
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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)**

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

555 12th Street NW
Washington,
DC
(Address of Principal Executive Offices)

20004
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	FCN	New York Stock Exchange

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (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 stock, as of the latest practicable date.

Class
Common Stock, \$0.01 par value

Outstanding at October 17, 2019
37,630,823

FTI CONSULTING, INC. AND SUBSIDIARIES

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PART I—FINANCIAL INFORMATION

FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except per share data)

Item 1. Financial Statements

	September 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 258,470	\$ 312,069
Accounts receivable:		
Billed receivables	552,253	437,797
Unbilled receivables	455,342	319,205
Allowance for doubtful accounts and unbilled services	(268,132)	(202,394)
Accounts receivable, net	739,463	554,608
Current portion of notes receivable	32,368	29,228
Prepaid expenses and other current assets	65,849	69,448
Total current assets	1,096,150	965,353
Property and equipment, net	92,135	84,577
Operating lease assets	152,064	—
Goodwill	1,197,406	1,172,316
Other intangible assets, net	41,247	34,633
Notes receivable, net	78,800	84,471
Other assets	32,467	37,771
Total assets	\$ 2,690,269	\$ 2,379,121
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable, accrued expenses and other	\$ 158,136	\$ 104,600
Accrued compensation	354,299	333,536
Billings in excess of services provided	34,349	44,434
Total current liabilities	546,784	482,570
Long-term debt, net	273,055	265,571
Noncurrent operating lease liabilities	171,410	—
Deferred income taxes	159,406	155,088
Other liabilities	78,380	127,067
Total liabilities	1,229,035	1,030,296
Commitments and contingent liabilities (Note 10)		
Stockholders' equity		
Preferred stock, \$0.01 par value; shares authorized — 5,000; none outstanding	—	—
Common stock, \$0.01 par value; shares authorized — 75,000; shares issued and outstanding — 37,629 (2019) and 38,147 (2018)	376	381
Additional paid-in capital	240,508	299,534
Retained earnings	1,384,392	1,196,727
Accumulated other comprehensive loss	(164,042)	(147,817)
Total stockholders' equity	1,461,234	1,348,825
Total liabilities and stockholders' equity	\$ 2,690,269	\$ 2,379,121

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues	\$ 593,106	\$ 513,012	\$ 1,750,499	\$ 1,522,884
Operating expenses				
Direct cost of revenues	380,892	336,477	1,116,224	987,912
Selling, general and administrative expenses	127,951	117,448	371,042	347,473
Amortization of other intangible assets	2,125	1,975	5,838	6,297
	510,968	455,900	1,493,104	1,341,682
Operating income	82,138	57,112	257,395	181,202
Other income (expense)				
Interest income and other	2,973	1,400	5,741	2,074
Interest expense	(4,832)	(7,246)	(14,371)	(20,073)
Gain on sale of business	—	13,031	—	13,031
	(1,859)	7,185	(8,630)	(4,968)
Income before income tax provision	80,279	64,297	248,765	176,234
Income tax provision	19,857	19,964	61,100	49,347
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Earnings per common share — basic	\$ 1.65	\$ 1.19	\$ 5.09	\$ 3.43
Earnings per common share — diluted	\$ 1.59	\$ 1.14	\$ 4.92	\$ 3.32
Other comprehensive loss, net of tax				
Foreign currency translation adjustments, net of tax expense of \$0, \$373, \$0 and \$373	\$ (16,633)	\$ (4,180)	\$ (16,225)	\$ (17,417)
Total other comprehensive loss, net of tax	(16,633)	(4,180)	(16,225)	(17,417)
Comprehensive income	\$ 43,789	\$ 40,153	\$ 171,440	\$ 109,470

See accompanying notes to condensed consolidated financial statements

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2018	38,147	\$ 381	\$ 299,534	\$ 1,196,727	\$ (147,817)	\$ 1,348,825
Net income	—	\$ —	\$ —	\$ 62,645	\$ —	\$ 62,645
Other comprehensive income:						
Cumulative translation adjustment	—	—	—	—	5,223	5,223
Issuance of common stock in connection with:						
Exercise of options	55	1	2,211	—	—	2,212
Restricted share grants, less net settled shares of 38	153	1	(2,740)	—	—	(2,739)
Stock units issued under incentive compensation plan	—	—	1,346	—	—	1,346
Purchase and retirement of common stock	(328)	(3)	(21,880)	—	—	(21,883)
Share-based compensation	—	—	6,393	—	—	6,393
Balance at March 31, 2019	38,027	\$ 380	\$ 284,864	\$ 1,259,372	\$ (142,594)	\$ 1,402,022
Net income	—	\$ —	\$ —	\$ 64,598	\$ —	\$ 64,598
Other comprehensive loss:						
Cumulative translation adjustment	—	—	—	—	(4,815)	(4,815)
Issuance of common stock in connection with:						
Exercise of options	87	1	3,075	—	—	3,076
Restricted share grants, less net settled shares of 17	78	1	(1,352)	—	—	(1,351)
Purchase and retirement of common stock	(580)	(6)	(48,326)	—	—	(48,332)
Share-based compensation	—	—	3,814	—	—	3,814
Balance at June 30, 2019	37,612	\$ 376	\$ 242,075	\$ 1,323,970	\$ (147,409)	\$ 1,419,012
Net income	—	\$ —	\$ —	\$ 60,422	\$ —	\$ 60,422
Other comprehensive loss:						
Cumulative translation adjustment	—	—	—	—	(16,633)	(16,633)
Issuance of common stock in connection with:						
Exercise of options	94	1	3,568	—	—	3,569
Restricted share grants, less net settled shares of 13	14	—	(1,322)	—	—	(1,322)
Stock units issued under incentive compensation plan	—	—	67	—	—	67
Purchase and retirement of common stock	(91)	(1)	(7,733)	—	—	(7,734)
Share-based compensation	—	—	3,853	—	—	3,853
Balance at September 30, 2019	37,629	\$ 376	\$ 240,508	\$ 1,384,392	\$ (164,042)	\$ 1,461,234

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2017	<u>37,729</u>	<u>\$ 377</u>	<u>\$ 266,035</u>	<u>\$ 1,045,774</u>	<u>\$ (120,215)</u>	<u>\$ 1,191,971</u>
Net income	—	\$ —	\$ —	\$ 38,945	\$ —	\$ 38,945
Other comprehensive income:						
Cumulative translation adjustment	—	—	—	—	10,446	10,446
Issuance of common stock in connection with:						
Exercise of options	153	1	5,793	—	—	5,794
Restricted share grants, less net settled shares of 35	175	2	(1,581)	—	—	(1,579)
Stock units issued under incentive compensation plan	—	—	1,059	—	—	1,059
Purchase and retirement of common stock	(337)	(3)	(14,217)	—	—	(14,220)
Cumulative effect due to adoption of new accounting standard	—	—	—	342	—	342
Share-based compensation	—	—	4,676	—	—	4,676
Balance at March 31, 2018	<u>37,720</u>	<u>\$ 377</u>	<u>\$ 261,765</u>	<u>\$ 1,085,061</u>	<u>\$ (109,769)</u>	<u>\$ 1,237,434</u>
Net income	—	\$ —	\$ —	\$ 43,609	\$ —	\$ 43,609
Other comprehensive loss:						
Cumulative translation adjustment	—	—	—	—	(23,683)	(23,683)
Issuance of common stock in connection with:						
Exercise of options	360	4	14,802	—	—	14,806
Restricted share grants, less net settled shares of 4	99	1	(253)	—	—	(252)
Share-based compensation	—	—	3,887	—	—	3,887
Balance at June 30, 2018	<u>38,179</u>	<u>\$ 382</u>	<u>\$ 280,201</u>	<u>\$ 1,128,670</u>	<u>\$ (133,452)</u>	<u>\$ 1,275,801</u>
Net income	—	\$ —	\$ —	\$ 44,333	\$ —	\$ 44,333
Other comprehensive income loss:						
Cumulative translation adjustment	—	—	—	—	(4,180)	(4,180)
Issuance of common stock in connection with:						
Exercise of options	340	4	13,565	—	—	13,569
Restricted share grants, less net settled shares of 12	33	—	(835)	—	—	(835)
Purchase and retirement of common stock	(196)	(2)	(14,998)	—	—	(15,000)
Conversion feature of convertible senior notes due 2023, net	—	—	34,131	—	—	34,131
Share-based compensation	—	—	3,656	—	—	3,656
Balance at September 30, 2018	<u>38,356</u>	<u>\$ 384</u>	<u>\$ 315,720</u>	<u>\$ 1,173,003</u>	<u>\$ (137,632)</u>	<u>\$ 1,351,475</u>

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2019	2018
Operating activities		
Net income	\$ 187,665	\$ 126,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,384	24,548
Amortization and impairment of other intangible assets	5,838	6,297
Acquisition-related contingent consideration	717	355
Provision for doubtful accounts	13,552	11,951
Share-based compensation	14,060	12,219
Amortization of debt discount and issuance costs	8,666	2,604
Gain on sale of business	—	(13,031)
Other	248	751
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(191,644)	(130,369)
Notes receivable	2,521	2,659
Prepaid expenses and other assets	(5,817)	(174)
Accounts payable, accrued expenses and other	(7,332)	16,150
Income taxes	30,777	28,922
Accrued compensation	5,156	7,207
Billings in excess of services provided	(9,925)	(10,704)
Net cash provided by operating activities	76,866	86,272
Investing activities		
Proceeds from sale of business	—	50,283
Payments for acquisition of businesses, net of cash received	(18,791)	—
Purchases of property and equipment	(27,026)	(27,841)
Other	55	741
Net cash provided by (used in) investing activities	(45,762)	23,183
Financing activities		
Repayments under revolving line of credit, net	—	(100,000)
Proceeds from issuance of convertible notes	—	316,250
Payments of debt issue costs	—	(8,048)
Deposits	535	2,327
Purchase and retirement of common stock	(77,949)	(29,220)
Net issuance of common stock under equity compensation plans	3,176	31,241
Payments for business acquisition liabilities	(2,282)	(3,029)
Net cash provided by (used in) financing activities	(76,520)	209,521
Effect of exchange rate changes on cash and cash equivalents	(8,183)	(3,070)
Net increase (decrease) in cash and cash equivalents	(53,599)	315,906
Cash and cash equivalents, beginning of period	312,069	189,961
Cash and cash equivalents, end of period	\$ 258,470	\$ 505,867
Supplemental cash flow disclosures		
Cash paid for interest	\$ 7,264	\$ 13,428
Cash paid for income taxes, net of refunds	\$ 29,885	\$ 20,324
Non-cash investing and financing activities:		
Issuance of stock units under incentive compensation plans	\$ 1,413	\$ 1,059
Business acquisition liabilities not yet paid	\$ 14,004	\$ —

See accompanying notes to condensed consolidated financial statements

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

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements of FTI Consulting, Inc., including its consolidated subsidiaries (collectively, the "Company," "we," "our" or "FTI Consulting"), presented herein, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and under the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. Certain prior period amounts have been reclassified to conform to the current period presentation. In management's opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. Results of operations for the interim periods presented herein are not necessarily indicative of results of operations for a full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC.

Leases

As of January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, which was amended in some respects by subsequent ASUs (collectively Accounting Standards Codification ("ASC") 842 ("ASC 842")) and supersedes existing lease guidance. The standard requires us to record right-of-use ("ROU") assets and corresponding lease liabilities on the balance sheet and disclose key quantitative and qualitative information about our lease contracts.

Under ASC 842, we determine if a contract is a leasing arrangement at inception. ROU assets represent our right to control the use of an identified asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. We use the incremental borrowing rate on the commencement date in determining the present value of our lease payments. We recognize operating lease expense for our operating leases on a straight-line basis over the lease term, which may include renewal or termination options that are reasonably certain of exercise.

Lease and non-lease components are accounted for together as a single lease component for operating leases associated with our office space and our equipment leases. We apply a portfolio approach for certain equipment leases to effectively account for the operating lease ROU assets and liabilities.

