
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 001-14875

FTI CONSULTING, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

900 Bestgate Road, Suite 100, Annapolis, Maryland
(Address of Principal Executive Offices)

52-1261113

(I.R.S. Employer Identification No.)

21401
(Zip Code)

(410) 224-8770

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class	Outstanding at July 31, 2004
Common stock, par value \$0.01 per share	42,631,512

FTI CONSULTING, INC. AND SUBSIDIARIES
INDEX

	Page
PART I	
	FINANCIAL INFORMATION
Item 1.	Consolidated Financial Statements
	Consolidated Balance Sheets
	December 31, 2003 and June 30, 2004 3
	Consolidated Statements of Income
	Three months and six months ended June 30, 2003 and 2004 4
	Consolidated Statement of Stockholders' Equity
	Six months ended June 30, 2004 5
	Consolidated Statements of Cash Flows Six months ended June 30, 2003 and 2004 6
	Notes to Consolidated Financial Statements 7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 27
Item 4.	Controls and Procedures 27
PART II	
	OTHER INFORMATION
Item 1.	Legal Proceedings 29
Item 2.	Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities 29
Item 3.	Defaults Upon Senior Securities 30
Item 4.	Submission of Matters to a Vote of Security Holders 30
Item 5.	Other Information 30
Item 6.	Exhibits and Reports on Form 8-K 31
	SIGNATURES 32

PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FTI Consulting, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except per share amounts)

	December 31, 2003	June 30, 2004
		(unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 5,765	\$ 3,108
Accounts receivable, net of allowance of \$11,511 in 2003 and \$11,041 in 2004	57,584	75,496
Unbilled receivables, net of allowance of \$4,384 in 2003 and \$4,569 in 2004	26,138	31,237
Deferred income taxes	4,798	4,798
Prepaid expenses and other current assets	4,918	11,240
	<hr/>	<hr/>
Total current assets	99,203	125,879
Property and equipment, net	20,757	20,403
Goodwill	514,544	515,191
Other intangible assets, net	10,137	7,482
Other assets	15,924	15,678
	<hr/>	<hr/>
Total assets	\$ 660,565	\$ 684,633
	<hr/>	<hr/>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable, accrued expenses and other	\$ 18,869	\$ 12,513
Accrued compensation and benefits	32,815	32,423
Current portion of long-term debt	16,250	18,750
Billings in excess of services provided	16,336	8,583
	<hr/>	<hr/>
Total current liabilities	84,270	72,269
Long-term debt, net of current portion	105,000	106,000
Capital lease obligations and other, net of current portion	1,822	1,973
Deferred income taxes	14,317	21,431
Commitments and contingent liabilities (notes 4, 5 and 9)		
Stockholders' equity		
Preferred stock, \$0.01 par value; 5,000 shares authorized; none outstanding	—	—
Common stock, \$0.01 par value; 75,000 shares authorized; 42,253 shares issued and outstanding — 2003 and 42,616 shares issued and outstanding — 2004	423	426
Additional paid-in capital	332,823	335,834
Unearned compensation	(5,733)	(5,277)
Retained earnings	127,667	151,977
Accumulated other comprehensive loss	(24)	—
	<hr/>	<hr/>
Total stockholders' equity	455,156	482,960
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 660,565	\$ 684,633
	<hr/>	<hr/>

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

FTI Consulting, Inc. and Subsidiaries
Consolidated Statements of Income
(in thousands, except per share data)
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Revenues	\$ 94,526	\$ 107,445	\$ 195,877	\$ 217,685
Operating expenses				
Direct cost of revenues	43,074	58,309	89,610	120,175
Selling, general and administrative expense	18,787	24,840	39,954	50,598
Amortization of other intangible assets	775	1,255	1,550	2,976
	<u>62,636</u>	<u>84,404</u>	<u>131,114</u>	<u>173,749</u>
Operating income	<u>31,890</u>	<u>23,041</u>	<u>64,763</u>	<u>43,936</u>
Other income (expense)				
Interest income	235	189	363	386
Interest expense	(976)	(1,585)	(2,934)	(3,189)
	<u>(741)</u>	<u>(1,396)</u>	<u>(2,571)</u>	<u>(2,803)</u>
Income from continuing operations before income tax provision	<u>31,149</u>	<u>21,645</u>	<u>62,192</u>	<u>41,133</u>
Income tax provision	<u>12,615</u>	<u>8,852</u>	<u>25,190</u>	<u>16,823</u>
Income from continuing operations	<u>18,534</u>	<u>12,793</u>	<u>37,002</u>	<u>24,310</u>
Discontinued operations				
Income from operations of discontinued operations, net of income tax provision of \$485 and \$1,346	686	—	1,916	—
Loss from sale of discontinued operations, net of income tax provision of \$3,513 and \$3,339	(7,020)	—	(7,275)	—
Loss from discontinued operations	<u>(6,334)</u>	<u>—</u>	<u>(5,359)</u>	<u>—</u>
Net income	<u>\$ 12,200</u>	<u>\$ 12,793</u>	<u>\$ 31,643</u>	<u>\$ 24,310</u>
Earnings per common share — basic				
Income from continuing operations	<u>\$ 0.45</u>	<u>\$ 0.30</u>	<u>\$ 0.92</u>	<u>\$ 0.58</u>
Net income	<u>\$ 0.30</u>	<u>\$ 0.30</u>	<u>\$ 0.79</u>	<u>\$ 0.58</u>
Earnings per common share — diluted				
Income from continuing operations	<u>\$ 0.44</u>	<u>\$ 0.30</u>	<u>\$ 0.89</u>	<u>\$ 0.57</u>
Net income	<u>\$ 0.29</u>	<u>\$ 0.30</u>	<u>\$ 0.76</u>	<u>\$ 0.57</u>

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

FTI Consulting, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(in thousands)
Unaudited

	Common Stock		Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount					
Balance, January 1, 2004	42,253	\$ 423	\$ 332,823	\$ (5,733)	\$ 127,667	\$ (24)	\$ 455,156
Issuance of common stock in connection with:							
Exercise of options, including income tax benefit of \$1,882	415	4	4,351				4,355
Employee stock purchase plan	202	2	2,838				2,840
Restricted share grants, net of forfeitures	25	—	173	(173)			—
Purchase and retirement of common stock	(279)	(3)	(4,351)				(4,354)
Amortization of unearned compensation				629			629
Other comprehensive income, net of income taxes of \$17						24	24
Net income					24,310		24,310
Balance, June 30, 2004	42,616	\$ 426	\$ 335,834	\$ (5,277)	\$ 151,977	\$ —	\$ 482,960

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

FTI Consulting, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)
Unaudited

	Six Months Ended June 30,	
	2003	2004
Operating activities		
Net income	\$ 31,643	\$ 24,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	2,856	4,351
Amortization of other intangible assets	1,550	2,976
Provision for doubtful accounts	3,799	2,554
Non-cash stock-based compensation	80	629
Loss from sale of discontinued operations	7,275	—
Income tax benefit from stock option exercises	11,052	1,882
Non-cash interest expense and other	984	103
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(1,949)	(25,309)
Prepaid expenses and other current assets	710	(3,797)
Accounts payable, accrued expenses and other	2,620	1,428
Income taxes payable	1,344	(479)
Accrued compensation expense	(1,622)	(392)
Billings in excess of services provided	(3,369)	(7,753)
Net cash provided by operating activities	<u>56,973</u>	<u>503</u>
Investing activities		
Purchases of property and equipment	(5,464)	(4,099)
Cash received from sale of discontinued operations	2,150	—
Payments for acquisition of businesses, including contingent payments and acquisition costs	(408)	(923)
Change in other assets	886	603
Net cash used in investing activities	<u>(2,836)</u>	<u>(4,419)</u>
Financing activities		
Issuance of common stock, net of offering costs	99,223	—
Issuance of common stock under equity compensation plans	11,329	2,473
Purchase and retirement of common stock	—	(4,354)
Borrowings under revolving credit facility	—	32,000
Payments of revolving credit facility	—	(21,000)
Payments of long-term debt	(61,954)	(7,500)
Payments of capital lease obligations and other	(148)	(360)
Net cash provided by financing activities	<u>48,450</u>	<u>1,259</u>
Net increase (decrease) in cash and cash equivalents	<u>102,587</u>	<u>(2,657)</u>
Cash and cash equivalents, beginning of period	<u>9,906</u>	<u>5,765</u>
Cash and cash equivalents, end of period	<u>\$ 112,493</u>	<u>\$ 3,108</u>

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

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(amounts in tables expressed in thousands, except per share data)
Unaudited

1. Basis of Presentation

Our unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles and under the rules and regulations of the Securities and Exchange Commission for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules or regulations. In management's opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. You should not expect the results of operations for interim periods to necessarily be an indication of the results for a full year. You should read these financial statements in conjunction with the consolidated financial statements and the notes contained in our annual report on Form 10-K for the year ended December 31, 2003.

2. Significant Accounting Policies
Earnings per Common Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjusts basic earnings per share for the potentially dilutive effects of shares issued and issuable under our stock option plans using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Numerator — basic and diluted				
Income from continuing operations	\$ 18,534	\$ 12,793	\$ 37,002	\$ 24,310
Loss from discontinued operations	(6,334)	—	(5,359)	—
Net income	<u>\$ 12,200</u>	<u>\$ 12,793</u>	<u>\$ 31,643</u>	<u>\$ 24,310</u>
Denominator				
Weighted average number of common shares outstanding — basic	41,343	42,172	40,003	42,135
Effect of dilutive restricted shares	—	4	—	3
Effect of dilutive stock options	1,181	341	1,435	423
Weighted average number of common shares outstanding — diluted	<u>42,524</u>	<u>42,517</u>	<u>41,438</u>	<u>42,561</u>
Earnings per common share — basic				
Income from continuing operations	\$ 0.45	\$ 0.30	\$ 0.92	\$ 0.58
Loss from discontinued operations	(0.15)	—	(0.13)	—
Net income	<u>\$ 0.30</u>	<u>\$ 0.30</u>	<u>\$ 0.79</u>	<u>\$ 0.58</u>
Earnings per common share — diluted				
Income from continuing operations	\$ 0.44	\$ 0.30	\$ 0.89	\$ 0.57
Loss from discontinued operations	(0.15)	—	(0.13)	—
Net income	<u>\$ 0.29</u>	<u>\$ 0.30</u>	<u>\$ 0.76</u>	<u>\$ 0.57</u>
Antidilutive stock options and restricted shares	<u>374</u>	<u>3,338</u>	<u>369</u>	<u>3,242</u>

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

Stock-Based Compensation

We record compensation expense for stock-based compensation for employees and non-employee members of our board of directors using the intrinsic value method prescribed by Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB Opinion No. 25, compensation expense is recorded over the vesting period to the extent that the fair value of the underlying stock on the grant date exceeds the exercise or acquisition price of the stock or stock-based award.

All options granted under our stock-based employee compensation plans had an exercise price greater than or equal to the market value of the underlying common stock on the date of grant. We also periodically issue restricted and unrestricted stock to employees in connection with new hires and performance evaluations. The fair market value on the date of issue of unrestricted stock is immediately charged to compensation expense, and the fair value on the date of issue of restricted stock is charged to compensation expense ratably over the restriction period.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages companies to recognize expense for stock-based awards based on their estimated fair value on the date of grant. Statement No. 123 requires the disclosure of pro forma income and earnings per share data in the notes to the financial statements if the fair value method is not adopted. The following table illustrates the effect on net income and earnings per share if we had determined compensation costs by applying the fair value recognition provisions of Statement No. 123 to stock-based employee awards.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Net income, as reported	\$12,200	\$12,793	\$31,643	\$24,310
Add — Stock-based employee compensation cost included in reported net income, net of income taxes	56	208	117	372
Deduct — Total stock-based employee compensation expense determined under a fair value based method for all awards, net of income taxes	(2,888)	(1,911)	(5,042)	(3,539)
Net income, pro forma	<u>\$ 9,368</u>	<u>\$11,090</u>	<u>\$26,718</u>	<u>\$21,143</u>
Earnings per common share				
Basic, as reported	\$ 0.30	\$ 0.30	\$ 0.79	\$ 0.58
Basic, pro forma	<u>\$ 0.23</u>	<u>\$ 0.26</u>	<u>\$ 0.67</u>	<u>\$ 0.50</u>
Diluted, as reported	\$ 0.29	\$ 0.30	\$ 0.76	\$ 0.57
Diluted, pro forma	<u>\$ 0.22</u>	<u>\$ 0.26</u>	<u>\$ 0.65</u>	<u>\$ 0.50</u>

The Black-Scholes option-pricing model and other models were developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions, including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, we believe the existing models do not necessarily provide a reliable measure of the fair value of our stock-based awards. The fair value of our stock-based awards was estimated on the measurement date using the Black-Scholes option-pricing model along with the following assumptions.

