

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13
OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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

52-1261113

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer Identification No.)

2021 RESEARCH DRIVE, ANNAPOLIS, MARYLAND

21401

(Address of Principal Executive Offices)

(Zip Code)

(410) 224-8770

(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$.01 par value	American 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The number of shares of Registrant's Common Stock outstanding on March 24, 1999 was 4,829,132.

The aggregate market value of voting stock held by non-affiliates of the Registrant, based upon the average sales price of the Registrant's Common Stock on March 24, 1999 was \$12,767,238.*

* Excludes 1,011,178 shares deemed to be held by directors, officers and greater than 10% holders of the Common Stock outstanding at March 24, 1999. Exclusion of Common Stock held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Company, or that such person is controlled by, or under common control with, the

Company.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission on April 30, 1999 are incorporated by reference into Part III of this Annual Report on Form 10-K. Certain exhibits to the Company's (1) Registration Statement on Form SB-1 (File No. 333-2002), (2) Registration Statement on Form S-8 (File No. 333-30173), (3) Registration Statement on Form S-8 (File No. 333-30357), (4) Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 001-14875), (5) Current Reports on Form 8-K filed July 15, 1998, October 2, 1998, October 13, 1998 and December 8, 1998 (File No. 001-14875) and (6) Form 8-A filed on March 3, 1999 (File No. 001-14875), are incorporated by reference into Part IV of this Annual Report on Form 10-K.

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FTI CONSULTING, INC.

ANNUAL REPORT ON FORM 10-K
FISCAL YEAR ENDED DECEMBER 31, 1998

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Part IV

ITEM 1. BUSINESS

COMPANY OVERVIEW

FTI Consulting, Inc. ("FTI" or the "Company") provides consulting services to major corporations, law firms, banks and insurance companies in the United States. FTI has three business divisions: Litigation Services, Applied Sciences and Expert Financial Services. Through its Litigation Services division, FTI provides advice and services in connection with all phases of the litigation process, including discovery, jury selection, trial monitoring and visual communications services. FTI offers its clients, through the Applied Sciences division, engineering and scientific consulting services, accident reconstruction, fire investigation, equipment procurement and expert testimony regarding intellectual property rights. FTI provides a range of financial consulting services, such as forensic accounting, fraud investigation, claims management and expert testimony in connection with quantifying damages, and bankruptcy and turnaround analysis, through its Expert Financial Services division. The Company's strategy is to be a one-stop shop for corporations, law firms, banks and insurance companies that wish to maximize the efficiency and effectiveness of their litigation support and claims management requirements.

FTI focuses on developing and providing innovative applications from the fields of science, education, communications and technology to meet its clients needs in the best fashion. For example, the Company has adapted methods traditionally used in marketing and political polling to analyze how juries reach decisions, and has applied computer animation and simulation to enhance presentations and expert testimony on complex subjects such as airplane crashes, financial disputes, intellectual property resolutions and physical phenomena. The Company's staff of statistic, accounting, engineering, scientific, communication, artistic, computer management and jury professionals are recognized experts in their fields.

In 1998, FTI completed three major acquisitions which brought the Company new consulting capabilities, expanded its existing capabilities and furthered its geographic reach. These were:

- o Klick, Kent & Allen, Inc. -- Klick, Kent & Allen, Inc. ("KK&A"), located in Alexandria, Virginia and serving the Washington, D.C. metropolitan area, provides strategic and economic consulting. FTI completed the acquisition of KK&A on June 1, 1998.
- o Kahn Consulting, Inc. -- Kahn Consulting, Inc. ("KCI"), located in New York, New York, provides specialized consulting services in three primary areas: (1) bankruptcy, trustee and examiner accounting and financial services; (2) turnaround and strategic advisory services; and (3) expert accounting testimony and government contract consulting. The Company completed its acquisition of KCI on September 17, 1998.
- o S.E.A., Inc. -- S.E.A., Inc. ("S.E.A."), located in Columbus, Ohio, provides specialized consulting services in fire investigation, product failure analysis, vehicular accident reconstruction, vehicle dynamics, qualitative and quantitative chemical analysis and structural distress and failure evaluation. FTI completed the acquisition of S.E.A. on September 1, 1998.

MARKET OVERVIEW

The Litigation Market

According to U.S. Bureau of Census statistics, the market for legal services in the United States exceeds \$100 billion. These costs, in addition to the risks of incurring large monetary judgments in litigation, have led many corporations to focus on the management of the litigation process. Rather than attempting to manage the process internally, corporations and even outside law firms increasingly have been turning to litigation service consultants to manage aspects of the litigation process.

Dramatic increases in the costs and complexity of litigation have created a need for litigation support specialists. Consulting firms have taken advantage of the emergence of new media, including animation and image enhancement, to improve the quality of trial preparation and presentation. The complex and sophisticated nature of recent cases in such areas as toxic torts, intellectual property infringements and medical products liability have lent themselves to new media presentation techniques. The presentation of complicated concepts is dramatically enhanced by visual presentation and 3D animation using media commonly accepted and understood by jurors. Consequently, visual technology is becoming increasingly prevalent in the courtroom. The significant decrease in the cost of the technology has made it a cost effective alternative for most trials. The dramatic increase in size of trials and volume of information has made it a necessity.

Perhaps the most dramatic trend affecting the growth of the litigation support services market, however, has been the increasing sophistication of courtroom presentation and document management techniques. Computerized document management in cases involving millions of pages of deposition testimony and exhibits has become widely used in the federal and state court systems. Improvements in document management enable litigation support firms to provide a higher quality of service at a reduced cost. Moreover, effective document management and exhibit and trial preparation allows companies to better focus on the issues involved in litigation so that they can better chart a cost effective strategy with regard to resolution of the issues and control of the expenses.

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Litigation Services

FTI believes its litigation services division has benefited from the efforts of major corporations to better manage the litigation process and reduce their overall legal costs. The Company also believes its TrialMax II software is among the leading trial preparation and presentation software tools available in the industry and its use fosters the efficiencies sought by our clients.

Applied Sciences

The Applied Sciences Division specializes in analyzing the causes of accidents resulting from such events as poor product design, fires, chemicals mishaps and construction accidents. The Division also assists companies in assessing preventative measures relating to product design and the evaluation of the causes of product failures. As a result, we are engaged by companies at an early stage of potential litigation or on a quality control basis absent any litigation at all. We have been called upon to assess the causes and relative levels of responsibility of an accident, as well as to design preventative measures. As a result of being engaged so early in the process, the Company believes that revenues from these services generally are steadier and less incident-driven than the revenues of other firms involved exclusively in the latter stages of litigation preparation or other types of consulting services.

Expert Financial Services

While the litigation support market traditionally has focused on the latter stages of the trial process, such as jury selection, exhibit preparation and the trial process itself, today's clients are looking to manage costs effectively over the entire process, including the pre-litigation phase. For this reason, FTI has entered the broader field of providing financial consulting services. To provide financial consulting services, we generally employ statistical and economic tools to help companies evaluate issues such as determining the economic impact of deregulation of certain industries, the amount of commercial damages suffered by businesses as a result of a tort or a breach of contract, the existence of discriminatory employment practices and the value of a business or professional practice for appraisal purposes. Additionally, we work with clients to develop business strategy and tactics on an ongoing basis. Forensic

accounting specialists, such as those employed by KCI, work with companies dealing with the investigation of disclosure and fraud issues, as well as companies which are undergoing restructuring or bankruptcy reorganizations. We believe that by providing these services we often have access to companies at an especially early stage of the litigation process.

BUSINESS STRATEGIES

Traditionally, litigation consulting firms, including the Company, focused on discrete stages of the litigation process from the inception of a cause of action to final resolution through a jury trial. Recently, however, FTI has sought to integrate complementary litigation, applied sciences and financial services and products. FTI believes that this integration gives it a distinct advantage over smaller niche players because it can become involved with potential clients at a much earlier stage of the dispute resolution process or even on an ongoing, retainer-type basis.

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FTI's strategy is to become a national company possessing a critical mass, a broad range of services and a cost-effective delivery of high-quality services to clients. The Company's business strategy, combining strong internal growth with an aggressive acquisition philosophy, is designed to achieve these goals.

The Company believes the following elements are key to the continued success of its business strategy:

- o Quality. The Company believes that size and reputation are critical elements to the purchasing decisions of corporations, law firms, banks and insurance companies. By hiring the most qualified professionals and by acquiring highly respected firms, FTI has sought to distinguish itself within this industry. The Company has benefited both from the skills of these professionals, as well as the client relationships brought by them to FTI. The Company has also sought to foster its existing client relationships by providing its clients with the highest quality products and services.
- o Expand to a Broader Range of Services. By adopting an integrated services approach to its business, FTI is transitioning itself from its vendor-based roots to a more full-service advisor. In this capacity, the Company hopes to better fulfill its clients' expectations. Whereas FTI started as an expert witness firm in 1982, it has since expanded to offer its clients services in visual communications (1987), jury consulting (1992), insurance claims management (1997), and analytic engineering, economic consulting and forensic accounting (1998). The increased range of services available has led to increased expectations from FTI's clients. As its clients have sought more broad-based and strategic assignments, FTI has been able to market its other services.
- o Size and Critical Mass. Large forensic and litigation matters today often require the service provider to be able to provide services on a number of matters. To enhance its ability to service such contracts, the Company has pursued a strategy of increasing the number of, and range of skills provided by, its professionals and investing in support equipment.
- o Geographic Expansion. The Company seeks new business opportunities by expanding its operations in strategic geographic markets. The Company believes that the ability to provide services on a nationwide basis is a competitive advantage in securing business from large, geographically diverse corporations. Furthermore, proximity to a client provides a significant cost advantage. The Company's strategy is to expand both the number of offices it maintains and the services provided by each office.
- o Cost Effective Delivery of Service. The Company is dedicated to providing cost-effective solutions to its clients. The Company offers a disciplined project management approach to ensure adherence to the client's budgets and schedules. The Company also maintains a flexible cost structure by using a mix of employees and outside consultants. This reduces fixed overhead costs while offering

solutions and expertise tailored to the specific requirements of a client's case.

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BUSINESS SERVICES

Consistent with the Company's strategy of being an integrated provider of litigation support services, it offers a broad range of trial consulting services to corporations, insurance companies and law firms at every stage of the trial process. In the pre-trial phase, FTI offers services relating to the discovery process. Such services include determining the cause of accidents, assessing damages, developing databases, investigating the possible infringement of patents and analyzing damaged physical structures. In addition, FTI helps litigants prepare for the jury selection and venue choice phases of trial by soliciting community attitudes through focus group studies and venue surveys. Increasingly, the Company is also called upon to consult on the logistics and management of the myriad of documents that are part of large cases.

In the trial phase, the Company assists attorneys in the preparation of their cases by performing mock trials, preparing expert witnesses for testimony and surveying people with regard to the effectiveness of specific legal arguments and the general sentiment towards its client. These surveys can enlighten litigants on the strength of their case and the likelihood of prevailing, as well as the advisability of seeking settlement. FTI's document management, visual communication and courtroom technology products are designed to facilitate the trial process and help litigants present clear and strong legal arguments to a jury.

The Company also offers services regarding the post-trial phase of the litigation process. By surveying jurors, FTI can help its clients understand the basis of a jury's verdict. This information is useful for determining the likelihood of prevailing on similar litigation in other venues. Moreover, FTI can help its clients appreciate the full economic consequences of a verdict, and whether an appeal would even be cost-effective. Such information may also be relevant with regard to the determination of future courses of action for the client.

The Company also performs a number of non-trial consulting services such as quality assurance assessments for industrial, utility and automobile companies with regard to their products, analysis of computer and equipment problems related to Year 2000 ("Y2K") issues, forensic accounting and turnaround consulting services to businesses restructuring either on their own or through the bankruptcy process and consulting services to clients in regulated industries such as pipeline, railroad and telecommunications regarding their general business strategy, their rates and the general industry.

CLIENTS

In 1998, the Company performed work for 1,994 clients, including 1,061 law firms, 54 of which were rated in the top 100 law firms in 1998, as measured by the American Lawyer, based on revenues in the United States; 308 industrial clients, 83 of which were rated in the FORTUNE 500 for 1998; and 477 insurance companies, 19 of which were rated in the FORTUNE 500 for 1998. As of December 31, 1998, the Company was actively working on 3,753 different matters for 1,348 different clients. None of the Company's clients represented more than 10% of the Company's revenues during 1998.

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COMPETITION

The legal support services market is highly competitive. The Company faces various sources of competition, including several national companies, large public accounting firms and economic consulting organizations and a number of smaller firms that provide one or more services to local and regional markets. The source of competition often depends upon the services being provided by the Company. The litigation services group generally competes against other litigation consulting firms and small sole proprietorships. The applied science group competes against various regional or national concerns, independent experts and research organizations. The expert financial services group competes

against accounting and economic consulting firms.

In addition to pricing, competitive factors for the Company's services include reputation, geographic locations, performance record, quality of work, range of services provided and existence of an ongoing client relationship. On a nationwide basis, the Company's competitors include Engineering Animation, Inc., which provides animation services; Exponent, Inc., which provides engineering analysis services and a limited amount of animation services; Decision Quest, which provides jury analysis, visual packaging and animation services; and the national accounting firms. Certain national support service providers are larger than the Company and, on any given engagement, may have a competitive advantage over the Company with respect to one or more competitive factors. In addition, smaller local or regional firms, while not offering the range of services provided by FTI, often are able to provide the lowest price on a specific engagement because of their lower overhead costs and proximity to the engagement. The fragmented nature of the legal support services industry may also provide opportunities for large companies that offer complementary services to enter the market through acquisition. In the future, these and other competitive pressures could require the Company to modify its pricing or increase its spending for marketing to attract business.

EMPLOYEES

As of December 31, 1998, the Company had 416 employees. Approximately 72 of the employees are in litigation support services, 161 in applied sciences and 43 in expert financial services. The remaining employees are administrative employees. The Company also maintains consulting arrangements with approximately 1,472 independent consultants, of whom approximately 379 were utilized on Company engagements during 1999.

None of the Company's employees are covered by collective bargaining agreements. The Company considers its relationship with its employees to be good.

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BUSINESS RISKS

This Annual Report on Form 10-K, including the documents incorporated by reference, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. When the Company refers to forward-looking statements or information, sometimes the Company uses words such as "may," "will," "could," "should," "plans," "intends," "expects," "believes," "estimates," "anticipates" and "continues." In particular, the following summary of "Business Risks" describe forward-looking information. The business risks that are described are not all inclusive, particularly with respect to possible future events. Other parts of this Annual Report on Form 10-K may also describe forward-looking information. Things can happen that can cause actual results to be very different from those described. The Company also makes no promise to update any of our forward-looking statements, or to publicly release the results if we revise any of them. Factors which may cause the actual results of operations in future periods to differ materially from intended or expected results include, but are not limited to:

- o the loss of a number of key employees could adversely impact its ability to secure and complete engagements because the Company's business involves the delivery of professional services and is labor-intensive. Moreover, the loss of Jack B. Dunn, IV or Stewart J. Kahn as employees of FTI without a suitable replacement within 90 days could constitute a default under the Company's \$13 million Investment and Loan Agreement with Allied Capital Corporation;
- o the availability and terms of additional capital or debt financing to fund future acquisitions and for working capital purposes;
- o significant competition for business opportunities and acquisition candidates, because of the fragmented nature of companies offering similar services and the strategy of competitors to also grow and diversify through acquisitions;
- o fluctuations of revenue and operating income between quarters because revenues are primarily derived from services provided in response to client requests or events that occur without notice, and engagements, generally billed on a "time and expenses" basis, are terminable at any time by clients and because of acquisitions; and
- o the continued integration of KK&A, KCI and S.E.A., acquired in 1998,

and the integration of future acquisitions, involve inherent uncertainties, such as the expense of integrating businesses, the effect on the acquired business and on FTI of FTI's efforts to integrate and achieve economies of scale and the availability of management resources to oversee the operations of the acquired business.

- o Risks associated with quantitative and qualitative market risks such as fluctuations in interest rates as described under Item 7.A. of this Annual Report on Form10-K.

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ITEM 2. PROPERTIES

FTI leases its principal facility in Annapolis, Maryland, which totals approximately 39,100 square feet under a lease that expires in December 2003. The Company also leases offices across the United States, in cities such as New York, Chicago, Houston, Los Angeles, Philadelphia, Atlanta, Columbus and Washington, D.C.

The Company believes that its leased facilities are adequate for its current needs, and that suitable additional space, should it be needed, will be available to accommodate expansion of the Company's operations on commercially reasonable terms.

The Company also owns 5,000 square feet in Germantown, Maryland, from which the Company conducted the business of its former Annaplix division. The Company is attempting to lease or sell these premises.

ITEM 3. LEGAL PROCEEDINGS

Titanium

FTI entered into a Stock Purchase Agreement (the "Agreement") with Glenn R. Baker and Dennis A. Guenther (the "Selling Stockholders") dated September 25, 1998. Pursuant to the Agreement, FTI acquired (the "Acquisition") all of the issued and outstanding shares of S.E.A. Prior to the Acquisition, in 1993 Titanium Industries filed suit against S.E.A., Inc. in the Court of Common Pleas, Mahoning County, Ohio, (the "Titanium Claim") claiming negligent misrepresentation and breach of contract. On June 27, 1994, a judgment of decree was rendered in favor of Titanium Industries and against S.E.A., Inc. The judgment was appealed to the Court of Appeals of Ohio - Seventh District. On April 11, 1997, the Court of Appeals ordered that the judgment of the Common Pleas Court of Mahoning County, Ohio be reversed and remanded the case to the trial court. The Agreement provides that the Selling Stockholders will indemnify FTI for any loss in connection with the Titanium Claim.

Pixel

In 1997, FTI and six of its Stamford, Connecticut employees were sued by Pixel, Inc. ("Pixel"), a California company, which previously had an office in Stamford, Connecticut (at which the individual defendants worked). The complaint asserts multiple tort claims and two statutory claims against FTI and the individuals, all related to the decision of the individual defendants to leave the employ of Pixel and work for FTI, allegedly in competition with Pixel using Pixel's confidential and proprietary information. FTI is accused of encouraging this behavior. The action is pending in Connecticut state court and all defendants, including FTI, are represented by the Connecticut law firm of Shipman & Goodwin. Piper & Marbury has also been admitted for purposes of the case. The case is styled Pixel, Incorporated v. Forensic Technologies International Corporation, et al., Docket No. CV-97-9349702S and is pending in the Supreme Court for the Judicial District of Fairfield at Bridgeport.

In addition to injunctive relief against all defendants, including FTI, Pixel seeks the return of any of its records taken by the individual defendants. Pixel also seeks unspecified damages (and, to the extent the alleged acts are violative of Conn. Gen. Stats. ss.52-564 relating to theft of property, treble damages) plus interest, costs, disbursements and attorneys' fees. In interrogatory answers, Pixel claims \$7,000,000

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in damages for the destruction of its business and over \$1,000,000 a year lost income (beginning presumably in late 1996).

While the case is pending for almost two years, only recently have interrogatory answers and documents been exchanged and only part of the deposition of the president of Pixel has been conducted. Based on the discovery to date, FTI appears to have good and meritorious defenses to the allegations in the complaint. As a result, the range of potential loss has not been estimated.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the Company's stockholders for consideration during the quarter ended December 31, 1998.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

(a) The Company did not conduct any sales of Restricted Securities during Fiscal 1998.

(b) On March 9, 1999, FTI's common stock began trading on the American Stock Exchange under the symbol "FCN." Prior to that time, the common stock was listed on the Nasdaq National Market and traded under the symbol "FTIC." The following table sets forth for the periods indicated the high and low sales prices for the common stock, as reported on the Nasdaq National Market for each fiscal quarter during the last two fiscal years.

	HIGH ----	LOW ---
FISCAL YEAR ENDED DECEMBER 31, 1997		
First fiscal quarter		
	\$9 5/8	\$5 1/2
Second fiscal quarter	\$8	\$5 5/8
Third fiscal quarter	\$9 1/2	\$6 3/4
Fourth fiscal quarter	\$14 3/4	\$9
FISCAL YEAR ENDED DECEMBER 31, 1998		
First fiscal quarter	\$16 1/4	\$10
Second fiscal quarter	\$20 3/4	\$13 1/2
Third fiscal quarter	\$17 3/16	\$4
Fourth fiscal quarter	\$8 3/8	\$2 3/8

On March 29, 1999, the closing sales price for the Company's common stock on the American Stock Exchange was \$2.875.

The number of record holders of the Company's common stock as of March 22, 1999 was 98 and the number of beneficial holders was 1,950.

The Company has not declared or paid any cash dividends on the Company's common stock to date and does not anticipate paying any cash dividends on its shares of common stock in the foreseeable future because it intends to retain its earnings, if any, to finance the expansion of its business and for general corporate purposes. Pursuant to the Investment and Loan Agreement between the Company, Allied Capital Corporation and Allied Investment Corporation dated March 29, 1999, the Company has agreed not to declare or pay any dividends.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 1998 are derived from the Company's consolidated financial statements. The financial statements for the years ended December 31, 1994, 1995, 1996, 1997, and 1998 were audited by Ernst & Young LLP. The data below should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

	YEAR ENDED DECEMBER 31				
	1998	1997	1996	1995 (1)	1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Revenues	\$ 58,615	\$ 44,175	\$ 30,648	\$ 23,381	\$ 20,254
Direct cost of revenues	31,402	23,564	17,020	11,366	10,499
Selling, general and administrative expenses	21,528	15,241	10,786	9,887	8,320
Total costs and expenses	52,930	38,805	27,806	21,253	18,819
Income from operations	5,685	5,370	2,842	2,128	1,435
Other income (expense)	(1,163)	173	107	(222)	(110)
Income from continuing operations before					
Income taxes	4,522	5,543	2,949	1,906	1,325
Income taxes	1,954	2,250	1,235	779	552
Income from continuing operations	2,568	3,293	1,714	1,127	773
Loss from operations of discontinued operations, net of tax (1)				(65)	
Loss on disposal of discontinued operations, net of tax				(365)	
Net income	2,568	3,293	1,714	697	773
Preferred stock dividends	-	-	62	125	125
Income available to common stockholders	\$ 2,568	\$ 3,293	\$ 1,652	\$ 572	\$ 648
Earnings per common share from continuing operations, assuming dilution	\$ 0.54	\$ 0.73	\$ 0.46	\$ 0.27	\$ 0.28
Earnings per common share, assuming dilution	\$ 0.51	\$ 0.70	\$ 0.42	\$ 0.24	\$ 0.26
Shares used in computation	5,077	4,698	4,174	3,316	3,354

	AS OF DECEMBER 31,				
	1998	1997	1996	1995	1994
BALANCE SHEET DATA:					
Working capital	\$ 9,071	\$ 10,634	\$ 13,311	\$ 2,259	\$ 3,368
Total assets	79,747	29,176	20,868	10,756	8,071
Long-term debt, capital lease obligations and redeemable stock	36,016	1,014	254	3,941	3,764
Total stockholders' equity	25,594	21,019	17,629	1,463	1,838

(1) Effective March 31, 1996, the Company sold Annapolis to a group that includes Annaplix's former owner and certain officers and stockholders of the Company. See "Management's Discussion and Analysis of Results of Operations and Financial Condition,".

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company derives revenue primarily from three business divisions: Litigation Services, Applied Sciences and Expert Financial Services. Through its Litigation Services division, FTI provides advice and services in connection with all

phases of the litigation process. FTI offers its clients, through the Applied Sciences division, engineering and scientific consulting services, accident reconstruction, fire investigation, equipment procurement and expert testimony regarding intellectual property rights. FTI provides a range of financial consulting services, such as forensic accounting, fraud investigation, claims management and expert testimony, and bankruptcy and turnaround analysis, through its Expert Financial Services division. The revenues generated from the business divisions consist of: (i) fees for professional services; (ii) fees for use of the Company's equipment and facilities, particularly animation computers; (iii) pass-through expenses such as the recruiting of subjects and participants for research surveys and mock trial activities and travel; and (iv) fees associated with work product production, such as static graph boards, color copies and digital video production. The Company recognizes revenue as work is performed or as related expenses are incurred.

The Company's goal is to provide value-added services to its clients either on a case-by-case basis or through ongoing relationships with major users of litigation and claims services. Over the past three years, the Company has taken several steps to grow the business and its industry prominence. Such steps include expanding into financial consulting services for trials, turnarounds and bankruptcies and recruiting additional visual communication staff and recognized professionals in the trial consulting business. By virtue of its recent acquisitions, the Company has further expanded its geographic reach with major offices now in New York, Columbus, Chicago, Houston, Los Angeles and Washington, DC.

In September 1996, the Company acquired Teklicon, Inc., in a transaction accounted for as a pooling of interests as further described in Note 4 of the "Notes to Consolidated Financial Statements." This acquisition significantly enhanced the Company's capabilities in high technology consulting and expert witness services to the legal profession and industry clients who require assessment of intellectual property rights and other industry problems that have high technology content.

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In September 1997, the Company acquired LWG, Inc. (LWG) and Bodaken Associates (Bodaken) in transactions accounted for as purchases as further described in Note 4 of the "Notes to Consolidated Financial Statements." LWG broadened the Company's offerings to the insurance market by adding capabilities in claims management consulting and restoration services. Bodaken enhanced the Company's jury and trial consulting capabilities, particularly in the western region of the U.S.

In 1998, the Company made three major acquisitions, all of which were accounted for as purchases as further described in Note 4 of "Notes to Consolidated Financial Statements." In June, the Company acquired Klick, Kent & Allen (KK&A). KK&A provides strategic and economic consulting to various regulated businesses, advising on such matters as industry deregulation, mergers and acquisitions, rate and cost structures, economic and financial modeling and litigation risk analysis.

In September 1998, the Company acquired both S.E.A., Inc. (S.E.A.) and Kahn Consulting, Inc. (KCI). S.E.A., headquartered in Columbus, Ohio, provides investigation, research, analysis and quality control services in areas such as distress, product failure, fire and explosion and vehicle and workplace accidents. The S.E.A. acquisition has allowed the Company to significantly expand its scientific consulting offerings, in addition to providing geographic expansion into the southeast and midwest markets. KCI, headquartered in New York City, provides expert testimony on accounting and financial issues; forensic accounting and fraud investigation services; strategic advisory, turnaround, bankruptcy and trustee services, and government contract consulting. The acquisitions of KCI and KK&A provide the foundation for the expansion of expert financial services into markets where the Company already has a presence.

In connection with the September acquisitions, the Company expanded and amended its line of credit with its bank and utilized \$26 million of borrowings to fund the initial acquisition payments. In March 1999, the Company further amended its bank financing extending the maturity to September 2001, or possibly later under certain conditions, and revising certain covenants and other terms. The Company obtained \$13 million of additional debt financing through the sale of subordinated debentures (with warrants) to an investor, maturing in March 2004.

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

REVENUES. Total revenues in 1998 increased 32.7% over 1997. Excluding acquisitions completed in 1998, revenues would have increased 6.9%. Litigation services revenues decreased 5.2% from 1997 to 1998 as a result of softness in the markets during the second and third quarter of 1998; however, there was a 14.4% improvement in our fourth quarter compared with the third quarter of 1998 as our volume of cases improved. The Applied Sciences Division experienced 90.4% growth in 1998 with more than half of that growth coming from the acquisition of S.E.A. The Expert Financial Services division grew by 120.2% with substantially all of that growth coming from acquisitions.

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Total revenues in 1997 increased 44.1% or \$13.5 million from 1996. Excluding acquisitions during 1997, total revenues increased 29.9%. The growth in total revenues resulted from a 35.0% increase in revenues generated by Litigation Services and a 17.0% increase in revenues generated by Applied Sciences, excluding acquisitions.