2. New Accounting Standards

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases*, which was amended in some respects by subsequent ASUs. We adopted ASC 842 using the modified retrospective basis for reporting. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed us to carry forward the historical lease classification for existing leases on the adoption date, and allowed us not to reassess whether an existing contract contains a lease or initial direct costs. As permitted by the guidance, prior comparative periods will not be adjusted under this method.

See Note 1, "Basis of Presentation and Significant Accounting Policies" for a description of the significant accounting policies for our operating leases. See Note 9, "Leases" for the disclosures required under ASC 842. The adoption of this standard resulted in recognition of ROU assets in the amount of \$148.5 million and lease liabilities in the amount of \$206.7 million for operating leases on our Condensed Consolidated Balance Sheets as of January 1, 2019. Our existing deferred rent and cease-use liabilities were \$62.3 million as of December 31, 2018 and were included as a reduction to the initial measurement of our operating lease assets. Our existing prepaid rent balance was \$4.1 million as of December 31, 2018 and was included as a reduction to the initial measurement of our operating lease liabilities. There was no material impact on the Condensed Consolidated Statements of Comprehensive Income, Condensed Consolidated Statements of Stockholders' Equity or Condensed Consolidated Statements of Cash Flows.

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements. The guidance promotes a framework to help improve the effectiveness of disclosures in the notes to the financial statements and is effective for annual and interim periods beginning after December 15, 2019, although early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which requires the Company to capitalize implementation costs of a hosting arrangement that is a service contract and expense those costs over the term of the hosting arrangement. The guidance is effective for annual and interim periods beginning after December 15, 2019 although early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial statements.

3. Earnings Per Common Share

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

Because we expect to settle the principal amount of the outstanding 2.0% convertible senior notes due 2023 ("2023 Convertible Notes") in cash, we use the treasury stock method for calculating the potential dilutive effect of the conversion feature on earnings per common share, if applicable. The conversion feature had a dilutive impact on earnings per common share for the three and nine months ended September 30, 2019, as the average market price per share of our common stock for the period exceeded the conversion price of \$101.38 per share. See Note 8, "Debt" for additional information about the 2023 Convertible Notes.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator — basic and diluted				
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Denominator				
Weighted average number of common shares outstanding — basic	36,617	37,318	36,851	37,008
Effect of dilutive convertible notes	21	—	7	—
Effect of dilutive stock options	471	639	454	500
Effect of dilutive restricted shares	829	799	795	706
Weighted average number of common shares outstanding — diluted	37,938	38,756	38,107	38,214
Earnings per common share — basic	\$ 1.65	\$ 1.19	\$ 5.09	\$ 3.43
Earnings per common share — diluted	\$ 1.59	\$ 1.14	\$ 4.92	\$ 3.32
Antidilutive stock options and restricted shares	1	4	24	221

4. Revenues

We generate the majority of our revenues by providing consulting services to our clients. Most of our consulting service contracts are based on one of the following types of arrangements:

- *Time and expense arrangements* require the client to pay us based on the number of hours worked at contractually agreed-upon rates. We recognize revenues for these arrangements based on hours incurred and contracted rates utilizing a right-to-invoice practical expedient because we have a right to consideration for services completed to date.
- *Fixed-fee arrangements* require the client to pay a pre-established fee in exchange for a predetermined set of professional services. We recognize revenues for these arrangements based on the proportional performance related to

individual performance obligations within each arrangement; however, these arrangements generally have one performance obligation.

- *Performance-based or contingent arrangements* represent forms of variable consideration. In these arrangements, our fees are based on the attainment of contractually defined objectives with our client, such as completing a business transaction or assisting the client in achieving a specific business objective. We recognize revenues earned to date by applying the proportional performance method.

Revenues are recognized when we satisfy a performance obligation by transferring services promised in a contract to a customer and in an amount that reflects the consideration that we expect to receive in exchange for those services. Performance obligations in our contracts represent distinct or separate services that we provide to our customers.

Revenues recognized during the current period may include revenues from performance obligations satisfied or partially satisfied in previous periods. This primarily occurs when the estimated transaction price has changed based on our current probability assessment over whether the agreed-upon outcome for our performance-based and contingent arrangements will be achieved. The aggregate amount of revenues recognized related to a change in the transaction price in the current period, which related to performance obligations satisfied or partially satisfied in a prior period was \$7.0 million and \$23.5 million for the three and nine months ended September 30, 2019, respectively, and \$8.7 million and \$12.9 million for the three and nine months ended September 30, 2018, respectively.

Unfulfilled performance obligations represent the remaining contract transaction prices allocated to the performance obligations that are unsatisfied. Unfulfilled performance obligations primarily consist of fees not yet recognized on a proportional performance basis for fixed-fee arrangements and performance-based and contingent arrangements. As of September 30, 2019 and December 31, 2018, the aggregate amount of the remaining contract transaction price allocated to unfulfilled performance obligations was \$3.0 million and \$8.8 million, respectively. We expect to recognize the majority of the related revenues over the next 24 months.

Contract assets are defined as assets for which we have recorded revenue but are not yet entitled to receive our fees because certain events, such as completion of the measurement period or client approval, must occur. The contract asset balance was \$3.4 million as of September 30, 2019 and \$2.4 million as of December 31, 2018.

Contract liabilities are defined as liabilities incurred when we have received consideration but have not yet performed the agreed upon services. This may occur when clients pay us upfront fees before we begin work for them. The contract liability balance was immaterial as of September 30, 2019 and December 31, 2018.

5. Accounts Receivable and Allowance for Doubtful Accounts

Timing of revenue recognition often differs from the timing of billing to our customers. Generally, we transfer goods or services to a customer before the customer pays consideration or payment is due. If we have an unconditional right to invoice and receive payment for goods or services already provided, we record billed and unbilled receivables on our Condensed Consolidated Balance Sheets. Our contract terms generally include a requirement of payment within 30 days when no contingencies exist. Payment terms and conditions vary depending on the jurisdiction, market and type of service, and whether regulatory or other third-party approvals are required. In addition, contracts may be negotiated per the client's request; or at times we are asked to execute contracts in a form provided by customers that might include different terms.

We record adjustments to the allowance for doubtful accounts and unbilled services as a reduction in revenues when there are changes in estimates of fee reductions, such as those fee reductions imposed by bankruptcy courts and other regulatory institutions for both billed and unbilled receivables. The allowance for doubtful accounts and unbilled services is also adjusted after the related work has been billed to the client and we discover that collectability is not reasonably assured. These adjustments are recorded to "Selling, general and administrative expenses" ("SG&A") on the Condensed Consolidated Statements of Comprehensive Income. Our bad debt expense totaled \$7.3 million and \$13.6 million for the three and nine months ended September 30, 2019, respectively, and \$3.2 million and \$12.0 million for the three and nine months ended September 30, 2018, respectively.

6. Goodwill and Other Intangible Assets

Goodwill

The table below summarizes the changes in the carrying amount of goodwill by reportable segment:

	Corporate Finance & Restructuring	Forensic and Litigation Consulting	Economic Consulting	Technology	Strategic Communications	Total
Balance at December 31, 2018						
Goodwill	\$ 450,997	\$ 231,537	\$ 268,547	\$ 96,723	\$ 318,651	\$ 1,366,455
Accumulated goodwill impairment	—	—	—	—	(194,139)	(194,139)
Goodwill, net at December 31, 2018	450,997	231,537	268,547	96,723	124,512	1,172,316
Acquisitions	30,807	—	—	—	—	30,807
Foreign currency translation adjustment and other	(1,740)	(1,228)	(270)	(45)	(2,434)	(5,717)
Balance at September 30, 2019						
Goodwill	480,064	230,309	268,277	96,678	316,217	1,391,545
Accumulated goodwill impairment	—	—	—	—	(194,139)	(194,139)
Goodwill, net at September 30, 2019	\$ 480,064	\$ 230,309	\$ 268,277	\$ 96,678	\$ 122,078	\$ 1,197,406

During the three months ended September 30, 2019, we acquired Andersch AG ("Andersch"), a leading German restructuring advisory firm, within our Corporate Finance & Restructuring segment. We recorded \$30.8 million in goodwill based on a preliminary purchase price allocation as a result of the acquisition. We have included the results of the acquired business's operations in the Corporate Finance & Restructuring segment since its acquisition date.

Other Intangible Assets

Other intangible assets were as follows:

	September 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets						
Customer relationships ⁽¹⁾	\$ 98,082	\$ 73,317	\$ 24,765	\$ 99,080	\$ 71,036	\$ 28,044
Trade names ⁽¹⁾	10,281	253	10,028	—	—	—
Acquired software and other ⁽¹⁾	3,254	1,900	1,354	3,107	1,618	1,489
	111,617	75,470	36,147	102,187	72,654	29,533
Non-amortizing intangible assets						
Trade names	5,100	—	5,100	5,100	—	5,100
Total	\$ 116,717	\$ 75,470	\$ 41,247	\$ 107,287	\$ 72,654	\$ 34,633

⁽¹⁾ During the three months ended September 30, 2019, we acquired Andersch and its related intangible assets within our Corporate Finance & Restructuring segment.

Other intangible assets with finite lives are amortized over their estimated useful lives. We recorded amortization expense of \$2.1 million and \$5.8 million for the three and nine months ended September 30, 2019, respectively, and \$2.0 million and \$6.3 million for the three and nine months ended September 30, 2018, respectively.

We estimate our future amortization expense for our intangible assets with finite lives to be as follows:

Year	As of September 30, 2019 ⁽¹⁾
2019 (remaining)	\$ 2,362
2020	9,436
2021	8,924
2022	7,156
2023	3,730
Thereafter	4,539
	<u>\$ 36,147</u>

⁽¹⁾ Actual amortization expense to be reported in future periods could differ from these estimates because of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes.

7. Financial Instruments

The following table presents the carrying amounts and estimated fair values of our financial instruments by hierarchy level as of September 30, 2019 and December 31, 2018:

	September 30, 2019			
	Carrying Amount	Hierarchy Level (Fair Value)		
		Level 1	Level 2	Level 3
Liabilities				
Acquisition-related contingent consideration, including current portion ⁽¹⁾⁽²⁾	\$ 16,584	\$ —	\$ —	\$ 16,584
Long-term debt ⁽³⁾	273,055	—	380,362	—
Total	<u>\$ 289,639</u>	<u>\$ —</u>	<u>\$ 380,362</u>	<u>\$ 16,584</u>
	December 31, 2018			
	Carrying Amount	Hierarchy Level (Fair Value)		
		Level 1	Level 2	Level 3
Liabilities				
Acquisition-related contingent consideration, including current portion ⁽¹⁾	\$ 2,960	\$ —	\$ —	\$ 2,960
Long-term debt ⁽³⁾	265,571	—	291,837	—
Total	<u>\$ 268,531</u>	<u>\$ —</u>	<u>\$ 291,837</u>	<u>\$ 2,960</u>

⁽¹⁾ The short-term portion is included in “Accounts payable, accrued expenses and other,” and the long-term portion is included in “Other liabilities” on the Condensed Consolidated Balance Sheets.

⁽²⁾ During the three months ended September 30, 2019, we acquired Andersch within our Corporate Finance & Restructuring segment and recorded an acquisition-related contingent consideration liability of \$14.4 million, including accretion for the time value of money.

⁽³⁾ The carrying values include unamortized deferred debt issue costs and debt discount.

The fair values of financial instruments not included in the table above are estimated to be equal to their carrying values as of September 30, 2019 and December 31, 2018.

We estimate the fair value of our 2023 Convertible Notes based on their last actively traded prices. The fair value of our debt is classified within Level 2 of the fair value hierarchy because it is traded in less active markets.