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Assumptions				
Risk-free interest rate — option plan grants	2.04%	2.97% — 3.31%	1.86% — 2.21%	1.90% — 3.31%
Risk-free interest rate — purchase plan grants	—	—	1.16%	0.96%
Dividend yield	0	0%	0%	0%
Expected life of option grants	3 years	3 years	3 years	3 years
Expected life of stock purchase plan grants	—	—	0.5 years	0.5 years
Stock price volatility — option plan grants	56.1%	57.2% — 57.8%	56.1% — 59.4%	54.6% — 59.6%
Stock price volatility — purchase plan grants	—	—	61.0%	56.9%
Weighted average fair value of grants				
Stock options:				
Grant price = fair market value	\$ —	\$ 6.89	\$10.84	\$ 6.76
Grant price > fair market value	\$ 10.99	\$ 6.13	\$11.19	\$ 6.19
Employee stock purchase plan shares	\$ —	\$ —	\$ 8.62	\$ 7.26
Restricted shares	\$ —	\$15.65	\$ —	\$15.52

Goodwill and Other Intangible Assets

We perform impairment tests on the carrying value of our goodwill as of October 1st of each year. No impairment of goodwill was identified as a result of these tests. Due to the resignation of a number of our professional staff, we performed an impairment test of our goodwill in February 2004. No impairment of goodwill was identified as a result of our test.

Other intangible assets with finite lives are amortized over their estimated useful lives. The changes in the carrying amount of goodwill for the six months ended June 30, 2004, are as follows:

Balance as of January 1, 2004	\$ 514,544
Goodwill acquired during the year:	
Costs related to acquisitions completed in 2003	423
Adjustments to allocation of purchase price	224
Balance as of June 30, 2004	\$ 515,191

The table below summarizes our other intangible assets subject to amortization. The amortizable assets acquired in 2003 are based on our estimated valuations, which we will finalize in 2004. The final purchase price allocations may differ from our preliminary estimates.

	Useful Life in Years	December 31, 2003		June 30, 2004	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contracts, backlog	1.5 to 3	\$ 12,700	\$ 4,247	\$ 12,691	\$ 6,710
Intellectual property	3	360	160	540	347
Non-compete agreement	3	1,790	306	1,940	632
		\$ 14,850	\$ 4,713	\$ 15,171	\$ 7,689

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

Intangible asset amortization is estimated to be \$2.4 million for the remainder of 2004, \$3.3 million in 2005 and \$1.8 million in 2006.

Reclassifications

Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

3. Discontinued Operations

During 2003, we sold our applied sciences practice group, consisting of the LWG asset disposal group and the SEA asset disposal group. Because we eliminated the operations and cash flows of the business components comprising the applied sciences practice group from our ongoing operations as a result of the disposition transactions, and because we did not have any significant continuing involvement in the operations after the disposition transactions, we presented the results of the applied sciences practice group's operations as a discontinued operation through 2003. Summarized operating results of the applied sciences practice group for the three- and six-month periods ended June 30, 2003 are as follows:

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Revenues	\$ 8,052	\$ 17,516
Income before income taxes	1,172	3,263
Net income	686	1,916

4. Long-Term Debt and Capital Lease Obligations

	December 31, 2003	June 30, 2004
Bank credit facility		
Term loans, interest payable quarterly (3.1% to 3.2% — 2003; 2.9% — 2004)	\$ 121,250	\$ 113,750
Revolving loan commitment of \$100.0 million, interest payable quarterly (2.9% to 4.3% — 2004)	—	11,000
Total long-term debt	121,250	124,750
Less current portion	16,250	18,750
Long-term debt, net of current portion	\$ 105,000	\$ 106,000
Total capital lease obligations		
Less current portion	583	386
Capital lease obligations, net of current portion	\$ 366	\$ 221

Bank credit facility. Our bank credit facility provides for up to \$225.0 million of secured financing, consisting of a \$100.0 million revolving credit facility and \$125.0 million in term loans. Principal payments on the term loans began on December 31, 2003, and are payable quarterly thereafter through September 30, 2008. The maturity date of the \$100.0 million revolving credit facility is November 28, 2008. However, we may choose to repay outstanding borrowings under the revolving credit facility at any time before maturity without penalty. Debt under the credit facility bears interest at an annual rate equal to the London Interbank Offered Rate, or LIBOR, plus an applicable margin or an alternative base rate defined as the higher of (1) the lender's announced U.S. prime rate or (2) the federal funds rate plus the sum of 50 basis points and an applicable margin. Under the credit facility, the lenders have a security interest in substantially all of our assets.

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

As of June 30, 2004, substantially all of our subsidiaries are guarantors of borrowings under our bank credit facility in the amount of \$124.8 million.

The bank credit facility contains covenants which limit our ability to incur additional indebtedness; create liens; pay dividends on, make distributions or repurchases of our capital stock or make specified other restricted payments; consolidate, merge or sell all or substantially all of our assets; guarantee obligations of other entities; enter into hedging agreements; enter into transactions with affiliates or related persons or engage in any business other than the consulting business. The credit facility requires compliance with financial ratios, including total indebtedness to earnings before interest, taxes, depreciation and amortization, or EBITDA; EBITDA to specified charges and the maintenance of a minimum net worth, each as defined under the amended credit facility. As of June 30, 2004, we were in compliance with all covenants as stipulated in the credit facility agreements.

Interest rate swaps. We have previously entered into interest rate swap transactions on a portion of our outstanding term loans. At December 31, 2003, the notional amount of our outstanding interest rate swap agreement was \$8.6 million. The interest rate swap expired in January 2004. We recognize changes in the fair value of interest rate swaps in the consolidated financial statements as changes in accumulated other comprehensive income (loss). During 2003 and 2004, we did not recognize a net gain (loss) related to the interest rate swap transactions as there was no ineffective portion of the cash flow hedge nor was there any portion of the hedged instrument excluded from the assessment of hedge effectiveness.

Future maturities of long-term debt and capital lease obligations. For years subsequent to December 31, 2003, scheduled annual maturities of long-term debt and capital lease obligations outstanding as of December 31, 2003 are as follows.

	Long-Term Debt	Capital Lease Obligations	Total
Remainder of 2004	\$ 8,750	\$ 250	\$ 9,000
2005	21,250	282	21,532
2006	26,250	89	26,339
2007	31,250	16	31,266
2008	37,250	2	37,252
	<u>124,750</u>	<u>639</u>	<u>125,389</u>
Less imputed interest	—	32	32
	<u>\$ 124,750</u>	<u>\$ 607</u>	<u>\$ 125,357</u>

5. Contingencies

See "Part II — Other Information, Item 1. Legal Proceedings."

6. Stock Option and Employee Stock Purchase Plans

Stock Option Plans. Our 1997 Stock Option Plan provides for the issuance of up to 11,587,500 shares of common stock to employees and non-employee directors. Under the terms of the 1997 plan, we may grant option rights or shares of restricted and unrestricted common stock to employees. As of June 30, 2004, 422,413 shares of common stock are available for grant under our 1997 Stock Option Plan.

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

On May 19, 2004, our stockholders approved the FTI Consulting, Inc. 2004 Long-Term Incentive Plan. The 2004 plan provides for grants of option rights, appreciation rights, restricted or unrestricted shares, performance awards or other stock-based awards to our officers, employees, non-employee directors and individual service providers. We are authorized to issue up to 3,000,000 shares of common stock under the 2004 plan. As of June 30, 2004, 2,681,251 shares of common stock are available for grant under our 2004 Long-Term Incentive Plan.

Vesting provisions for individual awards under our stock option plans are at the discretion of our board of directors. Generally, outstanding options have been granted at prices equal to or exceeding the market value of the stock on the grant date, vest over periods of up to three years, and expire ten years subsequent to award.

During the six months ended June 30, 2004, we granted 56,749 shares of restricted common stock to employees at a weighted-average fair value of \$15.52. We did not grant any shares of common stock to employees during the six months ended June 30, 2003.

The following table summarizes the option activity under the plans for the six-month periods ended June 30, 2003 and 2004.

	2003	Weighted Average Exercise Price	2004	Weighted Average Exercise Price
Option outstanding, January 1	5,807	\$ 14.72	4,330	\$ 18.54
Options granted during the period:				
Options granted = fair market value	68	\$ 26.15	655	\$ 16.58
Options granted > fair market value	45	\$ 31.37	45	\$ 17.82
Options exercised	(1,661)	\$ 6.82	(415)	\$ 5.95
Options forfeited	(41)	\$ 18.58	(437)	\$ 22.26
Options outstanding, June 30	4,218	\$ 17.65	4,178	\$ 19.09
Options exercisable, June 30	1,053	\$ 14.62	1,866	\$ 17.26

Following is a summary of the status of stock options outstanding and exercisable at June 30, 2004.

Exercise Price Range	Shares	Options Outstanding		Options Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Shares	Weighted Average Exercise Price
\$ 1.90 — \$12.36	968	\$ 9.20	6.4 years	721	\$ 8.18
\$14.14 — \$16.80	640	\$ 16.08	9.6 years	30	\$ 14.48
\$17.73 — \$21.97	1,080	\$ 20.78	8.3 years	524	\$ 20.35
\$22.39 — \$24.28	881	\$ 24.14	8.2 years	291	\$ 24.12
\$25.67 — \$33.25	609	\$ 27.70	8.4 years	300	\$ 27.29
	4,178	\$ 19.09		1,866	\$ 17.26

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

Employee Stock Purchase Plan

The FTI Consulting, Inc. Employee Stock Purchase Plan allows eligible employees to subscribe to purchase shares of common stock through payroll deductions of up to 15% of eligible compensation, subject to limitations. The purchase price is the lower of 85% of the fair market value of our common stock on the first trading day or the last trading day of each semi-annual offering period. A total of 2,050,000 shares are authorized for purchase under the plan. As of June 30, 2004, 580,126 shares of common stock are available for sale to plan participants. Employees purchased shares under this plan during the following periods at the weighted average prices per share as indicated: six months ended June 30, 2003 — 113,297 at \$21.23; and six months ended June 30, 2004 — 202,396 at \$14.03.

7. Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Net income	\$ 12,200	\$ 12,793	\$ 31,643	\$ 24,310
Other comprehensive income — change in fair value of interest rate swaps	172	—	337	24
Total comprehensive income, net of income taxes	\$ 12,372	\$ 12,793	\$ 31,980	\$ 24,334

8. Segment Reporting

Prior to September 1, 2002, we were organized into three operating segments: Financial Consulting, Litigation Consulting and Applied Sciences. As a result of the acquisition of the domestic Business Recovery Services division of PricewaterhouseCoopers, LLP in August 2002 and the decision to sell the applied sciences practice group, we began managing our operations as one segment. During the fourth quarter of 2003, we completed three acquisition transactions. As part of the integration of the acquired businesses, we reorganized our operations into three operating segments. During the first quarter of 2004, we completed the reorganization and appointed a manager for each operating segment.

Our reportable operating segments are business units that offer distinct services. Within our forensic and litigation consulting practice, we help clients assess complex financial transactions and reconstruct events from incomplete and/or corrupt data, uncover vital evidence, identify potential claims and assist in the pursuit of economic recoveries. We also provide asset tracing investigative services and expert witness services. Our litigation practice serves clients in all phases of litigation, including pre-filing, discovery, jury selection, trial preparation, expert testimony and the actual trial. We assist with refining issues in litigation and venue selection, and provide fraud investigation and securities litigation assistance. Our trial graphics and technology and electronic evidence experts assist clients in preparing for and presenting their cases in court.

Our corporate finance/restructuring practice provides turnaround, performance improvement, lending solutions, financial and operational restructuring, restructuring advisory, mergers and acquisitions and interim management services. We assist under performing companies in making decisions to improve their financial and operational position given their current situation. We analyze, recommend and implement strategic alternatives for our corporate finance/restructuring clients, such as rightsizing infrastructure, improving working capital management, selling non-core assets or business units, restructuring capital and borrowings, and assessing long-term viability and business strategy. We also lead and manage the financial aspects of the in-court restructuring process, such as assessing the impact of a bankruptcy filing on the client's financial and operational

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

situation, planning for the smooth transition in and out of bankruptcy, facilitating the sale of assets and assisting to arrange debtor-in-possession financing. Through our corporate finance services, we can help financially distressed companies implement their plans by providing interim management teams.

Within our economic consulting practice, we provide our clients with analyses of complex economic issues for use in legal and regulatory proceedings, strategic decision-making and public policy debates. Our services include providing advice and testimony related to

- antitrust and competition issues that arise in the context of potential mergers and acquisitions;
- other antitrust issues, including alleged price fixing, cartels and other forms of exclusionary behavior;
- the application of modern finance theory to issues arising in securities litigation; and
- public policy studies on behalf of companies, trade associations and governmental agencies.

We evaluate the performance of these operating segments based on operating income before depreciation, amortization and corporate general and administrative expenses. In general, our assets are not specifically attributable to any particular segment; therefore, we do not allocate assets to our reportable segments. Accordingly, asset information by reportable segment is not presented. The reportable segments use the same accounting policies as those used by the company. There are no significant intercompany sales or transfers.

Substantially all of our revenues and assets are attributed to or are located in the United States. We do not have a single customer that represents ten percent or more of our consolidated revenues.

In 2003, we did not operate our business practices as segments. Accordingly, we did not report results of operations by segment. The table below presents revenues, gross margin and segment profits for the three- and six-month periods ended June 30, 2004. For the three- and six-month periods ended June 30, 2003, the table presents segment revenues and gross margin that are estimates derived from classifying client engagements by the principal nature of the service.

