was higher salary payments driven by the impact of salary increases and headcount additions, and the timing of bonus payments. Days sales outstanding (DSO), which is one measure of the collections cycle, was 108 days at June 30, 2014 and 99 days at June 30, 2013. Current DSO compared to the prior year has been impacted by the mix of revenues between our segments, an increase in unbilled receivables related to our Asia Pacific liquidation business which is subject to lengthy regulatory proceedings and extended payment terms which have been granted to certain large scale engagements.

Net cash used in investing activities for the six months ended June 30, 2014 was \$37.4 million compared to \$54.6 million for the same prior year period. Payments for acquisitions completed during the six months ended June 30, 2014 were \$1.0 million, net of cash received, compared to \$30.4 million for the same prior year period. Payments of acquisition-related contingent consideration and stock price guarantees of \$6.2 million and \$3.9 million, respectively, for the same prior year period. Capital expenditures were \$21.8 million for the six months ended June 30, 2014 compared to \$14.1 million for the same prior year period.

Net cash provided by financing activities for the six months ended June 30, 2014 was \$3.6 million compared to net cash used in financing activities of \$28.1 million for the same prior year period. Our financing activities for the six months ended June 30, 2014 included payments of \$4.4 million to settle repurchases of the Company's common stock that were made, but not settled in the fourth quarter of 2013, and the receipt of \$11.6 million of refundable deposits related to one of our foreign entities. Our financing activities for the six months ended June 30, 2013 included the purchase and retirement of 826,800 shares of our common stock, at an aggregate cost of \$28.8 million.

Capital Resources

As of June 30, 2014, our capital resources included \$94.4 million of cash and cash equivalents and available borrowing capacity of \$348.6 million under our \$350.0 senior secured bank credit facility (bank credit facility). As of June 30, 2014, we had no outstanding borrowings under our bank credit facility and \$1.4 million of outstanding letters of credit, which reduced the availability of borrowings under the bank credit facility. We use letters of credit primarily in lieu of security deposits for our leased office facilities.

Future Capital Needs

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

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

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

debt service requirements, including interest payments on our long-term debt;

compensating designated executive management and senior managing directors under our various long-term incentive compensation programs;

contingent obligations related to our acquisitions;

potential acquisitions of businesses that would allow us to diversify or expand our service offerings; and

Table of Contents

other known future contractual obligations.

For the full fiscal year 2014, we anticipate aggregate capital expenditures will range between \$37 million and \$40 million to support our organization, including direct support for specific client engagements. Our estimate takes into consideration the needs of our existing businesses but does not include the impact of any purchases that we make as a result of future acquisitions or specific client engagements that are not currently contemplated. Our capital expenditure requirements may change if our staffing levels or technology needs change significantly from what we currently anticipate, if we purchase additional equipment specifically to support a client engagement or if we pursue and complete additional acquisitions.

In certain business combinations consummated prior to January 1, 2009, a portion of our purchase price was in the form of contingent consideration, often referred to as earn-outs. The use of contingent consideration allows us to shift some of the valuation risk, inherent at the time of acquisitions, to the sellers based upon the outcome of future financial targets that the sellers contemplate in the valuations of the companies, assets or businesses they sell. Contingent consideration is payable annually as agreed upon performance targets are met and is generally subject to a maximum amount within a specified time period. Our obligations change from period-to-period primarily as a result of payments made during the current period, changes in the acquired entities' performance and changes in foreign currency exchange rates. In addition, certain acquisition-related restricted stock agreements contain common stock price guarantees that may result in cash payments in the future if our closing per share price falls below a specified per share price on the date the stock restrictions lapse. As of June 30, 2014, we had no accrued contingent consideration liabilities for business combinations consummated prior to January 1, 2009 and no remaining restricted stock agreements with common stock price guarantees.

For business combinations consummated on or after January 1, 2009, contingent consideration obligations are recorded as liabilities on our Condensed Consolidated Balance Sheets and remeasured to fair value at each subsequent reporting date with an offset to current period earnings. The fair value of future expected contingent purchase price obligations for these business combinations are \$6.6 million at June 30, 2014 with payment dates extending through 2018.

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

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

our future profitability;

the quality of our accounts receivable;

our relative levels of debt and equity;

the volatility and overall condition of the capital markets; and

the market prices of our securities.

Table of Contents

Any new debt funding, if available, may be on terms less favorable to us than our bank credit facility or the indentures that govern our senior notes. See **Forward-Looking Statements** in this Quarterly Report on Form 10-Q and **Risk Factors** included in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.