We estimate the fair value of acquisition-related contingent consideration using either a probability-weighted discounted cash flow model or a Monte Carlo simulation. These fair value estimates represent Level 3 measurements as they are based on significant inputs not observed in the market and reflect our own assumptions. The significant unobservable inputs used in the fair value measurements of our acquisition-related contingent consideration include measures of discount rates, future cash flows, volatility and the cost of debt. Significant increases (decreases) in these unobservable inputs in isolation would result in a significantly lower (higher) fair value. The fair value of our contingent consideration is reassessed at each reporting period by the Company based on additional information as it becomes available.

Any change in the fair value of an acquisition's contingent consideration liability results in a remeasurement gain or loss that is recorded in "Selling, general and administrative expenses" on the Consolidated Statements of Comprehensive Income. During the three and nine months ended September 30, 2019 and 2018, there was no change in the estimated fair value of future expected contingent consideration payments.

8. Debt

The table below summarizes the components of the Company's debt:

	September 30, 2019	December 31, 2018
2023 Convertible Notes	\$ 316,250	\$ 316,250
Total debt	316,250	316,250
Less: deferred debt discount	(37,588)	(43,998)
Less: deferred debt issue costs	(5,607)	(6,681)
Long-term debt, net ⁽¹⁾	\$ 273,055	\$ 265,571
Additional paid-in capital	\$ 35,306	\$ 35,306
Discount attribution to equity	(1,175)	(1,175)
Equity component, net	\$ 34,131	\$ 34,131

⁽¹⁾ There were no current portions of long-term debt as of September 30, 2019 and December 31, 2018.

2023 Convertible Notes

On August 20, 2018, we issued the 2023 Convertible Notes in an aggregate principal amount of \$316.3 million. The 2023 Convertible Notes bear interest at a fixed rate of 2.0% per year, payable semiannually in arrears on February 15th and August 15th of each year and will mature on August 15, 2023, unless earlier converted or repurchased. The 2023 Convertible Notes are senior unsecured obligations of the Company.

The 2023 Convertible Notes are convertible at an initial conversion rate of 0.8643 shares of our common stock per \$1,000 principal amount of the 2023 Convertible Notes (equivalent to an initial conversion price of approximately \$101.38 per share of common stock). The circumstances required to allow the holders to convert their 2023 Convertible Notes were not met as of September 30, 2019.

The excess of the principal amount of the liability over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2023 Convertible Notes using the effective interest rate method.

We incurred debt issue costs and allocated the total amount to the liability and equity components of the 2023 Convertible Notes based on their relative values. The debt issue costs attributable to the liability component are amortized to interest expense over the term of the 2023 Convertible Notes using the effective interest rate method. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

The table below summarizes the amount of interest cost recognized by us for both the contractual interest expense and amortization of the debt discount for the 2023 Convertible Notes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Contractual interest expense	\$ 1,581	\$ 720	\$ 4,743	\$ 720
Amortization of debt discount ⁽¹⁾	2,166	938	6,411	938
Total	\$ 3,747	\$ 1,658	\$ 11,154	\$ 1,658

⁽¹⁾ The effective interest rate of the liability component was 5.45% as of September 30, 2019.

Credit Facility

On June 26, 2015, we entered into a credit agreement, which provides for a \$550.0 million senior secured bank revolving credit facility (“Original Credit Facility”) maturing on June 26, 2020. In November 2018, we amended and restated the credit agreement to the Original Credit Facility, to, among other things, extend the maturity of the Original Credit Facility to November 30, 2023 and incurred an additional \$1.7 million of debt issuance costs (the Original Credit Facility as amended and restated, the “Credit Facility”). There were no borrowings outstanding under the Credit Facility as of September 30, 2019 and December 31, 2018. Additionally, \$1.0 million of the borrowing limit under the Credit Facility was utilized for letters of credit as of September 30, 2019.

There were \$2.4 million and \$3.6 million of unamortized debt issue costs related to the Credit Facility as of September 30, 2019 and December 31, 2018, respectively. These amounts were included in “Other assets” on our Condensed Consolidated Balance Sheets.

9. Leases

We lease office space and equipment under non-cancelable operating leases. We recognize operating lease expense on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Most leases include one or more options to renew, with renewal terms that can extend the lease term from six months to nine years. The exercise of lease renewal options is at our sole discretion. Certain of our lease agreements include rental payments that are adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The table below summarizes the carrying amount of our operating lease assets and liabilities:

Leases	Classification	As of September 30, 2019
Assets		
Operating lease assets	Operating lease assets	\$ 152,064
Total lease assets		\$ 152,064
Liabilities		
Current		
Operating lease liabilities	Accounts payable, accrued expenses and other	\$ 31,903
Noncurrent		
Operating lease liabilities	Noncurrent operating lease liabilities	171,410
Total lease liabilities		\$ 203,313

The table below summarizes total lease costs for the three and nine months ended September 30, 2019, respectively:

Lease Cost	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease costs	\$ 11,332	\$ 33,241
Short-term lease costs	926	2,355
Variable lease costs	3,030	8,728
Sublease income	(1,259)	(3,702)
Total lease cost	\$ 14,029	\$ 40,622

We sublease certain of our leased office spaces to third parties. Our sublease portfolio consists of leases of office space that we have vacated before the lease term expiration. Operating lease expense on vacated office space is reduced by sublease rental income, which is recorded to SG&A expenses on the Condensed Consolidated Statements of Comprehensive Income. Our sublease arrangements do not contain renewal options or restrictive covenants. We estimate future sublease rental income to be \$1.2 million for the remainder of 2019, \$4.9 million in 2020, \$4.5 million in 2021, \$0.7 million in 2022, \$0.6 million in 2023 and \$0.9 million in years beyond 2023.

The maturity analysis below summarizes the remaining future undiscounted cash flows for our operating leases, a reconciliation to operating lease liabilities reported on the Condensed Consolidated Balance Sheet, our weighted-average remaining lease term and weighted average discount rate:

	As of September 30, 2019
2019 (remaining)	\$ 2,794
2020	51,559
2021	48,325
2022	29,471
2023	24,461
Thereafter	90,946
Total future lease payments	247,556
Less: imputed interest	(44,243)
Total	\$ 203,313

Weighted Average Remaining Lease Term (years)

Operating leases	6.5
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Weighted Average Discount Rate

Operating leases	5.6%
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The table below summarizes cash paid for our operating lease liabilities and other non-cash information:

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 33,031
Operating lease assets obtained in exchange for lease liabilities	\$ 21,880

Operating Lease Commitments

Under ASC 840, *Leases*, our future minimum payments for all operating lease obligations that have initial non-cancelable lease terms exceeding one year, net of rental income from subleases as of December 31, 2018 were as follows:

	Operating Leases	Sublease Rental Income
2019	\$ 49,757	\$ 4,760
2020	47,084	3,944
2021	44,480	3,864
2022	24,471	707
2023	20,309	614
Thereafter	75,190	939
Total	\$ 261,291	\$ 14,828

10. Commitments and Contingencies

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

11. Share-Based Compensation

During the nine months ended September 30, 2019, we granted 212,089 restricted stock awards, 27,306 restricted stock units and 113,124 performance-based restricted stock units. These awards are recorded as equity on the Condensed Consolidated Balance Sheets. During the nine months ended September 30, 2019, stock options exercisable for up to 661 shares and 36,744 shares of restricted stock were forfeited prior to the completion of the applicable vesting requirements.

Total share-based compensation expense, net of forfeitures, for the three and nine months ended September 30, 2019 and 2018 is detailed in the following table:

<u>Income Statement Classification</u>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Direct cost of revenues	\$ 2,327	\$ 2,459	\$ 10,129	\$ 8,665
Selling, general and administrative expenses	3,478	2,939	8,608	8,286
Total share-based compensation expense	\$ 5,805	\$ 5,398	\$ 18,737	\$ 16,951

12. Stockholders' Equity

On June 2, 2016, our Board of Directors authorized a stock repurchase program of up to \$100.0 million (the "Repurchase Program"). On each of May 18, 2017, December 1, 2017 and February 21, 2019, our Board of Directors authorized an additional \$100.0 million, respectively, increasing the Repurchase Program to an aggregate authorization of \$400.0 million. No time limit has been established for the completion of the Repurchase Program, and the Repurchase Program may be suspended, discontinued or replaced by the Board of Directors at any time without prior notice. As of September 30, 2019, we have \$94.6 million available under the Repurchase Program to repurchase additional shares.

The following table details our stock repurchases under the Repurchase Program:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Shares of common stock repurchased and retired	91	—	999	337
Average price paid per share	\$ 85.11	\$ —	\$ 78.04	\$ 42.17
Total cost	\$ 7,732	\$ —	\$ 77,929	\$ 14,213

13. Segment Reporting

We manage our business in five reportable segments: Corporate Finance & Restructuring ("Corporate Finance"), Forensic and Litigation Consulting ("FLC"), Economic Consulting, Technology and Strategic Communications.

Our Corporate Finance segment focuses on the strategic, operational, financial and capital needs of our clients around the world and delivers a wide range of service offerings related to restructuring, business transformation and transaction support. Our restructuring practice includes corporate restructuring, including bankruptcy and interim management services. Our business transformation and transactions practices include financial, operational and performance improvement services, as well as due diligence, financing advisory, mergers and acquisitions ("M&A") advisory, M&A integration, carveout support and valuations.

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

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

Our Technology segment provides corporations and law firms with a comprehensive and global portfolio of consulting and services for information governance, privacy and security, electronic discovery ("e-discovery") and insight analytics. Our consulting expertise enables clients to more confidently govern, secure, find, analyze and rapidly understand their data in the context of compliance and risk.

Our Strategic Communications segment designs and executes communications strategies for management teams and boards of directors to help them seize opportunities, manage financial, regulatory and reputational challenges, navigate market disruptions, articulate their brand, stake a competitive position, and preserve and grow their operations.

We evaluate the performance of our operating segments based on Adjusted Segment EBITDA, a GAAP financial measure. We define Adjusted Segment EBITDA as a segment's share of consolidated operating income before depreciation, amortization of intangible assets, remeasurement of acquisition-related contingent consideration, special charges and goodwill impairment charges. We define Total Adjusted Segment EBITDA, a non-GAAP financial measure, as the total of Adjusted Segment EBITDA for all segments, which excludes unallocated corporate expenses. We use Adjusted Segment EBITDA to internally evaluate the financial performance of our segments because we believe it reflects current core operating performance and provides an indicator of the segment's ability to generate cash.

The table below presents revenues and Adjusted Segment EBITDA for our reportable segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Corporate Finance	\$ 191,698	\$ 135,418	\$ 542,667	\$ 419,695
FLC	142,651	126,684	427,518	388,250
Economic Consulting	141,715	139,166	439,488	405,583
Technology	57,083	56,692	164,051	144,035
Strategic Communications	59,959	55,052	176,775	165,321
Total revenues	\$ 593,106	\$ 513,012	\$ 1,750,499	\$ 1,522,884
Adjusted Segment EBITDA				
Corporate Finance	\$ 48,084	\$ 26,798	\$ 135,937	\$ 97,379
FLC	27,008	21,970	87,066	75,342
Economic Consulting	19,413	23,238	66,766	57,846
Technology	12,286	11,473	37,884	24,713
Strategic Communications	12,644	10,802	34,667	31,621
Total Adjusted Segment EBITDA	\$ 119,435	\$ 94,281	\$ 362,320	\$ 286,901

The table below reconciles net income to Total Adjusted Segment EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Add back:				
Income tax provision	19,857	19,964	61,100	49,347
Interest income and other	(2,973)	(1,400)	(5,741)	(2,074)
Interest expense	4,832	7,246	14,371	20,073
Gain on sale of business	—	(13,031)	—	(13,031)
Unallocated corporate expenses	27,783	27,806	78,778	77,576
Segment depreciation expense	7,389	7,388	20,309	21,826
Amortization of intangible assets	2,125	1,975	5,838	6,297
Total Adjusted Segment EBITDA	<u>\$ 119,435</u>	<u>\$ 94,281</u>	<u>\$ 362,320</u>	<u>\$ 286,901</u>

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

The following is a discussion and analysis of our consolidated financial condition, results of operations, liquidity and capital resources for the three and nine months ended September 30, 2019 and 2018 and significant factors that could affect our prospective financial condition and results of operations. This discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes and with our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC"). In addition to historical information, the following discussion includes forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations and intentions. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, these expectations or any of the forward-looking statements could prove to be incorrect, and actual results could differ materially from those projected or assumed in the forward-looking statements.