	<u>Forensic and Litigation Consulting</u>	<u>Corporate Finance/ Restructuring</u>	<u>Economic Consulting</u>	<u>Total</u>
Three months ended June 30, 2003				
Revenues	\$ 25,472	\$ 66,226	\$ 2,828	\$ 94,526
Gross margin	11,717	38,612	1,123	51,452
Segment profit	N/A	N/A	N/A	38,362
Three months ended June 30, 2004				
Revenues	\$ 45,742	\$ 39,576	\$ 22,127	\$ 107,445
Gross margin	22,128	18,625	8,383	49,136
Segment profit	14,408	12,622	5,346	32,376
Six months ended June 30, 2003				
Revenues	\$ 51,317	\$ 138,259	\$ 6,301	\$ 195,877
Gross margin	24,515	79,076	2,676	106,267
Segment profit	N/A	N/A	N/A	78,773
Six months ended June 30, 2004				
Revenues	\$ 89,855	\$ 82,863	\$ 44,967	\$ 217,685
Gross margin	42,396	38,623	16,491	97,510
Segment profit	27,029	25,259	10,758	63,046

N/A– Not available

FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(amounts in tables expressed in thousands, except per share data)
Unaudited

The following table presents a reconciliation of segment profit to income from continuing operations before income taxes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Operating profit				
Total segment profit	\$ 38,362	\$ 32,376	\$ 78,773	\$ 63,046
Corporate general and administrative expenses	4,396	5,829	9,604	11,783
Depreciation and amortization	1,301	2,251	2,856	4,351
Amortization of other intangible assets	775	1,255	1,550	2,976
Interest expense, net	741	1,396	2,571	2,803
Income from continuing operations before income tax provision	\$ 31,149	\$ 21,645	\$ 62,192	\$ 41,133

9. Subsequent Event

We entered into a new lease agreement for office space in New York City. The lease commenced on July 22, 2004 and expires in November 2021. In accordance with the lease terms, we received a cash inducement of \$8.1 million that we will amortize over the future life of the lease as a reduction to the cash rent expense. We plan on consolidating our New York City area offices and relocating our employees into the new space during the fourth quarter of 2004. As a result of this decision, we will be vacating leased office facilities prior to the lease termination dates. Although we plan on subleasing the facilities, we expect to record a loss of about \$3.2 million related to the subleased facilities during the second half of 2004.

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

Introduction and Overview.

The following is a discussion and analysis of our consolidated financial condition and results of operations for the three- and six-month periods ended June 30, 2004 and 2003, and significant factors that could affect our prospective financial condition and results of operations. You should read this discussion together with the accompanying unaudited condensed financial statements and notes and with our consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2003 and our quarterly report on Form 10-Q for the three months ended March 31, 2004. Historical results may not indicate our future performance. See "— Forward Looking Statements."

We are one of the largest providers of forensic and litigation consulting, corporate finance/restructuring and economic consulting services in the United States. Within our forensic and litigation consulting practice, we help clients assess complex financial transactions and reconstruct events from incomplete and/or corrupt data, uncover vital evidence, identify potential claims and assist in the pursuit of economic recoveries. We also provide asset tracing investigative services and expert witness services. Our litigation practice serves clients in all phases of litigation, including pre-filing, discovery, jury selection, trial preparation, expert testimony and the actual trial. We assist with refining issues in litigation and venue selection, and provide fraud investigation and securities litigation assistance. Our trial graphics and technology and electronic evidence experts assist clients in preparing for and presenting their cases in court.

Our corporate finance/restructuring practice provides turnaround, performance improvement, lending solutions, financial and operational restructuring, restructuring advisory, mergers and acquisitions and interim management services. We assist under performing companies in making decisions to improve their financial and operational position given their current situation. We analyze, recommend and implement strategic alternatives for our corporate finance/restructuring clients, such as rightsizing infrastructure, improving working capital management, selling non-core assets or business units, restructuring capital and borrowings, and assessing long-term viability and business strategy. We also lead and manage the financial aspects of the in-court restructuring process, such as assessing the impact of a bankruptcy filing on the client's financial and operational situation, planning for the smooth transition in and out of bankruptcy, facilitating the sale of assets and assisting to arrange debtor-in-possession financing. Through our corporate finance services, we can help financially distressed companies implement their plans by providing interim management teams.

Within our economic consulting practice, we provide our clients with analyses of complex economic issues for use in legal and regulatory proceedings, strategic decision-making and public policy debates. Our services include providing advice and testimony related to

- antitrust and competition issues that arise in the context of potential mergers and acquisitions;
- other antitrust issues, including alleged price fixing, cartels and other forms of exclusionary behavior;
- the application of modern finance theory to issues arising in securities litigation; and
- public policy studies on behalf of companies, trade associations and governmental agencies.

All of our practices have experience providing testimony in the following areas: fraud, damages, lost profits, valuation, accountant's liability and malpractice, contract disputes, patent infringement, price fixing, purchase price disputes, solvency and insolvency, fraudulent conveyance, preferences, disclosure statements, trademark and copyright infringement and the financial impact of government regulations.

Recent Events Affecting Our Operations. During the fourth quarter of 2003, we completed three strategic business acquisitions. The Lexecon business, which we acquired as of November 28, 2003, is one of the leading economic consulting firms in the United States, concentrating in litigation support and expert analysis, public policy analysis, anti-trust and competition and general business services. We acquired substantially all of the assets and certain liabilities of Lexecon Inc. from its parent Nextera Enterprises, Inc. We added 122 billable Lexecon professionals. These professionals now operate as part of our economic consulting practice.

[Table of Contents](#)

We acquired specified assets and liabilities of the dispute advisory services business of KPMG LLP, as of October 31, 2003. The dispute advisory services business assists clients in the analysis and resolution of all phases of complex claims and disputes. We added 151 billable professionals with the dispute advisory services business. These professionals now operate as part of our forensic and litigation consulting practice.

As of October 15, 2003, we acquired substantially all of the assets and certain liabilities of Ten Eyck Associates, P.C., which expanded our consulting services relating to SEC investigations, securities law litigation, SEC accounting and enforcement, fraud investigations and The Sarbanes-Oxley Act of 2002. With the Ten Eyck asset acquisition, we added approximately 20 billable professionals. These professionals now operate as part of our forensic and litigation consulting practice.

During the first quarter of 2004, we announced the unanticipated departure of a number of senior professionals in our corporate finance/restructuring practice. Some or all of those professionals have formed a company to compete with us. In addition, some of our clients have transferred their engagements to those former employees and their company. See "Part II—Other Information, Item 1. Legal Proceedings." These clients requested refunds of their retainer balances, which negatively impacted our cash flows during the first half of 2004.

We entered into a new lease agreement for office space in New York City. The lease commenced on July 22, 2004 and expires in November 2021. In accordance with the lease terms, we received a cash inducement of \$8.1 million that we will amortize over the future life of the lease as a reduction to the cash rent expense. We plan on consolidating our New York City area offices and relocating our employees into the new space during the fourth quarter of 2004. As a result of this decision, we will be vacating leased office facilities prior to the lease termination dates. Although we plan on subleasing the facilities, we expect to record a loss of about \$3.2 million related to the subleased facilities during the second half of 2004.

Selected Financial and Operating Data. Over the past several years the growth in our revenues and profitability has resulted primarily from the acquisitions we have completed and also from our ability to attract new and recurring engagements. During the second quarter of 2004, our revenues increased \$12.9 million, or 13.7%, as compared to the second quarter of 2003. During the first half of 2004, our revenues increased \$21.8 million, or 11.1%, as compared to the first half of 2003. This growth was primarily due to the acquisitions we completed during the fourth quarter of 2003. Although total revenues increased, the reduced volume of new business in the restructuring market and the unanticipated departure of a number of billable professional staff in our corporate finance/restructuring practice resulted in lower revenues from those services during 2004 as compared to 2003.

Our financial results are primarily driven by:

- the utilization rates of the billable professionals we employ;
- the number of billable professionals we employ;
- the rates per hour we charge our clients for service; and
- the number and size of engagements we secure.

Utilization Rates of Billable Professionals

	<u>2003</u>	<u>2004</u>	<u>Percent Change</u>
Three Months Ended June 30,			
Forensic and Litigation Consulting	73%	76%	4.1%
Corporate Finance/Restructuring	90%	84%	(6.7)%
Economic Consulting	92%	81%	(12.0)%
Total	85%	79%	(7.1)%
Six Months Ended June 30,			
Forensic and Litigation Consulting	79%	76%	(3.8)%
Corporate Finance/Restructuring	94%	84%	(10.6)%
Economic Consulting	96%	83%	(13.5)%
Total	89%	80%	(10.1)%

We calculate the utilization rate for our professional staff by dividing the number of hours all of our professionals charged our clients during a period by the total available working hours for all of our professionals assuming a 40-hour work week and a 52-week year. Available working hours includes vacation and professional training days, but excludes holidays. During the first half of 2004, we experienced a decrease in utilization rates across all practice areas as compared to the same period of 2003. During the first half of 2003, utilization rates were high and our financial performance was strong across all practice areas. However, during the third quarter of 2003, demand for our corporate finance/restructuring services began to decline, primarily resulting from a strengthening economy coupled with a decline in the volume of new business in the restructuring market. As a result of economic conditions, utilization rates decreased in our corporate finance/restructuring practice during 2003. The unanticipated departures of professionals from this practice area during the first quarter of 2004 resulted in a further reduction to utilization rates in 2004, since these professionals were highly utilized.

For the first half of 2004, the utilization rates in our forensic and litigation consulting practice are lower than the first half of 2003. This is primarily attributable to the dispute advisory services business of KPMG that we acquired in the fourth quarter of 2003. The overall utilization rate of these professionals was lower than anticipated during the first few months after completion of the acquisition. However, throughout the first quarter and continuing into the second quarter of 2004, the utilization rates of these professionals improved significantly. As a result the utilization rate of our forensic and litigation consulting practices during the second quarter of 2004 is higher than to the second quarter of 2003.

The economic consulting practice predominately reflects the results of the Lexecon business we acquired in the fourth quarter of 2003. Prior to the Lexecon acquisition, our economic consulting practice was relatively small and the utilization rates in 2003 primarily reflect the impact of several large engagements that were ongoing at that time.

Although utilization rates are generally lower than we experienced in 2003, the rates for the second quarter of 2004 are fairly stable in comparison to the first quarter of 2004. We continue to manage our utilization rates by redeploying our professionals to work on assignments in practice areas where demand is currently higher. We expect that utilization rates will be lower during the third quarter as a result of customary seasonal factors, such as vacations. In addition, we expect our overall utilization rates will also be lower in 2004 than 2003 as a result of the previously mentioned economic factors and the departures of some of our billable professionals who had historically generated among the highest utilization rates in our business.

Number of Billable Professionals

	June 30, 2003		June 30, 2004		Percent Change
	Headcount	% of Total	Headcount	% of Total	
Forensic and Litigation Consulting	226	38.5%	375	50.0%	65.9%
Corporate Finance/Restructuring	334	56.9%	229	30.5%	(31.4)%
Economic Consulting	27	4.6%	146	19.5%	440.7%
Total	587	100.0%	750	100.0%	27.8%

* The headcount information for 2003 excludes employees associated with our discontinued operations.

The number of billable employees increased from June 30, 2003 to June 30, 2004 largely due to the integration of Lexecon into our economic consulting practice and Ten Eyck and KPMG's dispute advisory services business into our forensic and litigation consulting practice. We acquired about 290 billable employees as a result of these transactions in the fourth quarter of 2003. During the latter part of 2003, our corporate finance/restructuring practice experienced a decrease in billable employees related to the decreased demand for these services. In addition, during the first quarter of 2004, about 60 of our professionals departed from our former FTI/Policano & Manzo restructuring practice.

Average Billable Rate per Hour

	2003	2004	Percent Change
Three Months Ended June 30,			
Forensic and Litigation Consulting	\$295	\$291	(1.4)%
Corporate Finance/Restructuring	406	419	3.2%
Economic Consulting	272	376	38.2%
Total	350	349	(0.3)%
Six Months Ended June 30,			
Forensic and Litigation Consulting	\$273	\$286	4.8%
Corporate Finance/Restructuring	392	427	8.9%
Economic Consulting	253	377	49.0%
Total	347	351	1.2%

Our average billable rate per hour for the first half of 2004 was \$351, an increase from an average of \$347 for 2003. The improvement in our billable rates is the result of several factors, including:

- planned bill rate increases implemented during the second half of 2003;
- a decrease in billable professionals in our corporate finance/restructuring practice primarily at the lower levels, which resulted in an increasing percentage of our professional employees being billable at higher rates; and
- an increase in the billable rates in our economic practice attributable to the Lexecon acquisition.

Although billable rates increased across most of our practice areas during the second quarter of 2004 as compared to the second quarter of 2003, the total company billable rate decreased slightly. This decrease is primarily due to a larger percentage of our business being generated in 2004 by the forensic and litigation consulting practice which has lower billable rates than our corporate finance/restructuring practice.

[Table of Contents](#)

Segment Profits.