DIRECT COST OF REVENUES. Direct cost of revenues consists primarily of billable employee compensation and related payroll benefits, the cost of contractors assigned to revenue-generating activities and other related expenses billable to clients. Direct cost of revenues as a percent of revenues was 53.6% in 1998, 53.3% in 1997 and 55.5% in 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses consist primarily of salaries and benefits paid to office and corporate staff, as well as rent, marketing, and corporate overhead expenses. Selling, general and administrative expenses also include amortization of goodwill. As a percent of revenues, these expenses were 36.7% in 1998, 34.5% in 1997 and 35.2% in 1996. Excluding goodwill amortization, selling, general and administrative expenses as a percentage of sales were 35.0% in 1998 and 34.3% in 1997, both lower than the 35.2% in 1996.

OTHER INCOME AND EXPENSES. Interest expense consists of interest on a line of credit and Convertible Debentures in 1996 and, in 1997 and 1998, the interest expense associated with the purchased businesses referred to above. Additional cash, raised from the initial public offering allowed the Company to pay off the line of credit in mid-1996, thus reducing interest expense and increasing interest income during the second half of 1996 and the majority of 1997. In May 1996, the \$1.8 million of 8% Subordinated Debentures converted into common stock, further contributing to the decrease in interest expense in 1996 as compared to 1995.

INCOME TAXES. In 1998, principally as a result of some of the goodwill amortization not being deductible for income tax purposes, the effective tax rate increased to 43.2%. It is expected that the effective tax rates will be between 45% and 49% in the foreseeable future. The Company's effective tax rate during the two years ended December 31, 1997, approximated 41%. See Note 7 of "Notes to Consolidated Financial Statements" for a reconciliation of the federal statutory rate to the effective tax rates during each of these years, and a summary of the components of the Company's deferred tax assets and liabilities.

FUTURE ASSESSMENT OF RECOVERABILITY AND IMPAIRMENT OF GOODWILL

In connection with its various acquisitions, the Company recorded goodwill, which is being amortized on a straight-line basis over periods of 15 to 25 years, its estimated periods that the Company will be benefited by such goodwill. At December 31, 1998, the unamortized goodwill was \$45.2 million (which represented 57% of total assets and 176% of stockholders' equity). Goodwill arises when an acquirer pays more for a business than the fair value of the tangible and separately measurable intangible net assets. For financial reporting purposes, goodwill and all other intangible assets are amortized over the estimated period benefited. The Company has determined the life for amortizing goodwill based upon several factors, the most significant of which are the relative size, historical financial viability and growth trends of the acquired companies and the relative lengths of time such companies have been in existence.

Management of the Company periodically reviews the Company's carrying value and

recoverability of unamortized goodwill. If the facts and circumstances suggest that the goodwill may be impaired, the carrying value of such goodwill will be adjusted which will result in an immediate charge against income

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during the period of the adjustment and/or the length of the remaining amortization period may be shortened, which will result in an increase in the amount of goodwill amortization during the period of adjustment and each period thereafter until fully amortized. Once adjusted, there can be no assurance that there will not be further adjustments for impairment and recoverability in future periods. Of the various factors to be considered by management of the Company in determining whether goodwill is impaired, the most significant will be (i) losses from operations, (ii) loss of customers, and (iii) industry developments, including the Company's inability to maintain its market share, development of competitive products or services, and imposition of additional regulatory requirements.

LIQUIDITY AND CAPITAL RESOURCES

The Company in 1998 generated \$5.3 million of cash flow from operations, an improvement of \$1.7 million as compared to 1997. This increase is attributable to an increase in net income excluding non-cash charges (principally depreciation and amortization) of \$271,000, and the favorable net cash effects of changes in working capital balances. The Company expects that cash flows from operations will increase in 1999, in part as a result of additional operating cash provided from businesses acquired in late 1998.

The Company borrowed \$26.0 million in 1998 under its \$27.0 million long-term credit facility with a bank to provide the \$26.4 million of cash needed to acquire Klick, Kent & Allen, Inc., Kahn Consulting, Inc., and SEA, Inc. This credit facility was renegotiated in March 1999, and the new terms extend the maturity date of the loan to September 2001. This maturity date may be extended an additional year if the Company is successful in extending the maturity dates of certain notes issued to sellers of the acquired 1998 and 1997 businesses.

In connection with the acquisition of certain businesses in 1998 and 1997, and as described more fully in Note 4 of the 1998 consolidated financial statements, the Company is obligated under certain seller notes totaling \$20.2 million at December 31, 1998. Of the \$20.2 million outstanding at December 31, 1998, \$10.65 million will become payable in 1999. The Company in March 1999 issued \$13.0 million of subordinated debentures to provide additional cash resources as the seller notes begin to mature. The subordinated debentures initially bear interest at 9.25% per annum, and mature in lump sum in March 2004. The debentures prohibit the payment of dividends without the written consent of the holder.

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The Company is required to comply with certain financial covenants related to operating performance and liquidity, as calculated quarterly, for both the revised and extended long-term credit facility and the subordinated debentures. The Company believes that it will be in compliance with all covenants throughout 1999.

During 1998 the Company expended \$3.3 million for additions to property and equipment. This amount included expenditures for internal information systems that allow the Company to better manage its expanding operations. At December 31, 1998, the Company had no material commitments for the acquisition of property and equipment.

The Company believes that cash generated from operations and the financing arrangements completed in March 1999 will allow it to meet its obligations under notes maturing in 1999, and further provide for the necessary cash resources required in the near term to fund its expanding operations.

YEAR 2000 COMPLIANCE

The year 2000 issue is the result of computer programs written using two digits

(rather than four) to define the applicable year. Absent corrective actions, programs with date-sensitive logic may recognize "00" as 1900 rather than 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company has commenced a process to assure Year 2000 compliance of all hardware, software, and ancillary equipment that are date dependent. The process involves four phases:

Phase I - Inventory and Data Collection. This phase involves an identification of all items that are date dependent. The Company commenced this phase in the first quarter of 1998 and is now complete.

Phase II - Compliance Requests. This phase involves requests to systems vendors for verification that the systems identified in Phase I are Year 2000 compliant. The Company continues to replace critical systems that cannot be updated or certified compliant. The Company commenced this phase in the first quarter of 1998 and expects to complete this phase before the end of the second quarter of 1999. The Company's principal compliance issue is focused on the existing business and accounting system developed over the past ten years. A new business and accounting system has been implemented and is vendor-certified to be Year 2000 compliant. In addition, the Company has determined that substantially all of its personal computers and PC applications are compliant.

Phase III - Test, Fix and Verify. This phase involves testing all items that are date dependent and upgrading the critical, non-compliant system as well as completing the implementation of the new business and accounting system. The Company has begun this phase and expects completion by the middle of the third quarter of 1999.

Phase IV - Final Testing, New Item Compliance. This phase involves review of all systems for compliance and re-testing as necessary. During this phase, all new systems and equipment will be tested for Year 2000 compliance. The Company expects to complete this phase by the end of the third quarter of 1999. The Company presently believes that, with the implementation of the new business and accounting system, including hardware and software, the Year 2000 issue will not pose any significant operational problem.

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This substantial compliance has been achieved without the need to acquire significant new hardware, software, or systems other than in the ordinary course of business. The Company is not aware of any other material Year 2000 non-compliance that would require repair or replacement that would have a material effect on its financial position. As part of the Year 2000 process, formal communication with the Company's suppliers, customers and other support services has been initiated during the first quarter of 1999 and efforts will continue until positive statements of readiness have been received from all third parties. To date, the Company is not aware of any Year 2000 non-compliance by its customers or suppliers that would have material impact on the Company's business. Nevertheless, there can be no assurance that unanticipated Year 2000 non-compliance will not occur, and such Year 2000 non-compliance could require material costs to repair or could cause material disruptions if not repaired. The Company is in the process of developing a strategy to address these potential consequences that may result from unresolved Year 2000 issues, which will include the development of one or more contingency plans by mid 1999.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 1998, \$26.0 million of the Company's long-term debt bears interest at variable rates. Accordingly, the Company's earnings and after tax cash flow are affected by changes in interest rates. Assuming the current level of borrowings and assuming a hypothetical 200 basis point increase in interest rates under the Company's long-term bank credit facility for one year, the Company's interest expense would increase by approximately \$520,000 and net income would decrease by approximately \$296,000.

In the event of an adverse change in interest rates, management would likely take actions to further mitigate its exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, the analysis assumes no such actions. Further, the analysis does not consider the effects of

the change in the level of overall economic activity that could exist in such an environment.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FTI Consulting, Inc. and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 1998 and 1997

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Report of Independent Auditors

The Board of Directors and Stockholders
FTI Consulting, Inc.

We have audited the accompanying consolidated balance sheets of FTI Consulting, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FTI Consulting, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Baltimore, Maryland

FTI Consulting, Inc. and Subsidiaries

Consolidated Balance Sheets

	DECEMBER 31	
	1998	1997

	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,223	\$ 2,456
Accounts receivable, less allowance of \$1,305 in 1998 and \$487 in 1997	13,139	10,198
Unbilled receivables, less allowance of \$1,117 in 1998 and \$415 in 1997	7,803	4,194
Income taxes recoverable	794	-
Deferred income taxes	-	160
Prepaid expenses and other current assets	1,262	681

Total current assets	26,221	17,689
Property and equipment:		
Buildings	411	411
Furniture and equipment	14,752	11,745
Leasehold improvements	1,891	1,591

	17,054	13,747
Accumulated depreciation and amortization	(8,767)	(7,459)

	8,287	6,288
Goodwill, net of accumulated amortization of \$1,077 in 1998 and \$81 in 1997	45,164	5,141
Other assets	75	58

Total assets	\$ 79,747	\$ 29,176
	=====	

	DECEMBER 31	
	1998	1997

	(IN THOUSANDS)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,924	\$2,825
Accrued compensation expense	2,765	1,995
Income taxes payable	-	297
Current portion of long-term debt	10,650	1,200
Advances from clients	498	519
Other current liabilities	313	219

Total current liabilities	17,150	7,055

Long-term debt, less current portion	35,630	730
Other long-term liabilities	269	203
Deferred income taxes	1,104	169
Commitments and contingent liabilities	-	-

Stockholders' equity:

Preferred stock, \$.01 par value; 4,000,000 shares authorized in 1998 and 1997, none outstanding	-	-
Common stock, \$.01 par value; 16,000,000 shares authorized; 4,781,895 and 4,550,912 shares issued and outstanding in 1998 and 1997, respectively	48	46
Additional paid-in capital	16,531	14,526
Retained earnings	9,015	6,447
	-----	-----
Total stockholders' equity	25,594	21,019
	-----	-----
Total liabilities and stockholders' equity	\$ 79,747	\$ 29,176
	=====	=====

See accompanying notes.

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FTI Consulting, Inc. and Subsidiaries

Consolidated Statements of Income

	YEAR ENDED DECEMBER 31		
	1998	1997	1996

	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Revenues	\$58,615	\$44,175	\$30,648
Direct cost of revenues	31,402	23,564	17,020
Selling, general and administrative expenses	21,528	15,241	10,786
	-----	-----	-----
Total costs and expenses	52,930	38,805	27,806
	-----	-----	-----
Income from operations	5,685	5,370	2,842
Other income (expenses):			
Interest and other income	319	343	286
Interest expense	(1,482)	(170)	(179)
	-----	-----	-----
	(1,163)	173	107
	-----	-----	-----
Income from operations before income taxes	4,522	5,543	2,949
Income taxes	1,954	2,250	1,235
	-----	-----	-----
Net income	\$ 2,568	\$ 3,293	\$ 1,714
Preferred stock dividends	-	-	62
	-----	-----	-----
Income available to common stockholders	\$ 2,568	\$ 3,293	\$ 1,652
	-----	-----	-----
Earnings per common share, basic	\$ 0.54	\$ 0.73	\$ 0.46
	=====	=====	=====
Earnings per common share, diluted	\$ 0.51	\$0.70	\$ 0.42
	=====	=====	=====

See accompanying notes.

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FTI Consulting, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
(in thousands)

	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNEARNED COMPENSATION	TOTAL
Balance at January 1, 1996	\$20	\$15	\$1	\$1,455	\$ (29)	\$1,462
Repurchase of 55 shares of Class A common stock and 8 shares of Class B common stock			(105)	(25)		(130)
Issuance of 1,520 shares of common stock, net of expenses of \$1,671 in initial public offering of stock	15		11,101			11,116
Conversion of Class B common stock into 15 shares of common stock		(15)	15			-
Conversion of Series A Preferred Stock into 655 shares of common stock	6		1,553			1,559
Conversion of Convertible Subordinated Debt in 378 shares of common stock	4		1,796			1,800
Value of common stock options issued to directors				29		29
Exercise of options to purchase 14 shares of Class A common stock			39			39
Amortization of unearned compensation					29	29
Dividends paid on Series A Preferred Stock				(62)		(62)
Accounting adjustment due to pooling-of-interests				72		72
Net income for 1996				1,714		1,714
Balance at December 31, 1996	45	-	14,429	3,154	-	17,628
Exercise of options to purchase 34 shares of Class A common stock	1		97			98
Net income for 1997				3,293		3,293
Balance at December 31, 1997	46	-	14,526	6,447	-	21,019
Exercise of options to purchase 218 shares of Class A common stock	2		2,005			2,007
Net income for 1998				2,568		2,568
Balance at December 31, 1998	\$48	\$ -	\$16,531	\$9,015	\$ -	\$25,594

See accompanying notes.

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FTI Consulting, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 2,568	\$ 3,293	\$ 1,714
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	1,789	1,434	757
Amortization	1,192	307	105
Provision for doubtful accounts	473	526	(1)
Deferred income taxes	(626)	(227)	341
Loss on disposal of discontinued Annaplix division	-	-	(479)
Other	208	-	134
Changes in operating assets and liabilities:			
Accounts receivable	1,207	(3,284)	(1,701)
Unbilled receivables	51	(788)	(723)
Income taxes recoverable/payable	(694)	408	(320)
Prepaid expenses and other current assets	(270)	170	(599)
Accounts payable and accrued expenses	(83)	826	331
Accrued compensation expense	(205)	1,017	(221)
Advances from clients	(21)	(67)	309
Other current liabilities	(296)	33	(162)
Net cash provided by (used in) operating activities	5,293	3,648	(515)
INVESTING ACTIVITIES			
Purchase of property and equipment	(3,327)	(2,800)	(1,672)
Proceeds from sale of property and equipment	130	-	-
Contingent payments to former shareholders of LWG	(440)	-	-
Acquisition of KK&A, including acquisition costs	(6,242)	-	-
Acquisition of KCI, including acquisition costs	(10,237)	-	-
Acquisition of SEA, including acquisition costs	(9,961)	-	-
Acquisition of Anamet Laboratories	-	-	(400)
Acquisition of Bodaken, including acquisition costs	-	(1,875)	-
Acquisition of LWG, including acquisition costs	-	(1,956)	-
Change in other assets	-	480	(238)
Net cash used in investing activities	(30,077)	(6,151)	(2,310)
FINANCING ACTIVITIES			
Issuance of common stock	-	-	11,116
Repurchase of Class A common stock	-	-	(130)
Repurchase of Class A common stock subject to repurchase and Class B common stock	-	-	(310)
Exercise of stock options	1,610	98	39
Repayments under line of credit	-	-	(2,110)
Borrowings under long-term debt arrangements	26,000	-	-
Payments of other long-term debt	(100)	(191)	(69)
Repayments of long-term liabilities	(1,959)	(842)	-

Dividends paid	-	-	(62)
Net cash provided by (used in) financing activities	25,551	(935)	8,474
Net increase (decrease) in cash and cash equivalents	767	(3,438)	5,649
Cash and cash equivalents at beginning of year	2,456	5,894	245
Cash and cash equivalents at end of year	\$ 3,223	\$ 2,456	\$ 5,894

See accompanying notes.

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FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1998
(Dollars in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Description of Business

FTI Consulting, Inc. and subsidiaries (the Company) provides forensic and strategic consulting services to major corporations, law firms, banks, and insurance companies in the United States. These services include visual communications and trial consulting, engineering and scientific services, expert financial services, assessment and expert testimony regarding intellectual property rights and claims management outsourcing services, from assessment to restoration. The Company has 35 offices throughout the United States and in Canada.

Principles of Consolidation

The consolidated financial statements include the accounts of wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable and unbilled receivables to their expected net realizable value. The Company estimates the amount of the required allowance by reviewing the status of significant past-due receivables and analyzing historical bad debt trends. The Company has not experienced significant variations in the estimate of the allowance for doubtful accounts, due primarily to credit policies, collection experience, and a lack of concentrations of accounts receivable. Accounts receivable balances are not collateralized.

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FTI Consulting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method. Buildings are depreciated over a period of 40 years, furniture and equipment is depreciated over estimated useful lives ranging from 5 to 7 years, and leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the lease term.

Intangible Assets

Goodwill consists of the cost in excess of fair value of the net assets of entities acquired in purchase transactions, and is amortized over the expected periods of benefit, which range from 15 to 25 years. On a periodic basis, the Company evaluates goodwill for impairment. In completing this evaluation, the Company compares its best estimates of undiscounted future cash flows with the carrying value of goodwill.

Revenue Recognition

The Company derives most of its revenues from professional service activities. The majority of these activities are provided under "time and materials" billing arrangements, and revenues, consisting of billed fees and expenses, are recorded as work is performed and expenses are incurred. Revenues recognized but not yet billed to clients have been recorded as unbilled receivables in the accompanying consolidated balance sheets.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Direct Cost of Revenues

Direct cost of revenues consists primarily of billable employee compensation and related payroll benefits, the cost of consultants assigned to revenue generating activities, and direct expenses billable to clients. Direct cost of revenues does not include an allocation of overhead costs.

Stock Options Granted to Employees

The Company records compensation expense for all stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"). Under APB No. 25, if the exercise price of the Company's employee stock options equals the estimated fair value of the underlying stock on the date of grant, no compensation expense is generally recognized. Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123") encourages companies to recognize expense for stock-based awards based on their estimated value on the date of grant. Statement 123 requires the disclosure of pro forma income and earnings per share data in the notes to the financial statements if the fair value method is not adopted. The Company has supplementally disclosed in Note 6 the required pro forma information as if the fair value method had been adopted.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. EARNINGS PER SHARE

The following table summarizes the computations of basic and diluted earnings per share:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
NUMERATOR			
Net income	\$2,568	\$3,293	\$1,714
Preferred stock dividends	-	-	(62)
Numerator for basic earnings per share - income available to common stockholders	2,568	3,293	1,652
Effect of dilutive securities:			
Preferred stock dividends	-	-	62
Interest on convertible debentures	-	-	31
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions	2,568	3,293	1,745
DENOMINATOR			
Denominator for basic earnings per common share - weighted average shares	4,725	4,529	3,591
Effect of dilutive securities:			
Convertible preferred stock	-	-	240
8% convertible subordinated debentures	-	-	139
Warrants	-	-	1
Employee stock options	352	169	203
Denominator for diluted earnings per common share - weighted average shares and assumed conversions	5,077	4,698	4,174
Earnings per common share, basic	\$0.54	\$0.73	\$0.46
Earnings per common share, diluted	\$0.51	\$0.70	\$0.42

FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In 1998, the Company purchased three entities for total consideration of \$45,630. In connection with these acquisitions, assets with a fair market value of \$50,426 were acquired and liabilities of approximately \$4,796 were assumed. In 1997, the Company purchased two entities for total consideration of \$5,350. In connection with these acquisitions, assets with a fair market value of \$7,300 were acquired and liabilities of approximately \$1,950 were assumed.

The Company paid interest of \$1,048, \$117 and \$242 and income taxes of \$2,953, \$1,452 and \$1,213 during fiscal years 1998, 1997 and 1996, respectively.

4. ACQUISITIONS

Kahn Consulting Inc.

On September 17, 1998, the Company acquired all of the outstanding common stock of Kahn Consulting Inc. and KCI Management Corp. (collectively, "KCI"). KCI, based in New York, New York, provides strategic advisory, turnaround, bankruptcy, and trustee services, as well as litigation consulting services. The purchase price of \$20,000 included an initial payment of \$10,000 in cash, with the remainder evidenced by notes payable bearing interest at 7.5%. The acquisition was accounted for using the purchase method of accounting. At the acquisition date, approximately \$17,400 of goodwill was recorded which is being amortized over its estimated useful life of 20 years. The results of operations of KCI are included in the accompanying 1998 consolidated statement of income for the period from September 17, 1998 through December 31, 1998.

S.E.A., Inc.

Effective September 1, 1998, the Company acquired all of the outstanding common stock of S.E.A., Inc. (SEA). SEA, based in Columbus, Ohio, provides investigation, research, analysis and quality control services in areas such as distress, product failure, fire and explosion, and vehicle and workplace accidents. The purchase price of \$15,630 included an initial payment of \$10,000 in cash, with the remainder evidenced by notes payable bearing interest at 7.5%. The acquisition was accounted for using the purchase method of accounting. At the acquisition date, approximately \$13,600 of goodwill was recorded which is being amortized over its estimated useful life of 20 years. The results of operations of SEA are included in the accompanying 1998 consolidated statement of income for the period from September 1, 1998 through December 31, 1998.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. ACQUISITIONS (CONTINUED)

Klick, Kent & Allen, Inc.

On June 1, 1998, the Company acquired all of the outstanding common stock of Klick, Kent & Allen, Inc. (KK&A). KK&A, based in Alexandria, Virginia, provides strategic and economic consulting to various regulated businesses, advising on such matters as industry deregulation, mergers and acquisitions, rate and cost structures, economic and financial modeling and litigation risk analysis. The purchase price of \$10,000 included an initial payment of \$6,000 in cash, with the remainder evidenced by notes payable bearing interest at 7.5%. The acquisition was accounted for using the purchase method of accounting. At the acquisition date, approximately \$9,700 of goodwill was recorded which is being amortized over its estimated useful life of 20 years. The results of operations of KK&A are included in the accompanying 1998 consolidated statement of income for the period from June 1, 1998 through December 31, 1998.

Pro Forma Information for 1998 Acquisitions

The following summarizes the unaudited pro forma consolidated results of operations for 1997 and 1998 assuming the KK&A, KCI and SEA acquisitions had occurred on January 1, 1997, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt, decrease in owner compensation, and related income tax effects. In connection with the acquisitions, the Company entered into employment agreements with certain stockholders and executive officers of these companies. The future amount of compensation paid to these officers, who have substantially the same duties and responsibilities, is less than the amounts paid in periods prior to the acquisitions.

	YEAR ENDED DECEMBER 31	
	1998	1997
	-----	-----
Revenues	\$78,823	\$74,265
Net income	2,900	3,476
Net income per common share -		

diluted

\$0.57

\$0.74

The pro forma consolidated results of operations are not necessarily indicative of the results that would have occurred had these transactions been consummated as of the beginning of the year presented or of future operations of the Company.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. ACQUISITIONS (CONTINUED)

LWG, Inc.

Effective September 1, 1997, the Company acquired all of the outstanding common stock of LWG, Inc. and its subsidiary (collectively "LWG"). LWG is based in Northbrook, Illinois and provides claims management consulting and restoration services to the insurance industry. The acquisition was accounted for using the purchase method of accounting. The purchase price consists of an initial cash payment of \$1,800, plus additional consideration equal to 50% of the pre-tax profits of LWG for each quarterly period from October 1, 1997 through September 30, 2001. Upon the resolution of the amount of any contingent payments, the Company records any additional consideration payable as additional goodwill, and amortizes that amount over the remaining amortization period. At September 1, 1997, goodwill of approximately \$1,500 was recorded and is being amortized over a period of 25 years. During 1998, additional contingent consideration of \$440 was paid and recorded as goodwill. The results of operations of LWG are included in the accompanying consolidated statements of income from September 1, 1997 through December 31, 1997.

Bodaken & Associates

Effective September 1, 1997, the Company acquired substantially all of the assets of Bodaken & Associates, a trial research and consulting firm serving law firms and corporations. The acquisition was accounted for using the purchase method of accounting. The purchase price of \$3,550 included an initial cash payment of \$1,700 with the remainder of \$1,850 evidenced by a note payable bearing interest at 7%. Approximately \$3,500 in goodwill was recorded and is being amortized over 20 years.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. LONG-TERM DEBT

Long-term debt consists of the following:

	DECEMBER 31	
	1998	1997
	-----	-----
Amounts due under a \$27,000 long-term credit facility expiring in May 2000, bearing interest at LIBOR plus variable percentages (7.06% at December 31, 1998). The facility is secured by substantially all of the assets of the Company.	\$26,000	\$ -

Notes payable to former shareholders of acquired

businesses, maturing in 1999 and 2000, and bearing interest payable quarterly at 7% or 7.5% per annum.	20,280	1,850
Mortgage note payable for a building, bearing interest at the prime rate plus 1.5% (9.25% at December 31, 1998). The note matured in 1998.	-	80
	-----	-----
Total long-term debt	\$46,280	\$1,930
	=====	=====

Future maturities of long-term debt are as follows: 1999--\$10,650; 2000--\$35,630. The \$27,000 credit facility was renegotiated in March 1999 (see Note 12). The fair value of the notes approximates their carrying value at December 31, 1998 and 1997.

6. STOCK OPTION PLANS

Prior to 1997, the Company granted certain options to key employees under the 1992 Stock Option Plan. This plan was terminated in 1997 upon the adoption of the 1997 Stock Option Plan ("the 1997 Plan"). The 1997 Plan provides for the granting to employees and non-employee directors of non-qualified options to purchase an aggregate of up to 2,000,000 shares of common stock. Options to purchase common stock may be granted at prices not less than 50% of the fair market value of the common stock at the date of grant, for a term of no more than ten years. Vesting provisions for individual awards are at the discretion of the Board of Directors.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. STOCK OPTION PLANS (CONTINUED)

The following table summarizes the option activity under the Plan for the three-year period ended December 31, 1998:

	1998	1998 WEIGHTED AVG. EXERCISE PRICE	1997	1997 WEIGHTED AVG. EXERCISE PRICE	1996	1996 WEIGHTED AVG. EXERCISE PRICE
	-----	-----	-----	-----	-----	-----
Options outstanding at January 1	1,495,229	\$ 7.96	576,179	\$ 5.88	242,659	\$ 3.14
Options granted	565,000	7.73	995,850	9.02	353,600	7.59
Options exercised	(217,900)	6.83	(34,000)	2.85	(14,200)	2.73
Options forfeited	(21,500)	8.92	(42,800)	8.48	(5,880)	3.57
	-----	-----	-----	-----	-----	-----
Options outstanding at December 31	1,820,829	\$ 7.86	1,495,299	\$ 7.96	576,179	\$ 5.88
	=====	=====	=====	=====	=====	=====
Options exercisable at December 31	674,580	\$ 7.69	448,325	\$ 6.47	206,899	\$ 3.58
	=====	=====	=====	=====	=====	=====
Weighted avg. fair value of options granted during the year	\$ 4.58		\$ 2.98		\$ 1.56	
	=====	=====	=====	=====	=====	=====

All options granted have an exercise price equal to or greater than the fair value of the Company's common stock on the date of grant. Exercise prices for options outstanding as of December 31, 1998 ranged from \$2.38 to \$19.59 as follows:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICES OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE OF OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICES OF OPTIONS EXERCISABLE
-----	-----	-----	-----	-----	-----
\$2.38 - \$7.98	752,081	\$ 5.45	8.21	290,654	\$5.35

\$8.50 - \$9.90	983,748	\$8.97	8.39	358,926	\$8.94
\$12.38 - \$19.59	85,000	\$16.45	9.29	25,000	\$17.00

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. STOCK OPTION PLANS (CONTINUED)

Pro Forma Disclosures Required by Statement 123

For the years ended December 31, 1998 and 1997, pro forma net income and earnings per share information required by Statement 123 has been determined as if the Company had accounted for its stock options using the fair value method. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.50%, dividend yields of 0%, volatility factors ranging from 1.224 to .397, and an expected life of the granted options which varied from one to three years depending upon the vesting period. The Black-Scholes option pricing model and other models were developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income is \$1,022 and \$2,355 for the years ended December 31, 1998 and 1997, respectively. Pro forma earnings per common share, basic is \$0.22 and \$0.52 for the year ended December 31, 1998 and 1997, respectively. Pro forma earnings per share, diluted is \$0.20 and \$0.50 for the year ended December 31, 1998 and 1997, respectively.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities at December 31 are as follows:

	1998	1997
	-----	-----
Deferred tax assets:		
Allowance for doubtful accounts	\$ 404	\$ 361
Accrued vacation	82	52
	-----	-----
Total deferred tax assets	486	413
Deferred tax liabilities:		
Use of cash basis for income tax purposes by subsidiary	1,268	192
Capitalized software	134	156
Prepaid expenses	50	62

Other	138	12
Total deferred tax liabilities	1,590	422
Net deferred tax liability	\$ (1,104)	\$ (9)

Income tax expense (benefit) consisted of the following:

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
Current:			
Federal	\$ 2,038	\$ 1,983	\$ 726
State	542	494	168
	2,580	2,477	894
Deferred (benefit):			
Federal	(525)	(253)	269
State	(101)	26	72
	(626)	(227)	341
	\$ 1,954	\$ 2,250	\$ 1,235

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. INCOME TAXES (CONTINUED)

The Company's provision for income taxes resulted in effective tax rates that varied from the statutory federal income tax rate as follows:

	1998	1997	1996
Expected federal income tax provision at 34%	\$ 1,537	\$ 1,885	\$ 1,003
Expenses not deductible for tax purposes	181	70	48
State income taxes, net of federal benefit	239	293	159
Other	(3)	2	25
	\$ 1,954	\$ 2,250	\$ 1,235

8. OPERATING LEASES

The Company leases office space under noncancelable operating leases that expire in various years through 2008. The leases for certain office space contain provisions whereby the future rental payments may be adjusted for increases in maintenance and insurance above specified amounts. The Company also leases certain furniture and equipment in its operations under operating leases having initial terms of less than one year.