BUSINESS OVERVIEW

FTI Consulting, Inc. ("FTI Consulting," "we," "us" or the "Company") is a global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political and regulatory, reputational and transactional. Individually, each of our practices is staffed with experts recognized for the depth of their knowledge and a track record of making an impact. Collectively, FTI Consulting offers a comprehensive suite of services designed to assist clients across the business cycle, from proactive risk management and rapid response to unexpected events and dynamic environments.

We report financial results for the following five reportable segments:

Our **Corporate Finance & Restructuring** ("Corporate Finance") segment focuses on the strategic, operational, financial and capital needs of our clients around the world and delivers a wide range of service offerings related to restructuring, business transformation and transaction support. Our restructuring practice includes corporate restructuring, including bankruptcy and interim management services. Our business transformation and transactions practices include financial, operational and performance improvement services, as well as due diligence, financing advisory, mergers and acquisitions ("M&A") advisory, M&A integration, carveout support and valuations.

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

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

Our **Technology** segment provides corporations and law firms with a comprehensive and global portfolio of consulting and services for information governance, privacy and security, electronic discovery ("e-discovery") and insight analytics. Our consulting expertise enables clients to more confidently govern, secure, find, analyze and rapidly understand their data in the context of compliance and risk.

Our **Strategic Communications** segment designs and executes communications strategies for management teams and boards of directors to help them seize opportunities, manage financial, regulatory and reputational challenges, navigate market disruptions, articulate their brand, stake a competitive position, and preserve and grow their operations.

We derive substantially all of our revenues from providing professional services to both U.S. and global clients. Most of our services are rendered under time and expense arrangements that obligate the client to pay us a fee for the hours that we incur at agreed-upon rates. Under this arrangement, we typically bill our clients for reimbursable expenses, which may include the cost of producing our work product and other direct expenses that we incur on behalf of the client, such as travel costs. We also render services for which certain clients may be required to pay us a fixed-fee or recurring retainer. These arrangements are generally cancelable at any time. Some of our engagements contain performance-based arrangements in which we earn a contingent or success fee when and if certain predefined outcomes occur. This type of success fee may supplement a time and expense or fixed-fee arrangement. Success fee revenues may cause variations in our revenues and operating results due to the timing of when achieving the performance-based criteria becomes probable. Seasonal factors, such as the timing of our employees' and clients' vacations and holidays, may impact the timing of our revenues across our segments.

In our Technology segment, certain clients are billed based on the amount of data stored on our electronic systems, the volume of information processed or the number of users licensing our Ringtail® software prior to its sale in September 2018, and our other software products. We licensed, and in some cases continue to license, certain products directly to end users, as well as indirectly through our channel partner relationships. Unit-based revenues are defined as revenues billed on a per item, per page or some other unit-based method and include revenues from data processing and hosting, software usage and software licensing. Unit-based revenues include revenues associated with our proprietary software that are made available to customers, either via a web browser (“on-demand”) or installed at our customer or partner locations (“on-premise”). On-demand revenues are charged on a unit or monthly basis and include, but are not limited to, processing and review related functions. On-premise revenues are composed of upfront license fees, with recurring support and maintenance.

Our financial results are primarily driven by:

- the number, size and type of engagements we secure;
- the rate per hour or fixed charges we charge our clients for services;
- the utilization rates of the revenue-generating professionals we employ;
- the timing of revenue recognition related to revenues subject to certain performance-based contingencies;
- the number of revenue-generating professionals;
- licensing of our software products and other technology services;
- the types of assignments we are working on at different times;
- the length of the billing and collection cycles; and
- the geographic locations of our clients or locations in which services are rendered.

We define acquisition growth as revenues of acquired companies in the first 12 months following the effective date of an acquisition. Our definition of organic growth is the change in revenues, excluding the impact of all such acquisitions.

When significant, we identify the estimated impact of foreign currency translation (“FX”) driven by our businesses with functional currencies other than the U.S. Dollar (“USD”), on the period-to-period performance results. The estimated impact of FX is calculated as the difference between the prior period results multiplied by the average foreign currency exchange rates to USD in the current period and the prior period results, multiplied by the average foreign currency exchange rates to USD in the prior period.

Non-GAAP Financial Measures

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

- Total Segment Operating Income
- Adjusted EBITDA
- Total Adjusted Segment EBITDA
- Adjusted EBITDA Margin
- Adjusted Net Income
- Adjusted Earnings per Diluted Share
- Free Cash Flow

We have included the definitions of Segment Operating Income and Adjusted Segment EBITDA, which are GAAP financial measures, below in order to more fully define the components of certain non-GAAP financial measures in the accompanying analysis of financial information. As described in Note 13, “Segment Reporting” in Part I, Item 1, of this Quarterly Report on Form 10-Q, we evaluate the performance of our operating segments based on Adjusted Segment EBITDA, and Segment Operating Income is a component of the definition of Adjusted Segment EBITDA.

We define Segment Operating Income as a segment’s share of consolidated operating income. We define Total Segment Operating Income, which is a non-GAAP financial measure, as the total of Segment Operating Income for all segments, which excludes unallocated corporate expenses. We use Segment Operating Income for the purpose of calculating Adjusted Segment EBITDA. We define Adjusted Segment EBITDA as a segment’s share of consolidated operating income before depreciation, amortization of intangible assets, remeasurement of acquisition-related contingent consideration, special charges and goodwill impairment charges. We use Adjusted Segment EBITDA as a basis to internally evaluate the financial performance of our segments because we believe it reflects current core operating performance and provides an indicator of the segment’s ability to generate cash. We define Adjusted EBITDA Margin, which is a non-GAAP financial measure, as Adjusted EBITDA as a percentage of total revenues.

We define Total Adjusted Segment EBITDA, which is a non-GAAP financial measure, as the total of Adjusted Segment EBITDA for all segments, which excludes unallocated corporate expenses. We define Adjusted EBITDA, which is a non-GAAP financial measure, as consolidated net income before income tax provision, other non-operating income (expense), depreciation, amortization of intangible assets, remeasurement of acquisition-related contingent consideration, special charges, goodwill impairment charges, gain or loss on sale of a business and losses on early extinguishment of debt. We believe that these non-GAAP financial measures, when considered together with our GAAP financial results and GAAP financial measures, provide management and investors with a more complete understanding of our operating results, including underlying trends. In addition, EBITDA is a common alternative measure of operating performance used by many of our competitors. It is used by investors, financial analysts, rating agencies and others to value and compare the financial performance of companies in our industry. Therefore, we also believe that these non-GAAP financial measures, considered along with corresponding GAAP financial measures, provide management and investors with additional information for comparison of our operating results with the operating results of other companies.

We define Adjusted Net Income and Adjusted Earnings per Diluted Share (“Adjusted EPS”), which are non-GAAP financial measures, as net income and earnings per diluted share (“EPS”), respectively, excluding the impact of remeasurement of acquisition-related contingent consideration, special charges, goodwill impairment charges, losses on early extinguishment of debt, non-cash interest expense on convertible notes, gain or loss on sale of a business and the impact of adopting the 2017 U.S. Tax Cuts and Jobs Act (the “2017 Tax Act”). We use Adjusted Net Income for the purpose of calculating Adjusted EPS. Management uses Adjusted EPS to assess total Company operating performance on a consistent basis. We believe that these non-GAAP financial measures, when considered together with our GAAP financial results and GAAP financial measures, provide management and investors with an additional understanding of our business operating results, including underlying trends.

We define Free Cash Flow, which is a non-GAAP financial measure, as net cash provided by operating activities less cash payments for purchases of property and equipment. We believe this non-GAAP financial measure, when considered together with our GAAP financial results, provides management and investors with an additional understanding of the Company’s ability to generate cash for ongoing business operations and other capital deployment.

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

EXECUTIVE HIGHLIGHTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollar amounts in thousands, except per share data)		(dollar amounts in thousands, except per share data)	
Revenues	\$ 593,106	\$ 513,012	\$ 1,750,499	\$ 1,522,884
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Adjusted EBITDA	\$ 92,343	\$ 67,382	\$ 285,616	\$ 212,047
Earnings per common share — diluted	\$ 1.59	\$ 1.14	\$ 4.92	\$ 3.32
Adjusted earnings per common share — diluted	\$ 1.63	\$ 1.00	\$ 4.99	\$ 3.18
Net cash provided by operating activities	\$ 131,304	\$ 120,857	\$ 76,866	\$ 86,272
Total number of employees	5,456	4,695	5,456	4,695

Third Quarter 2019 Executive Highlights

Revenues

Revenues for the three months ended September 30, 2019 increased \$80.1 million, or 15.6%, to \$593.1 million, as compared to the three months ended September 30, 2018. Excluding the estimated negative impact from FX, revenues increased \$86.7 million, or 16.9%. The increase in revenues was driven by higher demand across all business segments, particularly in our Corporate Finance and FLC segments.

Net income

Net income for the three months ended September 30, 2019 increased \$16.1 million to \$60.4 million, as compared to the three months ended September 30, 2018. The increase was largely due to higher operating profits in our Corporate Finance and FLC segments.

Adjusted EBITDA

Adjusted EBITDA for the three months ended September 30, 2019 increased \$25.0 million, or 37.0%, to \$92.3 million, as compared to the three months ended September 30, 2018. Adjusted EBITDA Margin of 15.6% for the three months ended September 30, 2019 compared with 13.1% for the three months ended September 30, 2018. The increase in Adjusted EBITDA was due to higher revenues, primarily in Corporate Finance and FLC, partially offset by higher compensation, primarily related to a 16.7% increase in billable headcount, and higher variable compensation, as well as higher selling, general and administrative ("SG&A") expenses compared to the prior year period.

EPS and Adjusted EPS

EPS for the three months ended September 30, 2019 increased \$0.45 to \$1.59 compared to \$1.14 for the three months ended September 30, 2018. The increase in EPS was primarily due to the operating results described above, lower interest expense related to the 2.0% convertible senior notes due 2023 ("2023 Convertible Notes") outstanding in 2019 as compared to the 6.0% senior notes due 2022 ("2022 Notes") outstanding in 2018 and FX remeasurement gains. During the three months ended September 30, 2018, we sold our Ringtail® e-discovery software and related business (collectively, "Ringtail"), which resulted in a \$6.2 million after-tax gain and increased EPS by \$0.16 for that period.

Adjusted EPS increased \$0.63 to \$1.63 for the three months ended September 30, 2019 compared to \$1.00 for the three months ended September 30, 2018. Adjusted EPS excludes \$2.2 million of non-cash interest expense in 2019 related to the 2023 Convertible Notes, which increased Adjusted EPS by \$0.04.

Liquidity and capital allocation

Net cash provided by operating activities for the three months ended September 30, 2019 increased \$10.4 million to \$131.3 million compared with \$120.9 million for the three months ended September 30, 2018. The increase in net cash provided by operating activities was primarily due to higher cash collections resulting from higher revenues compared to the prior year period, partially offset by an increase in compensation-related costs. Days sales outstanding ("DSO") of 108 days at September 30, 2019 compared to 104 days at September 30, 2018. This increase is primarily due to slower collections on certain large engagements.

Free Cash Flow was an inflow of \$124.9 million and \$109.2 million for the three months ended September 30, 2019 and 2018, respectively. The increase for the three months ended September 30, 2019 was primarily due to higher net cash provided by operating activities, as described above.

Other strategic activities

During the three months ended September 30, 2019, we acquired Andersch AG ("Andersch"), a leading German restructuring advisory firm with offices in Frankfurt, Hamburg and Dusseldorf.