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.

Future Contractual Obligations

There have been no significant changes in our future contractual obligations since December 31, 2013.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve uncertainties and risks. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues, future results and performance, future capital expenditures, expectations, plans or intentions relating to acquisitions and other matters, business trends and other information that is not historical. Forward-looking statements often contain words such as *estimates, expects, anticipates, projects, plans, intends, believes, forecasts* and variations of such words or similar expressions. All forward-looking statements, including, without limitation, management's examination of historical operating trends, are based upon our historical performance and our current plans, estimates and expectations at the time we make them and various assumptions. 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. The inclusion of any forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Given these risks, uncertainties and other factors, you should not place undue reliance on any forward-looking statements.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in, or implied by, this Quarterly Report on Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q are set forth under the heading **Risk Factors** included in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q include the following:

changes in demand for our services;

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

conflicts resulting in our inability to represent certain clients;

our former employees joining or forming competing businesses;

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

our ability to identify suitable acquisition candidates, negotiate favorable terms, take advantage of opportunistic acquisition situations and integrate the operations of acquisitions as well as the costs of integration;

Table of Contents

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

our ability to replace key personnel, including senior managers and practice and regional leaders who have highly specialized skills and experience;

our ability to protect the confidentiality of internal and client data and proprietary and confidential information;

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

periodic fluctuations in revenues, operating income and cash flows;

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

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

competition for clients and key personnel;

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

our ability to manage growth;

risk of non-payment of receivables;

the amount and terms of our outstanding indebtedness;

risks relating to the obsolescence of, changes to, or the protection of, our proprietary software products and intellectual property rights; and

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Edgar Filing: FTI CONSULTING INC - Form 10-Q

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, 2013. There have been no significant changes in our market risk exposure during the period covered by this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

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

Table of Contents

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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

There has been no material change in any risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 24, 2014. We may disclose changes to risk factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

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

Unregistered sales of equity securities.

None

Repurchases of our common stock. The following table provides information with respect to purchases we made of our common stock during the second quarter ended June 30, 2014.

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value that May Yet Be Purchased Under the Program ⁽²⁾
April 1 through April 30, 2014	213	\$ 34.26		\$ 128,838,000
May 1 through May 31, 2014	4,386	\$ 30.68		\$ 128,838,000
June 1 through June 30, 2014	8,702	\$ 32.84		\$
Total	13,301			

⁽¹⁾ Represents shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.

⁽²⁾ In June 2012, our Board of Directors authorized a two-year stock repurchase program of up to \$250.0 million (the 2012 Repurchase Program). There were no shares repurchased under the 2012 Repurchase Program during the quarter ended June 30, 2014. On June 5, 2014, the 2012 Repurchase Program expired with an unused balance of approximately \$128.8 million.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Table of Contents

Item 5. Other Information.

None

Item 6. Exhibits

(a) Exhibits.

Exhibit Number	Exhibit Description
3.1	Articles of Incorporation of FTI Consulting, Inc., as amended and restated. (Filed with the SEC on May 23, 2003 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated May 21, 2003 and incorporated herein by reference.)
3.2	Articles of Amendment of FTI Consulting, Inc. (Filed with the SEC on June 2, 2011 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 1, 2011 and incorporated herein by reference.)
3.3	Bylaws of FTI Consulting, Inc., as amended and restated on June 1, 2011. (Filed with the SEC on June 2, 2011 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 1, 2011 and incorporated herein by reference.)
3.4	Amendment No. 1 to Bylaws of FTI Consulting, Inc. (Filed with the Securities and Exchange Commission on December 16, 2013 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated December 13, 2013 and incorporated herein by reference.)
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended (Section 302 of the Sarbanes-Oxley Act of 2002).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended (Section 302 of the Sarbanes-Oxley Act of 2002).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101**	The following financial information from the Quarterly Report on Form 10-Q of FTI Consulting, Inc. for the quarter ended June 30, 2014, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Comprehensive Income; (iii) Condensed Consolidated Statement of Stockholders' Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

Filed herewith.

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

Table of Contents

SIGNATURES

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

Date: July 31, 2014

FTI CONSULTING, INC.

By */s/ Catherine M. Freeman*
Catherine M. Freeman
Senior Vice President, Controller and

Chief Accounting Officer
(principal accounting officer)