Future minimum payments under noncancelable operating leases with initial terms of one year or more consist of the following at December 31, 1998:

1999	\$2,123
2000	2,040
2001	1,688
2002	1,529
2003	1,209
Thereafter	323
Total minimum lease payments	\$8,912

FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. OPERATING LEASES (CONTINUED)

Rental expense consists of the following:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Furniture and equipment	\$ 326	\$ 211	\$ 97
Office and storage	1,975	1,131	839
	\$ 2,301	\$ 1,342	\$ 936

9. EMPLOYEE BENEFIT PLAN

The Company maintains qualified defined contribution plans and 401(k) plans which cover substantially all employees. Under the plans, participants are entitled to make both pre-tax and after-tax contributions. The Company matches a certain percentage of participant contributions pursuant to the terms of each plan which are limited to a percent of the participant's eligible compensation. Typically, the percentage match is based on each participant's respective years of service and are at the discretion of the Board of Directors. The Company made contributions of \$233, \$153 and \$146 during 1998, 1997 and 1996, respectively, related to these plans.

10. CONTINGENCIES

The Company is subject to various legal proceedings generally incidental to its business. The Company and six employees have been sued by Pixel, Inc. ("Pixel") in a complaint that alleges that the Company and the individual employees committed various torts related to the employees' decision to leave the employ of Pixel and work for the Company. The Company and the employees believe the grounds of the lawsuit are without merit and intends to defend the lawsuit vigorously. Management is unable to predict the ultimate outcome of the lawsuit, but believes that the ultimate resolution of the matter will not have a material effect on consolidated financial position or results of operations.

The Company is subject to other legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions and does not believe any settlement would materially affect the Company's financial position.

FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. SEGMENT REPORTING

In June 1997, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 131, Disclosure about Segments of an Enterprise and Related Information ("Statement 131"). Statement 131 supercedes Financial Accounting Standards Board Statement No. 14, Financial Reporting for Segments of a Business Enterprise, and establishes new standards for the way that public business enterprises report selected information about operating segments in annual and interim financial statements. It also established standards for the related disclosures about products and services, geographical areas, and major customers. Statement 131 is effective for financial statements for fiscal years beginning after December 15, 1997. The Company adopted Statement 131 in 1998, and accordingly, the disclosures for all periods have been presented to conform to the Statement 131 requirements.

The Company provides litigation and claims management consulting services through three distinct operating segments. The Expert Financial Services division provides services in various financial proceedings such as mathematical and statistical analysis, forensic accounting, fraud investigation and strategic advisory, turnaround, bankruptcy and trustee services. The Applied Sciences division provides services in connection with engineering and scientific investigation and analysis of failures and accidents alleged in court cases. The Litigation Services division provides consulting services in the areas of visual communications, trial management and courtroom technology.

The Company evaluates performance and allocated resources based on operating income before depreciation and amortization, corporate general and administrative expenses and income taxes. The Company does not allocate assets to its reportable segments as assets are not specifically attributable to any particular segment. Accordingly, asset information by reportable segment is not presented. The accounting policies used by the reportable segments are the same as those used by the Company and described in Note 1 to the consolidated financial statements. There are no significant intercompany sales or transfers.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. SEGMENT REPORTING (CONTINUED)

The Company's reportable segments are business units that offer distinct services. The segments are managed separately by division presidents who are most familiar with the segment operations. The following table sets forth information on the Company's reportable segments:

	YEAR ENDED DECEMBER 31, 1998			
	EXPERT FINANCIAL SERVICES	APPLIED SCIENCES	LITIGATION SERVICES	TOTAL
REVENUES	\$9,264	\$22,844	\$26,507	\$58,615
OPERATING EXPENSES	6,696	18,931	18,971	44,598
SEGMENT PROFIT	2,568	3,913	7,536	14,017

	YEAR ENDED DECEMBER 31, 1997			
	EXPERT FINANCIAL SERVICES	APPLIED SCIENCES	LITIGATION SERVICES	TOTAL
REVENUES	\$4,207	\$12,000	\$27,968	\$44,175
OPERATING EXPENSES	3,445	9,238	17,671	30,354
SEGMENT PROFIT	762	2,762	10,297	13,821

	YEAR ENDED DECEMBER 31, 1996		
	EXPERT FINANCIAL	APPLIED	LITIGATION

	SERVICES	SCIENCES	SERVICES	TOTAL
REVENUES	\$2,779	\$7,150	\$20,719	\$30,648
OPERATING EXPENSES	2,878	5,633	14,382	22,893
SEGMENT (LOSS) PROFIT	(99)	1,517	6,337	7,755

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. SEGMENT REPORTING (CONTINUED)

A reconciliation of segment profit for all segments to income before income taxes is as follows:

	1998	1997	1996
OPERATING PROFIT:			
TOTAL SEGMENT PROFIT	\$14,017	\$13,821	\$7,755
CORPORATE GENERAL AND ADMINISTRATIVE EXPENSES	(5,351)	(6,710)	(4,051)
DEPRECIATION AND AMORTIZATION	(2,981)	(1,741)	(862)
OTHER INTEREST (EXPENSE) INCOME	(1,163)	173	107
INCOME BEFORE INCOME TAXES	\$4,522	\$5,543	\$2,949

Substantially all of the revenue and assets of the Company's reportable segments are attributed to or located in the United States. Additionally, the Company does not have a single customer which represents ten percent of more of its consolidated revenues.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter ended			
	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Operating revenues	\$ 14,109	\$ 11,860	\$ 13,501	\$ 19,145
Operating expenses	12,241	10,818	12,474	17,397
Operating income	1,868	1,042	1,027	1,748
Non-operating items, net	(3)	(82)	(336)	(742)
Income before income taxes	1,865	960	691	1,006
Income taxes	759	390	309	496
Net income	\$ 1,106	\$ 570	\$ 382	\$ 510

Net income per common share

Basic	\$.24	\$.12	\$.08	\$.11
	-----	-----	-----	-----
Diluted	\$.22	\$.11	\$.08	\$.11
	-----	-----	-----	-----
Weighted average shares outstanding				
Basic	4,598	4,744	4,774	4,782
	-----	-----	-----	-----
Diluted	5,072	5,267	4,878	4,800
	-----	-----	-----	-----

13. SUBSEQUENT EVENTS

In March 1999, the Company renegotiated the terms of its \$27,000 long-term credit facility. Amounts borrowed under the revolving credit facility are secured by all assets of the Company, bear interest at LIBOR or prime plus specified margins (as elected by the Company each quarter), and mature on September 30, 2001. The maturity date may be extended to September 30, 2002 if certain specified events occur. The Company is also required to comply with certain specified financial covenants related to operating performance and liquidity at the end of each quarter.

In connection with the renegotiation of the financing, the lender was issued warrants to purchase 25,000 shares of common stock at an exercise price of \$3.00 per share. The warrants expire in March 2006 and contain anti-dilution provisions.

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FTI Consulting, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. SUBSEQUENT EVENTS (CONTINUED)

The Company in March 1999 also issued \$13,000 of subordinated notes bearing interest at 9.25% per annum through June 2000, and 12% per annum thereafter until maturity in March 2004. The subordinated notes are secured by a second priority interest in all of the assets of the Company, and prohibits the payment of dividends without the consent of the lender. The proceeds from the issuance of the notes will be used to fund 1999 maturities of long-term debt.

In connection with the issuance of the subordinated debt, the lender was issued warrants to purchase 392,506 shares of common stock at an exercise price of \$3.21 per share. The warrants expire six years from the date of final payment on the subordinated debt.

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ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Certain information required in Part III is omitted from this Report but is incorporated herein by reference from the Company's Definitive Proxy Statement for the Annual Meeting of Stockholders for fiscal 1999 to be filed within 120 days after the end of the Company's fiscal year ended December 31, 1998 (the "Proxy Statement") pursuant to Regulation 14A with the Securities and Exchange Commission.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Proxy Statement under the caption "The Board of Directors" and "Executive Officers and Compensation" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Proxy Statement under the caption "Executive Officers and Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Proxy Statement under the caption "Stock Ownership" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Proxy Statement under the caption "Executive Officers and Compensation -- Certain Relationships and Related Transactions" is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES,
AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS, EXHIBITS AND SCHEDULES

1. FINANCIAL STATEMENTS (See Item 8 hereof.)

Consolidated Balance Sheet as of December 31, 1998 and December 31, 1997

Consolidated Statement of Income for the fiscal years ended December 31, 1998, December 31, 1997 and December 31, 1996

Consolidated Statement of Stockholders' Equity for the fiscal years ended December 31, 1998, December 31, 1997 and December 31, 1996

Consolidated Statement of Cash Flows for the fiscal years ended December 31, 1998, December 31, 1997 and December 31, 1996

Notes to Consolidated Financial Statements

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2. FINANCIAL STATEMENT SCHEDULES

Schedule II -- Valuation and Qualifying Accounts and Reserves

All schedules, other than those outlined above, are omitted as the information is not required or is otherwise furnished.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

FTI Consulting, Inc. and Subsidiaries

(in thousands)

COLUMN A

COLUMN B

COLUMN C

COLUMN D

COLUMN E

Additions

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
YEAR ENDED DECEMBER 31, 1998:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	902	527	1,048 (2)	55 (1)	2,422
YEAR ENDED DECEMBER 31, 1997:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	376	439	110 (2)	23 (1)	902
YEAR ENDED DECEMBER 31, 1996:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	377	115		116 (1)	376
(1) Uncollectible accounts written off, net of recoveries.					
(2) Allowance recorded during acquisitions.					

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3. EXHIBITS

NUMBER	DESCRIPTION
* 3.1	Amended and Restated Articles of Incorporation of FTI Consulting, Inc.
* 3.2	Bylaws of FTI Consulting, Inc.
- - 3.3	Amendment to Articles of Incorporation
- - 3.4	Amendment No. 1 to By-laws
** 4.2	Specimen Common Stock Certificate
*** 10.1	Financing and Security Agreement dated September 15, 1998, between the Company and NationsBank, N.A., regarding a revolving credit facility in the maximum amount of \$35 million
* 10.2	1992 Stock Option Plan, as amended
* 10.3	Employment Agreement dated as of January 1, 1996, between Forensic Technologies International Corporation and Jack B Dunn, IV
* 10.4	Employment Agreement dated as of January 1, 1996, between Forensic Technologies International Corporation and Joseph R. Reynolds, Jr.
**** 10.6	1997 Stock Option Plan
***** 10.7	Employee Stock Purchase Plan
***** 10.8	Stock Purchase Agreement dated as of June 30, 1998 by and among FTI Consulting, Inc., Klick, Kent & Allen, Inc. and the Stockholders Named Therein
***** 10.9	Stock Purchase Agreement dated as of September 25, 1998 by and among FTI Consulting, Inc., Glen R. Baker and Dennis A. Guenther
***** 10.10	Stock Purchase Agreement dated as of September 17, 1998, by and between FTI Consulting, Inc., Kahn Consulting, Inc., KCI Management Corp. and the Stockholders Named Therein
** 10.11	\$13,000,000 Investment and Loan Agreement dated March 29, 1999, among FTI Consulting, Inc., its subsidiaries and Allied Capital Corporation and Allied Investment Corporation
** 10.12	Amended and Restated Financing and Security Agreement dated March 30, 1999, among FTI Consulting, Inc., its subsidiaries and NationsBank N.A.
** 11.	Computation of Per Share Earnings (included in Note 2 to the Consolidated Financial Statements included in Item 7, herein)

** 21.0 Schedule of Subsidiaries
** 23.0 Consent of Ernst & Young LLP
24.0 Power of Attorney (included on signature page)
** 27.0 Financial Data Schedule

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- - - - -

* Filed as an exhibit to the Company's Registration Statement on Form SB-1, as amended (Filed No. 333-2002) and incorporated herein by reference.

- - Filed as an exhibit to the Company's Registration Statement on Form 8-A (File No. 001-14875) and incorporated herein by reference

** Filed as an exhibit to this Form 10-K.

*** Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 001-14875) and incorporated herein by reference.

**** Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-30173) and incorporated herein by reference.

***** Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-30357) and incorporated herein by reference.

***** Filed as an exhibit to the Company's Current Report on Form 8-K filed July 15, 1998 (File No. 333-02002).

***** Filed as an exhibit to the Company's Current Report on Form 8-K filed October 13, 1998 (File No. 333-02002).

***** Filed as an exhibit to the Company's Current Report on Form 8-K filed October 2, 1998 (File No. 333-02002).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 this 30 day of March, 1999.

FTI CONSULTING, INC.

By: /s/ Jack B. Dunn, IV

Name: Jack B. Dunn, IV

Title: Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below on the dates indicated by the following persons in the capacities indicated. Each person whose signature appears below hereby constitutes and appoints each of Jack B. Dunn, IV as his attorney-in-fact and agent, with full power of substitution and resubstitution for him in any and all capacities, to sign any or all amendments to this Report and to file same, with exhibits thereto and other documents in connection therewith, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his substitutes may do or cause to be done by

virtue hereof.

SIGNATURE -----	CAPACITY IN WHICH SIGNED -----	DATE ----
/s/ JACK B. DUNN IV ----- Jack B. Dunn, IV	Chairman of the Board and Chief Executive Officer (principal executive officer)	March 30, 1999
/s/ STEWART J. KAHN ----- Stewart J. Kahn	President and Acting Chief Financial Officer (principal financial and accounting officer)	March 30, 1999
/s/ JOSEPH R. REYNOLDS, JR. ----- Joseph R. Reynolds, Jr.	Vice Chairman of the Board	March 30, 1999
----- James A. Flick, Jr.	Director	March 30, 1999
/s/ PETER F. O'MALLEY ----- Peter F. O'Malley	Director	March 30, 1999
/s/ DENNIS J. SHAUGHNESSY ----- Dennis J. Shaughnessy	Director	March 30, 1999
/s/ GEORGE P. STAMAS ----- George P. Stamas	Director	March 30, 1999

F NUMBER [LOGO] SHARES

FTI CONSULTING, INC. CUSIP 302941 10 9
Incorporated under the laws of the state of Maryland

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

is the owner of

FULLY-PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK, \$.01 PAR VALUE, OF

FTI CONSULTING, INC.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all the provisions of the Articles of Incorporation, as amended, and the By-Laws of the Corporation, as amended, (copies of which are on file at the office of the Transfer Agent), to all of which the holder of this Certificate by acceptance hereof ??????. This Certificate is not valid unless countersigned and ??????? by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the fascimile signatures of its duly authorized officers.

Dated:

/s/

FTI CONSULTING, INC.

/s/

CORPORATE SEAL 1998 MARYLAND *

FTI CONSULTING, INC.
 Annapolis, Maryland

\$13,000,000

INVESTMENT AND LOAN AGREEMENT

March 29, 1999

Financing provided by
 ALLIED CAPITAL CORPORATION
 ALLIED INVESTMENT CORPORATION

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THIS INVESTMENT AND LOAN AGREEMENT is made by and among (i) FTI CONSULTING, INC., a Maryland corporation (collectively with successors and assigns, the "Parent"), (ii) TEKLIICON, INC., a California corporation ("Teklicon"), L.W.G., INC., an Illinois corporation ("L.W.G."), KLINK, KENT & ALLEN, INC., a Virginia corporation ("KK&A"), KAHN CONSULTING, INC., a New York corporation ("Kahn") S.E.A, INC., AN OHIO CORPORATION ("SEA") and KCI MANAGEMENT CORP., a New York corporation ("KCI") (Teklicon, L.W.G., KK&A, Kahn, SEA and KCI, collectively with successors and assigns the "Subsidiaries", and the Subsidiaries, collectively with the Parent, the "Companies"; each, a "Company"); (iii) JACK B. DUNN IV and STEWART J. KAHN, each an executive officer of the Parent, (sometimes hereinafter being referred to collectively as the "Principals"), and (iv) ALLIED CAPITAL CORPORATION and ALLIED INVESTMENT CORPORATION, each a Maryland corporation (collectively with successors and assigns, the "Holders").

RECITALS

A. Under terms of a letter dated March 1, 1999, the Companies propose

to issue to Holders certain subordinated debentures and the Parent proposes to issue certain warrants to purchase shares of the its common stock, in consideration for a loan in the aggregate principal amount of Thirteen Million Dollars (\$13,000,000) (collectively with all modifications, renewals, extensions and replacements thereof and therefor, the "Loan"), to be used to retire certain existing debt of Parent and for working capital.

B. Under terms of a Credit Agreement dated this date, NationsBank, N.A. is providing to the Parent a revolving line of credit, one or more term loans and certain other credit facilities, in the maximum principal amount of Twenty-seven Million Dollars (\$ 27,000,000).

PROVISIONS

In consideration of the premises and the covenants herein, the Holders, the Principals and the Companies agree as set forth below.

ARTICLE 1.

Loan

Section 1.1 Funding. At Closing (as such term is defined in the definition section hereof in Article 19, below), the Holders will fund the Loan. The Loan will be evidenced by, and repaid according to, the terms of two (2) Subordinated Debentures (collectively, with all modifications, extensions,

renewals and replacements thereof and therefor, the "Debentures"), each of which will be issued by the Companies to a Holder at Closing.

Section 1.2 Collateral. Subject to the prior liens described in Section 1.3 below, the Debentures and the Holders' rights herein shall be secured pari passu against all of the Companies' realty and personality and other property of any kind, all accessions thereto, substitutions for and all replacements, products and proceeds thereof, including without limitation the collateral described below. The Companies hereby grant to the Holders continuing security interests in all of the foregoing. At Closing, to the extent parties thereto, the Companies shall execute and deliver to the Holders each of the following documents (collectively, with all modifications, extensions, renewals and replacements thereof and therefor, the "Collateral Documents"):

- (a) Security Agreement;
- (b) UCC-1 Financing Statements in the form attached hereto as EXHIBIT 1.02(B);
- (c) Collateral assignments of the Companies' leasehold interests in the real property and any improvements thereon as identified in Section 6.19, in the form of EXHIBIT 1.02(C) hereto; and
- (d) Pledges of the capital stock of each of the Subsidiaries.

The Collateral Documents, this Agreement and the Debentures, collectively with all modifications, extensions, renewals and replacements thereof and therefor, are sometimes hereinafter referred to as the "Loan Documents".

Section 1.3 Senior Debt. The indebtedness under the Debentures and the Holders' rights herein shall be subordinate in lien priority and right of payment, to that certain revolving line of credit from NationsBank, N.A. in the amount of no more than \$27,000,000 as more particularly described in documents set out as EXHIBIT 1.03(A) hereto; the financings set out in such exhibit (as amended from time to time) are sometimes collectively called the "Senior Debt".

ARTICLE 2.

Equity

Section 2.1 Stock Purchase Warrants.

(a) At Closing, the Parent will issue and sell to each Holder a Stock Purchase Warrant (collectively with all modifications, extensions, renewals and replacements thereof and therefor, the "Warrants") to acquire shares of the Parent's \$.01 par value common stock ("Shares") which will entitle the Holders to receive that number of the Parent's authorized but unissued Shares that will provide the Holders, in the aggregate, with Seven and one-half Percent (7 1/2%) of the Parent's capital stock, calculated on a Fully Diluted Basis at Closing or, if the Loan is repaid on or before June 30, 2000, Five Percent (5%) of such capital stock, calculated on a Fully Diluted Basis at Closing. The aggregate purchase price for such Warrants shall be One Hundred Dollars (\$100), which the Holders shall pay to the Parent at Closing.

(b) The exercise price of the Warrants is based on the lesser of the trailing seven (7) day average mid-market price of the Shares on (i) March 1, 1999 and (ii) the date hereof, and such averages are as set forth on EXHIBIT 2.01(B) hereto. In the event that the averages as set forth on EXHIBIT 2.01(B) prove to be incorrect, the parties mutually agree to amend EXHIBIT 2.01(B) and to take all steps necessary to amend the Warrants to reflect the correct exercise price.

Section 2.2 Redemption Rights. The Holders shall be entitled to share ratably in any redemption of stock by the Parent. If the Parent shall redeem or otherwise purchase for value any of its Shares prior to full exercise of any of the Warrants, each of the relevant Holders, at its option, may receive, at the time of such redemption or purchase, the same proceeds it would have been entitled to receive if its Warrants had been exercised in full prior to such redemption or purchase.

Section 2.3 Valuation of Warrants. The Holders and the Parent hereby agree that as of the Closing, the fair market value of the Warrants is One Hundred Dollars (\$100), and that they shall prepare and maintain their books of account, financial statements and tax returns in a manner consistent therewith.

ARTICLE 3.

Investor Exit

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Section 3.1 Registration Rights.

(a) Piggy-Back Rights. If the Parent shall at any time prepare and file a registration statement under the Securities Act with respect to the public offering of any class of equity or debt security of the Parent, any Subsidiary or of any other commonly-controlled entity, the Parent shall give thirty (30) days prior written notice thereof to each Holder and shall, upon the written request of a Holder and subject to Section 3.1(c), include in the registration statement such number of the said Holder's Shares as such Holder may request. In the event the Parent fails to receive a written inclusion request from a Holder within ten (10) business days after the mailing of its written notice, then the Parent shall have no obligation to include any of such Holders' Shares in the offering. Any offer pursuant to this Section 3.1(a) shall be in accordance with the terms and procedures of Section 3.1(c)-(j) below.

(b) Demand Registration. A Holder may request that the Parent effect a registration under the Securities Act of all or part of its Shares. The Parent shall not be required to register Shares pursuant to this Section 3.1(b) on more than two (2) occasions. A request for registration pursuant to this Section 3.1(b) shall specify the approximate number of Shares requested to be registered and the anticipated per share price range for such offering. If the Holder intends to distribute the Shares by means of an underwriting, it shall so advise the Parent in its request. In the event such registration is underwritten, the right of the other persons who have "piggyback" registration rights may include all or a portion of such securities in such registration. Thereupon, the Parent shall: (i) file a registration statement and related documents with the

Securities and Exchange Commission, and all other applicable securities agencies or exchanges, for the public offering and sale of all or a portion of the Holders' Shares; and (ii) use its best efforts to cause such registration statements to be declared effective as soon as practicable and in any event within ninety (90) days after the written request is received from any Holder. Any offer pursuant to this Section 3.1(b) shall be in accordance with the terms and procedures of Section 3.1(c)-(j) below.

(c) Registration Procedures. The Parent will keep such registration statement effective and current under the Securities Act permitting the sale of the said Holder's Shares included therein for the same period that the registration is maintained effective in respect of Shares of other persons (including the Parent). In any underwritten offering of Shares the Holders' Shares to be included will be sold at the same time and the same per-share price as the Parent's Shares. In connection with any registration statement or subsequent amendment or similar document filed and subject hereto, the Parent shall take all reasonable steps to make the Holders' securities covered thereby eligible for public offering and sale under the securities or blue sky laws of such jurisdictions as may be specified by the relevant Holders by the

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effective date of such registration statement; provided that in no event shall the Parent be obligated to qualify to do business in any jurisdiction where it is not so qualified at the time of filing such documents, or to take any action which would subject it to unlimited service of process in any jurisdiction where it is not so subject at such time. The Parent shall keep such blue-sky filings current for the length of time it must keep any registration statement, post-effective amendment, prospectus or offering circular effective pursuant hereto.

(d) Expenses; Consent. In connection with any registration statement or other filing described herein, and in connection with making and keeping such filings effective as provided herein, the Parent shall bear all the expenses and professional fees of the Parent and the reasonable fees and expenses of one counsel for both of the Holders (except that the Parent shall not be responsible for a Holder's pro rata share of any underwriter's discount or selling commission). The Parent shall also provide the Holders with a reasonable number of printed copies of the prospectus, offering circulars and/or supplemental or amended prospectuses in final and preliminary form. The Parent consents to the use of each such prospectus or offering circular in connection with the sale of the Holders' Shares.

(e) Allocation.

(i) If any registration under Section 3.1(a) involves an underwritten offering and the managing underwriter of such offering shall advise the Parent by letter that, in its view, the number of securities requested to be included in such registration exceeds the largest number (the "Maximum Amount") that can be sold in an orderly manner in such offering and would materially and adversely effect such offering, then the Parent shall notify the Holders of such fact and give the Holders the reasonable opportunity to negotiate with the managing underwriter regarding the inclusion in such registration of all of the shares requested by the Holders to be included therein. If the managing underwriter does not agree to include more than eighty (80) percent (or such lesser percentage as the Holders shall, in their sole discretion, agree to) of the number of shares initially requested by the Holders to be included in such registration, then the Parent shall include in such registration, to the extent of the number and type of which the Parent is so advised can be sold in (or during the time of) such offering: (1) first, all Shares that the Parent proposes to register for its own account (the "Company Securities"); and (2) second, to the extent that the number of Company Securities is less than the Maximum Amount, the remaining Shares to be included in such registration shall be allocated on a pro rata basis among the selling Holders requesting that Shares be included in such registration, based on the number of Shares then owned by each Holder requesting inclusion in relation to the number of Shares then owned by both selling Holders requesting inclusion.

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(ii) If any registration under Section 3.1(b) involves an underwritten offering and the managing underwriter of such offering shall advise the selling Holders by letter that, in its view, the number of securities requested to be included in such registration exceeds the largest number (the "Maximum Amount") that can be sold in an orderly manner in such offering by holders of securities of the Parent other than the Holders to be included in such registration and would materially and adversely affect the underwritten offering, then the Parent shall include in such registration, to the extent the number and type of securities which the Parent is so advised can be sold in (or during the time of) such offering: (1) first, all Shares requested to be included in such registration by the selling Holders; and (2) second, to the extent that the number of Shares to be included by all selling Holders is less than the Maximum Amount, securities that the Parent proposes to register.

(f) Certain Obligations of Holders.

(i) It shall be a condition precedent to the obligations of the Parent to take any action under this Agreement with respect to the Shares of any selling Holder that such Holder shall furnish to the Parent such information regarding itself, the Shares held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of such Holder's Shares.

(ii) Each Holder of Shares covered by a registration statement agrees that, upon receipt of any notice from the Parent that the registration materials must be supplemented or amended, such Holder will forthwith discontinue disposition of Shares pursuant to such registration statement until such Holder's receipt of copies of a supplemented or amended prospectus covering such Shares, and, if so directed by the Parent, such Holder will deliver to the Parent (at the Parent's expense) all copies, other than permanent file copies then in such Holder's possession, of the prospectus covering such Shares current at the time of its receipt of such notice.