Headcount

Our total headcount increased 14.4% from 4,768 at December 31, 2018 to 5,456 at September 30, 2019. The following table includes the net billable headcount additions (reductions) for the nine months ended September 30, 2019:

Billable Headcount	Corporate Finance ⁽¹⁾	FLC	Economic Consulting	Technology	Strategic Communications	Total
December 31, 2018	948	1,153	708	306	641	3,756
Additions, net	34	41	7	9	17	108
March 31, 2019	982	1,194	715	315	658	3,864
Additions (reductions), net	29	18	(3)	8	14	66
June 30, 2019	1,011	1,212	712	323	672	3,930
Additions, net	166	114	52	25	47	404
September 30, 2019	1,177	1,326	764	348	719	4,334
Percentage change in headcount from December 31, 2018	24.2%	15.0%	7.9%	13.7%	12.2%	15.4%

⁽¹⁾ There were 95 revenue-generating professionals added during the three months ended September 30, 2019 related to the acquisition of Andersch.

CONSOLIDATED RESULTS OF OPERATIONS

Segment and Consolidated Operating Results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except per share data)		(in thousands, except per share data)	
Revenues				
Corporate Finance	\$ 191,698	\$ 135,418	\$ 542,667	\$ 419,695
FLC	142,651	126,684	427,518	388,250
Economic Consulting	141,715	139,166	439,488	405,583
Technology	57,083	56,692	164,051	144,035
Strategic Communications	59,959	55,052	176,775	165,321
Total revenues	\$ 593,106	\$ 513,012	\$ 1,750,499	\$ 1,522,884
Segment operating income				
Corporate Finance	\$ 46,007	\$ 25,252	\$ 130,470	\$ 92,504
FLC	25,534	20,625	82,753	71,128
Economic Consulting	17,943	21,713	62,179	53,385
Technology	9,094	7,926	30,080	14,486
Strategic Communications	11,343	9,402	30,691	27,275
Total segment operating income	109,921	84,918	336,173	258,778
Unallocated corporate expenses	(27,783)	(27,806)	(78,778)	(77,576)
Operating income	82,138	57,112	257,395	181,202
Other income (expense)				
Interest income and other	2,973	1,400	5,741	2,074
Interest expense	(4,832)	(7,246)	(14,371)	(20,073)
Gain on sale of business	—	13,031	—	13,031
	(1,859)	7,185	(8,630)	(4,968)
Income before income tax provision	80,279	64,297	248,765	176,234
Income tax provision	19,857	19,964	61,100	49,347
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Earnings per common share — basic	\$ 1.65	\$ 1.19	\$ 5.09	\$ 3.43
Earnings per common share — diluted	\$ 1.59	\$ 1.14	\$ 4.92	\$ 3.32

Reconciliation of Net Income to Adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Add back:				
Income tax provision	19,857	19,964	61,100	49,347
Interest income and other	(2,973)	(1,400)	(5,741)	(2,074)
Interest expense	4,832	7,246	14,371	20,073
Gain on sale of business	—	(13,031)	—	(13,031)
Depreciation and amortization	8,080	8,295	22,383	24,548
Amortization of other intangible assets	2,125	1,975	5,838	6,297
Adjusted EBITDA	\$ 92,343	\$ 67,382	\$ 285,616	\$ 212,047

Reconciliation of Net Income and EPS to Adjusted Net Income and Adjusted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Add back:				
Non-cash interest expense on convertible notes	2,166	938	6,411	938
Tax impact of non-cash interest expense on convertible notes	(563)	(241)	(1,666)	(241)
Gain on sale of business	—	(13,031)	—	(13,031)
Tax impact of gain on sale of business ⁽¹⁾	—	6,798	(2,097)	6,798
Adjusted net income	<u>\$ 62,025</u>	<u>\$ 38,797</u>	<u>\$ 190,313</u>	<u>\$ 121,351</u>
Earnings per common share — diluted	<u>\$ 1.59</u>	<u>\$ 1.14</u>	<u>\$ 4.92</u>	<u>\$ 3.32</u>
Add back:				
Non-cash interest expense on convertible notes	0.06	0.03	0.17	0.03
Tax impact of non-cash interest expense on convertible notes	(0.02)	(0.01)	(0.04)	(0.01)
Gain on sale of business	—	(0.34)	—	(0.34)
Tax impact of gain on sale of business ⁽¹⁾	—	0.18	(0.06)	0.18
Adjusted earnings per common share — diluted	<u>\$ 1.63</u>	<u>\$ 1.00</u>	<u>\$ 4.99</u>	<u>\$ 3.18</u>
Weighted average number of common shares outstanding — diluted	<u>37,938</u>	<u>38,756</u>	<u>38,107</u>	<u>38,214</u>

⁽¹⁾ In 2019, represents a discrete tax adjustment resulting from a change in estimate related to the accounting for the Ringtail divestiture.

Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net cash provided by operating activities	\$ 131,304	\$ 120,857	\$ 76,866	\$ 86,272
Purchases of property and equipment	(6,365)	(11,621)	(27,026)	(27,841)
Free Cash Flow	<u>\$ 124,939</u>	<u>\$ 109,236</u>	<u>\$ 49,840</u>	<u>\$ 58,431</u>

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018
Revenues and operating income

See “Segment Results” for an expanded discussion of revenues, gross profit and SG&A expenses.

Unallocated corporate expenses

Unallocated corporate expenses for the three months ended September 30, 2019 remained flat at \$27.8 million compared to the three months ended September 30, 2018.

Interest income and other

Interest income and other, which includes FX gains and losses, increased \$1.6 million to \$3.0 million for the three months ended September 30, 2019 compared with \$1.4 million for the three months ended September 30, 2018. The increase was primarily due to a \$2.1 million increase in net FX gains, which were \$2.0 million for the three months ended September 30, 2019 compared with a \$0.1 million loss for the three months ended September 30, 2018.

FX transaction gains and losses, both realized and unrealized, relate to the remeasurement or settlement of monetary assets and liabilities that are denominated in a currency other than an entity's functional currency. These monetary assets and liabilities include cash, as well as third-party and intercompany receivables and payables.

Interest expense

Interest expense for the three months ended September 30, 2019 decreased \$2.4 million to \$4.8 million compared with \$7.2 million for the three months ended September 30, 2018. Interest expense for the three months ended September 30, 2019 was favorably impacted as our 2022 Notes were outstanding in 2018 until their redemption in November 2018, and we had lower average outstanding balances under our senior secured bank revolving credit facility ("Credit Facility") as compared to the three months ended September 30, 2018. In addition, the decrease in interest expense reflects lower average interest rates on the 2023 Convertible Notes outstanding in 2019 as compared to the 2022 Notes outstanding in 2018.

Income tax provision

The effective income tax rate for the three months ended September 30, 2019 was 24.7% compared with 31.0% for the three months ended September 30, 2018. The 2019 tax rate was favorably impacted by a discrete tax adjustment related to share-based compensation. The 2018 tax rate was unfavorably impacted by a 5.0% discrete tax adjustment relating to the September 2018 Ringtail divestiture.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Revenues and operating income

See "Segment Results" for an expanded discussion of revenues, gross profit and SG&A expenses.

Unallocated corporate expenses

Unallocated corporate expenses for the nine months ended September 30, 2019 increased \$1.2 million, or 1.5%, to \$78.8 million compared with \$77.6 million for the nine months ended September 30, 2018. The increase was primarily due to higher compensation and employee-related costs, partially offset by lower legal expenses.

Interest income and other

Interest income and other, which includes FX gains and losses, increased \$3.7 million to \$5.7 million for the nine months ended September 30, 2019 compared with \$2.1 million for the nine months ended September 30, 2018. The increase was primarily due to a \$2.5 million increase in net FX gains, which were \$2.1 million for the nine months ended September 30, 2019 compared with a \$0.4 million loss for the nine months ended September 30, 2018. Additionally, we recognized a loss on the sale of an investment of \$0.6 million in the second quarter of 2018.

FX transaction gains and losses, both realized and unrealized, relate to the remeasurement or settlement of monetary assets and liabilities that are denominated in a currency other than an entity's functional currency. These monetary assets and liabilities include cash, as well as third-party and intercompany receivables and payables.

Interest expense

Interest expense for the nine months ended September 30, 2019 decreased \$5.7 million to \$14.4 million compared with \$20.1 million for the nine months ended September 30, 2018. Interest expense for the nine months ended September 30, 2019 was favorably impacted as our 2022 Notes were outstanding in 2018 until their redemption in November 2018, and we had lower average outstanding balances under our Credit Facility as compared to the nine months ended September 30, 2018. In addition, the decrease in interest expense reflects lower average interest rates on the 2023 Convertible Notes outstanding in 2019 as compared to the 2022 Notes outstanding in 2018.

Income tax provision

The effective income tax rate for the nine months ended September 30, 2019 was 24.6% compared with 28.0% for the nine months ended September 30, 2018. The 2019 tax rate was favorably impacted by discrete tax adjustments including a change in estimate related to the accounting for the sale of Ringtail and share-based compensation. The 2018 tax rate was favorably impacted by reductions in the U.S. income tax rate as a result of the 2017 Tax Act, which was partially offset by an unfavorable discrete tax adjustment of 5.0% relating to the September 2018 Ringtail divestiture.

SEGMENT RESULTS

Total Adjusted Segment EBITDA

We evaluate the performance of our operating segments based on Adjusted Segment EBITDA, a GAAP financial measure. We define Total Adjusted Segment EBITDA, a non-GAAP financial measure, as the total of Adjusted Segment EBITDA for all segments, which excludes unallocated corporate expenses. The following table reconciles Net Income to Total Adjusted Segment EBITDA for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net income	\$ 60,422	\$ 44,333	\$ 187,665	\$ 126,887
Add back:				
Income tax provision	19,857	19,964	61,100	49,347
Interest income and other	(2,973)	(1,400)	(5,741)	(2,074)
Interest expense	4,832	7,246	14,371	20,073
Gain on sale of business	—	(13,031)	—	(13,031)
Unallocated corporate expenses	27,783	27,806	78,778	77,576
Total segment operating income	109,921	84,918	336,173	258,778
Add back:				
Segment depreciation expense	7,389	7,388	20,309	21,826
Amortization of other intangible assets	2,125	1,975	5,838	6,297
Total Adjusted Segment EBITDA	\$ 119,435	\$ 94,281	\$ 362,320	\$ 286,901

Other Segment Operating Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Number of revenue-generating professionals: (at period end)				
Corporate Finance	1,177	926	1,177	926
FLC	1,326	1,129	1,326	1,129
Economic Consulting	764	705	764	705
Technology ⁽¹⁾	348	303	348	303
Strategic Communications	719	652	719	652
Total revenue-generating professionals	4,334	3,715	4,334	3,715
Utilization rates of billable professionals:⁽²⁾				
Corporate Finance	70%	65%	70%	67%
FLC	61%	63%	64%	65%
Economic Consulting	70%	71%	76%	70%
Average billable rate per hour:⁽³⁾				
Corporate Finance	\$ 449	\$ 414	\$ 451	\$ 425
FLC	\$ 336	\$ 327	\$ 336	\$ 328
Economic Consulting	\$ 512	\$ 540	\$ 500	\$ 515

⁽¹⁾ The number of revenue-generating professionals for the Technology segment excludes as-needed professionals who we employ based on demand for the segment's services. We employed an average of 343 as-needed employees during the three months ended September 30, 2019 compared with 356 as-needed employees during the three months ended September 30, 2018.

- (2) We calculate the utilization rate for our billable professionals by dividing the number of hours that all of our billable professionals worked on client assignments during a period by the total available working hours for all of our billable professionals during the same period. Available hours are determined by the standard hours worked by each employee, adjusted for part-time hours, U.S. standard work weeks and local country holidays. Available working hours include vacation and professional training days, but exclude holidays. Utilization rates are presented for our segments that primarily bill clients on an hourly basis. We have not presented utilization rates for our Technology and Strategic Communications segments as most of the revenues of these segments are not generated on an hourly basis.
- (3) For engagements where revenues are based on number of hours worked by our billable professionals, average billable rate per hour is calculated by dividing revenues (excluding revenues from success fees, pass-through revenues and outside consultants) for a period by the number of hours worked on client assignments during the same period. We have not presented average billable rates per hour for our Technology and Strategic Communications segments as most of the revenues of these segments are not based on billable hours.