	2003		2004		Percent Change
	Segment Profits	% of Segment Revenues	Segment Profits	% of Segment Revenues	
(dollars in thousands)					
Three Months Ended June 30,					
Forensic and Litigation Consulting	N/A	N/A	\$ 14,408	31.5%	N/A
Corporate Finance/Restructuring	N/A	N/A	12,622	31.9%	N/A
Economic Consulting	N/A	N/A	5,346	24.2%	N/A
Corporate	\$ (4,396)	N/A	(5,829)	N/A	(32.6)%
Total	\$33,966	35.9%	\$ 26,547	24.7%	(21.8)%
Six Months Ended June 30,					
Forensic and Litigation Consulting	N/A	N/A	\$ 27,029	30.1%	N/A
Corporate Finance/Restructuring	N/A	N/A	25,259	30.5%	N/A
Economic Consulting	N/A	N/A	10,758	23.9%	N/A
Corporate	\$ (9,604)	N/A	(11,783)	N/A	(22.7)%
Total	\$69,169	35.3%	\$ 51,263	23.5%	(25.9)%

N/A– Not available

In 2003, we did not operate our business practices as segments. Accordingly, we did not report results of operations by segment. The table above presents segment profits for the three- and six-month periods ended June 30, 2004. We evaluate the performance of these segments based on operating income before depreciation, amortization and corporate general and administrative expenses.

Total segment profits decreased during the three- and six-month periods ended June 30, 2004 as compared to the comparable periods of 2003. This decrease was driven by several factors, including the following:

- the decrease in demand for our corporate finance/restructuring related services, which began late in the third quarter of 2003;
- the unanticipated departure during the first quarter of 2004 of a number of billable professional staff in our corporate finance/restructuring practice that operated at high utilization rates;
- lower utilization rates generated by our recently acquired businesses relative to our historical experience;
- lower gross profit margins generated by our recently acquired businesses, particularly Lexecon, an economic consulting business that operates in a competitive environment that typically generates lower gross margins than those experienced by our financial and litigation consulting and our corporate finance/restructuring practices; and
- an increase in corporate overhead expenses driven largely by increased staffing and consulting costs to address the requirements of the Sarbanes-Oxley Act and to further strengthen our corporate governance activities.

We have addressed the decrease in demand for our corporate finance/restructuring services through the voluntary and involuntary turnover of our professionals as well as through reassignments of professionals to other practice areas. Any decrease in revenues without a corresponding reduction in our costs will likely harm our profitability. In the second quarter of 2004, our efforts have been successful and segment margins as a percentage of segment revenues have increased across all three operating segments as compared to the first quarter of 2004. We expect segment profits to be lower in the third quarter as a result of customary seasonal factors which result in lower utilization rates and lower revenues than we generally experience during the first half of the year.

Critical Accounting Policies

General. Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States. 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. On an ongoing basis, we evaluate our estimates, including those related to bad debts, goodwill, income taxes and contingencies. 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.

We believe that the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We derive substantially all of our revenue from providing professional services to our clients. Most of these services are rendered under arrangements that require the client to pay us a fee for the hours that we incur at agreed-upon rates. We also bill our clients for the cost of the production of our work products and other direct expenses that we incur on behalf of the client, such as travel costs and materials that we purchase to produce presentations for courtroom proceedings. We recognize revenue from our professional services as work is performed and expenses are incurred. The basis for our policy is the fact that we normally obtain engagement letters or other agreements from our clients prior to performing any services. In these letters and other agreements, the clients acknowledge that they will pay us based upon our time spent on the matter and at our agreed-upon hourly rates. Revenues recognized but not yet billed to clients are recorded at net realizable value as unbilled receivables in the accompanying consolidated balance sheets. Billings in excess of services provided represent amounts billed to clients, such as retainers, in advance of work being performed.

Some clients pay us retainers before we begin any work for them. We hold retainers on deposit until we have completed the work. We apply these retainers to final billings and refund any excess over the final amount billed to clients, as appropriate, upon our completion of the work. If the client is in bankruptcy, fees for our professional services may be subject to approval by the court. In some cases, a portion of the fees to be paid to us by a client is required by a court to be held until completion of our work. We make a determination whether to record all or a portion of such a holdback as revenue prior to collection on a case-by-case basis.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our clients to pay our fees or for disputes that affect our ability to fully collect our billed accounts receivable as well as potential fee reductions or refunds imposed by bankruptcy courts. We estimate this allowance by reviewing the status of all accounts and recording reserves based on our experiences in these cases and historical bad debt expense. Our actual experience has not varied significantly from our estimates. However, if the financial condition of our clients were to deteriorate, resulting in their inability to pay our fees, we may need to record additional allowances in future periods. This risk is mitigated to the extent that we may receive retainers from some of our clients prior to performing significant services.

Goodwill. As of June 30, 2004, we have goodwill of \$515.2 million that we recorded for business combinations completed principally in the last five years. The majority of this goodwill was generated from our acquisitions completed during 2002 and the fourth quarter of 2003. Goodwill represented 75.3% of our total assets at June 30, 2004. We make at least annual assessments of impairment of our goodwill in accordance with our stated accounting policy. In making these impairment assessments, we must make subjective judgments regarding estimated future cash flows and other factors to determine the fair value of the reporting units of our business that are associated with this goodwill. It is possible that these judgments may change over time as market conditions or our strategies change, and these changes may cause us to record impairment charges to adjust our goodwill to its estimated implied fair value. Due to the departures of former members of our professional staff, we performed an impairment test of our goodwill in February 2004. No impairment of goodwill was identified as a result of our test.

[Table of Contents](#)

Results of Continuing Operations

Revenues.

	2003		2004		Percent Change
	Revenues	% of Total	Revenues	% of Total	
(dollars in thousands)					
Three Months Ended June 30,					
Forensic and Litigation Consulting	\$ 25,472	26.9%	\$ 45,742	42.6%	79.6%
Corporate Finance/Restructuring	66,226	70.1%	39,576	36.8%	(40.2)%
Economic Consulting	2,828	3.0%	22,127	20.6%	682.4%
Total	\$ 94,526	100.0%	\$ 107,445	100.0%	13.7%
Six Months Ended June 30,					
Forensic and Litigation Consulting	\$ 51,317	26.2%	\$ 89,855	41.3%	75.1%
Corporate Finance/Restructuring	138,259	70.6%	82,863	38.1%	(40.1)%
Economic Consulting	6,301	3.2%	44,967	20.6%	613.6%
Total	\$ 195,877	100.0%	\$ 217,685	100.0%	11.1%

Revenues from continuing operations increased for the three- and six-month periods ended June 30, 2004 as compared to the comparable periods of 2003. This increase is primarily attributable to the acquisitions we completed during the fourth quarter of 2003 offset by the decreased demand for our corporate finance/restructuring services, which began during the third quarter of 2003. The growth in our forensic and litigation consulting practice is primarily due to the acquisitions of Ten Eyck and the dispute advisory services business from KPMG. The increase in revenues related to our economic consulting practice is attributable to the acquisition of Lexecon.

Our corporate finance/restructuring practice accounted for about 70% to 71% of our revenues during the three- and six-month periods ended June 30, 2003 as compared to about 37% to 38% during the three- and six-month periods ended June 30, 2004. Late in the third quarter of 2003, we began to experience a decrease in demand for our corporate finance/restructuring related services, which has negatively impacted our revenues from that segment. The departure of a number of our billable professionals in the corporate finance/restructuring practice during the first quarter of 2004 also contributed to the decrease in revenues from that segment.

We believe total revenues will be higher in 2004 than 2003. We attribute this expected growth primarily to the businesses we acquired in 2003 and their expected growth during 2004, as well as the stabilization of our corporate finance/restructuring practice.

Direct Cost of Revenues.

	2003		2004		Percent Change
	Cost of Revenues	% of Segment Revenues	Cost of Revenues	% of Segment Revenues	
(dollars in thousands)					
Three Months Ended June 30,					
Forensic and Litigation Consulting	\$ 13,755	54.0%	\$ 23,614	51.6%	71.7%
Corporate Finance/Restructuring	27,614	41.7%	20,951	52.9%	(24.1)%
Economic Consulting	1,705	60.3%	13,744	62.1%	706.1%
Total	\$43,074	45.6%	\$ 58,309	54.3%	35.4%
Six Months Ended June 30,					
Forensic and Litigation Consulting	\$26,802	52.2%	\$ 47,459	52.8%	77.1%
Corporate Finance/Restructuring	59,183	42.8%	44,240	53.4%	(25.2)%
Economic Consulting	3,625	57.5%	28,476	63.3%	685.5%
Total	\$89,610	45.7%	\$ 120,175	55.2%	34.1%

[Table of Contents](#)

Our direct cost of revenues consists primarily of employee compensation and related payroll benefits, the cost of outside consultants assigned to revenue-generating activities and other related expenses billable to clients. Direct cost of revenues increased as a percentage of revenues across all operating segments primarily due to lower utilization rates experienced across all practices during the first half of 2004 as compared to the first half of 2003. This resulted due to revenues growing at a slower pace than direct costs. In addition:

- The acquisition of KPMG's dispute advisory services business, which has generated a lower gross margin than we have historically experienced, contributed to the increase in our forensic and litigation consulting practice.
- The departure of some of our professionals in the corporate finance/restructuring practice during the first quarter of 2004 contributed to the increase in that practice, primarily because these professionals generally operated at higher utilization rates and higher billable rates than our other professionals.
- The acquisition of Lexecon, which operates at a lower gross margin than our other operating segments, contributed to the increase in our economic consulting practice.

Selling, General and Administrative Expense.

	2003		2004		Percent Change
	SG & A	% of Segment Revenues	SG & A	% of Segment Revenues	
(dollars in thousands)					
Three Months Ended June 30,					
Forensic and Litigation Consulting	N/A	N/A	\$ 8,741	19.1%	N/A
Corporate Finance/Restructuring	N/A	N/A	6,251	15.8%	N/A
Economic Consulting	N/A	N/A	3,266	14.8%	N/A
Corporate	\$ 4,809	N/A	6,582	N/A	36.9%
Total	\$ 18,787	19.9%	\$ 24,840	23.1%	32.2%
Six Months Ended June 30,					
Forensic and Litigation Consulting	N/A	N/A	\$ 16,992	18.9%	N/A
Corporate Finance/Restructuring	N/A	N/A	14,196	17.1%	N/A
Economic Consulting	N/A	N/A	6,177	13.7%	N/A
Corporate	\$ 10,393	N/A	13,233	N/A	27.3%
Total	\$ 39,954	20.4%	\$ 50,598	23.2%	26.6%

N/A– Not available

Selling, general and administrative expenses consist primarily of salaries and benefits paid to office and corporate staff, rent, marketing, corporate overhead expenses and depreciation and amortization of property and equipment. Selling, general and administrative expense increased as a percentage of our total revenues for the three- and six- month periods ended June 30, 2004 as compared to the same periods in 2003. This increase is largely attributable to increased personnel, facilities and general corporate expenses, including advertising and legal costs, associated with the acquisitions completed in 2003 and other business activities.

Our corporate selling, general and administrative expense increased as a percentage of revenues from about 5% for the three- and six-month periods ended June 30, 2003 to about 6% for the comparable periods of 2004. The increase in corporate overhead expenses is primarily related to increased staffing and consulting costs to address the requirements of the Sarbanes-Oxley Act and to further strengthen our corporate governance activities. In particular, during the latter part of 2003 we created internal legal and audit departments and enhanced our regulatory reporting functions. We have also increased our back-office staffing during 2004 to support our growing organization.

[Table of Contents](#)

Depreciation and amortization of property and equipment classified within selling, general and administrative expense increased by \$677,000 or 52.0% from the three-months ended June 30, 2003 as compared to the same period in 2004. Depreciation and amortization of property and equipment increased by \$1.0 million or 36.2% from the six-months ended June 30, 2003 as compared to the same period in 2004. These increases are a result of the increase in the furniture and equipment and office build-out necessary to support a larger organization.

Amortization of Other Intangible Assets. The amortization expense related to other intangible assets increased by \$480,000, or 61.9%, for the three months ended June 30, 2004 as compared to the same period in 2003. Amortization expense increased by \$1.4 million, or 92.0%, for the six months ended June 30, 2004 as compared to the same period in 2003. This increase is related to the identifiable intangible assets recorded in connection with the acquisitions we completed during the fourth quarter of 2003. Amortization expense increased less during the three month period as compared to the six-month period as a result of some intangible assets becoming fully amortized during the first quarter of 2004.

We amortize other intangible assets over their useful lives ranging from 18 to 36 months. We are in the process of completing valuations of the intangible assets that we acquired during 2003. At June 30, 2004, the estimated valuation of these intangible assets, totaling \$10.1 million, is based on data that we have developed to date. We will finalize our valuations in 2004. The final purchase price allocation may differ from our preliminary allocation, which may have an effect on our estimates of future amortization expense.

Interest Expense. Interest expense consists primarily of interest on debt we incurred to purchase businesses over the past several years, including the amortization of deferred bank financing fees. Interest expense increased by \$609,000, or 62.4% for the three months ended June 30, 2004 as compared to the three months ended June 30, 2003. For the six months ended June 30, 2004, interest expense increased by \$255,000, or 8.7%, as compared to the six months ended June 30, 2003. This increase is primarily attributable to higher average borrowings outstanding during 2004 as compared to 2003. During the first quarter of 2003, we wrote-off about \$513,000 of deferred bank financing fees as a result of the early extinguishment of long-term debt. This resulted in interest expense increasing by a lesser percentage for the six month periods as compared to the three month periods.

Income Taxes. Our effective tax rate was approximately 40.5% from continuing operations during the three- and six-month periods ended June 30, 2003 and 40.9% during the three- and six-month periods ended June 30, 2004. We expect our effective tax rate from continuing operations to remain about the same for the remainder of the current year.

Liquidity and Capital Resources

Cash Flows.