(g) Indemnification and Contribution.

(i) In the event of any registration of any of the Shares under the Securities Act pursuant to this Agreement, the Parent will indemnify and hold harmless the selling Holder of such Shares, each underwriter of such Shares, and each other person, if any, who controls such selling Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities, joint or several, to which such selling Holder, underwriter, or controlling person may become subject under the Securities Act, the Exchange Act, state securities or Blue Sky laws, or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or

alleged untrue statement of any material fact contained in any registration statement under which such Shares were registered under the Securities Act, any preliminary prospectus, or final prospectus contained in the registration statement, or any amendment or supplement to such registration statement, or arise out of or are based upon the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Parent will reimburse such selling Holder, underwriter, and each such controlling person in connection with investigation or defending any such loss, claim, damage, liability, or action; provided, however, that the Parent will not be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon any untrue statement or omission made in such registration statement, preliminary prospectus, or final prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the Parent, in a written instrument, duly executed, by or on behalf of such selling Holder, underwriter, or controlling person specifically stating that it is for use in the preparation thereof.

(ii) In the event of any registration of any of the Shares under the Securities Act pursuant to this Agreement, each selling Holder of Shares,

severally and not jointly, will indemnify and hold harmless the Parent, each of its directors and officers and each underwriters (if any) and each person, if any, who controls the Parent or any such underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities, joint or several, to which the Parent, such directors and officers, underwriter, or controlling person may become subject under the Securities Act, Exchange Act, state securities or Blue Sky laws, or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any registration statement under which such Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained in the registration statement, or any amendment or supplement to the registration statement, or arise out of or are based upon any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, if the statement or omission was made in reliance upon and in conformity with written information furnished to the Parent through an instrument duly executed by a Selling Holder specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement; provided, however, that the obligations of each selling Holder hereunder shall be limited to an amount equal to the proceeds to such selling Holder of Shares sold in connection with such registration.

(iii) Each party entitled to indemnification under this Section 3.1(g) (the "Indemnified Party") shall give notice to the party required to provide

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indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided, that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), unless in such Indemnified Party's reasonable judgment a conflict of interest between such Indemnified and Indemnifying Parties may exist in respect of such claim; and, provided, further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 3.1(g). The Indemnified Party may participate in such defense at such party's expense; provided, however, that the Indemnifying Party shall pay such expense if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between the Indemnified Party and any other party represented by such counsel in such proceeding. No Indemnifying Party, in the defense of any such claim or litigation, shall except with the prior written consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect of such claim or litigation, and no Indemnified Party shall consent to entry of any judgment or settle such claim or litigation without the prior written consent of the Indemnifying Party.

(iv) In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any holder of Shares exercising rights under this Agreement, or any controlling person of any such holder, makes a claim for indemnification pursuant to this Section 3.1(g) but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 3.1(g) provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any such selling Holder or any such controlling person in circumstances for which indemnification is provided under this Section 3.1(g); then, in each such case, the Parent and such selling Holder will contribute to the aggregate losses, claims, damages, or liabilities to which they may be subject (after contribution from others) in such proportions so that such holder is responsible for the portion represented by the percentage that the public offering price of its Shares offered by the

registration statement bears to the public offering price of all securities offered by such registration statement, and the Parent is responsible for the remaining portion; provided, however, that, in any such case, (A) no such holder will be required to contribute any amount in excess of the proceeds to it of all Shares sold by it pursuant to such registration statement, and (B) no person or entity guilty of

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fraudulent misrepresentation, within the meaning of Section 11(f) of the Securities Act, shall be entitled to contribution from any person or entity who is not guilty of such fraudulent misrepresentation. In addition, no person shall be obligated to contribute hereinunder any amounts in payment for any settlement of any action or claim, effected without such person's prior written consent, which consent shall not be unreasonably withheld.

(h) Underwritten Offerings.

(i) Requested Underwritten Offerings. If requested by the underwriters for any underwritten offering by the Holders pursuant to a registration requested under Section 3.1(b), the Parent will enter into an underwriting agreement with such underwriters for such offering, such agreement to be reasonably satisfactory in substance and form to the Parent, the Holders and the underwriters, and to contain such representations and warranties by the Parent and the Holders and such other terms as are generally prevailing in agreements of that type, including, without limitation, indemnities to the effect and to the extent provided in Section 3.1(g). The Holders will cooperate with the Parent in the negotiation of the underwriting agreement and will give consideration to the reasonable suggestions of the Parent regarding the form and substance thereof. The Holders shall each be a party to such underwriting agreement. The Holders shall not be required to make any representations or warranties to or agreements with the Parent or the underwriters other than representations, warranties or agreements regarding the Holders, their shares, their intended method of distribution and any other representations or warranties required by law or customarily given by selling shareholders in an underwritten public offering.

(ii) Piggyback Underwritten Offerings. If the Parent proposes to register any of its securities under the Securities Act as contemplated by Section 3.1(a) and such securities are to be distributed by or through one or more underwriters, subject to the provisions of Section 3.1(e)(i) the Parent will, if requested by the Holders, arrange for such underwriters to include all of the Shares to be offered and sold by the Holders among the securities of the Company to be distributed by such underwriters. The Holders shall each become a party to the underwriting agreement negotiated between the Company and such underwriters. The Holders shall not be required to make any representations or warranties to or agreements with the Parent or the underwriters other than representations, warranties or agreements regarding the Holders, their shares and their intended method of distribution or any other representations or warranties required by law or customarily given by selling shareholders in an underwritten public offering.

(i) Suspension.

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(i) Prior to its effective date, the Board of Directors of the Parent may postpone or terminate any registration under Section 3.1(a) in its sole discretion; provided, however, that (A) such election shall not relieve the Parent of its obligations to pay expenses pursuant to Section 3.1(d) and (B) the Holders may request that such registration be effected as a registration under Section 3.1(b). No registration effected under Section 3.1(a) or postponed or terminated pursuant to this Section 3.1(i)(i) shall relieve the Parent of its obligations under Section 3.1(b).

(ii) If the Board of Directors of the Parent, in its good faith judgment, determines that any registration of Shares should not be made or

continued because it would materially interfere with any material financing, acquisition, corporate reorganization, merger, or other material transaction involving the Parent or any of the Subsidiaries, taken as a whole, (a "Valid Business Reason") (i) the Parent may postpone filing a registration statement relating to a registration under Section 3.1(b) until such Valid Business Reason no longer exists, but in no event for more than 90 days and (ii) in case a registration statement has been filed relating to a registration under Section 3.1(b), the Parent may cause such registration statement to be withdrawn and its effectiveness terminated or may postpone amending or supplementing such registration statement until such Valid Business Reason no longer exists, but in no event for more than 90 days, provided, that (A) the Parent may not exercise this deferral right more than once during any twelve (12) month period and (B) nothing contained in this Section 3.1(ii) shall relieve the Parent of its obligations under Section 3.1(a) or (d).

(j) Termination. As to any particular Shares, such securities shall cease to be subject to registration under this Agreement when (a) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been transferred in accordance with such Registration Statement, (b) they shall have been sold as permitted by Rule 144 (or any successor provision) under the Securities Act, or provided that at the time such securities are proposed to be sold, they may be sold under Rule 144 without any limitation on the amount of such securities which may be sold or (c) they shall have ceased to be outstanding.

Section 3.2 "Put" Rights.

(a) Price. At any time beginning five (5) years after the Closing, if the number of Shares traded on a national or regional stock exchange or in the National Association of Securities Dealers, Inc. National Market System has been less than 50,000 per day for a period of 20 consecutive trading days, the Holders, on one occasion, by written notice may require the Parent to re-purchase its Warrants or the Shares issued thereunder. A redemption of any of the Holders' Shares pursuant to Section 2.2 shall not be deemed a re-

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purchase under this Section 3.2(a). In the case of Shares issued upon the exercise of the Warrants, the repurchase price shall be the product of the average of the closing bid and ask prices for the five (5) trading days prior to such notice (the "Per-Share Value"), times the number of Shares being repurchased. In the case of an unexercised Warrant, the price shall be the difference between the Per-Share Value and the per-share exercise price of the Warrant, multiplied by number of Shares for which the Warrant is exercisable.

(b) Financing of Put Price. If upon exercise by a Holder of the Put right above, the Parent is unable after diligent effort to draw funds from its Senior Debt loan facility to pay the above-referenced re-purchase prices without occasioning a breach under the relevant loan agreements, the Companies may require the Holders to extend them a loan for such purpose on the terms and conditions set out herein for the Loan.

ARTICLE 4.

Undertakings by the Principals

Section 4.1 Commitment. Each of the Principals will devote his full time and attention to the Companies' businesses unless (i) prevented from doing so by his death or disability (ii) the Board of Directors terminates such Principal's employment with the Companies; or (iii) his employment agreement (listed on EXHIBIT 5.22) expires pursuant to its existing provisions contained in Section 3.01 thereof.

Section 4.2 Non-Competition; Non-Disclosure. The Non-Competition and Non-Disclosure Agreements between the Companies, and each of the Principals, in the form of EXHIBIT 4.02, are in full force and effect.

Section 4.3 Continued Equity Ownership. Except for Exempt Transfers (as defined below), neither of the Principals shall sell, assign or transfer any Shares or other equity interest in the Parent which they own, or otherwise divest

themselves of any voting rights which they may hold in regard to stock in the Parent. "Exempt Transfer" means any of the following sales, assignments or transfers by either Principal of the capital stock or equity interests of the Parent or any interest therein (each, a "transfer"):

(a) any transfer pursuant to the laws of descent and distribution upon the death of such Principal;

(b) any sale of Shares wherein the proceeds are used solely to pay the exercise price of options to purchase other Shares, issued pursuant to an

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incentive stock option plan described in EXHIBIT 4.03(B) hereof and, in the case of Mr. Dunn only, the sale of up to 10,000 Shares, per fiscal quarter of the Parent, acquired pursuant to the incentive stock option plan listed on EXHIBIT 4.03(B);

(c) any sale of Shares where the proceeds are used solely to remedy a bona fide crisis involving members of the Principal's immediate family and which is made with the prior consent of the Holders, such consent not to be unreasonably withheld (such consent being deemed to have been irrevocably given upon receipt of a written request by the Principal to the Holders and is not responded to within ten (10) days of the Holders' receipt thereof);

(d) any transfer to a bona fide trust in which the trust beneficiary is the Principal or a member of his immediate family, provided, that the Principal retains the right to direct the vote of such shares; and

(e) any transfer pursuant to the prior written consent of the Holders.

Section 4.4 Access to Information. Each of the Principals hereby authorizes the Holders or their authorized representatives to obtain credit and other background information on each such Principal in connection herewith.

Section 4.5 Election of Director. Each of the Principals will use his best efforts (provided, that such efforts shall not require expenses to be incurred by the Principals) in good faith to cause any one person whom Holders request to be elected as their designee to the Companies' Boards of Directors pursuant to Section 6.8, below, to be so elected.

Section 4.6 Termination of Undertakings by Each of the Principals. This Article 4 shall remain in full force and effect, as to each Principal, until the earliest of: (i) the Debentures are indefeasibly repaid in full; (ii) a Holder has transferred or disposed of more than ninety (90) percent of the voting or economic interests represented by the Warrants sold to it pursuant to Section 2.1 (for purposes of this clause, the exercise of Warrants in exchange for Shares shall not be deemed a disposition of the voting or economic interests represented by the Warrants, but the disposition of shares issued as a result of the exercise of the Warrants shall be deemed a disposition of a proportionate interest in the Warrants); or (iii) that Principal's employment is terminated in a manner described in Section 4.1.

Section 4.7 Limitation of Remedies. The Holders' sole remedy against either of the Principals for a violation of the agreements contained in this Article 4 shall be to apply to a court of competent jurisdiction for an injunction restraining

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such principal from committing or continuing any violation of this Article 4, and a Principal shall not object to such application except to litigate whether, in fact, such Principal has violated this Article 4, provided, however, that this Section 4.7 shall not apply in the case of a fraudulent or intentional misrepresentation by such Principal, and will not in any case limit the Holders' remedies against the Companies for such a violation.

ARTICLE 5.

Representations and Warranties

To induce the Holders to enter the transactions contemplated herein and purchase the Debentures and the Warrants, the Companies, jointly and severally, represent and warrant as set out below. All representations and warranties in this Article shall refer to facts as they exist at Closing (unless a representation is made as of a specific date) and shall survive the Closing.

Section 5.1 Due Organization; Authority; Binding Obligation; Opinion of Counsel. Each of the Companies is duly incorporated, validly existing and in good standing under the laws of its state of incorporation having Articles of Incorporation, as amended (including any certificates of designation), and By-Laws, as amended, (all terms of which are in full force and effect) as previously furnished to the Holders, and true copies of which are attached hereto as part of EXHIBIT 5.01A; each of the Companies is duly qualified to conduct its business as proposed and is in good standing as a foreign corporation in all jurisdictions in which the nature of its business or location of its properties require such qualification and except where the failure to so qualify would not have a material adverse effect, evidence of which qualification and good standing is attached hereto as EXHIBIT 5.01B; each of the Companies has full power and authority to enter into each of the Loan Documents, to borrow money as contemplated hereby and thereby, and to carry out the provisions hereof and thereof; each of the Companies has taken all corporate action necessary for the execution and performance of each of the Loan Documents to which it is a party as evidenced by the resolutions set forth in EXHIBIT 5.01A; the Loan Documents and each document to be executed by the Companies therewith will constitute a valid and binding obligation of each such Company, enforceable in accordance with their respective terms when executed and delivered; and the Companies have caused their counsel to deliver a letter opining as to such authority and related matters in the form set forth in EXHIBIT 5.01C.

Section 5.2 Principal Business; Title to Assets. Each of the Companies is primarily engaged in the businesses described on Exhibit 5.02; each of the Companies has good and marketable title to and ownership of all real and

personal property it purports to own, free and clear of all liens, claims, security interests and encumbrances except for Permitted Liens.

Section 5.3 Litigation. None of the Companies is a party to or, to any of the Companies' knowledge, threatened by any suits, actions, claims, investigations by governmental bodies or legal, administrative or arbitrational proceedings, except as set out in the litigation schedule attached hereto as EXHIBIT 5.03 (hereinafter "Litigation Schedule"); there are no outstanding orders, judgments, writs, injunctions or decrees of any court, government agency or arbitrational tribunal against or affecting any of the Companies or their properties, assets or businesses.

Section 5.4 Taxes.

(a) Generally. The Companies have filed all tax returns, federal, state and local, which are required to be filed, and have duly paid or fully reserved for all taxes or installments thereof (including any interest or penalties), which have or may become due pursuant thereto or pursuant to any assessment received by any of the Companies.

(b) No Open Returns. No Federal, state, local, foreign or other return of any of the Companies for tax years that remain open under any applicable statute of limitations, has been examined by the Internal Revenue Service or other tax authorities; or if so examined no deficiencies have been asserted or assessments made as a result of such examinations (including all penalties and interest); there are no waivers, agreements or other arrangements providing for any extension of time with respect to the assessment or collection of any unpaid tax, interest or penalties relating to any of the Companies; no issues have been raised by (or are currently pending before) the Internal Revenue Service or any other taxing authority in connection with any return of any of the Companies,

which could reasonably be expected to have a material adverse effect on the financial condition of any of the Companies if decided adversely against any of the Companies, nor are there any such issues which have not been so raised but if so raised by the Internal Revenue Service, or any other taxing authority, could, in the aggregate, reasonably be expected to have such a material adverse effect.

(c) Excess Parachute Payments. None of the Companies has made, has become obligated to make, or will, as a result of the transactions contemplated by the Loan Documents, make or become obligated to make, any "excess parachute payment" as defined in Internal Revenue Code Section 280G.

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(d) Deferred Intercompany Transactions. None of the Companies or their affiliates has engaged in any "deferred intercompany transactions" within the meaning of Section 1.1502-13 of the regulations promulgated under the Internal Revenue Code.

(e) True Copies of Returns. The Companies have delivered to the Holders true, correct and complete copies of all Federal, state and local tax returns for each of the Companies' most recent three (3) full taxable years as of Closing, and all information set forth on such returns is true, complete and accurate.

Section 5.5 Financial Statements. The audited financial statements of the Parent prepared by Earnst & Young, L.L.P. for the twelve (12) months ending December 31, 1998, attached as EXHIBIT 5.05 are prepared in accordance with GAAP, are true and correct in all material respects, and fairly state the results of the Companies' operations and their financial position at such dates and for the periods stated.

Section 5.6 Leases; Status of Payables. True copies of all real property leases to which any of the Companies is a party have been provided to the Holders, and a list of all such leases is set forth on EXHIBIT 5.06; the Companies' possession of their leased property has not been disturbed, and no claim has been asserted against any of the Companies adverse to its leasehold interests. All lease obligations, accounts payable and other debts of the Companies are current in all material respects.

Section 5.7 Disclosure. All representations made by any of the Companies, their officers or directors regarding the Companies or their businesses, in the Perfection Certificates previously provided to the Holders, and in any other document described herein or previously supplied to either Holder in regard to this financing, are true and correct in all material respects as of this date, and all projections, including the estimated quarterly summary report for the first fiscal quarter of 1999 dated March 16, 1999, provided to the Holders (in connection with this financing) in such documents were prepared in good faith and are based on reasonable assumptions; no representation or warranty made by any of the Companies or either of the Principles herein or in any such document statement or writing furnished to any Holder in connection with the transactions contemplated herein contains or will contain any untrue statement of material fact, or omits to state a material fact necessary to make a statement therein not misleading.

Section 5.8 Management History. During the past ten (10) years neither of the Principals, nor any other officer or director of any of the Companies, has been arrested for or convicted of any criminal offense, petitioned or been granted any relief in bankruptcy, or (except in the capacity as a trustee in bankruptcy)

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served as an officer or director of any company or other entity which has petitioned or been granted such relief (except in a professional capacity).

Section 5.9 Subsidiaries. Except for Parent's ownership of the Subsidiaries, the Companies have no subsidiaries, partners, commonly controlled or related entities or (except for their officers and directors) other affiliates. Each of

the Subsidiaries is wholly-owned by the Parent and no other person has any options, warrants or other rights to acquire capital stock of any Subsidiary.

Section 5.10 Incumbency. Attached hereto as EXHIBIT 5.10 is a true and complete list of officers, directors and holders of five percent (5%) or more of the equity securities of each of the Companies.

Section 5.11 No Material Change. Since December 31, 1998, none of the Companies has suffered any material adverse change in its condition (financial or otherwise) or, to its knowledge, its overall business prospects, nor entered into any material transactions, or incurred any material debt, obligation or liability, absolute or contingent, nor sustained any material loss or damage to its property, real or personal, whether or not insured except as proposed herein, nor suffered any material interference with its business or operations, present or proposed; and there has been no sale, lease, abandonment or other disposition by any of the Companies of any of their property, real or personal, or any interest therein or relating thereto, that is material to the financial position of any of the Companies.

Section 5.12 No Side Agreements. None of the Companies or any of their officers or directors or any shareholders owning five percent (5%) or more of the equity securities in the Parent are party to any agreement with either Holder except for the Loan Documents and the other documents mentioned herein or listed as exhibits hereto; except for the Loan Documents and agreements with respect to their acquisition of other consulting businesses, the Companies are not party to any agreement calling for any action by any of the Companies outside the ordinary course of their businesses; there exists no agreement or understanding calling for any payment or consideration from a customer or supplier of any of the Companies to an officer or director of any of the Companies or shareholder owning more than five percent (5%) of the equity securities of the Parent in respect of any transaction between any such Company and such supplier or customer; no affiliate of any of the Companies, directly or through any business concern affiliated with such affiliate, transacts any business with any of the Companies other than employment complying with the terms of Section 7.7 below.

Section 5.13 Non-Contravention. Except for matters set out in the Litigation Schedule, none of the Companies is in breach of, default under, or in violation of any applicable law, decree, order, rule or regulation which may

materially and adversely affect it, or any indenture, contract, agreement, deed, lease, loan agreement, commitment, bond, note, deed of trust, restrictive covenant, license or other instrument or obligation to which it is a party, or by which it is bound, or to which any of its assets are subject and which could have a material adverse effect on such Company; the execution, delivery and performance of the Loan Documents and the other documents mentioned herein will not constitute any such breach, default or violation, or require consent or approval of any court, governmental agency or body, except as expressly provided herein.

Section 5.14 Fees & Brokerage. Except as provided in the Commitment Letter or as set forth on EXHIBIT 5.14, no brokerage or similar fees are due to any party in respect to the transactions contemplated by any of the Loan Documents.

Section 5.15 Other Debts; Subordination of Notes to Sellers; Sources and Uses. Except for the Senior Debt described in Section 1.3 above, the matters set out in the Litigation Schedule, other debts of the types and in the amounts described in the financial statements included herein as EXHIBIT 5.05; none of the Companies has debts, liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise, arising out of any transaction entered into or any state of facts existing prior hereto, including without limitation, liabilities or obligations on account of taxes or government charges, penalties, interest or fines thereon or in respect thereof; none of the Companies knows of any basis for any claim against them as of the date of this Agreement, or of any debt, liability or obligation other than those mentioned herein; the notes and other indebtedness owed by the Companies to sellers of previously-acquired businesses have been expressly subordinated to the Loan in lien priority and in right of payment; EXHIBIT 5.15 hereto correctly states the sources and uses of the Loan.

Section 5.16 Capital Structure. The authorized capital stock of each of the Companies is as set forth on EXHIBIT 5.16, and all such stock has been duly issued in accordance with applicable laws including federal and state securities laws and is fully paid and nonassessable; except as set forth on EXHIBIT 5.16, there are no options, warrants or other securities which are convertible or exchangeable for capital stock of any of the Companies, and there are no preemptive rights in respect to capital stock of any of the Companies.

Section 5.17 Solvency. As of the date hereof, and after giving effect to the transactions contemplated by the Loan Documents, the present fair saleable value of each of the Companies' assets is greater than the amount required to pay each such Company's total indebtedness (contingent or otherwise), and is greater than the amount that will be required to pay such indebtedness as it

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matures and as it becomes absolute and matured; the transactions contemplated by the Loan Documents are being effectuated without intent to hinder, delay or defraud present or future creditors of any of the Companies; it is each of the Companies' intention that it will maintain the above-referenced solvent financial condition, giving effect to the debt incurred hereunder, as long as each of the Companies is obligated to the Holders under any of the Loan Documents or in any other manner whatsoever; each of the Companies has sufficient capital to carry on its previous operations and its business as it is now conducted, and to consummate the transactions contemplated herein.

Section 5.18 Investment Company Act Representations. None of the Companies intends to become an Investment Company and none of the Companies nor any of their officers, directors, partners or controlling persons is an Affiliated Person of any Holder.

Section 5.19 Regulatory Compliance. Each of the Companies has complied in all material respects with all laws, ordinances and regulations applicable to it and to its business, including without limitation laws, ordinances and regulations relating to securities, zoning, labor, food and drug, the Securities Act of 1933, the Securities Exchange Act of 1934, the Occupational Safety & Health Act and all federal and state environmental laws and regulations.

Section 5.20 Employee Benefit Matters. There is no existing single-employer plan defined in Section 4021(a) of ERISA in respect of which any of the Companies is an "employer" or a "substantial employer" as defined in Sections 3(5) and 4001(a)(2) of ERISA, respectively; the Companies have delivered to the Holders copies, as listed on EXHIBIT 5.20 attached hereto, of each plan described in Section 4021(a) of ERISA, in respect of which any of the Companies will be liable to make contributions or pay benefits; to the Companies knowledge there have been no reportable events as set forth in Section 4043(b) of ERISA in respect of any such plan, and no termination of any such plan since the effective date of ERISA, which could result in any tax, penalty or liability being imposed any of upon any of the Companies; to the best of the Companies' knowledge, the purchase of the Debentures or the Warrants by the Holders do not involve, any "prohibited transaction" (as defined in Section 4975 of the Internal Revenue Code of 1986, as amended) that could subject any of the Companies or either Holder to any tax or penalty imposed by said Section 4975; since the effective date of ERISA, none of the Companies has incurred any "accumulated funding deficiency", as such term is defined in Section 302 of ERISA, to which any of the Companies could be subject or for which any such Company might be liable; none of the Companies is a party to, and none of the operations of any of the Companies is covered by, a multi-employer plan as defined in Section 3(37) of ERISA.

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Section 5.21 Collective Bargaining. None of the Companies is a party to or subject to any collective bargaining agreements or union contracts. There are no labor disputes pending or, to any of the Companies' knowledge, threatened against any of the Companies, which could, materially and adversely, affect the business or the condition of any of the Companies.

Section 5.22 Employees. Each of the Companies has delivered to the Holders copies of all employment and compensation contracts, including all individual retirement benefit agreements and union contracts not disclosed on EXHIBIT 5.20, between any of the Companies and officers and directors of each of the Companies, and all such contracts are listed on EXHIBIT 5.22; except as set forth on EXHIBIT 5.22: (i) no employee of any of the Companies is currently on short-term or long-term disability, (ii) no officer or key employee of any of the Companies has terminated his or her employment since January 1, 1999, (iii) no officer or key employee of any of the Companies has advised any such Company (orally or in writing) that he or she intends to terminate employment with such Company and (iv) no written notice of termination has been given to any officer or key employee.

Section 5.23 No Competing Business Interests. Neither the Principals nor any of the Companies' other officers, directors, or principal employees has any direct or indirect interest, including, but not limited to, the ownership of stock in any corporation, in any business, that competes with any of the Companies.

Section 5.24 No Conflicting Non-Competition Agreements. Neither the Companies nor the Principals are subject to any contract or agreement purporting to limit their rights to compete in any market in which any of the Companies presently provides, or proposes to provide, goods or services; or purporting to restrict their rights to disclose information in respect to such competition.

Section 5.25 Year 2000 Compliance.

(a) Except as set forth on EXHIBIT 5.25, the Information Technology (as defined below) is Year 2000 Compliant (as defined below) and will not cause an interruption in the ongoing operations of any of the Companies or give rise to any material liability due to a problem arising from a failure of the information Technology relating to Year 2000 Compliance (as defined below); EXHIBIT 5.25 contains a correct and complete list of all of the hardware, software, firmware, network systems, embedded systems, telecommunications systems, and other Information Technology which, to the knowledge of the Parent, will not be Year 2000 Compliant by the Closing.

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(b) Each of the Companies has been and is in compliance in all respects with all applicable laws requiring disclosure of the Year 2000 Compliance status of the Information Technology of each such Company, the Year 2000 Compliance efforts of each such Company, and other Year 2000 related disclosures.

(c) As used in this Agreement, "Year 2000 Compliant" and "Year 2000 Compliance" mean, with respect to Information Technology, that the Information Technology accurately processes date/time data (including but not limited to, calculating, comparing, and sequencing) from, into, and between the twentieth and twenty-first centuries, and the years 1999 and 2000 and leap year calculations properly exchanges date/time data with it, and the Information Technology has been tested to verify these capabilities. As used in this Agreement, "Information Technology" means all software, hardware, firmware, telecommunications systems, network systems, embedded systems, and other systems or components that utilize microprocessor technology of any of the Companies.

Section 5.26 SBA Representations. The statements set forth in the Size Status Declaration (SBA Form 480), Assurance of Compliance for Non-Discrimination (SBA Form 652-D) and Portfolio Financing Report (SBA Form 1031), as previously provided and set forth as EXHIBITS 5.26A, 5.26B and 5.26C, respectively, are complete and accurate.

ARTICLE 6.