CORPORATE FINANCE & RESTRUCTURING

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands, except rate per hour)		(dollars in thousands, except rate per hour)	
Revenues	\$ 191,698	\$ 135,418	\$ 542,667	\$ 419,695
Percentage change in revenues from prior year	41.6%	5.7 %	29.3%	19.4%
Operating expenses				
Direct cost of revenues	115,410	87,513	327,524	258,545
Selling, general and administrative expenses	29,168	21,886	82,027	66,305
Amortization of other intangible assets	1,113	767	2,646	2,341
	145,691	110,166	412,197	327,191
Segment operating income	46,007	25,252	130,470	92,504
Percentage change in segment operating income from prior year	82.2%	2.2 %	41.0%	89.2%
Add back:				
Depreciation and amortization of intangible assets	2,077	1,546	5,467	4,875
Adjusted Segment EBITDA	\$ 48,084	\$ 26,798	\$ 135,937	\$ 97,379
Gross profit ⁽¹⁾	\$ 76,288	\$ 47,905	\$ 215,143	\$ 161,150
Percentage change in gross profit from prior year	59.2%	3.3 %	33.5%	36.5%
Gross profit margin ⁽²⁾	39.8%	35.4 %	39.6%	38.4%
Adjusted Segment EBITDA as a percent of revenues	25.1%	19.8 %	25.0%	23.2%
Number of revenue-generating professionals (at period end)	1,177	926	1,177	926
Percentage change in number of revenue-generating professionals from prior year	27.1%	-0.9 %	27.1%	-0.9%
Utilization rates of billable professionals	70%	65 %	70%	67 %
Average billable rate per hour	\$ 449	\$ 414	\$ 451	\$ 425

(1) Revenues less direct cost of revenues

(2) Gross profit as a percentage of revenues

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018

Revenues increased \$56.3 million, or 41.6%, to \$191.7 million for the three months ended September 30, 2019, which included a 1.1% estimated negative impact from FX. Acquisition-related revenues contributed \$6.9 million, or 5.1% compared to 2018. Excluding the estimated impact from FX and the acquisition, revenues increased \$50.8 million, or 37.5%, primarily due to increased demand and higher realized rates driven by the mix of client engagements and staffing for our business transformation and transactions and restructuring services.

Gross profit increased \$28.4 million, or 59.2%, to \$76.3 million for the three months ended September 30, 2019. Gross profit margin increased 4.4 percentage points for the three months ended September 30, 2019. The increase in gross profit margin was due to higher utilization and improved realization, particularly for our restructuring services.

SG&A expenses increased \$7.3 million, or 33.3%, to \$29.2 million for the three months ended September 30, 2019. SG&A expenses of 15.2% of revenues for the three months ended September 30, 2019 compared with 16.2% of revenues for the three months ended September 30, 2018. The increase in SG&A expenses was primarily due to increases in bad debt, acquisition-related expenses, infrastructure support costs and travel and entertainment expenses.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Revenues increased \$123.0 million, or 29.3%, to \$542.7 million for the nine months ended September 30, 2019, which included a 1.5% estimated negative impact from FX. Acquisition-related revenues contributed \$6.9 million, or 1.6% compared to 2018. Excluding the estimated impact from FX and the acquisition, revenues increased \$122.4 million, or 29.2%, primarily due to higher demand for our restructuring and business transformation and transactions services, along with a \$16.4 million increase in success fees.

Gross profit increased \$54.0 million, or 33.5%, to \$215.1 million for the nine months ended September 30, 2019. Gross profit margin increased 1.2 percentage points for the nine months ended September 30, 2019. The increase in gross profit margin was due to higher utilization, improved realization and higher success fees.

SG&A expenses increased \$15.7 million, or 23.7%, to \$82.0 million for the nine months ended September 30, 2019. SG&A expenses of 15.1% of revenues for the nine months ended September 30, 2019 compared with 15.8% of revenues for the nine months ended September 30, 2018. The increase in SG&A expenses was primarily due to higher bad debt, infrastructure support costs, travel and entertainment expenses and other general and administrative costs.

FORENSIC AND LITIGATION CONSULTING

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands, except rate per hour)		(dollars in thousands, except rate per hour)	
Revenues	\$ 142,651	\$ 126,684	\$ 427,518	\$ 388,250
Percentage change in revenues from prior year	12.6%	6.8%	10.1%	13.7%
Operating expenses				
Direct cost of revenues	91,233	81,320	265,227	245,757
Selling, general and administrative expenses	25,598	24,430	78,673	70,346
Amortization of other intangible assets	286	309	865	1,019
	117,117	106,059	344,765	317,122
Segment operating income	25,534	20,625	82,753	71,128
Percentage change in segment operating income from prior year	23.8%	-2.4%	16.3%	107.8%
Add back:				
Depreciation and amortization of intangible assets	1,474	1,345	4,313	4,214
Adjusted Segment EBITDA	\$ 27,008	\$ 21,970	\$ 87,066	\$ 75,342
Gross profit ⁽¹⁾	\$ 51,418	\$ 45,364	\$ 162,291	\$ 142,493
Percentage change in gross profit from prior year	13.3%	4.6%	13.9%	27.3%
Gross profit margin ⁽²⁾	36.0%	35.8%	38.0%	36.7%
Adjusted Segment EBITDA as a percent of revenues	18.9%	17.3%	20.4%	19.4%
Number of revenue-generating professionals (at period end)	1,326	1,129	1,326	1,129
Percentage change in number of revenue-generating professionals from prior year	17.4%	4.5%	17.4%	4.5%
Utilization rates of billable professionals	61%	63%	64%	65%
Average billable rate per hour	\$ 336	\$ 327	\$ 336	\$ 328

(1) Revenues less direct cost of revenues

(2) Gross profit as a percentage of revenues

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018

Revenues increased \$16.0 million, or 12.6%, to \$142.7 million for the three months ended September 30, 2019. The increase in revenues was primarily due to higher demand for our disputes, investigations, health solutions and construction solutions services, as well as higher realized rates for our investigation services.

Gross profit increased \$6.1 million, or 13.3%, to \$51.4 million for the three months ended September 30, 2019. Gross profit margin increased 0.2 percentage points for the three months ended September 30, 2019. The increase in gross profit margin was primarily due to higher realization for our disputes services, which was largely offset by lower utilization for our data and analytics and construction solutions services.

SG&A expenses increased \$1.2 million, or 4.8%, to \$25.6 million for the three months ended September 30, 2019. SG&A expenses of 17.9% of revenues for the three months ended September 30, 2019 compared with 19.3% of revenues for the three months ended September 30, 2018. The increase in SG&A expenses was primarily driven by higher infrastructure support costs related to the increase in billable headcount.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Revenues increased \$39.3 million, or 10.1%, to \$427.5 million for the nine months ended September 30, 2019, which included a 1.1% estimated negative impact from FX. Excluding the estimated negative impact from FX, revenues increased \$43.7 million, or 11.3%, primarily due to increased demand for our investigations, disputes, construction solutions and data and analytics services.

Gross profit increased \$19.8 million, or 13.9%, to \$162.3 million for the nine months ended September 30, 2019. Gross profit margin increased 1.3 percentage points for the nine months ended September 30, 2019. The increase in gross profit margin was primarily due to improved realization for our disputes, investigations and data analytics services.

SG&A expenses increased \$8.3 million, or 11.8%, to \$78.7 million for the nine months ended September 30, 2019. SG&A expenses of 18.4% of revenues for the nine months ended September 30, 2019 compared with 18.1% of revenues for the nine months ended September 30, 2018. The increase in SG&A expenses was driven by higher infrastructure support, hiring, marketing and travel and entertainment expenses, partially offset by lower bad debt.

ECONOMIC CONSULTING

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands, except rate per hour)		(dollars in thousands, except rate per hour)	
Revenues	\$ 141,715	\$ 139,166	\$ 439,488	\$ 405,583
Percentage change in revenues from prior year	1.8%	24.5%	8.4%	8.2%
Operating expenses				
Direct cost of revenues	104,920	100,522	322,541	298,305
Selling, general and administrative expenses	18,808	16,874	54,635	53,641
Amortization of other intangible assets	44	57	133	252
	<u>123,772</u>	<u>117,453</u>	<u>377,309</u>	<u>352,198</u>
Segment operating income	17,943	21,713	62,179	53,385
Percentage change in segment operating income from prior year	-17.4%	106.3%	16.5%	44.2%
Add back:				
Depreciation and amortization of intangible assets	1,470	1,525	4,587	4,461
Adjusted Segment EBITDA	<u>\$ 19,413</u>	<u>\$ 23,238</u>	<u>\$ 66,766</u>	<u>\$ 57,846</u>
Gross profit ⁽¹⁾	<u>\$ 36,795</u>	<u>\$ 38,644</u>	<u>\$ 116,947</u>	<u>\$ 107,278</u>
Percentage change in gross profit from prior year	-4.8%	39.0%	9.0%	11.7%
Gross profit margin ⁽²⁾	26.0 %	27.8%	26.6%	26.5%
Adjusted Segment EBITDA as a percent of revenues	13.7 %	16.7%	15.2%	14.3%
Number of revenue-generating professionals (at period end)	764	705	764	705
Percentage change in number of revenue-generating professionals from prior year	8.4%	2.5%	8.4%	2.5%
Utilization rates of billable professionals	70%	71%	76%	70%
Average billable rate per hour	\$ 512	\$ 540	\$ 500	\$ 515

(1) Revenues less direct cost of revenues

(2) Gross profit as a percentage of revenues

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018

Revenues increased \$2.5 million, or 1.8%, to \$141.7 million for the three months ended September 30, 2019, which included a 1.5% estimated negative impact from FX. Excluding the estimated negative impact of FX, revenues increased \$4.7 million, or 3.4%, primarily due to higher demand for our non-M&A-related antitrust services, partially offset by lower realized rates driven by the mix of client engagements and staffing.

Gross profit decreased \$1.8 million, or 4.8%, to \$36.8 million for the three months ended September 30, 2019. Gross profit margin decreased 1.8 percentage points for the three months ended September 30, 2019. The decrease in gross profit margin was primarily due to lower realization and higher variable compensation as a percentage of revenues.

SG&A expenses increased \$1.9 million, or 11.5%, to \$18.8 million for the three months ended September 30, 2019. SG&A expenses of 13.3% of revenues for the three months ended September 30, 2019 compared with 12.1% of revenues for the three months ended September 30, 2018. The increase in SG&A expenses was primarily driven by increased legal, infrastructure support and other general and administrative costs.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Revenues increased \$33.9 million, or 8.4%, to \$439.5 million for the nine months ended September 30, 2019, which included a 1.6% estimated negative impact from FX. Excluding the estimated negative impact of FX, revenues increased \$40.3 million, or 9.9%, primarily due to higher demand for our non-M&A-related antitrust services in North America and EMEA.

Gross profit increased \$9.7 million, or 9.0%, to \$116.9 million for the nine months ended September 30, 2019. Gross profit margin increased 0.2 percentage points for the nine months ended September 30, 2019.

SG&A expenses increased \$1.0 million, or 1.9%, to \$54.6 million for the nine months ended September 30, 2019. SG&A expenses of 12.4% of revenues for the nine months ended September 30, 2019 compared with 13.2% of revenues for the nine months ended September 30, 2018. The increase in SG&A expenses was primarily driven by higher infrastructure support costs, partially offset by lower bad debt.