	Six months Ended June 30,		Percent Change
	2003	2004	
Cash provided by operating activities	\$56,973	\$ 503	(99.1)%
Cash used in investing activities	(2,836)	(4,419)	55.8%
Cash provided by financing activities	48,450	1,259	(97.4)%

We have historically financed our operations and capital expenditures solely through cash flows from operations. However, during the first half of 2004, our operating income declined as compared to 2003 and our cash flow from operations was not sufficient to fund our capital expenditures. As a result we have used borrowings under our revolving credit facility to finance some of our cash needs during the first half of 2004. Specifically, we have used cash provided by financing activities to fund investing activities and the increase in our working capital needs, including but not limited to the following payments made during 2004:

- capital expenditures of \$4.1 million related to furniture, computer equipment and leasehold improvements to support our growing business;

[Table of Contents](#)

- working capital requirements during the first quarter of 2004 for the dispute advisory services business of KPMG that we acquired as of October 31, 2004;
- annual incentive compensation payments which we generally pay in the first quarter of each year and quarterly incentive compensation payments;
- refunds of retainer balances associated with the loss of client engagements resulting from the departure of corporate finance/restructuring professionals; and
- estimated income tax payments due during the first half of 2004.

Our operating assets and liabilities consist primarily of billed and unbilled accounts receivable, accounts payable and 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. During 2004, we experienced an increase in our billed and unbilled accounts receivable, net of billings in excess of services provided. Our customary collection terms range from 30 to 60 days for all of our clients. Our average collection period during the first half of 2004 is higher than the same period of 2003, primarily due to a decrease in retainers we collected from clients prior to the performance of our services. In addition, the average collection periods for the economic consulting practice we acquired in the fourth quarter of 2003 is longer than the collection periods for our other practices.

Net cash used in investing activities for the first quarter of 2004 increased \$1.6 million as compared to the same period in 2003, primarily due to \$2.15 million received from the sale of a portion of our applied sciences practice during the first quarter of 2003; offset by a \$0.5 million increase in our acquisition related payments during 2004 as compared to 2003. We had no material outstanding purchase commitments as of June 30, 2004.

Our financing activities have consisted principally of borrowings and repayments under long-term debt arrangements as well as issuances of common stock. Our long-term debt arrangements have principally been obtained to provide financing for our business acquisitions. During the first quarter of 2003, we completed the public offering of 4.0 million shares of our common stock, generating net cash proceeds of \$99.2 million. We used about half of the net proceeds from the stock offering to repay our long-term debt. We also used all of the net cash proceeds from the sale of our applied sciences practice to repay debt. During the first half of 2004, our financing activities consisted principally of \$11.0 million of net borrowings under our revolving credit facility and \$7.5 million of principal payments on our term loans.

In October 2003, our board of directors approved a share repurchase program under which we may purchase, from time to time, up to \$50.0 million of our common stock over the next twelve months. The shares of common stock may be purchased through open market or privately negotiated transactions and will be funded with a combination of cash on hand, existing bank credit facilities or new credit facilities. During the first half of 2004, we purchased and retired 278,900 shares of our common stock at a total cost of about \$4.4 million. From October 2003 through June 30, 2004, we have purchased and retired a total of 473,100 shares of our common stock for a total of about \$8.4 million.

Future Capital Needs and Resources. Effective as of November 28, 2003, our bank credit agreements were amended and restated. The amended bank credit facility provides for up to \$225.0 million of secured financing, consisting of a \$100.0 million revolving loan and \$125.0 million in term loans. The maturity date of the \$100.0 million revolving credit facility is November 28, 2008. However, we may choose to repay outstanding borrowings under the revolving credit facility at any time before maturity without penalty. Principal payments on the term loans began on December 31, 2003, and are payable quarterly thereafter through September 30, 2008. Debt under the credit facility bears interest at an annual rate equal to LIBOR plus an applicable margin or an alternative base rate defined as the higher of (1) the lender's announced prime rate or (2) the federal funds rate plus the sum of 50 basis points and an applicable margin. Under the credit facility, the lenders have a security interest in substantially all of our assets. As of June 30, 2004, we had outstanding aggregate debt under the credit facility of \$124.8 million, bearing interest at rates ranging from 2.9% to 4.3%. We are not subject to any penalties for early payment of debt under the credit facility.

[Table of Contents](#)

Our amended and restated bank credit facility contains covenants which limit our ability to incur additional indebtedness; create liens; pay dividends on, make distributions or repurchases of our capital stock or make specified other restricted payments; consolidate, merge or sell all or substantially all of our assets; guarantee obligations of other entities; enter into hedging agreements; enter into transactions with affiliates or related persons or engage in any business other than the consulting business. The credit facility requires compliance with financial ratios, including total indebtedness to earnings before interest, taxes, depreciation and amortization, or EBITDA; EBITDA to specified charges and the maintenance of a minimum net worth, each as defined under the amended credit facility. At June 30, 2004, we were in compliance with all covenants as stipulated in the credit facility agreements.

As of June 30, 2004, our capital resources included \$3.1 million of cash and cash equivalents and an \$89.0 million revolving loan commitment under our amended and restated bank credit facility. The availability of borrowings under our revolving credit facility is subject to specified borrowing conditions. We use letters of credit primarily as security deposits for our office facilities. Letters of credit reduce the availability under our revolving credit facility. As of June 30, 2004, we have \$10.0 million of outstanding letters of credit, including an \$8.0 million letter of credit used in place of a security deposit for the New York City lease we entered into in July 2004. As of June 30, 2004, we have \$79.0 million of available borrowings under our revolving credit facility.

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

- operating expenses, general corporate and capital expenditures relating to the operation of our business, including costs related to our new office lease in New York City;
- debt service requirements; and
- up to \$41.6 million of discretionary funding for our share repurchase program.

We believe that our anticipated operating cash flow, including the \$8.1 million of cash inducements we received in July 2004 related to our New York City office lease, and our \$82.1 million in total liquidity, consisting of our cash on hand and the total borrowings available under our bank credit facility are sufficient to fund our capital and liquidity needs for at least the next 12 months. In making this assessment, we have considered:

- funds required for the integration of our acquisitions of Ten Eyck, Lexecon and the dispute advisory services business of KPMG;
- funds required for debt service payments and capital expenditures;
- funds required to support our ongoing and acquired operations, including estimated income taxes;
- the financial impact, including a decrease in operating cash flows related to the departure of a number of senior professionals in our corporate finance/restructuring practice; and
- the discretionary funding of our share repurchase program.

Our conclusion that we will be able to fund our capital requirements for at least the next 12 months by using existing capital resources and cash generated from operations does not take into account the impact of any acquisition transactions or any further unexpected departures of significant numbers of billable professionals. The anticipated cash needs of our business 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 may have a material effect on the cash flow or profitability of our business. We expect that we would seek additional sources of funds, which may include new borrowings to pursue and complete any additional business acquisitions. Any new borrowings, if available, may be on terms less favorable to us than our current credit facility.

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

[Table of Contents](#)

Future Contractual Obligations. The following table sets forth our estimates as to the amounts and timing of contractual payments for our most significant contractual obligations and commitments as of June 30, 2004. The table also includes our obligation related to the New York City office lease agreement we entered into in July 2004. The information in the table reflects future unconditional payments and is based on the terms of the relevant agreements and appropriate classification of items under generally accepted accounting principles currently in effect. Future events could cause actual payments to differ from these amounts. The amounts shown under long-term debt are based solely on the current payment schedule and exclude interest payments and any additional borrowings under the revolving loan commitment.

Contractual Obligations	Total	2004	2005	2006	2007	2008	2009	Thereafter
	(in thousands)							
Long-term debt	\$ 124,750	\$ 8,750	\$ 21,250	\$ 26,250	\$ 31,250	\$ 37,250	\$ —	\$ —
Operating leases	161,236	6,044	13,003	13,871	12,964	11,858	11,940	91,556
Capital lease obligations	639	250	282	89	16	2	—	—
Total obligations	<u>\$ 286,625</u>	<u>\$ 15,044</u>	<u>\$ 34,535</u>	<u>\$ 40,210</u>	<u>\$ 44,230</u>	<u>\$ 49,110</u>	<u>\$ 11,940</u>	<u>\$ 91,556</u>

Forward-Looking Statements

Some of the statements under “— Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements expressed or implied by such forward-looking statements not to be fully achieved. These forward-looking statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of such terms or other comparable terminology. These statements are only predictions. We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results and do not intend to do so. Factors, which may cause the actual results of operations in future periods to differ materially from intended or expected results include, but are not limited to, the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2003.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk associated with changes in interest rates on our variable rate debt. We have managed this risk by entering into interest rate swaps. These hedges reduce our exposure to rising interest rates, but also reduce the benefits from lower interest rates.

We have entered into interest rate swap transactions on a portion of our outstanding term loans. Our interest rate swap agreement in effect at December 31, 2003 expired in January 2004. This interest rate swap was designated as a hedge against a portion of our outstanding debt and was used to convert the interest rate on a portion of our variable rate debt to fixed rates for the life of the swap. Because of the effectiveness of our hedge of variable interest rates associated with our debt, the change in fair value of our interest rate swaps resulting from changes in market interest rates is reported as a component of other comprehensive income.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as

[Table of Contents](#)

of June 30, 2004, our disclosure controls and procedures were effective in timely alerting them to material information relating to FTI Consulting, Inc., including its consolidated subsidiaries, required to be included in our periodic Securities and Exchange Commission filings. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the deterioration of the degree of compliance with the policies and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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 can be costly 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, the results may not be predictable at all. Legal proceedings may adversely affect stock price and trading, as well as financial results, whether or not such claims or allegations have any merit.

On February 18, 2004, we filed suit in Superior Court of New Jersey, Bergen County, against a number of former employees and the new corporation they formed. In our complaint, we assert that these former employees breached their duties of loyalty by wrongfully soliciting numerous employees of ours to leave us and to join them in a competitive venture, wrongly soliciting our clients, and unlawfully using and disclosing our confidential and proprietary information in the new business venture. We are seeking money damages and equitable relief relating to the non-solicitation and hiring away of our employees. The parties are now actively exploring alternative dispute resolution options to resolve the matter.

On December 23, 2003, we filed an action in the Supreme Court of the State of New York against PricewaterhouseCoopers LLP seeking damages, and injunctive and other equitable relief, and the enforcement of the non-competition covenants contained in our asset purchase agreement with PricewaterhouseCoopers relating to the acquisition of its domestic Business Recovery Services division. On February 10, 2004, the court granted and denied in part our motion for preliminary injunction. PricewaterhouseCoopers appealed the ruling and in June 2004, the Supreme Court of the State of New York upheld the preliminary injunction and affirmed our interpretation of the non-competition sections of the Asset Purchase Agreement. The parties are now engaged in discovery and expect trial to follow in the fall of 2004.

We are unable to predict the outcome of any of the above proceedings.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**Purchases of Equity Securities**

The following table provides information with respect to purchases we made of our common stock during the second quarter of 2004.

	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value that May Yet Be Purchased Under the Program (b)
April 1 through April 30, 2004	—	\$ —	—	\$ 44,807,134
May 1 through May 31, 2004	156,900	\$ 15.22	156,900	\$ 42,419,531
June 1 through June 30 2004	50,000	\$ 16.07	50,000	\$ 41,616,011
Total	206,900	\$ 15.42	206,900	\$ 41,616,011

(a) We purchased all of these shares of our common stock through our publicly announced stock repurchase program.

(b) In October 2003, we announced that our board of directors approved a \$50.0 million stock repurchase program. This program expires in October 2004. These amounts represent gross purchase prices and include the transaction costs we may incur, such as commissions, on the related purchases.

[Table of Contents](#)

Item 3. Defaults Upon Senior Securities

None.

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

We held our 2004 annual meeting of stockholders on May 19, 2004. At the 2004 annual meeting, the stockholders elected Denis J. Callaghan, Dennis J. Shaughnessy and George P. Stamas as Class II directors for a term of three years. The stockholders voted as follows.

	<u>For</u>	<u>Authority Withheld</u>
Denis J. Callaghan	33,473,865	1,808,708
Dennis J. Shaughnessy	32,780,165	2,502,408
George P. Stamas	33,426,492	1,856,081

In addition, the terms of the following directors continued after the 2004 annual meeting: Jack B. Dunn, IV, James A. Flick, Jr. and Peter F. O'Malley. Stewart J. Kahn resigned as a director at the 2004 annual meeting of our Board of Directors held immediately following the 2004 annual meeting of stockholders. The Board also authorized increasing the size of the Board of Directors to eight members at that meeting, by adding one Class III director. On June 7, 2004, the Board of Directors appointed Mark H. Bery and Gerard E. Holthaus to fill the vacancies on the Board as Class III directors.

At the 2004 annual meeting, the stockholders also took the following actions:

1. Approved and adopted the FTI Consulting, Inc. 2004 Long-Term Incentive Plan. The stockholders voted as follows.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
21,393,363	6,300,389	50,547

2. Approved and adopted an amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as amended, to increase the number of shares authorized by 250,000 shares of common stock, from a total of 1,800,000 to 2,050,000 shares of our common stock. The stockholders voted as follows.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
25,844,436	1,854,304	45,559

3. Ratified the selection of Ernst & Young, LLP as our independent auditors for the year ending December 31, 2004. The shareholders voted as follows.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
34,091,658	1,142,582	48,333

Item 5. Other Information

None.