Affirmative Covenants

Until the Debentures are indefeasibly repaid in full, and, with respect to Section 6.8 only, until a Holder has transferred or disposed of more than ninety (90) percent of the voting or economic interests represented by the Warrants sold to it pursuant to Section 2.1 (for purposes of this clause, the exercise of Warrants in exchange for Shares shall not be deemed a disposition of the voting or economic interests represented by the Warrants, but the disposition of shares issued as a result of the exercise of the Warrants shall be deemed a disposition

of a proportionate interest in the Warrants)each of the Companies shall:

Section 6.1 Monthly and Quarterly Financials. Maintain a standard modern system of accounting in accordance with GAAP; make full, true and correct entries in such system of all dealings and transactions in relation to its business and affairs; forward, or cause to be forwarded to the Holders a one-page monthly management information statement and summary description of operations at the same time as provided to the Parent's executive officers but in

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no event later than thirty (30) days after the end of each calendar month; and forward, or cause to be forwarded to the Holders a copy of the Parent's Form 10Q within 45 days of the end of each calendar quarter with such information required to be disclosed in a Quarterly Report on Form 10Q pursuant to the Securities Exchange Act of 1934, as amended, and with such financial information prepared in accordance with any applicable accounting rules relating thereto; such quarterly information shall be delivered to the Holders irrespective of whether (a) the Parent has failed to make such filing with the Securities and Exchange Commission (the "SEC") or (b) the Parent is required to make such filing with the SEC;

Section 6.2 Certification of Non-Default. Provide to the Holders in writing each quarter a written certification by the President of the Parent, that no default has occurred under any Loan Document, or any debt or obligation senior to the debt hereunder; or if any such default exists, stating the nature of such default;

Section 6.3 Year-end Financials; Annual Audit. Within ninety (90) days of each fiscal year-end, provide to the Holders with such information required to be disclosed in an Annual Report on Form 10K pursuant to the Securities Exchange Act of 1934, as amended, and with such financial information prepared in accordance with any applicable accounting rules relating thereto; such annual information shall be delivered to the Holders irrespective of whether (a) the Parent has failed to make such filing with the SEC or (b) the Parent is required to make such filing with the SEC; the Annual Report on Form 10-K shall include an unqualified written opinion of the Parent's outside independent accountants;

Section 6.4 Projected Financials. Prior to each accounting year-end, provide the Holders with projected financial statements for the coming three (3) years and monthly projections for the coming year, in the same format as used for Section 6.1;

Section 6.5 Regulatory Filings. Within thirty (30) days of filing, provide the Holders with copies of all material returns and documents filed with federal, state or local government agencies, including without limitation the Internal Revenue Service, the Environmental Protection Agency, the Occupational Safety & Health Administration and the Securities & Exchange Commission;

Section 6.6 Notice of Litigation. Notify the Holders of any material litigation to which any of the Companies is a party by mailing to the Holders, by registered mail, within thirty (30) days of receipt thereof, a copy of the Complaint, Motion for Judgment or other such pleadings served on or by any of the Companies; and any material litigation known to any Company to which any of the Companies is not a party but which could substantially affect operation of such

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Company's business or the collateral pledged under the Loan Documents, by mailing to Holders, by registered mail, a copy of all pleadings obtained by such Company in regard to such litigation, or if no pleadings are obtained, a letter setting out the facts known about the litigation within thirty (30) days of receipt thereof; the Companies shall not be obliged by this paragraph to give notice of suits wherein a Company is a creditor seeking collection of account debts or where the amount sought is less than \$50,000;

Section 6.7 Notice of Defaults or Judgments. Give the Holders notice of default declared in regard to any loan or lease of any of the Companies or any judgment entered against any of the Companies by mailing a copy to the Holders within ten (10) days of receipt thereof.

Section 6.8 Board Meetings and Representation. Hold meetings of its Board of Directors at least quarterly; allow one designee of the Holders to attend such meeting and all meetings of committees of such Board at the Parent's expense (such expenses shall not include hourly rates of the person attending such meetings); provide the Holders the same prior notice of such meetings and written materials as given to the directors (notice to the Holders by facsimile or voice mail shall be sufficient); notwithstanding the foregoing, if any of the Companies' Boards desires to act by unanimous written consent in lieu of a meeting, it may do so provided that the Holders receive, prior to their adoption, a copy of the resolutions to be adopted in the same manner and at the same time as provided to the directors; at the Holders' written request, each of the Companies will use its best efforts to cause such designee to be elected to its Board of Directors at the annual shareholder's meeting following such request;

Section 6.9 Insurance. Maintain all-risk hazard insurance on its assets listed on EXHIBIT 6.09 in full force and effect (or such equivalent replacement insurance as the Parent shall reasonably determine), with a mortgagee clause in favor of the Holders; this shall include federal flood insurance if any assets are in a designated flood plain; and supply the Holders annually with a certification of such insurance from the relevant insurers in the form set forth as EXHIBIT 6.09;

Section 6.10 Use of Proceeds; Certification. Use the proceeds of the Loan only to retire existing seller take-back notes, copies of which are attached hereto as EXHIBIT 6.10, in an aggregate amount not to exceed Ten Million Dollars (\$10,000,000) and for working capital; and allow Holders to conduct a review of its books and records to confirm such use; within ten (10) days of such use provide a written certification of such to the Holders;

Section 6.11 First Refusal for Future Financings. Offer to issue to the Holders all subordinated debt, equity, or convertible securities proposed to be issued by any of the Companies, on the most favorable terms to be offered to

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any other party; such offer may be accepted in whole but not in part by either of the Holders who must respond to such offer within ten (10) days of receipt thereof; failure to respond within such time shall be construed as a decline of the offer by the relevant Holder; this Section shall not be construed to limit or qualify any covenant against such issuance;

Section 6.12 Access to Records. Permit from time-to-time any authorized agent of any Holder to obtain credit and other background information on any of the Companies and their management, and to inspect, examine and make copies and abstracts of the books of account and records of such Companies at reasonable times during normal business hours; allow the Holders' agents to interview the Companies outside accountants who are by this covenant irrevocably instructed to respond to such inquiries as fully as if the inquiries were made by the Companies themselves;

Section 6.13 Financial Covenants.

(a) Fixed Charge Coverage Ratio. Maintain for the trailing twelve (12) months, a Fixed Charge Ratio of not less than the following amounts as of the following dates:

Fixed Charge Coverage Ratio:	Fiscal Quarter Ending:
Not less than 1.15 to 1.0	Closing Date through September 30, 2000;
Not less than 1.20 to 1.0	December 31, 2000 through March 31, 2001; and
Not less than 1.30 to 1.0	June 30, 2001 and at all times thereafter.

(b) Funded Debt to EBITDA. Maintain, a ratio of Funded Debt to EBITDA not greater than the following amounts at the following times, tested as of the last day of each of the Parent's fiscal quarters for the four (4) quarter period ending on that date:

Funded Debt to EBITDA	Fiscal Quarter Ending:
4.25 to 1.0	Closing Date through September 30, 1999;
4.00 to 1.0	December 31, 1999 through March 31, 2000; and
3.50 to 1.0	June 30, 2000 and at all times thereafter.

(c) Current Ratio. Maintain a Current Ratio of not less than 1.30 to 1.0, tested as of the last day of each of the Parent's fiscal quarters.

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(d) Minimum EBITDA. Maintain at all times a minimum EBITDA of not less than the following amounts at the following times:

Minimum EBITDA:	Fiscal Quarter Ending:
\$11,000,000	Closing Date through June 30, 1999;
\$12,500,000	September 30, 1999;
\$13,000,000	December 31, 1999; and
\$14,500,000	March 31, 2000 and at all times thereafter.

Section 6.14 Payments and Other Debts. Make all payments of principal, interest and expenses as and when due under the Debentures, without setoff and regardless of any claim any of the Companies may have against the Holders; and comply in all respects with all terms, conditions and covenants relating to other debt obligations of the Companies;

Section 6.15 Maintain Copies; Financing Statements. Maintain an original or a true copy of each of the Loan Documents and any modifications thereof, which shall be available for inspection as called for herein or in the Debentures; and pay the taxes and costs of, or incidental to, any recording or filing of any financing statements concerning any collateral for the Debentures;

Section 6.16 Information Requests. Furnish from time to time to any Holder at the Parent's expense all information a Holder may reasonably request to enable such Holder to prepare and file any report or form required of such Holder by the Securities and Exchange Commission or any other regulatory authority;

Section 6.17 Protect the Collateral. Take all necessary steps to administer, supervise, preserve and protect the collateral for the Debentures and to perfect and maintain the Holders' security interest in such collateral; regardless of any action taken by the Holders, there shall be no duty upon the Holders in this respect;

Section 6.18 Further Assurance. From time to time promptly execute and deliver to the Holders such additional documents, and take such other reasonable steps, as the Holders may reasonably require to carry out the purposes hereof and of the other Loan Documents, or to protect the Holders' rights hereunder or thereunder, including (without limiting the generality of the foregoing) the execution of recordable documents to reflect the Holders' interests in any collateral for the Loan, and the recording thereof at the Parent's expense in the relevant public records; and

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Section 6.19 Collateral Assignments of Certain Leases; Landlord Consents. The Companies shall (i) promptly (but not more than fifteen (15) days) after Closing, execute and deliver to the Holders collateral assignments of the

Companies' leasehold interests in real property and any improvements thereon at the following locations: (A) 1401 K Street, N.W., Washington, D.C.20005, (B) 2021 Research Drive, Annapolis, Maryland 21401, (C) 152 West 57th Street, Suite 4500, New York, New York 10019, (D) 7349 Worthington-Galena Road, Columbus, Ohio 43220, and (E) 333 W. Wacker Drive, Suite 600, Chicago, Illinois 60606; and (ii) use their best efforts in good faith to obtain, within forty-five (45) days of Closing, lessor consents as may be reasonably required for the collateral assignments described in Section 6.19(i) above. The collateral assignments of leases and lessor consents shall be in a form satisfactory to the Holders.

ARTICLE 7.

Negative Covenants

Until the Debentures are indefeasibly repaid in full, no Company shall without the prior written consent of the Holders, and with respect to Sections 7.2, 7.4 and 7.8 only, such consent not to be unreasonably withheld:

Section 7.1 Change in Organization. Make or suffer any material change in their organizational documents; engage in any business other than the businesses of the type engaged in by the Companies prior to the date hereof and as more particularly described in EXHIBIT 5.02; or establish, create or acquire any parent or subsidiary;

Section 7.2 Equity Issuance or Redemption. Sell, authorize, issue or redeem any capital stock of any class or any convertible debt or other equity security of any of the Companies except as required by the Warrants or the incentive stock option plan previously approved by the Parent's Board of Directors and listed in EXHIBIT 5.22 hereof;

Section 7.3 Dividends. Declare or pay any dividend or make any other distribution of any type on any class of its equity securities;

Section 7.4 Mergers, Etc. Become a party to, or permit any of the Companies to become party to, any agreement by which such entity or entities merge or consolidate into or with any other person or convey, sell, lease or otherwise dispose of all or substantially all of its assets to another person, or permit any person to merge or consolidate into or with any of the Companies or convey, sell, lease or otherwise dispose of all or substantially all of its assets to the Parent or any subsidiary; provided that any subsidiary may merge into, or

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convey, sell, lease or dispose of its assets to the Parent or a wholly-owned subsidiary of Parent;

Section 7.5 Capital Expenditures. Make Capital Expenditures in any fiscal year in excess of a capital improvements budget approved by the Board of Directors of the Parent and the Holders; or prepay any debt except for that incurred or contemplated hereunder; provided, however, that the limit on capital expenditures hereunder may be increased by the Board of Directors without the consent of the Holders at the beginning of each fiscal year on January 1, 2000, commensurate with the percentage of the Parent's annual increase of gross profits during the prior fiscal year;

Section 7.6 Employee Compensation. Pay salaries or other compensation, or make advances or loans to any employee in excess of Six Hundred Thousand Dollars (\$600,000) per annum except pursuant to existing compensation plans listed in EXHIBIT 5.22, copies of which have been previously provided to the Holders; pay salaries or other compensation, or make advances or loans to any employee in excess of Five Hundred Thousand Dollars (\$500,000) in the aggregate if (i) an uncured Event of Default exists or the Senior Debt is in default or (ii) the Companies are not profitable for any two (2) consecutive quarters;

Section 7.7 Affiliate Transactions. Purchase or sell any property or services or borrow or lend money or property from or to, or co-invest in any transaction with, any officer, director, employee or other affiliate of any of the Companies, or any affiliate of any such officer, director, employee or affiliate, except for (i) employment complying with Section 7.6 above and transactions wherein the terms are no less favorable to the Company than the best terms available from an unaffiliated person and (ii) intercompany loans among the Companies;

Section 7.8 Change of Site. Change the physical location of its principal office;

Section 7.9 Change in Company, Etc. Change the current business entities, establish any subsidiaries or invest in any affiliates or other entities, provided, that this Section 7.9 shall not preclude intercompany loans among the Companies;

Section 7.10 Judgments. Permit any judgment obtained against any of the Companies to remain unpaid for over twenty (20) days without obtaining a stay of execution or bond; or

Section 7.11 Cross-Default. Incur any declared default under any material lease, loan or other agreement pertaining to another debt or material obligation of the Company.

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Section 7.12 No Liens. None of the Companies will, directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any property (including any document or instrument with respect to goods or accounts receivable) of any of the Companies, whether now owned or hereafter acquired, or any income or profits therefrom except for Permitted Liens.

ARTICLE 8.

Default

Section 8.1 Events of Default. Any of the following events shall be an "Event of Default" as that term is used herein:

(a) Principal and Interest Payments. The Companies fail to make payment when due of any principal or interest under the Debentures within three (3) business days of the due date thereof;

(b) Representations and Warranties. Any representation or warranty made by any of the Companies proves to have been incorrect in any material respect; or any representation, statement (including financial statements), certificate or data furnished or made by any of the Companies (or any officer, accountant or attorney of any of the Companies) under the Loan Documents proves to have been untrue in any material respect as of the date as of which the facts therein set forth were stated or certified;

(c) Covenants. The Companies or Principals default in the observance or performance of any of the covenants or agreements contained in this Agreement (other than a default under any other subsections of this Section 8.1), and, in the case of the affirmative and negative covenants of the Companies, such default continues unremedied for a period of ten (10) days after the earlier of (i) notice thereof being given by the Holders to any of the Companies, or (ii) such default otherwise becoming known to the officers or chief financial officer of any of the Companies.

(d) Loan Documents. Any of the Companies or either of the Principals defaults in the observance or performance of any of the covenants or agreements contained in any Loan Document to which it is a party which continues beyond the expiration of any notice and cure period pertaining thereto;

(e) Involuntary Bankruptcy or Receivership Proceedings. A receiver, conservator, liquidator or trustee of any of the Companies or of their property is appointed by order or decree of any court or agency or supervisory authority having jurisdiction; or an order for relief is entered against any of the

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Companies under the U.S. Bankruptcy Code; or any of the Companies is adjudicated bankrupt or insolvent; or any material portion of the properties of any of the Companies is sequestered by court order, provided, that if an order is entered

pursuant to an ex parte proceeding such Company shall have thirty (30) days to have such order vacated; or a petition is filed against the any of Companies under any state, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or receivership law of any jurisdiction, whether now or hereafter in effect, and such petition is not dismissed within sixty (60) days;

(f) Voluntary Petitions. Any of the Companies files a petition under the U.S. Bankruptcy Code or seeks relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any case or petition against it under any such law;

(g) Assignments for Benefit of Creditors. Any of the Companies makes a general assignment for the benefit of its creditors, or admits in writing its inability to pay its debts generally as they become due, or consents to the appointment of a receiver, trustee or liquidator of all or any part of its property;

(h) Attachment. A writ or warrant of attachment, seizure or any similar process shall be issued by any court against all or any material portion of the property of any of the Companies, and such writ or warrant of attachment or any similar process is not released or bonded within twenty (20) days after its entry;

(i) Due on Sale. Substantially all of any Company's assets, are sold, exchanged or transferred; any Subsidiary ceases to be wholly-owned by the Parent; a change in control of a Company occurs of a nature that would be required to be reported in response to Item 1 of Form 8-K promulgated under the Securities Exchange Act of 1934, as amended, ("Exchange Act"); any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) is or becomes the beneficial owner, directly or indirectly, of securities of the Parent representing more than fifty percent (50%) of the combined voting power of the Parent's then outstanding voting securities; or during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Parent cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election by the Parent's shareholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two (2) year period; and

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(j) Loss of Key Employees. For any reason except his death or disability, either Principal fails to renew his Employment Agreement with the Company, is otherwise no longer employed by the Companies and engaged in their operations and management in substantially his present capacity, or fails to give his full time and attention to the Companies business; unless the Board of Directors of the Parent engages, within 90 days of such event, a replacement for the relevant individual approved in writing by the Holders, which approval shall not be unreasonably withheld.

Section 8.2 Remedies. Upon the occurrence of any Event of Default, either Holder may:

(a) by written notice to the Parent, declare the entire principal amount of the Loan then outstanding, including interest accrued thereon, together with all other fees and charges payable in connection with the Loan, to be immediately due and payable without presentment, demand, protest, notice of protest or dishonor or other notice of default of any kind, all of which are hereby expressly waived by each of the Companies; and

(b) exercise any of the rights or remedies provided in the Collateral Documents or avail themselves of any other rights or remedies provided by applicable law; and

(c) set-off any funds of any of the Companies in the possession of the Holders against any amounts then due by the Companies to the Holders pursuant to this Agreement.

Section 8.3 Time Limit on Acceleration After Certain Events. Upon receipt of written notice in accordance with Article 13 by the Holders from the Company of an Event of Default occasioned by a "person" (as such term is used in Section

13(d) and 14(d)(2) of the Exchange Act) being or becoming the beneficial owner, directly or indirectly, of securities of the Parent representing more than fifty percent (50%) of the combined voting power of the Parent's than outstanding voting securities (as described in Section 8(i)), if the Holders fail to exercise their rights to accelerate the maturity of the Loan pursuant to Section 8.2(a) or a corresponding section of another Loan Document within ninety (90) days of such notice, such event shall no longer constitute an Event of Default.

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ARTICLE 9.

Fees and Costs

The Parent shall pay:

Section 9.1 All closing costs, brokerage commissions, due diligence costs and other fees and expenses incurred by any of the Companies or the Holders in connection with the transactions contemplated by the Loan Documents;

Section 9.2 A commitment fee to Holders of Two Hundred Sixty Thousand Dollars (\$260,000) at Closing;

Section 9.3 An exit fee of \$130,000 if the Loan is repaid, voluntarily or by acceleration of the maturity of the Debentures, and the Holders' Warrants and any Common Stock issued thereunder have been sold or otherwise disposed of by Holders for cash consideration, on or before June 30, 2000; provided, however, that such exit fee shall not be payable to the extent payment thereof would cause the Holders' aggregate annual average return on investment, taking into account the Loan and all other funds paid to the Companies by Holders hereunder, and all fees, interest, returns and gains (ordinary and capital) realized hereunder and under the Debentures, the Warrants, and any Common Stock issued thereunder, to exceed 20% per annum.

Section 9.4 The reasonable fees and expenses of the Holders' attorneys for work done in connection with the transactions contemplated by this Agreement;

Section 9.5 All of the Holders' expenses of any nature which may be reasonably necessary, either before or after a default hereunder, for the enforcement or preservation of the Holders' rights under this Agreement, the Debentures or the Warrants, or any other agreement of any of the Companies mentioned herein, including but not limited to reasonable attorneys' fees, appellate costs and fees, and costs incurred by any Holder as a participant in any bankruptcy proceeding, workout, debt restructuring, extension of maturity or document amendment, involving any of the Companies or any other obligor under the Debentures;

Section 9.6 All costs and fees, including reasonable attorneys' fees and expenses, incurred by any of the Holders or their affiliates in connection with any suit, action, claim or other liability asserted against either of the Holders or their affiliates by any of the Companies or the Principals, in either case, in which such parties do not prevail with respect to substantially all of their claims.

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ARTICLE 10.

Indemnification. Environmental Liability

Each of the Companies will indemnify the Holders and their directors, officers, employees, agents and controlling persons (hereinafter "Indemnitees") against, and hold the Holders and each such Indemnitee harmless from, any and all third party claims, damages, liabilities and related expenses (including attorneys' fees and expenses) incurred by or asserted against the Holders or any such Indemnitee arising out of, in any way connected with, or resulting from the following:

(a) this Agreement, the other documents contemplated hereby, the performance by the parties hereto and thereto of their respective obligations hereunder and thereunder, or consummation of the transactions contemplated hereby and thereby;

(b) any and all liability and loss with respect to or resulting from any and all claims for or on account of any broker's finder's fees or commissions with respect to this transaction as may have been created by any of the Companies or their officers, partners, employees or agents, together with any stamp or excise taxes which may become payable in connection with this transaction or the issuance of stock hereunder;

(c) the spilling, leaking, pumping, pouring, unsettling, discharging, leaching or releasing of hazardous substances on property owned by any of the Companies or any violations by the Company of CERCLA, the Federal Clean Water Act or any other Federal, state or local environmental law, regulation or ordinance; and

(d) any claim, litigation investigation or proceeding relating to any of the foregoing, whether or not the Holders or any such person is a party thereto;

PROVIDED, HOWEVER, that any such indemnity shall not apply to any such losses, claims, damages, liabilities or related expenses arising from the Holders' gross negligence or willful misconduct.

The provisions of this Section shall remain operative and in full force and effect for the term provided in Article 6 for the effectiveness of Section 6.8, plus two (2) years, regardless of any repayment of the Debentures, invalidity or unenforceability of any term or provision of this Agreement, the Debentures or any Collateral Documents, or any investigation made by or on behalf of the

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Holders. All amounts due under this Article shall be payable on written demand therefor.

ARTICLE 11.

Remedies

Section 11.1 Cumulation. Receivership. None of the rights or remedies of the Holders provided herein shall be exclusive, but each shall be cumulative with and in addition to every other right or remedy of the Holders, now or hereafter existing, at law or in equity, by statute, agreement or otherwise. In any action pursuant to an Event of Default under this Agreement, the Debentures or, the Warrants, as the case may be, the Holders shall be entitled to appointment of a receiver to administer the Companies, or all or any portion of their assets as may be subject to the Holders' claims.

Section 11.2 No Implied Waiver. No course of dealing between a Holder and any other party hereto, or any failure or delay on the part of a Holder in exercising any rights or remedies hereunder, shall operate as a waiver of any rights or remedies of any Holder under this or any other applicable agreement. No single or partial exercise of any rights or remedies hereunder shall operate as a waiver or preclude the exercise of any other rights or remedies hereunder.

ARTICLE 12.

Parties

This Agreement will bind and accrue to the benefit of the Companies, the Principals, the Holders, any holders of the Warrants or the Debentures, and their successors and assigns. Any purchaser, assignee, transferee or pledgee of the Warrants or Debentures, or any document arising in connection with the transaction subject to this Agreement (or any of them), sold, assigned, transferred, pledged or repledged by a Holder shall forthwith become vested with and entitled to exercise all rights and remedies provided herein to the Holders, as if said purchaser, assignee, transferee or pledgee were originally named in this Agreement in place of the Holders.

ARTICLE 13.

Notice

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All notices or communications under this Agreement, the Warrants or the Debentures shall be in writing and mailed, postage prepaid, or delivered by facsimile or courier as follows:

To Holders: 1919 Pennsylvania Avenue, N.W., 3rd Floor
Washington, D.C. 20006
Attn: Scott S. Binder, Principal
Facsimile: (202) 659-2053

and to

Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, D.C. 20037
Attn: David P. Parker, Esquire
Facsimile: (202) 887-0689

To the
Companies: 2021 Research Drive
Annapolis, MD 21401
Attn: Jack B. Dunn IV, Chairman & CEO
Facsimile: (410) 224-3552

and to

Wilmer Cutler & Pickering
2445 M Street, N.W.
Washington, D.C. 20037
Attn: Eric Markus, Esquire
Facsimile: (202) 663-6363

or, to such subsequent addresses as may hereafter be specified by the parties. Rejection or other refusal to accept, or the inability to deliver because of a changed address of which no notice was given, shall not affect the date of such notice sent in accordance with the foregoing provisions. Each such notice, request or other communication shall be deemed sufficiently given, served, sent and received for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, the affidavit of the messenger or the answer back being deemed conclusive but not exclusive evidence of such delivery), or at such time as delivery is refused by addressee upon presentation.

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ARTICLE 14.

Relationship of the Parties

This Agreement provides, among other things, for the making, of loans by the Holders, in their capacity as lenders, to the Companies, in their capacity as a borrowers, and for the payment of interest and repayment of principal by the Companies to the Holders. The provisions herein for compliance with financial covenants and delivery of financial statements are intended solely for the benefit of the Holders to protect their interests as lenders in assuring, payments of interest and repayment of principal, and as warrant or stock holders in preserving their equity stake in the Parent. Nothing contained in this Agreement shall be construed as permitting or obligating the Holders to act as financial or business advisors or consultants to the Companies, as permitting or obligating the Holders to control any of the Companies or to conduct the Companies' operations, as creating any fiduciary obligation on the part of the Holders to the Companies, or as creating any joint venture, agency or other

relationship between the parties, other than as explicitly and specifically stated in this Agreement. A Holder is not, and shall not be construed as, a partner, joint venturer, alter-ego, manager, controlling person, operator or other business participant of any kind of the Companies; neither the Holders nor the Companies intend the Holders to assume such status, and, accordingly, the Holders shall not be deemed responsible for or a participant in any acts or omissions of the Companies. The Companies and each of the Principals represent that they have had the advice of experienced counsel of their own choosing in connection with the negotiation and execution of this Agreement and with respect to all matters contained herein.

ARTICLE 15.

Controlling Law; Venue and Jurisdiction; Service of Process

This Agreement shall be interpreted, and the rights and liabilities of the parties hereto determined, in accordance with the laws of the District of Columbia, without regard to its principles of conflicts of law. Venue for any adjudication hereof shall be only in the courts of the District of Columbia or the Federal courts in such District, to the jurisdiction of which courts all undersigned parties hereby submit as the agreement of such parties, as not inconvenient, and as not subject to review by any court other than such courts in the District of Columbia. All parties intend and agree that the courts of jurisdictions in which the Companies are incorporated and conducts their businesses shall afford full faith and credit to any judgment rendered by a court of the District of Columbia against any of the Companies or other obligees hereunder, and that such District of Columbia and federal courts shall have in personam jurisdiction to enter a valid judgment against any of the

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Companies or other obligees hereunder. Service of any summons and/or complaint and any other process which may be served on any of the Companies in any action in respect hereto, may be made by mailing via registered mail, or delivering a copy of such process to the Parent at its address specified above. The parties hereto agree that this submission to jurisdiction and consent to service of process are reasonable and made for the express benefit of the Holders.

ARTICLE 16.

Waiver of Trial by Jury

EACH PARTY TO THIS AGREEMENT WAIVES ALL RIGHT TO TRIAL BY JURY OF ALL CLAIMS, DEFENSES, COUNTERCLAIMS AND SUITS OF ANY KIND DIRECTLY OR INDIRECTLY ARISING FROM OR RELATING TO THIS AGREEMENT, THE LOAN, THE LOAN DOCUMENTS OR THE DEALINGS OF THE PARTIES IN RESPECT THERETO. THE PARTIES HERETO ACKNOWLEDGE AND AGREE THAT THIS ARTICLE IS A MATERIAL TERM OF THIS AGREEMENT AND THAT THE HOLDERS WOULD NOT EXTEND ANY FUNDS HEREUNDER IF THIS WAIVER OF JURY TRIAL WERE NOT A PART OF THIS AGREEMENT. EACH PARTY HERETO ACKNOWLEDGES THAT THIS IS A WAIVER OF A LEGAL RIGHT AND THAT IT MAKES THIS WAIVER VOLUNTARILY AND KNOWINGLY AFTER CONSULTATION WITH, OR THE OPPORTUNITY TO CONSULT WITH, COUNSEL OF ITS CHOICE. EACH PARTY HERETO AGREES THAT ALL SUCH CLAIMS, DEFENSES, COUNTERCLAIMS AND SUITS SHALL BE TRIED BEFORE A JUDGE OF COMPETENT JURISDICTION, WITHOUT A JURY.