TECHNOLOGY

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
Revenues	\$ 57,083	\$ 56,692	\$ 164,051	\$ 144,035
Percentage change in revenues from prior year	0.7%	34.1%	13.9%	7.5%
Operating expenses				
Direct cost of revenues	33,293	33,175	93,319	84,706
Selling, general and administrative expenses	14,696	15,581	40,652	44,757
Amortization of other intangible assets	—	10	—	86
	47,989	48,766	133,971	129,549
Segment operating income	9,094	7,926	30,080	14,486
Percentage change in segment operating income from prior year	14.7%	164.0%	107.6%	146.6%
Add back:				
Depreciation and amortization of intangible assets	3,192	3,547	7,804	10,227
Adjusted Segment EBITDA	\$ 12,286	\$ 11,473	\$ 37,884	\$ 24,713
Gross profit ⁽¹⁾	\$ 23,790	\$ 23,517	\$ 70,732	\$ 59,329
Percentage change in gross profit from prior year	1.2%	30.1%	19.2%	4.7%
Gross profit margin ⁽²⁾	41.7%	41.5%	43.1%	41.2%
Adjusted Segment EBITDA as a percent of revenues	21.5%	20.2%	23.1%	17.2%
Number of revenue-generating professionals (at period end) ⁽³⁾	348	303	348	303
Percentage change in number of revenue-generating professionals from prior year	14.9%	4.1%	14.9%	4.1%

(1) Revenues less direct cost of revenues

(2) Gross profit as a percentage of revenues

(3) Includes personnel involved in direct client assistance and revenue-generating consultants and excludes professionals employed on an as-needed basis.

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018

Revenues increased \$0.4 million, or 0.7%, to \$57.1 million for the three months ended September 30, 2019. Revenue growth was driven by increased demand for our consulting and hosting services, largely driven by work associated with global cross-border investigations. This growth was offset by decreased demand for managed review services, largely driven by work associated with merger and acquisition-related “second request” services.

Gross profit increased \$0.3 million, or 1.2%, to \$23.8 million for the three months ended September 30, 2019. Gross profit margin increased by 0.2 percentage points for the three months ended September 30, 2019. The slight increase in gross profit margin was due to increased profitability for our consulting services and an increased mix of high-margin hosting services, partially offset by a decrease in high-margin managed review services.

SG&A expenses decreased \$0.9 million, or 5.7%, to \$14.7 million for the three months ended September 30, 2019. SG&A expenses of 25.7% of revenues for the three months ended September 30, 2019 compared with 27.5% of revenues for the three months ended September 30, 2018. The decrease in SG&A expenses was primarily due to a \$2.0 million decline in research and development expenses resulting from the September 2018 Ringtail divestiture, which was partially offset by higher bad debt and other general and administrative expenses.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Revenues increased \$20.0 million, or 13.9%, to \$164.1 million for the nine months ended September 30, 2019, which included a 1.2% estimated negative impact from FX. Excluding the estimated negative impact from FX, revenues increased \$21.8 million, or 15.1%, due to an overall increase in demand for our consulting, managed review, hosting and processing services, largely driven by work associated with global cross-border investigations and litigation.

Gross profit increased \$11.4 million, or 19.2%, to \$70.7 million for the nine months ended September 30, 2019. Gross profit margin increased by 1.9 percentage points for the nine months ended September 30, 2019. The increase in gross profit margin was primarily due to an increased mix of high-margin managed review, hosting and processing services.

SG&A expenses decreased \$4.1 million, or 9.2%, to \$40.7 million for the nine months ended September 30, 2019. SG&A expenses of 24.8% of revenues for the nine months ended September 30, 2019 compared with 31.1% of revenues for the nine months ended September 30, 2018. The decrease in SG&A expenses was primarily due to \$7.6 million of lower research and development expenses associated with the September 2018 Ringtail divestiture, partially offset by higher bad debt and other general and administrative expenses.

STRATEGIC COMMUNICATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
Revenues	\$ 59,959	\$ 55,052	\$ 176,775	\$ 165,321
Percentage change in revenues from prior year	8.9%	14.3%	6.9%	19.7%
Operating expenses				
Direct cost of revenues	36,036	33,947	107,613	100,599
Selling, general and administrative expenses	11,898	10,871	36,277	34,848
Amortization of other intangible assets	682	832	2,194	2,599
	48,616	45,650	146,084	138,046
Segment operating income	11,343	9,402	30,691	27,275
Percentage change in segment operating income from prior year	20.6%	43.8%	12.5%	228.3%
Add back:				
Depreciation and amortization of intangible assets	1,301	1,400	3,976	4,346
Adjusted Segment EBITDA	\$ 12,644	\$ 10,802	\$ 34,667	\$ 31,621
Gross profit ⁽¹⁾	\$ 23,923	\$ 21,105	\$ 69,162	\$ 64,722
Percentage change in gross profit from prior year	13.4%	14.3%	6.9%	31.3%
Gross profit margin ⁽²⁾	39.9%	38.3%	39.1%	39.1%
Adjusted Segment EBITDA as a percent of revenues	21.1%	19.6%	19.6%	19.1%
Number of revenue-generating professionals (at period end)	719	652	719	652
Percentage change in number of revenue-generating professionals from prior year	10.3%	4.2%	10.3%	4.2%

⁽¹⁾ Revenues less direct cost of revenues

⁽²⁾ Gross profit as a percentage of revenues

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018

Revenues increased \$4.9 million, or 8.9%, to \$60.0 million for the three months ended September 30, 2019, which included a 2.8% estimated negative impact from FX. Excluding the estimated negative impact of FX, revenues increased \$6.4 million, or 11.7%, primarily due to higher project-based revenues in North America and higher project- and retainer-based revenues in EMEA, primarily related to our corporate reputation services in both regions.

Gross profit increased \$2.8 million, or 13.4%, to \$23.9 million for the three months ended September 30, 2019. Gross profit margin increased 1.6 percentage points for the three months ended September 30, 2019. The increase in gross profit margin was primarily due to lower fixed compensation as a percentage of revenues, partially offset by higher variable compensation.

SG&A expenses increased \$1.0 million, or 9.4%, to \$11.9 million for the three months ended September 30, 2019 which included a 2.4% estimated favorable impact from FX. SG&A expenses were 19.8% of revenues for the three months ended September 30, 2019 compared with 19.7% of revenues for the three months ended September 30, 2018. The increase in SG&A expenses was primarily due to higher infrastructure support costs.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Revenues increased \$11.5 million, or 6.9%, to \$176.8 million for the nine months ended September 30, 2019, which included a 3.3% estimated negative impact from FX. Excluding the estimated negative impact of FX, revenues increased \$16.9 million, or 10.2%, primarily due to higher project-based revenue in North America and EMEA and higher retainer-based revenues in EMEA, primarily related to corporate reputation services in both regions and an increase in pass-through revenues.

Gross profit increased \$4.4 million, or 6.9%, to \$69.2 million for the nine months ended September 30, 2019. Gross profit margin of 39.1% remained the same for the nine months ended September 30, 2019.

SG&A expenses increased \$1.4 million, or 4.1%, to \$36.3 million for the nine months ended September 30, 2019, which included a 3.2% estimated favorable impact from FX. SG&A expenses of 20.5% of revenues for the nine months ended September 30, 2019 compared with 21.1% of revenues for the nine months ended September 30, 2018. The increase in SG&A expenses was primarily due to higher infrastructure support costs and other general and administrative expenses.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which we have prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Note 1 to the Consolidated Financial Statements included in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2018 describes the significant accounting policies and methods used in preparation of the Consolidated Financial Statements. We evaluate our estimates, including those related to allowance for doubtful accounts and unbilled services, goodwill, income taxes and contingencies, on an ongoing basis. We base our estimates on current facts and circumstances, historical experience and various other assumptions that we believe are reasonable. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition
- Allowance for doubtful accounts and unbilled services
- Goodwill and other intangible assets

The Company's accounting policies were revised in connection with the implementation of ASC 842. See Note 1, "Basis of Presentation and Significant Accounting Policies" in Part I, Item 1, of this Quarterly Report on Form 10-Q for a further discussion of the implementation of ASC 842. There were no other material changes to our critical accounting policies and estimates from the information provided in "Critical Accounting Policies" in the Management's Discussion and Analysis, in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2018.

SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

See Note 2, "New Accounting Standards" in Part I, Item 1, of this Quarterly Report on Form 10-Q.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flows	Nine Months Ended September 30,	
	2019	2018
	(dollars in thousands)	
Net cash provided by operating activities	\$ 76,866	\$ 86,272
Net cash provided by (used in) investing activities	\$ (45,762)	\$ 23,183
Net cash provided by (used in) financing activities	\$ (76,520)	\$ 209,521
DSO	108	104

We have generally financed our day-to-day operations, capital expenditures and acquisitions through cash flows from operations. During the first quarter of our fiscal year, our cash needs generally exceed our cash flows from operations due to the payment of annual incentive compensation. Our quarterly operating cash flows are generally positive after the first quarter of each year.

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

DSO is a performance measure used to assess how quickly revenues are collected by the Company. We calculate DSO at the end of each reporting period by dividing net accounts receivable reduced by billings in excess of services provided, by revenues for the quarter, adjusted for changes in foreign exchange rates. We multiply the result by the number of days in the quarter.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Net cash provided by operating activities for the nine months ended September 30, 2019 was \$76.9 million compared with \$86.3 million for the nine months ended September 30, 2018. The decrease in net cash provided by operating activities was primarily due to higher annual bonus payments and an increase in salaries as a result of headcount growth, partially offset by higher cash collections resulting from higher revenues compared to the prior year period.

Net cash used in investing activities for the nine months ended September 30, 2019 was \$45.8 million compared with \$23.2 million in net cash provided by investing activities for the nine months ended September 30, 2018. The Company used \$27.0 million for capital expenditures and \$18.8 million to purchase Andersch and its related trademark, net of cash acquired, for the nine months ended September 30, 2019. Cash provided by investing activities for the nine months ended September 30, 2018 included \$50.3 million from the September 2018 Ringtail divestiture, partially offset by capital expenditures of \$27.8 million.

Net cash used in financing activities for the nine months ended September 30, 2019 was \$76.5 million compared with \$209.5 million in net cash provided by financing activities for the nine months ended September 30, 2018. Net cash used in financing activities for the nine months ended September 30, 2019 consisted mainly of \$77.9 million in payments for common stock repurchases under the Repurchase Program. Net cash provided by financing activities for the nine months ended September 30, 2018 included \$316.3 million in proceeds from the issuance of our 2023 Convertible Notes and \$31.2 million from the issuance of common stock under our equity compensation plans. These cash inflows were partially offset by \$100.0 million of net repayments under our Credit Facility, payments of \$14.2 million for common stock repurchases under the Repurchase Program and use of \$15.0 million for common stock repurchases in connection with the issuance of the 2023 Convertible Notes.

Capital Resources

As of September 30, 2019, our capital resources included \$258.5 million of cash and cash equivalents and available borrowing capacity of \$549.0 million under the \$550.0 million revolving line of credit under our Credit Facility. As of September 30, 2019, we had no borrowings outstanding under our Credit Facility and \$1.0 million of outstanding letters of credit. We use letters of credit primarily in lieu of security deposits for our leased office facilities. The \$550.0 million revolving line of credit under the Credit Facility includes a \$75.0 million sublimit for borrowings in currencies other than USD, including the euro, British pound, Australian dollar and Canadian dollar.

The availability of borrowings, as well as issuances and extensions of letters of credit, under our Credit Facility is subject to specified conditions. We may choose to repay outstanding borrowings under the Credit Facility at any time before maturity without premium or penalty. Borrowings under the Credit Facility in USD, euro and British pound bear interest at an annual rate equal to the London Interbank Offered Rate ("LIBOR") plus an applicable margin, or an alternative base rate plus an applicable margin. The alternative base rate means a fluctuating rate per annum equal to the highest of (1) the rate of interest in effect for such day as the prime rate announced by Bank of America, (2) the federal funds rate plus the sum of 50 basis points, and (3) the one-month LIBOR plus 100 basis points. Borrowings under the Credit Facility in Canadian dollars bear interest at an annual rate equal to the Canadian Dealer Offered Rate plus an applicable margin. Borrowings under the Credit Facility in Australian dollars bear interest at an annual rate equal to the Bank Bill Swap Reference Bid Rate plus an applicable margin. The Credit Facility is guaranteed by substantially all of our domestic subsidiaries and is secured by a first priority security interest in substantially all of the assets of FTI Consulting and such domestic subsidiaries. Subject to certain conditions, at any time prior to maturity, we will be able to invite existing and new lenders to increase the size of the facility up to a maximum of \$700.0 million.