[Table of Contents](#)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.2 By-Laws of FTI Consulting, Inc., as amended (filed May 7, 2004 as an exhibit to FTI Consulting's Current Report on Form 8-K dated April 28, 2004 and incorporated herein by reference).
- 10.1 Employment Agreement dated July 17, 2002 between Dominic DiNapoli and FTI Consulting.
- 10.2 Letter Agreement dated March 24, 2004 to amend Employment Agreement between Dominic DiNapoli and FTI Consulting.
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) (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).

(b) Reports on Form 8-K

- 1. Current Report on Form 8-K dated April 28, 2004 and filed on April 29, 2004, reporting under Item 9 and Item 12 and furnishing under Item 7 a press release announcing our financial results for the first quarter ended March 31, 2004.
- 2. Current Report on Form 8-K dated April 29, 2004 and filed on April 30, 2004, reporting under Item 9 and Item 12 and furnishing under Item 7 a transcript of the conference call we held to discuss our financial results for the first quarter ended March 31, 2004 and other information.
- 3. Current Report on Form 8-K dated April 28, 2004 and filed on May 7, 2004, reporting under Item 5 and furnishing under Item 7 the By-Laws of FTI Consulting, Inc., as amended.
- 4. Current Report on Form 8-K dated and filed on May 19, 2004, reporting under Item 10 and furnishing under Item 7 the FTI Consulting, Inc. Policy on Ethics and Business Conduct.
- 5. Current Report on Form 8-K dated May 19, 2004 and filed May 20, 2004, reporting under Item 5 and furnishing under Item 7 a press release announcing the results of the Annual Meeting of Stockholders of FTI Consulting, Inc. held on May 19, 2004.
- 6. Current Report on Form 8-K dated June 7, 2004 and filed on June 9, 2004, reporting under Item 5 and furnishing under Item 7 a press release announcing that effective June 7, 2004, our board of directors appointed two independent directors to fill all open board positions, bringing the total number of directors to eight.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT made as of July 17, 2002, by and between Policano & Manzo, L.L.C., a New Jersey limited liability company, with its principal offices in New Jersey ("Company"), and Dominic DiNapoli, whose address is set forth on Schedule 1 ("Executive").

WITNESSETH:

WHEREAS, Company is a wholly-owned subsidiary of FTI Consulting, Inc., a Maryland corporation ("FTI"); and

WHEREAS, Company is engaged in the business of providing restructuring advisory services which, prior to its acquisition by FTI, was conducted independently by Policano & Manzo, L.L.C.; and

WHEREAS, FTI, Company and PricewaterhouseCoopers LLP ("PWC") have entered into an Agreement for the Purchase and Sale of Assets dated July 24, 2002, pursuant to which Company will purchase PWC's business recovery services business (the "BRS Business"); and

WHEREAS, Executive is a partner of PWC, and is the managing partner of PWC's BRS Business; and

WHEREAS, Company desires to retain the services of Executive following the closing ("Closing") of the transactions under the aforesaid Agreement for the Purchase and Sale of Assets; and

WHEREAS, Executive has entered into an agreement with PWC pursuant to which, concurrently with the Closing, Executive will withdraw as a partner of PWC.

NOW, THEREFORE, the parties agree as follows:

1. Employment. Company employs Executive and Executive accepts such employment upon the terms and conditions set forth in this Agreement.
2. Term of Employment. Executive's employment under this Agreement will begin immediately following the Closing, if such Closing occurs, and will continue for a term of four years.
3. Position and Duties. Executive will (a) be employed in a senior executive capacity with duties and responsibilities that are consistent with Executive's current position in PWC's BRS Business, (b) be a member of Company's Executive Committee (as constituted and described in Exhibit A annexed hereto), (c) perform such other duties and responsibilities relating to Company's BRS Business as may from time to time be reasonably assigned to Executive by Company's President or Chief Executive Officer, commensurate with Executive's senior executive position, (d) have such authority as may be reasonably necessary or appropriate in order to enable Executive to carry out the duties and responsibilities of Executive's employment hereunder, (e) have the title set forth on Schedule 1, (f) have Executive's principal

office located at Company's offices set forth on Schedule 1, and (g) be entitled to office services and support commensurate with Executive's position, duties and responsibilities. Executive will devote substantially all of Executive's business time, attention, and energies to the performance of Executive's duties and responsibilities hereunder, provided that Executive may engage in personal, charitable, professional and investment activities to the extent such activities do not conflict or materially interfere with the ability of Executive to perform said duties and responsibilities. Subject to and in accordance with FTI policy and procedures, Executive may serve as a member of the board of directors or other governing body of other entities.

4. Annual Salary. Executive will be entitled to a salary determined and payable in accordance with this Section 4.

(a) Target Salary. A target annual rate of salary ("Target Salary Rate") will be established by Company and communicated in advance to Executive for each calendar year (or portion of a calendar year) during the term of this Agreement. Executive's Target Salary Rate for each of the partial year ending December 31, 2002 and the calendar year ending December 31, 2003 is set forth on Schedule 1. Executive's Target Salary Rate for each of 2004, 2005 and 2006 will be determined before the beginning of such year by the Executive Committee. The Target Salary Rate for any year will be divided into two portions, one equal to 80% of the Target Salary Rate ("Fixed Salary"), and the other equal to 20% of the Target Salary Rate ("Contingent Salary"). The Fixed Salary for each year will be payable in accordance with (b) below, and the Contingent Salary for each year will be payable, if at all, in accordance with (c) below. Company, acting in its discretion, may increase Executive's Target Salary Rate at any time and from time to time. Company may not decrease Executive's Target Salary Rate unless such decrease is made for the fiscal year after December 31, 2003 and either (1) pursuant to the last paragraph of Section 9(e) (relating to across-the-board cuts due to adverse business conditions), or (2) due to deficiencies in Executive's individual performance as determined in the discretion of the Executive Committee.

(b) Fixed Salary. The Company will pay Executive's Fixed Salary for any year in equal installments in accordance with Company's normal payroll practices.

(c) Contingent Salary. Executive's Contingent Salary for any year will be payable to Executive by Company if, to the extent and when provided below.

(i) Portion Contingent on Company Performance. For each calendar year (or partial calendar year), an amount equal to 50% of Executive's Contingent Salary will be payable to Executive if Company's EBITDA Percentage (defined below) for the year (or partial year) is at least 100%. If Company's EBITDA Percentage for the year (or partial year) is less than 100%, then Executive will be entitled to a percentage of such amount determined under the following table:

<u>EBITDA Percentage</u>	<u>Executive's Percentage</u>
Less than 80%	0%
80% to 89%	25%
90% to 95%	75%
96% to 99%	90%

For any calendar year (or partial calendar year), the EBITDA Percentage will be the percentage derived by dividing the Company's "actual EBITDA" for such year (or partial year) by the "target EBITDA" for the year. For the partial year beginning on the Closing date and ending December 31, 2002, the EBITDA Percentage will be deemed to be 100% if Executive is still employed by the Company on December 31, 2002, or if Executive's employment is terminated before that date for any reason other than by the Company for Cause or voluntarily by Executive (pursuant to subsection (a) or (b) of Section 9). The target EBITDA for 2003 and each subsequent calendar year will be equal to the EBITDA projected for the year on the Executive Committee's operating budget. The target EBITDA for the partial year ending on the date of the Executive's termination of employment will be equal to a pro rata portion of the target EBITDA for the full year, based upon the number of days in such partial year. For the purposes hereof, target EBITDA will be determined by the Executive Committee and approved by senior management of FTI in accordance with FTI policy and procedures.

The amount, if any, payable to Executive under this subsection (i) for a year (or partial year) will be paid by Company to Executive within 30 days after the audited consolidated financial statements of FTI for such year become available.

(ii) Portion Contingent on Individual Performance. For any calendar year (or partial calendar year), an amount equal to the remaining 50% of Executive's Contingent Salary will be payable if and to the extent Executive satisfies the individual performance target set forth on Schedule 1. Any such amount will be paid to Executive by Company within thirty days after the end of such year or partial year.

5. Employee Benefit Programs and Perquisites.

(a) General. Executive will be entitled to participate in such qualified and nonqualified employee pension plans, group health, long term disability and group life insurance plans, and any other welfare and fringe benefit plans, arrangements, programs and perquisites, including stock option and stock purchase plans, generally maintained or provided by Company and FTI from time to time to or for the benefit of their executive employees or employees generally ("Benefit Plans"), at a level commensurate with Executive's position and FTI policy regarding other similarly situated FTI employees. Executive's participation in any Benefit Plans will be subject to the terms of the applicable plan documents and Company's or FTI's generally applied policies. FTI or Company in their discretion may from time to time adopt, modify, interpret, or discontinue such plans or policies in a manner generally applicable to FTI's or Company's executives. Executive will be given full credit for service with PWC and its predecessors prior to the Closing under the Benefit Plans and for purposes of determining Executive's period of employment under any vacation, sick pay or other paid time off plan of

Company or FTI and for determining other entitlements and terms of employment affected by seniority under Company's and FTI's employment policies. Any Benefit Plan which provides medical, dental or life insurance benefits shall waive any waiting periods and any pre-existing conditions and actively-at-work exclusions. Executive will be entitled to at least four weeks of paid vacation for each calendar year (pro-rated for partial calendar years) subject to Company's policies on use and retention of such vacation in effect from time to time. All Senior Managing Directors, Managing Directors and Directors of the Company will be eligible to participate in an incentive bonus pool which: (1) for the fiscal year ending December 31, 2003, will pay out 10% of EBITDA in excess of 2002 achieved EBITDA (payable in stock, options and/or cash) so long as target 2003 EBITDA is achieved; (2) for the fiscal year ending December 31, 2004, will pay out 10% of EBITDA in excess of 2003 achieved EBITDA (payable in stock, options and/or cash) so long as target 2004 EBITDA is achieved; and (3) for the fiscal year ending December 31, 2005, will pay out 10% of EBITDA in excess of 2004 achieved EBITDA (payable in stock, options and/or cash) so long as target 2005 EBITDA is achieved. Allocations under the incentive bonus pool shall be determined by the Executive Committee.

(b) Stock Options. Promptly after the Closing date, FTI will grant Executive an option to purchase shares of Common Stock of FTI under the FTI 1997 Stock Option Plan, as amended. The number of shares covered by the option is set forth on Schedule 1. The exercise price per share covered by the option will be equal to the price per share on the date of the Closing (or, if no trades are made on such date, the next preceding date on which such shares are traded). The option will vest in three equal annual increments beginning on the first anniversary of the Closing.

(c) Reimbursement of Business Expenses. Executive is authorized to incur reasonable expenses in carrying out Executive's duties and responsibilities under this Agreement, and Company will promptly pay or reimburse Executive for all such expenses that are so incurred upon presentation of appropriate vouchers or receipts, subject to Company's expense reimbursement policies in effect from time to time with respect to executives of Company or FTI.

6. FTI Stock. Immediately after the Closing, a number of shares of FTI common stock owned by Executive, as specified on Schedule 1, will become subject to the restrictions and obligations set forth in the Restricted Share Agreement attached as Exhibit B hereto. Executive shall become a party to the registration rights agreement with FTI and PWC, substantially in the form annexed as Exhibit C, with piggy back rights previously communicated to Executive by management of FTI and PWC. Executive shall become a party to the indemnity agreement with FTI, substantially in the form annexed as Exhibit D.

7. No Other Employment. Executive represents to FTI and Company that, subject to Executive's withdrawal from PWC pursuant to the above-referenced withdrawal agreement, Executive is not subject to any agreement, commitment, or policy of any third party that would prevent Executive from entering into or performing the duties of Executive's employment under this Agreement. Executive will not enter into any agreement or commitment or agree to any policy that would prevent or hinder the performance of Executive's duties or obligations under this Agreement.

8. No Payments to Governmental Officials. Executive will not knowingly, pay or authorize payment of any remuneration to or on behalf of any governmental official which would constitute a violation of applicable law. Company will neither request nor require Executive to offer to make or make a payment of any remuneration to or on behalf of any governmental official other than those required or expressly permitted by applicable law.

9. Termination of Employment.

(a) Resignation. Executive may voluntarily resign Executive's employment under this Agreement at any time upon at least 90 days' prior written notice to Company. The Company may waive such notice or authorize a shorter notice period.

(b) Termination by Company for Cause. The Company may terminate Executive's employment for "Cause" if (and only if) Executive:

(i) is convicted of or pleads nolo contendere to a felony involving moral turpitude,

(ii) willfully fails or refuses to carry out the material responsibilities of Executive's employment with Company, or

(iii) engages in any other willful misconduct or a pattern of behavior which has had or is reasonably likely to have a significant adverse effect on Company or FTI,

all as determined by the Executive Committee. Executive's termination for Cause will be effective immediately upon Company mailing or transmitting notice of such termination, provided such notice is given within 90 days after the discovery by Company of the event or conduct giving rise to grounds to terminate Executive for Cause. Before terminating Executive for Cause under (ii) or (iii) above, the Executive Committee will specify in writing to Executive the nature of the act, omission, refusal, or failure that it deems to constitute Cause and if the action is curable, give Executive at least 30 days from the receipt of such notice to correct the situation (and thus avoid termination for Cause).