ARTICLE 17.

Captions; Severance

The captions in this Agreement, the Warrants and the Debentures are inserted for convenience of reference only and shall be construed neither to limit nor amplify the meaning of the other text of such documents. To the extent any provision herein violates any applicable law, such provision shall be void and the balance of this Agreement shall remain unchanged.

ARTICLE 18.

Counterparts; Entire Agreement; Power of Attorney

(a) This Agreement may be executed in as many counterpart copies and

with as many counterpart signature pages as may be convenient. It

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shall not be necessary that the signature of, or on behalf of, each party appear on each counterpart, but it shall be sufficient that the signature of, or on behalf of, each party appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement; it shall not be necessary in any proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the parties. This Agreement, the Warrants, the Debentures, the exhibits hereto and the documents entered into in connection herewith set forth the entire agreements and understandings of the parties hereto in respect of this transaction. Any verbal agreements in respect of this transaction are hereby terminated. The terms herein may not be changed verbally but only by a writing signed by the party against which enforcement of the change is sought.

(b) Allied Investment Corporation hereby appoints Allied Capital Corporation, and each of its authorized officers to serve as its agents and attorneys-in-fact (the "Representatives"), with full power and authority (including power of substitution), in the name of and for and on behalf of it, to take all actions required or permitted with respect to the Loan Documents, to sign all certificates, notices, instructions and other documents and to make all determinations hereunder and thereunder. Any other Person may rely on any notice, consent, election or other communication received from the Representatives as if such notice, consent, election or other communication had been received from Allied Investment Corporation.

ARTICLE 19.

Definitions and Rules of Construction

Section 19.1 Definitions. As used in this Agreement, and unless the context requires a different meaning, the following terms shall have the meanings as follow:

(a) "Accumulated Funding Deficiency" shall have the definition for such term in Section 302 of the Employee Retirement Income Security Act of 1974;

(b) "Acquisition" means the purchase by the Parent of all of the outstanding stock of each of the following companies: (i) SEA; (ii) Kahn; and (iii) KCI.

(c) "Affiliated Person" shall have the definition for such term set out in section 2(a)(3) of the Investment Company Act of 1940, as amended;

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(d) "Agreement" is defined as this Investment and Loan Agreement and the exhibits and schedules hereto, as the same may be amended, supplemented, extended, modified or replaced in accordance with the terms hereof;

(e) "Capital Expenditures" is defined as expenditures for capital improvements or acquisitions;

(f) "Closing" is defined as the consummation of this Agreement;

(g) "Collateral Documents" shall have the definition set out in Section 1.2 hereof;

(h) "Commitment Letter" is defined as the letter dated March 1, 1999 from Scott S. Binder to the Company;

(i) "Companies" shall have the definition set out in the preamble hereof;

(j) "Current Assets" means at any date, the amount which, in conformity with GAAP, would be set forth opposite the caption "total current assets" (or any like caption) on a consolidated balance sheet of the Parent and its Subsidiaries.

(k) "Current Liabilities" means at any date, the amount which, in conformity with GAAP, would be set forth opposite the caption "total current liabilities" (or any like caption) on a consolidated balance sheet of the Parent and its Subsidiaries, excluding all amounts outstanding under the Senior Debt.

(l) "Current Ratio" means the ratio of (a) Current Assets to (b) Current Liabilities.

(m) "Debentures" shall have the definition set out in Section 1.1 hereof;

(n) "EBITDA" means as to the Company and its Subsidiaries for any period of determination thereof, the sum of (a) the net profit (or loss) determined in accordance with GAAP consistently applied, plus (b) interest expense and tax expense for such period, plus (c) depreciation and amortization of assets for such period. EBITDA shall be calculated on a trailing twelve (12) month basis, taking into account any Person acquired in an Acquisition during such twelve (12) months period and adjusting for officer compensation which was eliminated from the Person so acquired, provided the

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Holder has received evidence satisfactory to the Holders with respect to changes and compensation.

(o) "EBITDAR" means as to the Company and its Subsidiaries for any period of determination thereof, the sum of (a) EBITDA, plus (b) rent expense for such period.

(p) "Employer" and "Substantial Employer" shall have the definitions set out therefor in Sections 3(5) and 4001(a)(2) of ERISA, respectively;

(q) "ERISA" is defined as the Employee Retirement Income Security Act of 1974;

(r) "Exempt Transfer" shall have the definition set out in Section 4.3 hereof;

(s) "Fixed Charge Ratio" means the ratio of (i) EBITDAR, less cash dividends paid and capital expenditures, to (ii) (a) the sum of interest expense, plus (b) required principal on Indebtedness (other than prepayments on the Senior Debt) and capitalized leases scheduled and/or paid in the prior twelve (12) months period, plus (c) any payments required to be made under any noncompete or earnout agreements scheduled and/or paid in the prior twelve (12) month period, plus (d) rent expense, plus (e) income tax expense for such period, less (f) up to Ten Million Dollars (\$10,000,000) scheduled to be paid to Kahn in September of 1999.

(t) "Fully Diluted Basis" shall mean, in respect to a corporation or other legal entity, the condition wherein all outstanding options, warrants and other securities of such entity which are exercisable or exchangeable for capital stock or other equity interests in the entity, are, for the purpose of calculating relative ownership rights, presumed to have been exercised or exchanged in full;

(u) "Funded Debt" means for any period of determination thereof an amount equal to the sum of all Indebtedness for Borrowed Money (including, but not limited to senior debt, stockholder debt, subordinated debt, the value of all capitalized leases, all Seller Notes, all letters of credit issued on the account of the Parent other than letters of credit which secure Seller Notes, and estimated liabilities under existing earnout and or noncompete agreements) all as determined on a consolidated basis.

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(v) "GAAP" is defined as generally accepted accounting principles as established from time-to-time by the Financial Accounting Standards Board, consistently applied and maintained throughout the period indicated;

(w) "Holders" shall have the definition set out in the preamble hereof;

(x) "Indebtedness" is defined as all obligations for borrowed money, obligations arising from installment purchases of property or services, capitalized lease obligations, and the face amount of letters of credit and without duplication all drafts drawn thereunder.

(y) "Indebtedness for Borrowed Money" of a Person, at any time shall mean the sum at such time of (a) indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (b) any obligations of such Person in respect of letters of credit, banker's or other acceptances or similar obligations issued or created for the account of such Person, (c) lease obligations of such Person which have been or should be, in accordance with GAAP, capitalized on the books of such Person, (d) all liabilities secured by any Lien on any property owned by such Person, to the extent attached to such Person's interest in such property, even though such Person has not assumed or become liable for the payment thereof, and (e) any obligations of such Person or a commonly controlled entity to a multiemployer plan (as those terms are used under applicable ERISA statutes and regulations), but excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms and which are not overdue or which are being disputed in good faith by such Person and for which adequate reserves are being provided on the books of such Person in accordance with GAAP.

(z) "Indemnitees" is defined as Holders and their directors, officers, employees, agents and controlling persons;

(aa) "Independent Third Parties" shall have the meaning set forth in Section 3.2(b) hereof;

(bb) "Investment Company" shall have the definition for such term set out in the Investment Company Act of 1940, as amended;

(cc) "Liens" is defined as any interest in property securing an obligation owed to, or a claim by, a person other than the owner of such property, whether such interest is based on common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt,

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encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes;

(dd) "Litigation Schedule" shall have the meaning set forth in Section 5.3 hereof;

(ee) "Loan" shall have the definition set out in Recital A hereof;

(ff) "Loan Documents" shall have the definition set out in Section 1.2 hereof;

(gg) "Offeree" shall have the definition set out in Section 3.2(a) hereof;

(hh) "Parent" shall have the definition set out in the preamble hereof;

(ii) "Permitted Liens" is defined as (i) Liens at any time granted in favor of the Holders or the holders of the Senior Debt; (ii) Liens for taxes (excluding any Lien imposed pursuant to any of the provisions of ERISA) which not yet due or are being contested in good faith and by appropriate proceedings

with adequate reserves maintained in accordance with GAAP; (iii) Liens securing the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons for labor, materials, supplies or rentals incurred in the ordinary course of the Companies businesses, but only if the payment thereof is not at the time required or is being contested in good faith and by appropriate proceedings with adequate reserves maintained in accordance with GAAP; (iv) and Liens resulting from deposits made in the ordinary course of business in connection with workmen's compensation, unemployment insurance, social security and other like laws; and (v) reservations, exceptions, easements, rights of way, and other similar encumbrances affecting real property, provided that, they do not in the aggregate detract from the marketability of said properties or materially interfere with their use in the ordinary course of any of the Companies' businesses.

(jj) "Principals" shall have the definition set out in the preamble hereof;

(kk) "Prohibited Transaction" shall have the definition for such term set out in Section 4975 of the Internal Revenue Code of 1986, as amended;

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(ll) "Securities Act" is defined as the Securities Act of 1933, as amended;

(mm) "Senior Debt" shall have the definition set out in Section 1.3 hereof;

(nn) "Shares" shall have the meaning set forth in Section 2.1 hereof;

(oo) "Subsidiaries" shall have the definition set forth in the preamble hereof;

(pp) "Warrants" shall have the meaning set forth in Section 2.1 hereof.

Section 19.2 Rules of Construction. The rule of ejusdem generis shall not be applicable herein to limit a general statement, which is followed by or referable to an enumeration of specific matters, to matters similar to the matters specifically mentioned. Unless the context otherwise requires:

(a) A term has the meaning assigned to it;

(b) "Or" is not exclusive;

(c) Provisions apply to successive events and transactions;

(d) "Herein", "Hereof", "Hereto", "Hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision unless otherwise so provided;

(e) The word "person" shall mean any natural person, partnership, corporation, nation, state, government, union, association, agency, tribunal, board, bureau and any other form of business or legal entity;

(f) All words or terms used in this Agreement, regardless of the number or gender in which they are used, shall be deemed to include any other number and any other gender; and

(g) All financial terms used herein and not capitalized shall have the meaning accorded them under GAAP.

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IN WITNESS WHEREOF, the parties hereto have caused this agreement to be duly executed as of the date first above written

Company: FTI CONSULTING INC.
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Company: TEKLICON, INC.
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Company: L.W.G., INC.
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Company: KLICK, KENT & ALLEN, INC.
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Company: KAHN CONSULTING, INC.
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Company: S.E.A., INC.,
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Company: KCI MANAGEMENT CORP.
[Seal]

Attest: _____ By: _____
Name: Name:
Title: Title:

Holder: ALLIED CAPITAL CORPORATION

[Seal]

By: -----
Name: Scott S. Binder
Title: Principal

ALLIED INVESTMENT CORPORATION

[Seal]

By: -----
Name: Scott S. Binder
Title: Principal

EACH OF THE PRINCIPALS ARE SIGNING ONLY WITH RESPECT TO THE PROVISIONS CONTAINED IN ARTICLES 4, 11, 12, 13, 14, 17, 18 AND 19.

Principals:

Witness: -----

Jack B. Dunn IV, individually

Witness: -----

Stewart Kahn, individually

EXHIBITS

Document -----	Number -----
UCC-1 Financing Statements	1.02 (b)
Form of Collateral Assignment of Lease	1.02 (c)
NationsBank Amended and Restated Financing Security Agreement	1.03 (a)
Warrants Exercise Price Calculation	2.01 (b)
Non-Competition and Non-Disclosure Agreements	4.02
General Certificate with Exhibits	5.01A
Good Standing Certificates and Certificates of Authority as Foreign Corporation	5.01B
Opinion of Company's Counsel	5.01C
Descriptions of Businesses	5.02
Litigation Schedule	5.03
Audited 1998 and Stub Period Financial Statements	5.05
Schedule of Leases	5.06
Incumbency and Schedule of Securityholders	5.10
Brokerage Fees	5.14
Statement of Funding Sources and Uses	5.15
Capital Structure	5.16
Schedule of Employee Benefit Plans	5.20
Schedule of Employee Contracts	5.22
Year 2000 Compliance	5.25
Size Status Declaration (SBA Form 480)	5.27A
Assurance of Compliance (SBA Form 652-D)	5.27B
Portfolio Financing Report (SBA Form 1031)	5.27C
Hazard and Liability Insurance Certificate	6.09
Seller Notes	6.10

AMENDED AND RESTATED
FINANCING AND SECURITY AGREEMENT

THIS AMENDED AND RESTATED FINANCING AND SECURITY AGREEMENT (the "Agreement") is made this 29th day of March 1999, by and among (i) FTI CONSULTING, INC., a Maryland corporation, formerly known as Forensic Technologies International Corporation (the "Company"), (ii) the Subsidiaries signing this Agreement and any Subsidiaries now or hereafter parties to this Agreement (the "Subsidiaries"; together with the Company, being called collectively the "Borrowers" and individually, a "Borrower") and (iii) NATIONSBANK, N.A., a national banking association, its successors and assigns, as Agent (the "Agent") for itself and its participants (the Agent together with such participants, each being called a "Lender" and collectively, the "Lenders").

RECITALS

A. The Agent and the Lenders have provided a line of credit to the Borrowers as evidenced by that certain Financing and Security Agreement dated as of September 15, 1998 (the "Original Financing Agreement"). The Borrowers have requested that the Agent and the Lenders revise certain terms of the Original Financing Agreement and the Agent, the Lenders and the Borrowers have agreed to amend and restate the Original Financing Agreement in its entirety pursuant to this Agreement

B. Pursuant to this Agreement, the Agent and the Lenders have agreed to provide the Borrowers with a revolving credit facility in the maximum principal amount of Twenty Seven Million Dollars (\$27,000,000) up to Five Million Dollars (\$5,000,000) of which the Borrowers may use for working capital needs and for general corporate purposes (the "Working Capital Advances"), and the balance may be used to repay the costs of the Seller Notes issued by the Company in connection with the Acquisitions made by the Company pursuant to the Original Financing Agreement.

AGREEMENTS

NOW, THEREFORE, in consideration of the premises, the mutual agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company, each Subsidiary, the Agent and the Lenders hereby agree to restate the Original Financing Agreement in its entirety as follows:

I DEFINITIONS

SECTION 1.1 Certain Defined Terms. As used in this Agreement, the terms defined in the Preamble and Recitals hereto shall have the respective meanings specified therein, and the following terms shall have the following meanings:

"Account" individually and "Accounts" collectively mean all presently existing or hereafter acquired or created accounts, accounts receivable, contract rights, notes, drafts, instruments, acceptances, chattel paper, leases and writings evidencing a monetary obligation or a security interest in or a lease of goods, all rights to receive the payment of money or other consideration under present or future contracts (including, without limitation, all rights to receive payments under presently existing or hereafter acquired or created letters of credit), or by virtue of merchandise sold or leased, services rendered, loans and advances made or other considerations given, by or set forth in or arising out of any present or future chattel paper, note, draft, lease, acceptance, writing, bond, insurance policy, instrument, document or general intangible, and all extensions and renewals of any thereof, all rights under or arising out of present or future contracts, agreements or general interest in merchandise which gave rise to any or all of the foregoing, including all goods, all claims or causes of action now existing or hereafter arising in connection with or under any agreement or document or by operation of law or otherwise, all collateral security of any kind (including real property mortgages) given by any person with respect to any of the foregoing and all proceeds (cash and non-cash)

of the foregoing.

"Account Debtor" means any Person who is obligated on an Account and "Account Debtors" mean all Persons who are obligated on the Accounts.

"Additional LIBOR Rate Percentage" shall have the meaning set forth in the Revolving Note.

"Additional Prime Rate Percentage" shall have the meaning set forth in the Revolving Note.

"Affiliate" means, with respect to any Borrower, any Person, directly or indirectly controlling, directly or indirectly controlled by, or under direct or indirect common control with the Company or any Subsidiary, as the case may be.

"Acquisitions" means the purchase by the Company of all of the outstanding stock of each of the following companies: (i) S.E.A., Inc., ("SEA"), (ii) Kahn Consulting, Inc. ("KAHN") and KCI Management Corp. ("KCI").

"Agreement" means this Financing and Security Agreement and all amendments, modifications and supplements hereto which may from time to time become effective in

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accordance with the provisions of Section 12.10 hereof.

"Assets" means, at any time, all assets that should, in accordance with GAAP consistently applied, be classified as assets on a consolidated balance sheet of the Company and its Subsidiaries.

"Banking Day" shall mean any day that is not a Saturday, Sunday or banking holiday in the State of Maryland

"Base LIBOR Rate" means with respect to any Interest Period pertaining to a LIBOR Loan, the rate per annum equal to the London Interbank Offered Rate for thirty (30), sixty (60) ninety (90) or one hundred eighty (180) day deposits in United States Dollars in an amount approximately equal to the amount for which said rate is to be set as 11:00 a.m. (London, time), as adjusted for Federal Reserve Board reserve requirements and similar assessments, if any, imposed upon the Agent.

"Chattel Paper" means a writing or writings which evidence both a monetary obligation and a security interest in or lease of specific goods; any returned, rejected or repossessed goods covered by any such writing or writings and all proceeds (in any form including, without limitation, accounts, contract rights, documents, chattel paper, instruments and general intangibles) of such returned, rejected or repossessed goods; and all proceeds (cash and non-cash) of the foregoing.

"Closing Date" shall mean the Banking Day, in any event not later than March 31, 1999, on which the Agent shall be satisfied that the conditions precedent set forth in Article VI have been fulfilled.

"Collateral" means all property of the Borrowers subject from time to time to the Liens of this Agreement, the Security Documents and the other Financing Documents, including but not limited to, all Accounts, Chattel Paper, Documents, Equipment, General Intangibles, Instruments and Inventory (whether or not designated with initial capital letters), as those terms are defined in the Uniform Commercial Code as presently adopted and in effect in the State and shall also cover, without limitation, (i) any and all property specifically included in those respective terms in this Agreement or in the Financing Documents and (ii) all proceeds (cash and non-cash, including, without limitation, insurance proceeds) of the foregoing.

"Collection" means each check, draft, cash, money, instrument, item, and other remittance in payment or on account of payment of the Accounts or otherwise with respect to any Collateral, including, without limitation, cash proceeds of any returned, rejected or repossessed goods, the sale or lease of which gave rise to an Account, and other proceeds of Collateral; and

"Collections" means the collective reference to all of the foregoing.

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"Commonly Controlled Entity" shall mean an entity, whether or not incorporated, which is under common control with the Company within the meaning of Section 414(b) or (c) of the Internal Revenue Code.

"Current Assets" means at any date, the amount which, in conformity with GAAP, would be set forth opposite the caption "total current assets" (or any like caption) on a consolidated balance sheet of the Company and its Subsidiaries.

"Current Liabilities" means at any date, the amount which, in conformity with GAAP, would be set forth opposite the caption "total current liabilities" (or any like caption) on a consolidated balance sheet of the Company and its Subsidiaries, excluding all amounts outstanding under the Revolving Loan.

"Current Ratio" means the ratio of (a) Current Assets to (b) Current Liabilities.

"Daily LIBOR Rate" shall mean a fluctuating rate of interest equal to the one (1) month rate of interest (rounded upwards, if necessary to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the one (1) month London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) on the second preceding Banking Day, as adjusted from time to time in the Lender's sole discretion for then-applicable reserve requirements, deposit insurance assessment rates and other regulatory costs. If for any reason such rate is not available, the term "Eurodollar Rate" shall mean the fluctuating rate of interest equal to the one (1) month rate of interest (rounded upwards, if necessary to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the one (1) month London interbank offered rate for deposits in dollars at approximately 11:00 a.m. (London time) on the second preceding Banking Day, as adjusted from time to time in Lender's sole discretion for then applicable reserve requirements, deposit insurance assessment rates and other regulatory costs; provided, however, if more than one (1) rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates.

"Daily LIBOR Loan" means any Loan for which interest on all or a portion of the outstanding principal thereof is to be computed with reference to the Daily LIBOR Rate.

"Default" has the meaning described in Article IX.

"Default Rate" means the default rate of interest set forth in the Revolving Note.

"Documents" means all documents and documents of title, whether nor existing or hereafter acquired or created, and all proceeds (cash and non-cash of the foregoing).

"Dollars" means dollars in lawful currency of the United States of America.

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"EBITDA" means as to the Company and its Subsidiaries for any period of determination thereof, the sum of (a) the net profit (or loss) determined in accordance with GAAP consistently applied, plus (b) interest expense and tax expense for such period, plus (c) depreciation and amortization of assets for such period. EBITDA shall be calculated on a trailing twelve (12) month basis, taking into account any Person acquired in an Acquisition during such twelve (12) month period and adjusting for officer compensation which was eliminated from the Person so acquired, provided the Lender has received evidence satisfactory to Lender with respect to changes and compensation.

"EBITDAR" means as to the Company and its Subsidiaries for any period of determination thereof, the sum of (a) EBITDA, plus (b) rent expense for such period.

"Enforcement Costs" shall mean all expenses, charges, costs and fees whatsoever (including, without limitation, reasonable outside attorney's fees and expenses) of any nature whatsoever paid or incurred by or on behalf of the Agent in connection with (a) the collection or enforcement of any or all of the Obligations, (b) the preparation of or changes to this Agreement, the Note, the Security Documents and/or any of the other Financing Documents, (c) the creation, perfection, collection, maintenance, preservation, defense, protection, realization upon, disposition, sale or enforcement of all or any part of the Collateral, including, without limitation, those sums paid or advanced, and costs and expenses, more specifically described in Section 10.3, and (d) the monitoring, administration, processing, servicing of any or all of the Obligations and/or the Collateral.

"Equipment" means all equipment, machinery, computers, chattels, tools, parts, machine tools, furniture, furnishings, fixtures and supplies of every nature, presently existing or hereafter acquired or created and wherever located, whether or not the same shall be deemed to be affixed to real property, together with all accessions, additions, fittings, accessories, special tools, and improvements thereto and substitutions therefor and all parts and equipment which may be attached to or which are necessary or beneficial for the operation, use and/or disposition of such personal property, all licenses, warranties, franchises and general intangibles related thereto or necessary or beneficial for the operation, use and/or disposition of the same, together with all Accounts, Chattel Paper, Instruments and other consideration received by the Borrower on account of the sale, lease or other disposition of all or any part of the foregoing, and together with all rights under or arising out of present or future Documents and contracts relating to the foregoing and all proceeds (cash and non-cash) of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Banking Day" means a Banking Day in which dealings in Dollars are carried out on the London interbank eurodollar market.

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"Event of Default" means an event which, with the giving of notice or lapse of time, or both, could or would constitute a Default under the provisions of this Agreement.

"Fees" means the fees described in Sections 2.6 and 2.7 hereof.

"Financing Documents" means at any time collectively and include this Agreement, the Notes, the Security Documents, the Warrant Documents and any other instrument, agreement or document previously, simultaneously or hereafter executed and delivered by any Borrower and/or any other Person, singly or jointly with another Person or Persons, evidencing, securing, guarantying or in connection with any of the Obligations and/or in connection with this Agreement, any Note, any of the Security Documents, the Loans and/or any of the Obligations.

"Fixed Charge Coverage Ratio" means the ratio of (i) EBITDAR, less capital expenditures, to (ii) (a) the sum of interest expense, plus (b) required principal on Indebtedness (other than prepayments on the Revolving Loan) and capitalized leases scheduled and/or paid in the prior twelve (12) month period, plus (c) any payments required to be made under any non-compete or earn out agreements scheduled and/or paid in the prior twelve (12) month period, plus (d) rent expense, plus (e) income tax expense for such period, less (f) up to Ten Million Dollars (\$10,000,000) scheduled to be paid to Kahn Consulting, Inc. in September of 1999.

"Funded Debt" means for any period of determination thereof an amount equal to the sum of all Indebtedness for Borrowed Money (including, but not limited to senior debt, stockholder debt, subordinated debt, the value of all capitalized leases, all Seller Notes, all letters of credit issued on the

account of the Company other than letters of credit which secure Seller Notes, and estimated liabilities under existing earn-out and/or non-compete agreements) all as determined on a consolidated basis.

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time.

"General Intangibles" means all general intangibles of every nature, whether presently existing or hereafter acquired or created, including without limitation all books and records, claims (including without limitation all claims for income tax and other refunds), choses in action, contract rights, judgments, patents, patent licenses, trademarks, trademark licenses, licensing agreements, rights in intellectual property, goodwill (including goodwill of the Borrowers' business symbolized by and associated with any and all trademarks, trademark licenses, copyrights and/or service marks), royalty payments, licenses, contractual rights, rights as lessee under any lease of real or personal property, literary rights, copyrights, service names, service marks, logos, trade secrets, amounts received as an award in or settlement of a suit in damages, deposit accounts, interests in joint ventures or general or limited partnerships, rights in applications for any of the foregoing, books and records in whatever media (paper, electronic or

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otherwise) recorded or stored, with respect to any or all of the foregoing and all equipment and general intangibles necessary or beneficial desirable to retain, access and/or process the information contained in those books and records, and all proceeds (cash and non-cash) of the foregoing.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Materials" means (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, and regulations promulgated thereunder; (c) any substance the presence of which on any property now or hereafter owned or acquired by any Borrower is prohibited by any Law similar to those set forth in this definition; and (d) any other substance which by Law requires special handling in its collection, storage, treatment or disposal.

"Hazardous Materials Contamination" means the contamination (whether presently existing or occurring after the date of this Agreement) by Hazardous Materials of any property owned, operated or controlled by any Borrower or for which any Borrower has responsibility, including, without limitation, improvements, facilities, soil, ground water, air or other elements on, or of, any property now or hereafter owned or acquired by any Borrower, and any other contamination by Hazardous Materials for which any Borrower is, or is claimed to be, responsible.

"Indebtedness for Borrowed Money" of a Person, at any time shall mean the sum at such time of (a) indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (b) any obligations of such Person in respect of letters of credit, banker's or other acceptances or similar obligations issued or created for the account of such Person, (c) lease obligations of such Person which have been or should be, in accordance with GAAP, capitalized on the books of such Person, (d) all liabilities secured by any Lien on any property owned by such Person, to the extent attached to such Person's interest in such property, even though such Person has not assumed or become liable for the payment thereof, and (e) any obligation of such Person or a commonly controlled entity to a multiemployer plan (as those terms are used under applicable ERISA statutes and regulations), but excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms and which are not overdue or which are being disputed in good faith by such Person and for which adequate reserves are being provided on the books of such Person in accordance with GAAP.

"Instrument" means a negotiable instrument (as defined under Article 3 of the Uniform Commercial Code), a "certificated security" (as defined under Article 8 of the Uniform Commercial Code), or any other writing which evidences a right to payment of money and is not itself a security agreement or lease and is of a type which is in the ordinary course of business transferred by delivery with any necessary indorsement.

"Interest Period" means (a) as to any LIBOR Loan the period commencing on and including the date of such Loan (or on the effective date of the election pursuant to Section 2.4 (e) by which such Loan became a LIBOR Loan) and ending on and including the day preceding the same day (or if there is no such same day, the date preceding the last day) in the first, second, third or sixth calendar month thereafter, as selected by the Borrowers in accordance with Section 2.4(e), and thereafter such period commencing on and including the day immediately following the last day of the then ending Interest Period for such Loan and ending on and including the day preceding the day corresponding to the first day of such Interest Period (or if there is no such corresponding day, the day preceding the last day), in the first, second, third or sixth calendar month thereafter, as so selected by the Borrowers; provided, however, that if any such Interest Period would otherwise end on a day prior to a day that is not a Eurodollar Banking Day, it shall be extended so as to end on the day prior to the next succeeding Eurodollar Banking Day unless the same would fall in a different calendar month, in which case such Interest Period shall end on the day preceding the first Eurodollar Banking Day preceding such next succeeding Eurodollar Banking Day; and (b) as to any Daily LIBOR Rate Loan or any Prime Loan, the period commencing on and including the date of such Loan (or on the effective date of the election pursuant to Section 2.4(e) by which such Loan became a Daily LIBOR Rate Loan or a Prime Loan, as the case may be) and ending on and including the day preceding the day 30, 60, 90, or 180 days thereafter, as so selected by the Borrowers in accordance with Section 2.4 (e), and thereafter each period commencing on and including the day immediately following the last day of the then ending Interest Period for such Loan and ending on and including the day preceding the day 30, 60, 90 or 180 days thereafter, as so selected by the Borrowers; provided, however, that if any such Interest Period would otherwise end on a day prior to a day that is not a Banking Day, it shall be extended so as to end on the day prior to the next succeeding Banking Day.