Our Credit Facility and other indebtedness outstanding from time to time contains or may contain covenants that, among other things, may limit our ability to: incur additional indebtedness; create liens; pay dividends on our capital stock, 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 or our foreign subsidiaries; enter into hedging agreements; enter into transactions with affiliates or related persons; or engage in any business other than consulting-related businesses. In addition, the Credit Facility includes a financial covenant that requires us not to exceed a maximum consolidated total net leverage ratio (the ratio of funded debt (less unrestricted cash up to \$150.0 million) to Adjusted EBITDA, as defined in the Credit Facility). As of September 30, 2019, we were in compliance with the covenants contained in the Credit Facility and the

indenture, dated as of August 20, 2018, between us and U.S. Bank National Association, as trustee (the "Indenture") governing the 2023 Convertible Notes.

Future Capital Needs

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

- operating and general corporate expenses relating to the operation of our businesses;
- capital expenditures, primarily for information technology equipment, office furniture and leasehold improvements;
- debt service requirements, including interest payments on our long-term debt;
- compensation to designated executive management and senior managing directors under our various long-term incentive compensation programs;
- discretionary funding of the Repurchase Program;
- contingent obligations related to our acquisitions;
- potential acquisitions of businesses; and
- other known future contractual obligations.

During the nine months ended September 30, 2019, we spent \$27.0 million in capital expenditures to support our organization, including direct support for specific client engagements. We expect to make additional capital expenditures in an aggregate amount between \$9 million and \$11 million for the remainder of 2019. Our capital expenditure requirements may change if our staffing levels or technology needs change significantly from what we currently anticipate, if we are required to purchase additional equipment specifically to support new client engagements or for their purposes or if we pursue and complete additional acquisitions.

2023 Convertible Notes

Our 2023 Convertible Notes were issued pursuant to the Indenture. The 2023 Convertible Notes bear interest at a fixed rate of 2.0% per year, payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2019. The 2023 Convertible Notes will mature on August 15, 2023, unless earlier converted or repurchased. Upon conversion, the 2023 Convertible Notes may be settled, at our election in cash, shares of our common stock or a combination of cash and shares of our common stock.

Each \$1,000 principal amount of the 2023 Convertible Notes will initially be convertible into 9.8643 shares of our common stock, which is equivalent to an initial conversion price of approximately \$101.38 per share of common stock, subject to adjustment upon the occurrence of specified events. Prior to the close of business on the business day immediately preceding May 15, 2023, the 2023 Convertible Notes may be converted only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2018 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price (as defined in the Indenture) per \$1,000 principal amount of the 2023 Convertible Notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate in effect on each such trading day; or (3) upon the occurrence of specified corporate events. On or after May 15, 2023, until the close of business on the business day immediately preceding the maturity date of August 15, 2023, holders may convert their 2023 Convertible Notes at any time, regardless of the foregoing circumstances.

We may not redeem the 2023 Convertible Notes prior to the maturity date.

If we undergo a fundamental change (as defined in the Indenture), subject to certain conditions, holders may require us to repurchase for cash all or part of their 2023 Convertible Notes in principal amounts of \$1,000 or a multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the 2023 Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. In addition, in certain circumstances, we may be required to increase the conversion rate for any 2023 Convertible Notes converted in connection with a make-whole fundamental change (as defined in the Indenture). See Note 8, "Debt" in Part I, Item I of this Quarterly Report on Form 10-Q for a further discussion of the 2023 Convertible Notes.

Cash Flows

Our cash flows from operations have historically exceeded our cash needs for capital expenditures and debt service requirements. We believe that our cash flows from operations, supplemented by borrowings under our Credit Facility, as necessary, will provide adequate cash to fund our long-term cash needs from normal operations for the next 12 months or longer.

Our conclusion that we will be able to fund our cash requirements by using existing capital resources and cash generated from operations does not take into account the impact of any future acquisitions, unexpected significant changes in number of employees or other unanticipated uses of cash. 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, including material negative changes in the operating performance or financial results of our business. Any of these events or circumstances, including any new business opportunities, could involve significant additional funding needs in excess of the identified currently available sources and could require us to raise additional debt or equity funding to meet those needs. Our ability to raise additional capital, if necessary, is subject to a variety of factors that we cannot predict with certainty, including:

- our future profitability;
- the quality of our accounts receivable;
- our relative levels of debt and equity;
- the volatility and overall condition of the capital markets; and
- the market prices of our securities.

Any new debt funding, if available, may be on terms less favorable to us than our Credit Facility or the 2023 Convertible Notes. See “Forward-Looking Statements” in Part I, Item 2 of this Quarterly Report on Form 10-Q, and the information contained under the heading “Risk Factors” in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

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

Future Contractual Obligations

There have been no material changes in our future contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that involve uncertainties and risks. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues, future results and performance, future capital allocations and expenditures, expectations, plans or intentions relating to acquisitions, share repurchases and other matters, business trends, new, or changes to, laws and regulations, including the 2017 Tax Act, and other information that is not historical. Forward-looking statements often contain words such as “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “forecasts” and variations of such words or similar expressions. All forward-looking statements, including, without limitation, management’s financial guidance and examination of operating trends, are based upon our historical performance and our current plans, estimates and expectations at the time we make them and various assumptions. There can be no assurance that management’s expectations, beliefs, forecasts and projections will result or be achieved. Our actual financial results, performance or achievements could differ materially from those expressed in, or implied by, any forward-looking statements. The inclusion of any forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates, forecasts or expectations contemplated by us will be achieved. Given these risks, uncertainties and other factors, you should not place undue reliance on any forward-looking statements.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in, or implied by, this Quarterly Report on Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q include those set forth under the heading “Risk Factors” in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2018, as well as in other information that we file with the SEC from time to time. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q include, but are not limited to, the following:

- changes in demand for our services;
- our ability to attract and retain qualified professionals and senior management;
- conflicts resulting in our inability to represent certain clients;
- our former employees joining or forming competing businesses;
- our ability to manage our professionals’ utilization and billing rates and maintain or increase the pricing of our services and products;
- our ability to identify suitable acquisition candidates, negotiate favorable terms, take advantage of opportunistic acquisition situations and integrate the operations of acquisitions, as well as the costs of integration;
- our ability to adapt to and manage the risks associated with operating in non-U.S. markets;
- our ability to replace key personnel, including former executives, officers, senior managers and practice and regional leaders who have highly specialized skills and experience;
- our ability to protect the confidentiality of internal and client data and proprietary and confidential information, including from cyberattacks, systems failures or other similar events;
- legislation or judicial rulings, including legislation or rulings regarding data privacy and the discovery process;
- periodic fluctuations in revenues, operating income and cash flows;
- damage to our reputation as a result of claims involving the quality of our services;
- fee discounting or renegotiation, lower pricing, less advantageous contract terms and unexpected termination of client engagements;
- competition for clients and key personnel;
- general economic factors, industry trends, restructuring and bankruptcy rates, legal or regulatory requirements, capital market conditions, merger and acquisition activity, major litigation activity and other events outside of our control;
- our ability to manage growth;
- risk of non-payment of receivables;
- the amount and terms of our outstanding indebtedness;
- uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark;
- headcount and cost reductions during periods of reduced demand;
- risks relating to the obsolescence of or the protection of our proprietary software products, intellectual property rights and trade secrets;
- foreign currency disruptions and currency fluctuations between the U.S. dollar and foreign currencies; and
- fluctuations in the mix of our services and the geographic locations in which our clients are located or our services are rendered.

There may be other factors that may cause our actual results to differ materially from our forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included herein. We undertake



no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances and do not intend to do so.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For information regarding our exposure to certain market risks, see “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A, of our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes in our market risk exposure during the period covered by this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

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

Changes in Internal Control over Financial Reporting. There have not been any changes in our internal control over financial reporting that occurred during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There has been no material change in any risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (the “SEC”) on February 27, 2019. We may disclose changes to risk factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

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

Unregistered sales of equity securities.

None.

Repurchases of our common stock.

The following table provides information with respect to purchases we made of our common stock during the three months ended September 30, 2019:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value That May Yet Be Purchased Under the Program
(in thousands, except per share data)				
July 1 through July 31, 2019	94 ⁽²⁾	\$ 85.12	91 ⁽⁵⁾	\$ 94,633
August 1 through August 31, 2019	8 ⁽³⁾	\$ 105.14	—	\$ 94,633
September 1 through September 30, 2019	2 ⁽⁴⁾	\$ 107.32	—	\$ 94,633
	<u>104</u>		<u>91</u>	

- (1) On June 2, 2016, our Board of Directors authorized a stock repurchase program of up to \$100.0 million (the “Repurchase Program”). On each of May 18, 2017, December 1, 2017 and February 21, 2019, our Board of Directors authorized an additional \$100.0 million, respectively, increasing the Repurchase Program to an aggregate authorization of \$400.0 million. During the quarter ended September 30, 2019, we repurchased an aggregate of 90,848 shares of our outstanding common stock under the Repurchase Program at an average price of \$85.11 per share for a total cost of approximately \$7.7 million.
- (2) Includes 2,761 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.
- (3) Includes 7,770 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.
- (4) Includes 2,536 shares of common stock withheld to cover payroll tax withholdings related to the lapse of restrictions on restricted stock.
- (5) During the month ended July 31, 2019, we repurchased and retired 90,848 shares of common stock, at an average price per share of \$85.11, for an aggregate cost of \$7.7 million.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	<u>Articles of Incorporation of FTI Consulting, Inc., as amended and restated. (Filed with the Securities and Exchange Commission on May 23, 2003 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated May 21, 2003 and incorporated herein by reference.)</u>
3.2	<u>Articles of Amendment of FTI Consulting, Inc. (Filed with the Securities and Exchange Commission on June 2, 2011 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 1, 2011 and incorporated herein by reference.)</u>
3.3	<u>Bylaws of FTI Consulting, Inc., as amended and restated on June 1, 2011. (Filed with the Securities and Exchange Commission on June 2, 2011 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated June 1, 2011 and incorporated herein by reference.)</u>
3.4	<u>Amendment No. 1 to Bylaws of FTI Consulting, Inc. (Filed with the Securities and Exchange Commission on December 16, 2013 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated December 13, 2013 and incorporated herein by reference.)</u>
3.5	<u>Amendment No. 2 to Amended and Restated Bylaws of FTI Consulting, Inc. (Filed with the Securities and Exchange Commission on September 22, 2014 as an exhibit to FTI Consulting, Inc.'s Current Report on Form 8-K dated September 17, 2014 and incorporated herein by reference.)</u>
31.1†	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended (Section 302 of the Sarbanes-Oxley Act of 2002.)</u>
31.2†	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended (Section 302 of the Sarbanes-Oxley Act of 2002.)</u>
32.1†**	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002.)</u>
32.2†**	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002.)</u>
101	The following financial information from the Quarterly Report on Form 10-Q of FTI Consulting, Inc., included herewith, and formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018; (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018; (iii) Condensed Consolidated Statement of Stockholders' Equity for the three and nine months ended September 30, 2019; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018; and (v) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included as Exhibit 101).
†	Filed herewith.
**	This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

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

Date: October 24, 2019

FTI CONSULTING, INC.

By:

/s/ Brendan Keating

Brendan Keating
Chief Accounting Officer and
Controller
(principal accounting officer)

**Certification of Principal Executive 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 September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven H. Gunby, 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, as amended; 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: October 24, 2019

By: _____ /s/ STEVEN H. GUNBY

Steven H. Gunby
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 September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, 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, as amended; 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: October 24, 2019

By: _____ /s/ AJAY SABHERWAL

Ajay Sabherwal
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.