(c) Termination by Company Without Cause. Subject to the provisions hereof, Company may terminate Executive's employment under this Agreement before the end of the term, without Cause, upon 30 days' prior written notice; provided, however, that Executive will be entitled to at least 90 days' notice of termination if the termination is to be effective on or after the last day of the term set forth in Section 2.

(d) Termination Due to Disability. If Executive becomes "Disabled" (as defined below), Company may terminate Executive's employment. For the purposes hereof, Executive will be deemed to be Disabled if Executive is unable to substantially perform the customary duties and responsibilities of Executive's employment for 120 or more days during any 180 day period by reason of a physical or mental incapacity which is expected to result in death or last indefinitely.

(e) Termination by Executive for Good Reason. Executive may resign for “Good Reason” if, without Executive’s prior written consent, Company or FTI:

(i) materially reduces the scope or nature of Executive’s working conditions in a manner which is inconsistent with Executive’s position, duties and responsibilities (as described in Section 3 above) or which has or is reasonably likely to have a material adverse effect on Executive’s status or authority; or

(ii) materially diminishes Executive’s working conditions, including, without limitation, relocation by more than 50 miles of Executive’s principal office specified in Section 3 hereof; or

(iii) reduces the annual rate of Executive’s Fixed Salary by more than 15% for any calendar year or partial calendar year, using 2002 as the base year; or

(iv) reduces the annual rate of Executive’s Fixed Salary to an amount which, when added to any prior reductions, is less than 70% of the annual rate of Executive’s Fixed Salary for 2002; or

(v) fails to obtain and deliver to Executive a written agreement from an assignee or successor to Company for the assumption of the obligations of Company and FTI under this Agreement; or

(vi) instructs Executive to perform an unlawful or dishonest act, or materially breaches this Agreement.

Notwithstanding the foregoing, if the Company’s actual EBITDA for a fiscal year is less than 60% of the Company’s target EBITDA, then the Company may reduce Executive’s Fixed Salary for the next twelve month period without triggering the right of the Executive to terminate for Good Reason if and only if: (1) the amount of such reduction (expressed as a percentage of the rate of Executive’s Fixed Salary) is not more than 20% of the rate of Executive’s Fixed Salary, (2) a comparable reduction is made to the compensation of all executives, and (3) the amount of such reduction is restored to Executive’s Fixed Salary for the following year. Before resigning for Good Reason, Executive must specify in writing to Company the nature of the act, omission, refusal, or failure that Executive deems to constitute Good Reason and, if the situation can be cured, give Company at least 30 days after receipt of such notice to correct the situation (and thus prevent Executive’s resignation for Good Reason).

(f) Death. If Executive dies during the term, then the term will end as of the date of Executive’s death.

10. Payments on Termination of Employment.

(a) Termination by Company for Cause or by Executive Without Good Reason. If Company terminates Executive’s employment for Cause or if Executive resigns without Good Reason, Company will promptly pay to Executive: (i) the unpaid amount, if any, of Executive’s Fixed Salary through the date of termination, (ii) the unpaid amount, if any, of Executive’s previously earned and unpaid Contingent Salary or incentive bonus, (iii) the amount of any substantiated but previously unreimbursed business expenses incurred through the date of termination, and (iv) any additional entitlements, if any, to which Executive is entitled under the terms of any Company benefit plan or arrangement in which Executive was a participant (collectively, “Accrued Compensation”).

(b) Termination by Company Without Cause or by Executive for Good Reason. If Company terminates Executive's employment without Cause or if Executive resigns for Good Reason, Executive will be entitled to receive the following payments and benefits:

(i) any Accrued Compensation;

(ii) pro rata Contingent Salary opportunity for the year of termination and pro rata incentive bonus for the year of termination (based upon the bonus target for the year or, if greater, Executive's actual incentive bonus for the preceding year) determined by multiplying the sum of such amounts by a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) continued payment of salary for the salary continuation period specified in Schedule 1, based upon the greater of (1) Executive's Target Salary Rate for the year in which Executive's employment is terminated, or (2) Executive's average Target Salary Rate for the three years preceding the year in which such termination occurs (or all of the preceding years if less than three);

(iv) full and immediate vesting of any outstanding restricted stock and of any outstanding stock options or other equity-based awards and, in the case of stock options (or other similar awards) the continued right to exercise the options (or other awards) for at least three months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(v) continuing group health and group life insurance coverage for Executive and, where applicable, Executive's spouse and eligible dependents ("Benefit Continuation Coverage") during the salary continuation period at the same benefit and contribution levels in effect from time to time with respect to active senior executives of Company or FTI. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after tax basis, for the reasonable cost of comparable individual or other replacement coverage through the end of the salary continuation period. The group health part of Benefit Continuation Coverage will be in addition to and not in lieu of COBRA continuation coverage.

(c) Termination Due to Death or Disability. In the event of the termination of Executive's employment due to death or Disability, Executive (or Executive's estate or other beneficiary) will be entitled to receive the following payments and benefits:

(i) any Accrued Compensation;

(ii) pro rata Contingent Salary opportunity for the year of termination and pro rata incentive bonus for the year of termination (based upon the bonus target for the year

or, if greater, Executive's actual incentive bonus for the preceding year) determined by multiplying the sum of such amounts by a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) full and immediate vesting of any outstanding restricted stock and of any outstanding stock options or other equity-based awards and, in the case of stock options (or other similar awards) the continued right to exercise the options (or other awards) for at least twelve months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(iv) Benefit Continuation Coverage, where applicable, for Executive, Executive's spouse and Executive's eligible dependents for the one year period following the date of termination or, if longer for the then remaining balance of the term.

11. Change in Control. In the event of a Change of Control (as defined below), any outstanding restricted stock and any outstanding stock options or other equity-based awards shall become fully vested. For purposes hereof, a "Change of Control" means (a) the occurrence of (i) any consolidation or merger of FTI or Company in which such entity is not the continuing or surviving entity or pursuant to which FTI's or Company's capital stock would be converted into cash, securities or other property, other than a consolidation or merger of FTI or Company in which the holders of the common stock immediately prior to the consolidation or merger own not less than 50% of the total voting power of the surviving entity immediately after the consolidation or merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all FTI's or Company's assets, or (b) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than FTI, Company, any trustee or other fiduciary holding securities under any employee benefit plan of Company, or any company owned, directly or indirectly, by the shareholders of FTI in substantially the same proportions as their ownership of the FTI common stock, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% or more of the FTI's or Company's common stock.

12. Non-Competition Covenants. Recognizing that Executive was a partner in the business entity acquired by the Company, and further acknowledging that the Company obtained title to the business and acquired its goodwill from the business entity acquired by the Company for which Executive received consideration, and that the Company is continuing to carry on a like business, Executive acknowledges that during the Restricted Period (defined below), Executive will not, directly or indirectly, be employed by, lend money to, Invest in, or engage in a Competing Business (defined below) in any Market Area (defined below). That prohibition includes, but is not limited to, acting, either singly or jointly or as agent for, or as an employee of or consultant or independent contractor to, any one or more persons, firms, entities, or corporations directly or indirectly (as a director, independent contractor, representative, consultant, member, or otherwise) in such Competing Business. Notwithstanding the foregoing, (a) Executive may own up to 5% of the outstanding capital stock of any corporation or other entity that is publicly traded, and (b) following the termination of Executive's employment

hereunder, Executive may provide services as an officer, consultant, employee, director, partner or otherwise to an entity engaged in multiple business lines (including a business line that is a Competing Business) provided that the business line(s) for whom Executive provides services is not a Competing Business.

13. Non-Solicitation Covenants. During the Restricted Period (defined below), Executive will not, directly or indirectly, whether for Executive or for any other individual or entity (other than Company), intentionally:

(i) solicit business regarding any case or matter upon which Executive worked on behalf of Company during the term of this Agreement;

(ii) solicit any person or entity who is a client of Company's financial consulting business in which Executive was engaged at the time of the termination of Executive's employment with Company; or

(iii) solicit, induce or otherwise attempt to influence any person whom Company employs or otherwise engages to perform services (including, but not limited to, any independent consultants, engineers or sales representatives) or any contractor, subcontractor, supplier, or vendor of Company, to leave the employ of or discontinue providing services to Company, provided, however, that this restriction will not apply in the case of any clerical employee of Company or in the case of any other employee whose employment with Company has been terminated for at least one year.

14. Confidential Information of Company. Executive's prior association with PWC and Executive's association with Company under this Agreement has given and will give Executive access to Confidential Information (defined below) not generally known outside of Company that may be of value to Company or that have been given to Company in confidence by third parties. Executive acknowledges and agrees that using, disclosing, or publishing any Confidential Information in an unauthorized or improper manner could cause Company substantial loss and damages that could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Executive will not at any time, except in performing the duties of Executive's employment under this Agreement (or with the prior written consent of the FTI Board), directly or indirectly, use, disclose, or publish any Confidential Information that Executive may learn or become aware of, or may have learned or become aware of because of Executive's association with Company or PWC, or use any such information in a manner that is or may reasonably be likely to be detrimental to the business of Company. For the purposes hereof, the term "Confidential Information" includes, without limitation, information not previously disclosed to the public or to the trade by Company or PWC with respect to its or their present or future business, operations, services, products, research, inventions, discoveries, drawings, designs, plans, processes, models, technical information, facilities, methods, trade secrets, copyrights, software, source code, systems, patents, procedures, manuals, specifications, any other intellectual property, confidential reports, price lists, pricing formulas, customer lists, financial information, business plans, lease structure, projections, prospects, or opportunities or strategies, acquisitions or mergers, advertising or promotions, personnel matters, legal matters, any other confidential and proprietary information, and any other information not generally known outside Company that may be of value to Company, but excludes any information already

properly in the public domain. Confidential Information also includes confidential and proprietary information and trade secrets that third parties entrust to FTI or Company in confidence. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and of Executive's employment with Company.

15. Confidential Information of Others. Executive will not use in working for Company and will not disclose to Company any trade secrets or other information Executive does not have the right to use or disclose and that Company is not free to use without liability of any kind. Executive will promptly inform Company in writing of any patents, copyrights, trademarks, or other proprietary rights known to Executive that Company will violate because of information provided to it by Executive.

16. Property Rights. Executive confirms that all Confidential Information is and must remain the exclusive property of Company. All business records, business papers, and business documents kept or created by Executive in the course of Executive's employment by Company relating to the business of Company must be and remain the property of Company. Notwithstanding the foregoing, Executive may retain Executive's rolodex, palm pilot or similar device to the extent such device does not contain Confidential Information. Upon the termination of this Agreement or upon Company's reasonable request at any time, Executive must promptly deliver to Company any Confidential Information or other property belonging to Company (written or otherwise) not otherwise in the public domain. Executive will not, without Company's consent, retain copies, excerpts, summaries, or compilations of the foregoing information and materials. The rights and obligations set forth in this Section will continue indefinitely and will survive the termination of this Agreement and Executive's employment with Company.

17. Intellectual Property.

(a) All records, in whatever media, documents, papers, inventions and notebooks, drawings, designs, technical information, source code, object code, processes, methods or other copyrightable or otherwise protected works Executive conceives, creates, makes, invents, or discovers or that otherwise relate to or result from any work Executive performs or performed for Company or that arise from the use of assistance of Company's facilities, materials, personnel or Confidential Information in the course of Executive's employment (whether or not during usual working hours), whether conceived, created, discovered, made, or invented individually or jointly with others, will, together with all the worldwide patent, copyright, trade secret, or other intellectual property rights in all such works, be and remain the absolute property of Company. Executive irrevocably and unconditionally waives all rights that may otherwise vest in Executive (whether before, on, or after the date of this Agreement) in connection with Executive's authorship of any such copyrightable works in the course of Executive's employment with Company, wherever in the world enforceable. Without limitation, Executive waives the right to be identified as the author of any such works and the right not to have any such works subjected to derogatory treatment. Executive recognizes any such works are "works for hire" of which Company is the author.

(b) Executive will promptly disclose, grant and assign ownership to Company for its sole use and benefit any and all ideas, processes, inventions, discoveries, improvements, technical information, and copyrightable works (whether patentable or not) that Executive develops, acquires, conceives or reduces to practice (whether or not during usual working hours) while employed by Company. Executive will promptly disclose and hereby grant and assign ownership to Company of all patent applications, letter patent, utility and design patents, copyrights and reissues thereof, or any foreign equivalents thereof, that may at any time be filed or granted for or upon any such invention, improvement, or information. In connection therewith:

(i) Executive will, without charge but at Company's expense, promptly execute and deliver such applications, assignments, descriptions and other instruments as Company may consider reasonable necessary or proper to vest title to any such inventions, discoveries, improvements, technical information, patent applications, patents, copyrightable work or reissues thereof in Company and to enable it to obtain and maintain the entire worldwide right and title thereto; and

(ii) Executive will provide to Company at its expense all such assistance as Company may reasonably require in the prosecution of applications for such patents, copyrights or reissues thereof, in the prosecution or defense of interferences that may be declared involving any such applications, patents or copyrights and in any litigation in which Company may be involved relating to any such patents, inventions, discoveries, improvements, technical information or copyrightable works or reissues thereof. Company will reimburse Executive for reasonable out-of-pocket expenses incurred and pay Executive reasonable compensation for Executive's time if Company no longer employs Executive.