"Interest Rates" mean the Prime Rate, plus the Additional Prime Rate Percentage, the Daily LIBOR Rate, plus the Additional LIBOR Rate Percentage or the LIBOR Rate, plus the Additional LIBOR Rate Percentage, as applicable.

"Inventory" means all inventory of the Borrowers and all right, title and interest of the Borrowers in and to all of its now owned and hereafter acquired goods, merchandise and other personal property furnished under any contract of service or intended for sale or lease, including, without limitation, all raw materials, work-in-progress, finished goods and materials and supplies of any kind, nature or description which are used or consumed in the Borrowers' business or are or might be used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise and other licenses, warranties,

franchises, general intangibles, personal property and all documents of title or documents relating to the same and all proceeds (cash and non-cash) of the foregoing.

"Items of Payment" means each check, draft, cash, money, instrument, item, and other remittance in payment or on account of payment of the Accounts or otherwise with respect to any Collateral, including, without limitation, cash proceeds of any returned, rejected or repossessed Goods, the sale or lease of which gave rise to an Account, and other proceeds or products of Collateral; and "Items of Payment" means the collective reference to all of the foregoing.

"Law" or "Laws" means all ordinances, statutes, rules, regulations,

orders, injunctions, writs, or decrees of any Governmental Authority or political subdivision or agency thereof, or any court or similar entity established by any thereof.

"Lease Assignments" means those certain Collateral Assignments of Leases to be delivered by one or more of the Borrowers to the Agent pursuant to Section 6.11 hereof of the Borrowers' leasehold interests in real property and any improvements thereon at the following locations: (a) 1401 K Street, N.W., Washington, D.C. 20005, (b) 2021 Research Drive, Annapolis, Maryland 21401, (c) 152 West 57th Street, Suite 4500, New York, New York 10019, (d) 7349 Worthington-Galena Road, Columbus, Ohio 43220, and (e) 333 W. Wacker Drive, Suite 600, Chicago, Illinois 60606.

"Liabilities" means, at any time, all liabilities that should, in accordance with GAAP consistently applied, be classified as liabilities on a consolidated balance sheet of the Company and its Subsidiaries.

"LIBOR Loan" means any Loan for which interest on all or a portion of the outstanding principal thereof is to be computed with reference to the LIBOR Rate.

"LIBOR Rate" means, in respect to any LIBOR Loan, a rate per annum equal to the sum of the Base LIBOR Rate for the Interest Period for which interest is to be determined at the LIBOR Rate, plus the Additional LIBOR Rate Percentage with respect to the Loans.

"Lien" means any mortgage, deed of trust, deed to secure debt, grant, pledge, security interest, assignment, encumbrance, judgment, lien or charge of any kind, whether perfected or unperfected, avoidable or unavoidable, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction, excluding the precautionary filing of any financing statement by any lessor in a true lease transaction, by any bailor in a true bailment transaction or by any consignor in a true consignment transaction under the Uniform Commercial Code of any jurisdiction or the

agreement to give any financing statement by any lessee in a true lease transaction, by any bailee in a true bailment transaction or by any consignee in a true consignment transaction.

"Loan" means a Revolving Loan or a Swing Line Loan, and "Loans" mean all Revolving Loans and Swing Line Loans, collectively.

"Loan Notice" has the meaning set forth in Section 2.4(e) hereof.

"Material Adverse Effect" means a material adverse change in (i) the business operations or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole, (ii) the ability of the Company and its Subsidiaries to repay the Obligations or otherwise perform their obligations under any of the Financing Documents, or (iii) the value of, or the ability of the Agent to realize upon, the Collateral.

"Multiemployer Plan" shall mean a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Note" means the Revolving Promissory Note or the Swing Line Note, and "Notes" mean collectively the Revolving Promissory Note the Swing Line Note, and any other promissory notes which may from time to time evidence the Obligations.

"Obligations" means all present and future debts, obligations, and liabilities, whether now existing or contemplated or hereafter arising, of any of the Borrowers to the Agent or any of the Lenders under, arising pursuant to, in connection with and/or on account of the provisions of this Agreement, the Notes, each Security Document, and any of the other Financing Documents, any of the Loans, including, without limitation, the principal of, and interest on, the Notes, late charges, fees charged with respect to any guaranty of any letter of credit, and also means all other present and future indebtedness, liabilities and obligations, whether now existing or contemplated or hereafter arising, of

any of the Borrowers to the Agent or any of the Lenders of any nature whatsoever regardless of whether such debts, obligations and liabilities be direct, indirect, primary, secondary, joint, several, joint and several, fixed or contingent; and any and all renewals, extensions and rearrangements of any such debts, obligations and liabilities.

"Overdraft" means any excess of debit entries over collected funds on deposit in any banking account of any Borrower.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permitted Liens" means: (a) Liens for Taxes which are not delinquent or which the Agent has determined in the exercise of its sole and absolute discretion (i) are being diligently contested in good faith and by appropriate proceedings, (ii) such Borrower has the financial ability to pay, with all penalties and interest, at all times without materially and adversely

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affecting such Borrower, and (iii) are not, and will not be with appropriate filing, the giving of notice and/or the passage of time, entitled to priority over any Lien of the Agent; (b) deposits or pledges to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance in the ordinary course of business; (c) Liens in favor of the Agent; (d) judgment Liens to the extent the entry of such judgment does not constitute an Event of Default under the terms of this Agreement or result in the sale of, or levy of execution on, any of the Collateral; (f) purchase money security interest permitted under Section 8.01 hereof, (g) liens of carriers, warehouses, mechanics and landlords incurred in the ordinary course of business, (h) Liens currently securing the Subordinated Debt, and (i) such other Liens, if any, as are set forth on EXHIBIT C attached hereto and made a part hereof.

"Person" shall mean and include an individual, a corporation, a partnership, a joint venture, a trust, an unincorporated association, a government or political subdivision or agency thereof or any other entity.

"Pledge Agreement" means those certain Amended and Restated Pledge and Security Agreements of even date herewith, from the Company in favor of the Agent for the benefit of the Lenders, as the same may be amended, replaced or modified from time to time.

"Prime Loan" means any Loan for which interest on all or a portion of the outstanding principal thereof is to be computed with reference to the Prime Rate.

"Prime Rate" means the prime rate charged by the Agent as fixed by management of the Agent for the guidance of its loan officers, whether or not such rate is otherwise published or announced. The Prime Rate is not necessarily the lowest rate of interest charged by the Agent to borrowers.

"Reportable Event" shall mean any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder.

"Required Lenders" means at any time the Lenders holding at least seventy-five percent (75.0%) of the then aggregate unpaid principal amount of the Loans held by the Lenders, or, if no such principal amount is then outstanding, the Lenders having at least seventy-five percent (75.0%) of the Revolving Loan Committed Amount.

"Responsible Officer" means the chief executive officer of the Company or the president of the Company or, with respect to financial matters, the chief financial officer of the Company.

"Revolving Loan Committed Amount" means Twenty Seven Million Dollars, and includes all amounts advanced under the Swing Line Loans.

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"Revolving Loan" and "Revolving Loans" have the meanings described in Section 2.1(a).

"Revolving Promissory Note" has the meaning described in Section 2.1(c).

"Revolving Loan Account" has the meaning described in Section 2.4.

"Security Agreement" means that certain security agreement for intellectual property dated the date hereof from the Company for the benefit of the Agent and the Lenders, as the same may from time to time be amended, restated, supplemented or otherwise modified.

"Security Documents" shall mean collectively any assignment, pledge agreement, security agreement, mortgage, deed of trust, deed to secure debt, financing statement and any similar instrument, document or agreement under or pursuant to which a Lien is now or hereafter granted to, or for the benefit of, the Agent on any collateral to secure the Obligations, as the same may from time to time be amended, restated, supplemented or otherwise modified, including, but not limited to the Pledge Agreements, the Security Agreement and the Lease Assignments.

"Seller Notes" shall mean the promissory notes from the Company and more fully described in Schedule A attached hereto.

"Senior Management" shall be deemed to refer to the following executive positions: President, CEO, Chairman of the Board, Chief Operating Officer and Chief Financial Officer.

"State" means the State of Maryland.

"Subsidiary" means the subsidiaries set forth on the signature page to this Agreement, and any corporation the majority of the voting shares of which at the time are owned directly by the Company and/or by one or more Subsidiaries of the Company.

"Subordinated Debt" means that certain Indebtedness for Borrowed Money of the Company in favor of Allied Capital Corporation and Allied Investment Corporation, in an aggregate face principal amount of Thirteen Million Dollars (\$13,000,000).

"Subordinated Debt Loan Documents" means any and all promissory notes, agreements, documents or instruments now or at any time evidencing, securing, guarantying or otherwise executed and delivered in connection with the Subordinated Debt, as the same may from time to time be amended, restated, supplemented or modified.

"Subordinated Indebtedness" means the Seller Notes, the Subordinated Debt and all other Indebtedness incurred at any time by the Borrowers, the repayment of which is

subordinated to the Obligations by a written agreement in form and substance satisfactory to the Lender in its sole and absolute discretion.

"Subordination Agreement" means that certain Subordination Agreement by and among Allied Capital Corporation and Allied Investment Corporation, the Borrowers in favor of the Lender, as the same may be from time to time amended, restated, supplemented or modified.

"Swing Line Loans" means loans made pursuant to Section 2.3 hereof.

"Swing Line Note" has the meaning described in Section 2.3(a) hereof.

"Taxes" mean all taxes and assessments whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character (including all penalties or interest thereon), which at any time may be assessed, levied, confirmed or imposed by any Governmental Authority on any

Borrower or any of its properties or assets or any part thereof or in respect of any of its franchises, businesses, income or profits.

"Uniform Commercial Code" means, unless otherwise provided in this Agreement, the Uniform Commercial Code as adopted by and in effect from time to time in the State.

"Warrant Documents" means that stock purchase warrant of even date herewith from the Company in favor of the Agent, together with all exhibits and instruments delivered therewith, as the same may be from time to time amended, restated, supplemented or modified.

"Wholly Owned Subsidiary" means any domestic United States corporation all the shares of stock of all classes of which (other than directors' qualifying shares) at the time are owned directly or indirectly by the Company and/or by one or more Wholly Owned Subsidiaries of the Company.

SECTION 1.2 Accounting Terms and Other Definitional Provisions. Unless otherwise defined herein, as used in this Agreement and in any certificate, report or other document made or delivered pursuant hereto, accounting terms not otherwise defined herein, and accounting terms only partly defined herein, to the extent not defined, shall have the respective meanings given to them under GAAP. Unless otherwise defined herein, all terms used herein which are defined by the Maryland Uniform Commercial Code shall have the same meanings as assigned to them by the Maryland Uniform Commercial Code unless and to the extent varied by this Agreement. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are references to sections or subsections of, or schedules or exhibits to, as the case may be, this Agreement unless otherwise specified. As used herein, the singular number shall include the

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plural, the plural the singular and the use of the masculine, feminine or neuter gender shall include all genders, as the context may require. Reference to any one or more of the Financing Documents and any of the Financing Documents shall mean the same as the foregoing may from time to time be amended, restated, substituted, extended, renewed, supplemented or otherwise modified.

II BORROWING

SECTION 2.1 The Revolving Loan

(a) The Lenders agree to lend to the Borrowers and the Borrowers jointly and severally agree to borrow on a revolving basis from time to time the principal amount outstanding (the "Revolving Loan") not to exceed at any time Twenty Seven Million Dollars (\$27,000,000).

(b) The joint and several obligation of the Borrowers to repay the advances under the Revolving Loan shall be evidenced by the Borrowers' Amended and Restated Revolving Promissory Note of even date herewith (the "Revolving Promissory Note") payable to the Agent in the form attached hereto as EXHIBIT A. The Revolving Promissory Note shall bear interest and shall be repaid by the Borrowers in the manner and at the times set forth in the Revolving Promissory Note.

(c) The Borrowers may prepay the principal sum outstanding on the Revolving Loan only in accordance with the terms of the Revolving Note. Sums borrowed and repaid may be readvanced under the terms and conditions of this Agreement.

(d) The proceeds of the Revolving Loan shall be used by the Borrowers for the purposes set forth in Recital B above, and, unless prior written consent of the Lenders is obtained, for no other purpose.

SECTION 2.2 Revolving Loan Procedure. The Borrowers hereby irrevocably authorize the Agent and each of the Lenders to make advances under the Revolving Loan at any time and from time to time, without further request from or notice

to the Borrowers, which the Agent, in its sole and absolute discretion, deems necessary or appropriate to protect the Agent's interests under this Agreement or otherwise, including, without limitation, advances made to cover Overdrafts, principal of, and/or interest on, any Loans, fees, and/or Enforcement Costs, prior to, on, or after the termination of this Agreement, regardless of whether the aggregate amount of the advances which the Agent may make hereunder exceeds the Revolving Credit Committed Amount. The Agent and each Lender shall have no obligation whatsoever to make any advance under this subsection and the making of one or more advances under this subsection shall not obligate the Agent or any Lender to make other similar advance or advances. Any such advances will be secured by the Collateral.

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SECTION 2.3 Swing Line Loans.

(a) Upon the terms and subject to the conditions hereof, and in reliance upon the representations and warranties herein set forth, NationsBank, N.A. ("NationsBank") agrees to make a loan or loans to the Borrowers (each a "Swing Line Loan" and collectively, the "Swing Line Loans"), which Swing Line Loans (i) shall accrue interest at the Prime Rate, plus the Additional Prime Rate Percentage or the Daily LIBOR Rate, plus the Additional LIBOR Rate Percentage, (ii) may be repaid and reborrowed in accordance with the provisions hereof; (iii) shall not exceed in aggregate principal amount at any time outstanding the amount of the Revolving Loan Committed Amount minus the aggregate principal amount of all Revolving Loans then outstanding; (iv) shall not exceed One Million Dollars (\$1,000,000.00) in aggregate principal amount at any time outstanding; and (v) shall not be made after NationsBank has received written notice from any Lender that a Default or Event of Default has occurred and is continuing. The Swing Line Loans shall be evidenced by a Note in the form of Exhibit D attached hereto.

(b) On any Banking Day, NationsBank may, in its sole discretion, give notice to the Agent and the Lenders (other than NationsBank) that its outstanding Swing Line Loans shall be funded with a borrowing of Revolving Loans (provided that each such notice shall be deemed to have been automatically given upon the occurrence of an Event of Default), in which case a borrowing of Revolving Loans constituting Revolving Loans at the Prime Rate, plus the Additional Prime Rate Percentage or the Daily LIBOR Rate, plus the Additional LIBOR Percentage, shall be made on the immediately succeeding Banking Day by all of the Lenders ratably based upon each Lender's percentage of the Revolving Loans, and the proceeds thereof shall be applied directly to repay NationsBank for such outstanding Swing Line Loans. Each Lender hereby irrevocably agrees to make Revolving Loans upon one (1) Banking Day's notice in the amount and in the manner specified in the preceding sentence and on the date specified in writing by the Agent notwithstanding (i) that the amount of such borrowing may not comply with the minimum borrowing amounts otherwise required hereunder, (ii) whether any conditions specified in Article VI are then satisfied, (iii) whether a Default or Event of Default has occurred and is continuing, and (iv) any reduction in the Revolving Loan Committed Amount after any such Swing Line Loans were made. In the event that any borrowing pursuant to this Section 2.3 cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of any insolvency proceeding in respect of any Borrower), each Lender (other than NationsBank) hereby agrees that it shall forthwith purchase from NationsBank (without recourse or warranty) such assignment of the outstanding Swing Line Loans as shall be necessary to cause the Lenders to share in such Swing Line Loans ratably based upon their respective percentages of the Revolving Loans, provided that all interest payable on the Swing Line Loans shall be for the account of NationsBank until the date the respective Revolving Loan is purchased and, to the extent attributable to the purchased Revolving Loan,

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shall be payable to the Lender purchasing such Revolving Loan from and after such date of purchase.

(c) Whenever the Borrower desires to borrow a Swing Line Loan hereunder, it shall deliver to NationsBank irrevocable notice thereof (which notice may be in writing or by telecopy, telex or telegraph, or by telephone, if immediately confirmed in writing, substantially in the form of a Loan Notice) not later than 11:00 a.m., Eastern Time, on the proposed borrowing date. Such notice shall specify (i) the date of such borrowing and (ii) the amount of the Swing Line Loan.

SECTION 2.4 Interest.

(a) Interest Rates. Until the date on which the principal is due (at stated maturity, on acceleration or otherwise), interest on all or any portion of the outstanding principal balance of the Revolving Loans shall accrue for each day at either the Prime Rate, plus the Additional Prime Rate Percentage for such day, or for Working Capital Advances only if elected by the Borrowers, the Daily LIBOR Rate, plus the Additional LIBOR Rate Percentage, or for any advances, the LIBOR Rate, plus the Additional LIBOR Rate Percentage for the Interest Period which includes such day, all as elected and specified (including specification as to length of Interest Period, as permitted by the definition of that term, with respect to any election of the LIBOR Rate) by the Borrowers in a Loan Notice to the Agent in accordance with Subsection (e) hereof. Advances accruing interest at the LIBOR Rate shall be in minimum amounts of \$100,000 and increments of \$100,000.

After the date on which principal is due (at stated maturity, on acceleration or otherwise), interest on the outstanding principal balance of any Loan shall accrue at the Default Rate until such principal is paid in full and shall be jointly and severally payable by the Borrowers upon demand by the Agent.

(b) Determination of Interest Rates. Upon request of the Borrowers, the Agent shall, as soon as practicable, notify the Borrowers and the Lenders of each determination of a LIBOR Rate, provided that any failure to do so shall not relieve the Borrowers of any liability hereunder. Each determination of an Interest Rate by the Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrowers and the Lenders in the absence of manifest error. The Agent shall, at the request of the Borrowers or any Lender, deliver to the Borrowers or such Lender, as the case may be, a statement showing the quotations used by the Agent in determining any Interest Rate pursuant hereto.

(c) Inability to Determine LIBOR Rate. In the event that (i) the Agent shall have determined (which determination shall be conclusive and binding upon the Borrowers) that, by reason of circumstances affecting the London interbank eurodollar market, adequate and reasonable means do not exist for ascertaining the LIBOR Rate for any requested Interest Period with respect to a Loan that the Borrowers have requested be made or converted as a LIBOR

Loan, or (ii) the Required Lenders shall determine and notify the Agent of such determination (which determination shall be conclusive and binding upon the Borrowers) that the rates quoted by the Agent for the purpose of computing the LIBOR Rate for any requested Interest Period with respect to a Loan that the Borrowers have requested be made or converted as a LIBOR Loan do not adequately and fairly reflect the cost to such Lenders of funding or converting such Loan, the Agent shall forthwith give notice of such determination to the Borrowers and each Lender at least one day prior to the proposed date for funding or converting such LIBOR Loan. If such notice is given, any requested LIBOR Loan shall be made or converted as a Prime Loan having an Interest Period of thirty (30) days. Until such notice has been withdrawn by the Agent, the Borrowers will not request that any Loan be made or converted as a LIBOR Loan.

(d) Election of Interest Rates. By a proper and timely Loan Notice in accordance with Subsection (e) hereof, the Borrowers shall select the initial Interest Rate to be charged on Revolving Loans disbursed on the Closing Date and from time to time thereafter the Borrowers may elect, by a proper and timely Loan Notice to the Agent in accordance with the provisions of Subsection (e) hereof, an initial Interest Rate for any Revolving Loan, or to convert the

Interest Rate on any Revolving Loan to any other Interest Rate (including, when applicable, the selection of the Interest Period); provided that;

(i) the Borrowers shall not select any Interest Period that extends beyond the maturity date of the Revolving Loan;

(ii) except as otherwise provided in Subsection (e) hereof no such change from the LIBOR Rate to another Interest Rate shall become effective on a day other than the day, which must be a Banking Day, and, if such change involves a Loan upon which interest is, or will be, calculated at the LIBOR Rate, also a Eurodollar Banking Day, next following the last day of the Interest Period last in effect for such LIBOR Loan;

(iii) the Interest Rate on Loans may differ among the Lenders only as provided in Subsections (c), (e) and Section 2.12 (Requirements of Law);

(iv) any elections made by the Borrowers pursuant to this Section shall be in the amount of \$100,000, plus any additional increment of \$100,000;

(v) notwithstanding anything herein to the contrary, the Borrowers may not under any circumstances make any election under this Section that would result in Loans outstanding at more than five (5) LIBOR Rates; and

(i) the first day of each Interest Period as to a LIBOR Loan shall be a Eurodollar Banking Day.

Each election by the Borrowers as between the Prime Rate, the Daily LIBOR Rate and the LIBOR Rate shall be made, as among the Lenders, pro rata in accordance with their

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respective proportionate shares, except as a variation from such prorationing may be required by virtue of termination as to a particular Lender of its Commitment to make LIBOR Loans, as contemplated by Subsection (d) hereof or by Section 2.12 (Requirements of Law).

In the absence of an election by the Borrowers of the LIBOR Rate, or, having made such election but the Borrowers fail or are not entitled under the terms of this Agreement to elect to continue such Interest Rate and specify the applicable Interest Period therefor, then upon the expiration of such then current Interest Period, interest on the Revolving Loan shall accrue for each day at the Prime Rate for such day, until the Borrowers, in accordance with this Section, elect a different Interest Rate and specify the Interest Period for the Revolving Loan.

(e) Loan Notice. The Lenders will not be obligated to make Revolving Loans, convert the Interest Rate on Revolving Loans to another Interest Rate or to act upon any election by the Borrowers pertaining to Interest Rates or Interest Periods unless the Agent shall have received an irrevocable written notice (a "Loan Notice") from the Borrowers at the times and specifying the information as follows:

(i) the amount to be borrowed, prepaid or converted,

(ii) any election among the Prime Rate, the Daily LIBOR Rate or the LIBOR Rate,

(iii) the requested date on which such election is to be effective, and

(iv) the length of the Interest Period applicable to such Revolving Loans;

Such Loan Notice (or telephone advice thereof promptly confirmed in writing) shall be received by the Agent prior to 11:00 a.m. (Washington, D.C.) time, at least;

(i) four (4) Eurodollar Banking Days prior to the requested effective date of such election in the case of LIBOR Loans, and

(ii) two (2) Banking Days prior to the requested effective date of such election in the case of Prime Loans or Working Capital Advances accruing interest at the Daily LIBOR Rate.

Upon receipt of a Loan Notice, the Agent shall promptly notify each Lender of the contents thereof. Each Lender will make the amount of its proportionate share of any Revolving Loan to be made to the Borrowers.

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(f) Indemnity. The Borrowers jointly and severally agree to indemnify and reimburse each Lender and to hold such Lender harmless from any loss, cost (including administrative costs) or expense which such Lender may sustain or incur as a consequence of (a) Default by the Borrowers in payment when due of the principal amount of or interest on any LIBOR Loans of such Lender, (b) failure of the Borrowers to make, or convert the Interest Rate of, a Revolving Loan after the Borrowers have given (or are deemed to have given) a Loan Notice in accordance with Subsection (d) hereof, or (c) the making by the Borrowers of a prepayment of a LIBOR Loan on a day which is not the last day of the Interest Period with respect thereto, including, without limitation, any such loss or expense arising from the reemployment of funds obtained by such Lender to maintain its LIBOR Loans hereunder or from fees payable to terminate the deposits from which such funds were obtained; provided, that such Lender will use its best efforts to redeploy such funds in a commercially reasonable manner. This covenant shall survive termination of this Agreement and payment of the Loans.

(g) Payment of Interest.

(i) Interest accruing on any LIBOR Loan during any Interest Period shall be jointly and severally payable by the Borrowers on the last Banking Day of such then current Interest Period; provided, however, that with respect to LIBOR Loans for which the Interest Period selected by the Borrowers pursuant to Subsection (c) hereof (Election of Interest Rates) is greater than three (3) months, interest shall be payable quarterly on the last Banking Day of such three month period with the first such three month period commencing on the first day of the applicable Interest Period with any remaining unpaid interest being due and payable on the last day of such Interest Period; provided further that all accrued interest on any LIBOR Loan converted or prepaid prior to the last Banking Day of the applicable Interest Period shall be paid immediately upon such prepayment or conversion.

(ii) Interest accruing on Prime Loans shall be paid quarterly in arrears on the first day of each March, June, September and December, commencing June 1, 1999, and on the date the principal of such Loans shall be due (at stated maturity, on acceleration, or otherwise); provided, that all accrued interest on any Prime Loan converted or prepaid shall be paid immediately upon such prepayment or conversion.

SECTION 2.5 Revolving Loan Account. The Agent will establish and maintain a loan account on its books (the "Revolving Loan Account") to which the Agent will (a) debit (i) the principal amount of each Revolving Loan made by the Lenders hereunder as of the date made, (ii) the amount of any interest accrued on the Revolving Loans as and when due, and (iii) any other amounts due and payable by the Borrowers to the Agent from time to time under the provisions of this Agreement in connection with the Revolving Loans, including, without limitation, Enforcement Costs, Fees, late charges, and service, collection and audit fees, as and when due and payable, and (b) credit all payments made by the Borrowers to the Agent on

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account of the Revolving Loans as of the date made including, without limitation, funds credited to the Collateral Account and collected and paid to the Agent, the Agent reserving the right, exercised in its sole and absolute discretion from time to time, to provide earlier credit or to disallow credit for any Collection which is unsatisfactory to the Agent.

The Agent may debit the Revolving Loan Account for the amount of any Collection which is returned to the Agent unpaid. All credit entries to the Revolving Loan Account are conditional and shall be readjusted as of the date made if final and indefeasible payment is not received by the Agent in cash or solvent credits. The Borrowers hereby jointly and severally promises to pay to the order of the Agent, on demand, an amount equal to the excess, if any, of all debit entries over all credit entries recorded in the Revolving Loan Account under the provisions of this Agreement.

SECTION 2.6 Collateral Account. After the occurrence of and during the continuance of any Event of Default, the Borrowers will deposit or cause to be deposited to a bank account designated by the Agent and from which the Agent alone has power of access and withdrawal (the "Collateral Account") all Items of Payment. After the occurrence of and during the continuance of any Event of Default, the Borrowers shall deposit Items of Payment for credit to the Collateral Account not later than the next Banking Day after the receipt thereof, and in precisely the form received, except for the endorsements of the Borrowers where necessary to permit the collection of any such Items of Payment, which endorsement each of the Borrowers hereby agree to make. Pending such deposit to the Collateral Account, endorsement and/or other delivery thereof to the Agent, the Borrowers will not commingle any Items of Payment with any of its other funds or property, but will hold them separate and apart therefrom in trust and for the account of the Agent. The Agent is not, however, required to credit the Collateral Account for the amount of any Collection which is unsatisfactory to the Agent. In addition, the Borrowers shall, if so directed by the Agent, after the occurrence of and during the continuance of any Event of Default, establish a lock box to which Items of Payments may be sent and shall direct each Borrower's customers and others as the Agent may require to forward payments to that lock box. Items of Payment received in the lock box shall be deposited in the Collateral Account or as otherwise directed by the Agent from time to time.

SECTION 2.7 Commitment Fee. The Borrowers jointly and severally agree to pay to the Agent for the ratable benefit of the Lenders on the first day of each three month period commencing after the date of this Agreement a commitment fee (computed on the basis of a year consisting of three hundred and sixty (360) days for the actual number of days elapsed) of one quarter of one percent (.25%) per annum on the daily average of the unused amount of the Revolving Loan.