(c) To the extent, if any, that Executive owns rights to works, inventions, discoveries, proprietary information, and copyrighted or copyrightable works, or other forms of intellectual property that are incorporated in the work product Executive creates for Company, Executive agrees that Company will have an unrestricted, nonexclusive, royalty-free, perpetual, transferable license to make, use, sell, offer for sale, and sublicense such works and property in whatever form, and Executive hereby grants such license to Company.

(d) This section (relating to Copyright, Discoveries, Inventions and Patents) does not apply to an invention for which no equipment, supplies, facility or trade secret information of Company (including any of its predecessors) was used and that was developed entirely on Executive's own time, unless (a) the invention relates (i) directly to the business of Company, or (ii) Company's actual or anticipated research or development, or (b) the invention results from any work Executive performed as an employee of Company.

18. Definitions. For purposes of Sections 12 through 17, the following terms shall have the meaning set forth below:

(a) Restricted Period. For the purposes hereof, the term "Restricted Period" means the period beginning on the date of the Closing and ending on whichever of the following dates is applicable: (1) if Executive's employment is terminated by Executive for Good Reason or by Company without Cause during the term of this Agreement, the expiration of the

applicable salary continuation period under Section 10(b), (2) if Executive's employment terminates for any other reason during the term of this Agreement, the expiration of the period set forth on Schedule 1, (3) the expiration of the period set forth on Schedule 1, after the expiration of the term of this Agreement, if upon 90 days' notice, Company, in its sole discretion, agrees in writing to continue to pay Executive his Target Salary and benefits during such period in accordance with Company's normal payroll and benefits practices or (4) unless clause (1), (2) or (3) applies, upon the expiration of the term of this Agreement. Notwithstanding the foregoing, the expiration of the Restricted Period will be accelerated if and when Company breaches this Agreement on or after the date the Restricted Period begins, and the duration of the Restricted Period will be extended by the amount of any and all periods that Executive violates the covenants of any of Sections 12 and 13.

(b) Competing Business. For the purposes hereof, the term "Competing Business" means any financial restructuring advisory services line of business actively conducted by Company or previously conducted by PWC in which Executive is substantially engaged during the period of Executive's employment with Company and at the time Executive's employment ends. A Competing Business shall not include any aspect of the financial restructuring advisory services business which is not a material revenue source of Company, the furnishing of services to lenders, and the furnishing of services to other potential clients who or with respect to matters that would not be likely to be served by or referred to Company.

(c) Market Area. For purposes hereof, the term "Market Area" means within a 25 mile radius of any location in which Company has an office and in which Company offers or provides financial consulting services to clients in the ordinary course of its business.

19. Enforceability. If any of the provisions of Sections 12 through 18 are ever deemed to exceed the time, geographic area, or activity limitations the law permits, the limitations will be reduced to the maximum permissible limitation, and Executive and Company authorize a court or arbitrator having jurisdiction to reform the provisions to the maximum time, geographic area, and activity limitations the law permits; *provided, however*, that such reductions apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made.

20. Remedies. Without limiting the remedies available to the parties, each party acknowledges that a breach of any of the covenants in Sections 12 through 18 may result in material irreparable injury to Company for which there is no adequate remedy at law, and that it will not be possible to measure damages for such injuries precisely. The parties agree that, if there is a breach or threatened breach of such covenants, Company will be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Executive from engaging in prohibited activities or such other relief as may be required to specifically enforce any of said covenants. Each party agrees that all remedies expressly provided for in this Agreement are cumulative of any and all other remedies now existing at law or in equity. In addition to the remedies provided in this Agreement, the parties will be entitled to avail themselves of all such other remedies as may now or hereafter exist at law or in equity for compensation, and for the specific enforcement of the covenants contained in Sections 12 through 18. Resort to any remedy provided for in this Section or provided for by law will not

prevent the concurrent or subsequent employment of any other appropriate remedy or remedies, or preclude a recovery of monetary damages and compensation. Each party agrees that no party hereto must post a bond or other security to seek an injunction.

21. Assignment The Company may assign or otherwise transfer this Agreement and any and all of its rights, duties, obligations, or interests under it to:

(a) FIT or any of FTI's other affiliates or subsidiaries; or

(b) any successor to all or a material part of the business of Company (directly or indirectly) as a result of a Change of Control.

Upon such assignment or transfer, any such business entity shall be deemed to be substituted for Company for all purposes. Notwithstanding any such assignment or transfer, Company shall remain jointly and severally liable, with such assignee or transferee, for the performance of its obligations hereunder. Except as herein provided, this Agreement may not otherwise be assigned or transferred by Company. Without Company's prior written consent, Executive may not assign or delegate the obligations of Executive under this Agreement.

22. Severability. If the final determination of an arbitrator or a court of competent jurisdiction declares, after the expiration of the time within which judicial review (if permitted) of such determination may be perfected, that any term or provision of this Agreement is invalid or unenforceable, the remaining terms and provisions will be unimpaired, and the invalid or unenforceable term or provision will be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision. Any prohibition or finding of unenforceability as to any provision of this Agreement in any one jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

23. Amendment; Waiver. Neither Executive nor Company may modify, amend, or waive the terms of this Agreement other than by a written instrument signed by Executive and Company (and, if applicable, authorized by the FTI Board). Either party's waiver of the other party's compliance with any provision of this Agreement is not a waiver of any other provision of this Agreement or of any subsequent breach by such party of a provision of this Agreement. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

24. Withholding. The Company will reduce its compensatory payments to Executive hereunder for withholding and FICA and Medicare taxes and any other withholdings and contributions required by law.

25. Governing Law. The laws of the State of New York (other than its conflict of laws provisions) govern this Agreement.

26. Notices. Notices may be given in writing by personal delivery, by certified mail, return receipt requested, by telecopy, or by overnight delivery. Executive should send or deliver notices to the office of the Secretary of FTI at 909 Commerce Road, Annapolis, Maryland 21401, fax number: (410) 224-2809, with a copy to Company at its corporate offices. The

Company will send or deliver any notice given to Executive at Executive's address as reflected on Company's personnel records. Executive, FTI, and Company may change the address for notice by like notice to the others. Executive, FTI, and Company agree that notice is deemed received on the date it is personally delivered, the date it is received by certified mail, the date of guaranteed delivery by overnight service, or the date the fax machine confirms receipt.

27. Superseding Effect. This agreement supersedes all prior or contemporaneous negotiations, commitments, agreements, and writings between Executive and Company with respect to the subject matter. All such other negotiations, commitments, agreements, and writings will have no further force or effect, and the parties to any such other negotiation, commitment, agreement, or writing will have no further rights or obligations thereunder.

28. Arbitration.

(a) Any dispute or controversy arising under or in connection with this Agreement or Executive's employment relationship with Company will be settled exclusively by binding arbitration to be held in the metropolitan area in which Executive is employed and conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA") then in effect.

(b) After either party submits a request for arbitration, AAA will be requested to appoint a single, neutral arbitrator, within five business days after such request, to preside over the arbitration and resolve the dispute. The parties agree to raise any objections to such appointment within five business days after it is made and to limit those objections to the arbitrator's actual conflict of interest. AAA, in its sole discretion, will determine within five business days the validity of any objection to the appointment of the arbitrator based on the arbitrator's actual conflict of interest. The arbitrator will be directed to render a decision within 60 days after being appointed to serve as arbitrator, unless the parties otherwise agree in writing or the arbitrator makes a finding that a party has carried the burden of showing good cause for a longer period.

(c) The parties will use their best efforts to cooperate with each other in causing the arbitration to be held in as efficient and expeditious a manner as practicable, including but not limited to, providing such documents and making available such of their personnel and agents as the arbitrator may request. The parties direct the arbitrator to take into account their stated goal of expedited proceedings in determining whether to authorize discovery and, if so, the scope of permissible discovery and other hearing and pre-hearing procedures.

(d) The arbitrator will not have the authority to add to, detract from, or modify any provision of this Agreement nor to award punitive damages. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Company or FTI will bear the direct expenses of any such arbitration proceeding. The arbitrator shall have the authority to require one party to pay some or all of the other party's reasonable legal fees based upon an equitable determination regarding the relative fault of each party.

(e) Notwithstanding the foregoing, each party is entitled to seek injunctive or other equitable relief, as contemplated by Section 20 above, from any court of competent jurisdiction, without the need to resort to arbitration.

29. Indemnification and Liability Insurance. The Company shall indemnify Executive to the fullest extent permitted by applicable law with regard to Executive's actions (or inactions) on behalf of Company, with advancement of legal fees on a current basis as permitted by law. The Company shall cover Executive under professional and other appropriate liability insurance policies both during and, while any potential liability exists, after the term in the same amount and to the same extent, if any, as Company covers its other senior executives.

IN WITNESS WHEREOF, the undersigned have signed this Agreement on the date first above written.

Policano & Manzo, L.L.C.

By: /s/ Theodore I. Pincus

Name: Theodore I. Pincus
Title: Executive Vice President
Chief Financial Officer

FTI Consulting, Inc.

By: /s/ Theodore I. Pincus

Name: Theodore I. Pincus
Title: Executive Vice President
Chief Financial Officer

/s/ Dominic DiNapoli

Executive

SCHEDULE 1

1. Name and Address of Executive.
Dominic DiNapoli
1177 Avenue of the Americas
New York, NY 10036
2. Title and Principal Office Location of Executive.
Title: Senior Managing Director - Member of Executive Committee
Office Location: New York
3. Target Salary Rate for 2002 and 2003.
(a) 2002; \$2,246,161
(b) 2003: \$2,246,161
4. Contingent Salary Based on Individual Performance Targets.
Fully contingent upon the completion of at least 1,000 billable hours during the applicable calendar year (to be prorated for partial calendar years based upon the number of days in the partial year); provided, however, with regard to the calendar year ending December 31, 2002, the pro rata billable hour requirement shall not apply and the contingent salary for such period shall be payable if employment with the Company is continuous through the end of such period
5. Number of Shares Covered by Option Grant.
45,000
6. Number of Shares Covered by Restricted Share Agreement.
40% of shares received from Seller
7. Salary Continuation Period.
The remainder of the term.
8. Restricted Period.
 - (a) With regard to Section 18(a)(2) - greater of the remainder of the term of this Agreement or two years from the date of such termination.
 - (b) With regard to Section 18(a)(3) - one year.

March 24, 2004

Mr. Dominic Di Napoli
Chief Operating Officer
FTI Consulting, Inc.
80 Park West
Plaza One
Saddlebrook, N.J. 07663

Dear Dom,

The purpose of this Letter Agreement ("Letter") is to further modify your "Employment Agreement" with FTI Consulting, ("FTI") as of July 17, 2002, and amended January 1, 2003 and September 4, 2003. This Letter only amends that part of the Employment Agreement dealing with your compensation, in recognition of your recent promotion to Chief Operating Officer of FTI, a corporate officer.

Section 162 (m) of the Internal Revenue Code disallows the tax deduction for compensation in excess of \$1,000,000 paid to named executive officers, including yourself, except for compensation that qualified as performance based under 162 (m). To qualify as performance based compensation for 2004, cash-based compensation earned in excess of \$1,000,000 must be paid pursuant to a performance-based formula that is approved by FTI's compensation committee no later than March 30, 2004, and you may not have a contractual entitlement to the compensation in excess of \$1,000,000 if the performance targets approved by the compensation committee are not met. FTI has capped base salary for most such employees at \$1,000,000 per year. Your base salary of \$2,000,000 results in FTI being unable to deduct \$1,000,000 of such salary for federal income tax purposes.

The compensation committee has approved target awards and performance goals for 2004 under the company's Incentive Compensation Plan approved by FTI's shareholders on May 23, 2001, and you agree to participate in that plan without a contractual entitlement to any compensation earned in 2004 in excess of \$2,000,000 under your Employment Agreement. The compensation committee has agreed that you will receive the first \$500,000 provided under that Plan if the performance goals are met.

Very truly yours,

/s/ THEODORE I. PINCUS

Theodore I. Pincus
Executive Vice President and Chief Financial Officer

/s/ DOMINIC DINAPOLI

Dominic DiNapoli
Chief Operating Officer

Date: 3/24/04

**Certification of Principal Executive Officer
Pursuant to Rule 13a-14(a)
(Section 302 of the Sarbanes-Oxley Act of 2002)**

I, Jack B. Dunn, IV, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FTI Consulting, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

By: /s/ JACK B. DUNN, IV

Jack B. Dunn, IV
Chairman of the Board, President and Chief Executive Officer
(principal executive officer)

**Certification of Principal Financial Officer
Pursuant to Rule 13a-14(a)
(Section 302 of the Sarbanes-Oxley Act of 2002)**

I, Theodore I. Pincus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FTI Consulting, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

By: /s/ THEODORE I. PINCUS

Theodore I. Pincus
Executive Vice President and Chief Financial Officer
(principal financial officer)

Certification of Principal Executive Officer
Pursuant to 18 U.S.C. Section 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

Certification Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of FTI Consulting, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack B. Dunn, IV, Chairman of the Board, President and Chief Executive Officer (principal executive officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2004

By: /s/ JACK B. DUNN, IV

Jack B. Dunn, IV
Chairman of the Board, President and Chief Executive Officer
(principal executive officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report of FTI Consulting, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Theodore I. Pincus, Executive Vice President and Chief Financial Officer (principal financial officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2004

By: /s/ THEODORE I. PINCUS

Theodore I. Pincus
Executive Vice President and Chief Financial Officer
(principal financial officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.