SECTION 2.8 Origination Fee. The Borrowers jointly and severally agree to pay the Agent an origination fee in the amount of Four Hundred Five Thousand Two Hundred Fifty Dollars (\$405,250), of which one-quarter has been paid, and the balance of the fee (\$303,750) is

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payable on the date of this Agreement. This fee is considered earned when paid and is not refundable

SECTION 2.9 Transactions under this Agreement Between the Borrowers and the Agent. The Borrowers in the discretion of their respective management are to agree among themselves as to the allocation of the benefits of the proceeds of Loans and the purposes for which such benefits and proceeds will be used so long as any such allocation or purpose does not violate the provisions of this Agreement. The Borrowers hereby represent and warrant to the Agent and the Lenders that each of them will derive benefits, directly and indirectly, from each Loan, both in its separate capacity and as a member of the integrated group to which each of the Borrowers belong, since the successful operation of the integrated group is dependent upon the continued successful performance of the functions of the integrated group as a whole. For administrative convenience, the Company is hereby irrevocably appointed by each of the Borrowers as agent for each of the Borrowers for the purpose of requesting Loans hereunder from the Agent and the Lenders, receiving the benefits of such Loans and disbursing the proceeds of such Loans between the Borrowers. By reason thereof, the Company is

hereby irrevocably appointed by each of the Borrowers as the attorney-in-fact of each of the Borrowers with power and authority through its duly authorized officer or officers to (a) endorse any check (if any) for the proceeds of any Loan for and on behalf of each of the Borrowers and in the name of each of the Borrowers, and (b) instruct the Agent to credit the proceeds of any Loan directly to a banking account of any of the Borrowers which shall evidence the making of such Loan and shall constitute the acknowledgment by each of the Borrowers of the receipt of the proceeds of such Loan. The Agent and the Lenders assume no responsibility or liability for any errors, mistakes, and/or discrepancies in the oral, telephonic, written or other transmissions of any instructions, orders, requests and confirmations between the Agent and the Borrowers in connection with any Loan or any other transaction in connection with the provisions of this Agreement.

SECTION 2.10 Account Statements. Any and all periodic or other statements or reconciliations, and the information contained in those statements or reconciliations, of the Revolving Loan Account shall be presumed conclusively to be correct and shall constitute an account stated between the Agent, the Lenders and the Borrowers unless the Agent receives specific written objection thereto from the Company within thirty (30) Banking Days after such statement or reconciliation shall have been sent by the Agent.

SECTION 2.11 Overdraft Advances. If, after the close of business on any Banking Day, any banking account of the Borrowers with the Agent is determined by the Agent to have an Overdraft, the Agent, in its sole discretion on each and any such occasion may (and is hereby irrevocably authorized by the Borrowers to), but is not obligated to, make an advance under the Revolving Loan to the Borrowers in a principal amount equal to any such Overdraft as of the close of business on such Banking Day. All Overdrafts shall be secured by the Collateral.

SECTION 2.12 Requirements of Law.

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(a) In the event that any Laws, treaty, rule, regulation or determination of an arbitrator or a court or other Governmental Authority of any country or any change therein or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority:

(i) does or shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any LIBOR Loans made by it, or change the basis of taxation of payments to such Lender of principal, commitment fee, interest or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of such Lender);

(ii) does or shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of such Lender which are not otherwise included in the determination of the LIBOR Rate hereunder;

(iii) does or shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender of making, renewing or maintaining advances or extensions of credit or to reduce any amount receivable hereunder, in each case, in respect of its LIBOR Loans, then, in any such case, the Borrowers jointly and severally shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such additional cost or reduced amount receivable which such Lender deems to be material as reasonably determined by such Lender with respect to such LIBOR Loans. If a Lender becomes entitled to claim any additional amounts pursuant to this Section, it shall provide prompt notice thereof to the Borrowers, through the Agent, certifying (x) that one of the events described in this paragraph (a) has occurred and describing in reasonable detail the nature of such event, (y) as to the increased cost or reduced amount resulting from such event and (z) as to the additional amount demanded by such Lender and a reasonably detailed explanation of the calculation thereof. Such a certificate as to any additional amounts payable pursuant to this subsection submitted by such Lender, through the Agent, to the Company shall be conclusive in the

absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

(b) In the event that any Lender shall have determined that the adoption of any Laws, rule or regulation regarding capital adequacy, or any change therein or in the interpretation or application thereof or compliance by any Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law)

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from any central bank or Governmental Authority, does or shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrowers (with a copy to the Agent) of a written request therefor, the Borrowers jointly and severally shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction; provided that the Borrowers shall not be required to compensate a Lender pursuant to this paragraph for any amounts incurred more than six months prior to the date that such Lender notifies Borrowers of such Lender's intention to claim compensation therefor; and provided further that, if the circumstances giving rise to such claim have a retroactive effect, then such six-month period shall be extended to include the period of such retroactive effect.

(c) Notwithstanding subsections (a) and (b) above, if any Lender incurs the increased costs described in subsection (a) above or makes the determination described in subsection (b) above and all Loans of such Lender then outstanding and affected thereby shall be converted into Loans which are not affected thereby (if not otherwise prohibited under the terms of this Agreement).

(d) Illegality. Notwithstanding any other provisions herein, if any Laws or any change therein or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain LIBOR Loans as contemplated by this Agreement, (i) the commitment of such Lender hereunder to make LIBOR Loans shall forthwith be canceled, and (ii) such Lender's Loans then outstanding as LIBOR Loans, if any, shall be repaid and made to Prime Loans (if not otherwise prohibited under the terms of this Agreement) at the option of the Borrowers in accordance with the election procedures set forth in Section 2.3(e); provided, however, that prior to the effective date of such election, interest shall be calculated at the Prime Rate. Any remaining commitment of such Lender hereunder to make LIBOR Loans (but not other Loans) shall terminate forthwith and borrowings from such Lender at a time when borrowings from the other banks are to be of LIBOR Loans shall be by way of Prime Loans as provided herein. Upon the occurrence of any such change, such Lender, acting through the Agent, shall promptly notify the Borrowers thereof, and shall furnish to the Borrowers in writing evidence thereof certified by such Lender.

If any repayment to a Lender of any LIBOR Loan (including conversions thereof) is made under this Section 2.11 (d) on a day other than a day otherwise scheduled for a payment of principal of or interest on such Loan, the Borrowers jointly and severally shall pay to such Lender upon its request such amount or amounts as will compensate it for the amount by which the rate of interest on such Loan immediately prior to such repayment exceeds the stated rate of interest on relending or reinvesting the funds received in connection with such prepayment, in each case for the period from the date of such prepayment to the Banking Day next succeeding

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the last day of such then current Interest Period, all as determined by such Lender in its good faith discretion.

(e) Pro Rata Treatment and Payments.

(i) Each borrowing by the Borrowers under the Revolving Loans, each conversion by the Borrowers of applicable Interest Rates, each prepayment and (except as otherwise provided in Section 2.11 (d) (Illegality) shall be made pro rata in accordance with each Lender's applicable proportionate share. Unless otherwise specifically set forth among the provisions of this Agreement, all payments to be made by the Borrowers on account of the Obligations, including, without limitation, principal, interest and Fees shall be made and/or applied pro rata in accordance with the applicable proportionate share of each Lender.

(ii) Each Lender will make the amount of its proportionate share of the Loans available to the Agent for the account of the Borrowers at the office of the Agent set forth in Section 12.11 hereof by 11:00 a.m. (Washington, D.C. time) in funds immediately available to the Agent on the Closing Date in the case of Loans to be disbursed on the Closing Date and in the case of Loans disbursed after the Closing Date, on the date specified in the Loan Notice made in connection therewith. Unless the Agent and the Borrowers shall have been notified in writing by any Lender prior to the date due that such Lender will not make its proportionate share of any borrowing on such date available to the Agent, the Agent may assume that such Lender has made such amount available to the Agent on such date and the Agent may, in reliance upon such assumption, make available to the Borrowers a corresponding amount. If such amount is made available to the Agent on a date after such date, such Lender shall pay to the Agent on demand an amount equal to the product of (a) a fraction, the numerator of which is the daily average federal funds rate during such period as quoted by the Agent and the denominator of which is 360, times (b) the amount of such Lender's proportionate share of such borrowing, times (c) the number of days that elapse from and including such borrowing date to the date on which such Lender's proportionate share of such borrowing shall have become immediately available to the Agent. A certificate of the Agent submitted to any Lender with respect to any amounts owing hereunder shall be conclusive, absent manifest error. If such Lender's proportionate share of such borrowing is not in fact made available to the Agent by such Lender within three (3) Banking Days of such borrowing date, the Agent shall be entitled to recover such amount with interest thereon at the rate per annum applicable to Revolving Loans accruing interest at the Prime Rate hereunder, on demand, from the Borrowers (without prejudice to the rights of the Borrowers against such Lender). Nothing herein shall be deemed to relieve any Lender from its obligation to fund its proportionate share of any borrowings hereunder or to prejudice any rights which the Borrowers may have against any Lender as a result of any default by such Lender hereunder. No Lender shall be responsible for any default of the

other Lender in respect of the other Lender's obligation to make available its proportionate share of borrowings hereunder nor shall any Commitment of any Lender hereunder be increased as a result of such default of any other Lender. Each Lender shall be obligated only to the extent provided herein regardless of the failure of any other Lender to fulfill its obligations hereunder.

(iii) All payments of the Obligations, including, without limitation, principal, interest and Fees, shall be paid by the Borrowers without setoff or counterclaim to the Agent on behalf of the Lender's at the Agent's office specified in Section 12.1 hereof in Dollars in immediately available funds not later than 12:00 noon (Washington, D.C. time) on the due date of such payment. All payments received by the Agent after such time shall be deemed to have been received by the Agent, for purposes of computing interest and Fees, as of the next following Banking Day. Promptly upon receipt thereof, the Agent shall distribute to each Lender in like funds such Lender's proportionate share of such payments. Unless the Agent shall have received notice from the Borrowers prior to the date on which any payment of any of the Obligations is due to the Agent that the Borrowers will not make such payment in full, the Agent may assume that the Borrowers have made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount

then due such Lender. If and to the extent the Borrowers shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the interest rate applicable at the time to the obligation in respect of which payment is due. The Agent shall send the Borrowers statements of all amounts due hereunder for interest, principal and Fees, etc., which statements shall be considered correct and conclusively binding on the Borrowers unless the Borrowers notify the Agent to the contrary within thirty (30) days of their receipt of any statement that they deem to be incorrect. Alternatively, at its sole discretion, each of the Banks may charge any deposit account of either or both of the Borrowers with all or any part of any amount due hereunder.

(iv) If any Lender makes a new Loan on a day on which the Borrowers are to repay all or any part of any outstanding Loan from such Bank, such Lender shall apply the proceeds of its new Loan to make such repayment, and only an amount equal to the difference (if any) between the amount being borrowed and the amount being repaid shall be made available by such Lender to the Agent as provided above in this Section or remitted by the Borrowers to the Agent as provided above in this Section.

III COLLATERAL

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As security for the payment of all of the Obligations, the Borrowers hereby assign, grant and convey to the Agent for the ratable benefit of each Lender and agrees that the Agent and each Lender shall have a perfected, continuing security interest in all of the Collateral. The Borrowers further agree that the Agent for the ratable benefit of each Lender shall have in respect the Collateral all of the rights and remedies of a secured party under the Maryland Uniform Commercial Code and under other applicable Laws and Security Documents, as well as those provided in this Agreement. The Borrowers covenant and agree to execute and deliver such financing statements and other instruments and filings as are necessary in the opinion of the Agent to perfect such security interest. Notwithstanding the fact that the proceeds of the Collateral constitute a part of the Collateral, the Borrowers may not dispose of the Collateral, or any part thereof, other than in the ordinary course of its business or as otherwise may be permitted by this Agreement.

IV UNCONDITIONAL OBLIGATIONS

The joint and several payment and performance by the Borrowers of the Obligations shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Agent or any Lender and the Borrowers shall pay absolutely net all of the Obligations, free of any deductions and without abatement, diminution or set-off; and until payment in full of all of the Obligations, the Borrowers: (a) will not suspend or discontinue any payments provided for in the Notes; (b) will perform and observe all of its other agreements contained in this Agreement, including (without limitation) all payments required to be made to the Agent; and (c) will not terminate or attempt to terminate this Agreement for any cause.

V. REPRESENTATIONS AND WARRANTIES

To induce the Lenders to make the Loans, the Borrowers represent and warrant to the Agent and each Lender and, unless the Agent is notified by the Borrowers of a change or changes effecting such representations and warranties, shall be deemed to represent and warrant to the Agent and the Lenders at the time each request for an advance under the Loans is submitted and again at the time any advance is made under the Loans that:

SECTION 5.1 Subsidiaries. The Company has no Subsidiaries, except as set forth on the signature page of this Agreement.

SECTION 5.2 Good Standing. The Company and each of its Subsidiaries (a) is a corporation duly organized, existing and in good standing under the laws of the jurisdiction of its incorporation, (b) has the corporate power to own its property and to carry on its business as now being conducted, and (c) is duly

qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned by it therein or in which the

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transaction of its business makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect.

SECTION 5.3 Power and Authority. The Company and each of its Subsidiaries has full power and authority to execute and deliver this Agreement and each of the other Financing Documents executed and delivered by it, to make the borrowing hereunder, and to incur the Obligations, all of which have been duly authorized by all proper and necessary corporate action. No consent or approval of stockholders or of any public authority is required as a condition to the validity or enforceability of this Agreement or any of the other Financing Documents executed and delivered by the Company and each Subsidiary, except that with respect to the sale of the Collateral which is pledged under the Pledge Agreements, such sale may be subject to compliance with certain Laws.

SECTION 5.4 Binding Agreements. This Agreement and each of the other Financing Documents executed and delivered by the Company and each Subsidiary have been properly executed by the Company and each Subsidiary, constitute valid and legally binding obligations of the Company and each Subsidiary, and are fully enforceable against the Company and each Subsidiary in accordance with their respective terms, subject to (a) bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally, (b) general principles of equity (regardless of whether such principles of equity are asserted in an action or proceeding at law or in equity) or the discretion of the court before which any action or proceeding may be brought and (c) other applicable laws which may limit the enforceability of certain of the remedial or procedural provisions contained in the Financing Documents.

SECTION 5.5 Litigation. There are no proceedings pending or, so far as the Company or any Subsidiary knows, threatened before any court or administrative agency which will materially adversely affect the financial condition or operations of the Company or any Subsidiary, or the authority of the Company or Subsidiary to enter into this Agreement or any of the other Financing Documents executed and delivered by the Company or any Subsidiary.

SECTION 5.6 No Conflicting Agreements. There is (a) no charter, by-law or preference stock provision of the Company or any Subsidiary and no provision of any existing mortgage, indenture, contract or agreement binding on the Company, or any Subsidiary, or affecting their properties, and (b) to the knowledge of the Company and each Subsidiary, no provision of law or order of court binding upon the Company or any Subsidiary, which would conflict with or in any way prevent the execution, delivery, or performance of the terms of this Agreement or of any of the other Financing Documents executed and delivered by the Company or any Subsidiary, or which would be violated as a result of such execution, delivery or performance.

SECTION 5.7 Financial Condition. The unaudited consolidated financial statements of the Company dated _____, 1998 are complete and correct and, in the

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opinion of the Company, fairly present the current financial condition of the Company on a consolidated basis as of the date and for the period referred to and have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved. There are no material liabilities, direct or indirect, fixed or contingent, of the Company, or any of its Subsidiaries as of the date of such financial statements which are not reflected therein or in the notes thereto. There has been no material adverse change in the financial condition or operations of the Company on a consolidated basis since the date of such financial statements (and to each Borrower's knowledge, no such material

adverse change is pending or threatened), and no Borrower has guaranteed the obligations of, or made any investments in or advances to, any company, individual or other entity, except as disclosed in such financial statements and on Schedule 5.7 hereto.

SECTION 5.8 Taxes. The Company and each Subsidiary has filed or has caused to have been filed all federal, state and local tax returns which, to the knowledge of the Company and each Subsidiary, are required to be filed, and has paid or caused to have been paid all taxes as shown on such returns or on any assessment received by it, to the extent that such taxes have become due, unless and to the extent only that such taxes, assessments and governmental charges are currently contested in good faith and by appropriate proceedings by the Company or such Subsidiary and adequate reserves therefor have been established as required under GAAP.

SECTION 5.9 Compliance With Law. The Company and each Subsidiary is not in violation of any applicable law, ordinance, governmental rule or regulation to which it is subject and each Borrower has obtained any and all material licenses, permits, franchises or other governmental authorizations necessary for the ownership of its properties and the conduct of its business, except to the extent such failure would not have a Material Adverse Effect.

SECTION 5.10 Places of Business and Location of Collateral. The Company and each Subsidiary warrants that the address of the Company's and each Subsidiary's chief executive office is as specified in EXHIBIT B attached hereto and made a part hereof and that the address of each other place of business of the Company and each Subsidiary, if any, is as disclosed to the Agent in EXHIBIT B. The Collateral and all books and records pertaining to the Collateral are and will be located at the address indicated on EXHIBIT B. The Company will promptly advise the Agent in writing of the opening of any new place of business or the closing of any Borrower's existing places of business, and of any change in the location of the places where the Collateral, or any part thereof, or the books and records concerning the Collateral, or any part thereof, are kept. The proper and only places to file financing statements with respect to the Collateral within the meaning of the Uniform Commercial Code are the State Department of Assessments and Taxation and the locations listed on EXHIBIT E. A copy of a fully executed financing statement shall be sufficient to satisfy for all purposes the requirements of a financing statement as set forth in Article 9 of the Maryland Uniform Commercial Code.

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SECTION 5.11 Title to Properties. The Company and each Subsidiary has good and marketable title to all of its properties, including the Collateral, and the Collateral is free and clear of Liens other than the Permitted Liens.

SECTION 5.12 Margin Stock. None of the proceeds of the Loan will be used, directly or indirectly, by the Company or any Subsidiary for the purpose of purchasing or carrying, or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry, any "margin security" within the meaning of Regulation G (12 CFR Part 207), or "margin stock" within the meaning of Regulation U (12 CFR Part 221), of the Board of Governors of the Federal Reserve System (herein called "margin security" and "margin stock") or for any other purpose which might make the transactions contemplated herein a "purpose credit" within the meaning of said Regulation G or Regulation U, or cause this Agreement to violate any other regulation of the Board of Governors of the Federal Reserve System or the Securities Exchange Act of 1934 or the Small Business Investment Act of 1958, as amended, or any rules or regulations promulgated under any of such statutes.

SECTION 5.13 ERISA. With respect to any "pension plan" as defined in Section 3(2) of ERISA, which plan is now or previously has been maintained or contributed to by the Company and/or by any Commonly Controlled Entity: (a) no "accumulated funding deficiency" as defined in Code ss.412 or ERISA ss.302 has occurred, whether or not that accumulated funding deficiency has been waived; (b) no "reportable event" as defined in ERISA ss.4043 has occurred, other than events for which reporting has been waived or which could not have a Material Adverse Effect; (c) no termination of any plan subject to Title IV of ERISA has occurred; (d) neither the Company nor any Commonly Controlled Entity has incurred a "complete withdrawal" within the meaning of ERISA ss.4203 from any multiemployer plan; that could have a Material Adverse Effect, (e) neither the

Company nor any Commonly Controlled Entity has incurred a "partial withdrawal" within the meaning of ERISA ss.4205 with respect to any multiemployer plan; (f) no multiemployer plan to which the Company or any Commonly Controlled Entity has an obligation to contribute is in "reorganization" within the meaning of ERISA ss.4241 nor has notice been received by the Company or any Commonly Controlled Entity that such a multiemployer plan will be placed in "reorganization".

SECTION 5.14 Governmental Consent. Neither the nature of any Borrower or of any Borrower's business or properties, nor any relationship between any Borrower and any other entity or person, nor any circumstance in connection with the making of the Loans, or the offer, issue, sale or delivery of the Notes is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority, on the part of any Borrower, as a condition to the execution and delivery of this Agreement or any of the other Financing Documents, the borrowing of the principal amounts of the Loans or the offer, issue, sale or delivery of the Note.

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SECTION 5.15 Subordinated Debt. None of the Subordinated Debt Loan Documents has been amended, supplemented, restated or otherwise modified except as otherwise disclosed to the Lender in writing on or before the date of this Agreement. In addition, there does not exist any default or any event which upon notice or lapse of time or both would constitute a default under the terms of any of the Subordinated Debt Loan Documents.

SECTION 5.16 Full Disclosure. The financial statements referred to in this Part V do not, nor does this Agreement, nor do any written statements furnished by any Borrower to the Agent in connection with the making of the Loans, contain any untrue statement of material fact or omit a material fact necessary to make the statements contained therein or herein when taken in their entirety in light of the circumstances under which they were made not misleading. There is no material fact which the Borrowers have not disclosed to the Agent in writing with respect to the transactions contemplated hereby which materially adversely affects or, will or could prove to materially adversely affect the properties, business, prospects, profits or condition (financial or otherwise) of the Borrowers or the ability of any Borrower to perform its obligation under this Agreement.

SECTION 5.17 Presence of Hazardous Materials or Hazardous Materials Contamination. To the best of each Borrower's knowledge, (a) no Hazardous Materials are located on any real property owned, controlled or operated by of any Borrower or for which any Borrower is responsible, except for reasonable quantities of necessary supplies for use by any Borrower in the ordinary course of the its current line of business and stored, used and disposed in accordance with applicable Laws; and (b) no property owned, controlled or operated by any Borrower has ever been used as a manufacturing, storage, or dump site for Hazardous Materials nor is affected by Hazardous Materials Contamination at any other property.

SECTION 5.18 Intellectual Property. Each Borrower owns or possesses all of the material patents, trademarks, service marks, trade names, copyrights and licenses and all rights with respect thereto necessary for the present operation of its business, to the best of each Borrower's knowledge without any conflict with the rights of any other Person.

SECTION 5.19 Business Names and Addresses. Except a set forth in Schedule 5.19, in the twelve (12) years preceding the date hereof, no Borrower has conducted business under any name other than its current name nor conducted its business in any jurisdiction other than those disclosed on EXHIBIT B attached hereto.

SECTION 5.20 Year 2000 Compliance. (a) The Borrowers have (i) begun analyzing the operations of the Company and its Subsidiaries and affiliates that could be adversely affected by failure to become Year 2000 compliant (that is, that computer applications, imbedded microchips and other systems will be able to perform date-sensitive functions prior to and after December 31, 1999) and; (ii) developed a plan for becoming Year 2000 compliant in a timely manner, the implementation of which is on schedule in all material respects. Each

Borrower reasonably believes that it will become Year 2000 compliant for its operations and those of its subsidiaries and affiliates on a timely basis except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

(b) Each Borrower reasonably believes any suppliers and vendors that are material to the operations of the Company or its Subsidiaries and affiliates will be Year 2000 compliant for their own computer applications except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

(c) The Company will promptly notify the Agent in the event any Borrower determines that any computer application which is material to the operations of the Company, its Subsidiaries or any of its material vendors or suppliers will not be fully Year 2000 compliant on a timely basis, except to the extent that such failure could not reasonably be expected to have a Material Adverse Effect.

SECTION 5.21 Perfection and Priority of Collateral. The Agent has, or upon execution and recording of this Agreement and the Security Documents will have, and will continue to have as security for the Obligations, a valid and perfected Lien on and security interest in all Collateral, free of all other Liens, claims and rights of third parties whatsoever except Permitted Liens.

SECTION 5.22 Equipment. To the best of the Borrowers' knowledge, all Equipment is personalty and is not and will not be affixed to real estate in such manner as to become a fixture or part of such real estate. No equipment is held by any Borrower on a sale on approval basis.

SECTION 5.23 Inventory. The Inventory of each Borrower is (a) of good and merchantable quality, free from defects, (b) not stored with a bailee, warehouseman, carrier, or similar party, (c) not on consignment, sale on approval, or sale or return, and (d) located at the places of business set forth on Exhibit B hereto. No goods offered for sale by, or in the possession or control of, any Borrower are consigned to or held on sale or return terms by any Borrower.

SECTION 5.24 No Default. There is no Event of Default (as hereinafter defined) and no event has occurred and no condition exists and is continuing which with the giving of notice or the passage of time would constitute an Event of Default. The Borrowers are not in default under the terms of any other agreement or instrument to which it may be a party or by which the Collateral or any of its properties may be bound or subject, except where such default could not result in a Material Adverse Effect.

VI. CONDITIONS OF LENDING

The making of the Loan and any advance thereunder is subject to the following conditions precedent:

SECTION 6.1 Opinion of Counsel for the Borrowers. On the date hereof, the Agent shall receive the favorable written opinion of counsel for the Borrowers satisfactory in all respects to the Agent.

SECTION 6.2 Approval of Counsel for the Agent. All legal matters incident to the Loans and all documents necessary in the opinion of the Agent to make the Loans shall be satisfactory in all material respects to counsel for the Agent.

SECTION 6.3 Supporting Documents. The Agent shall receive on the date hereof: (a) a certificate of the Secretary of each Borrower, in a form acceptable to the Agent in all respects, dated as of the date hereof and certifying (i) that attached thereto is a true, complete and correct copy of resolutions adopted by the Board of Directors of such Borrower authorizing the

execution and delivery of this Agreement, the Notes and the other Financing Documents, and the Obligations, and (ii) as to the incumbency and specimen signature of each officer of such Borrower executing this Agreement, the Notes and the other Financing Documents, and a certification by the President or any Vice President of such Borrower as to the incumbency and signature of the Secretary of such Borrower; (b) such other documents as the Agent may reasonably require each Borrower to execute, in form and substance acceptable to the Agent; and (c) such additional information, instruments, opinions, documents, certificates and reports as the Agent may reasonably deem necessary.

SECTION 6.4 Financing Documents. All of the Financing Documents required by the Agent shall be executed, delivered and, if deemed necessary by the Agent, recorded, all at the sole expense of the Borrowers.

SECTION 6.5 Insurance. The Borrowers shall have satisfied the Agent that any and all insurance required by this Agreement is in effect as of the date of this Agreement, and that, to the extent required by the Financing Documents, the Agent has been named as an insured lienholder.

SECTION 6.6 Security Documents. In order to perfect the lien and security interest created by this Agreement, the Borrowers shall have executed and delivered to the Agent all financing statements and Security Documents (in form and substance acceptable to the Agent in its sole discretion) deemed necessary by the Agent, in a sufficient number of counterparts for recordation, and, at the Borrowers' sole expense, shall record all such financing statements and Security Documents, or cause them to be recorded, in all public offices deemed necessary by the Agent.

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SECTION 6.7 Termination Statements. The Agent shall have received from creditors of each Borrowers all termination statements covering the Collateral required by the Agent. The termination statements shall be fully and properly executed, in recordable form and sufficient, in the opinion of counsel for the Agent, to terminate the interests of other creditors of each Borrowers in the Collateral.

SECTION 6.8 Subordinated Indebtedness. The Agent shall have received the fully executed Subordination Agreement in form and content acceptable to the Agent. The Agent shall have received and approved copies of the fully executed Subordinated Debt Loan Documents, all of which must be in form and content acceptable to the Agent.

SECTION 6.9 Subordinated Indebtedness . The Agent shall have received a certificate signed by a Responsible Officer of the Company, certifying to the Agent that the Company (a) has received the proceeds of the Subordinated Debt, in accordance with, and pursuant to, the terms and conditions of the Subordinated Debt Loan Documents, and have applied the same to such purposes as has been previously disclosed to, and approved by, the Agent, and (b) the Subordinated Debt Loan Documents which the Company has delivered to the Agent is a true and correct photocopy of all Subordinated Debt Loan Documents.

SECTION 6.10 Compliance. At the time of the making of each advance hereunder (a) the Company and each Subsidiary shall have complied and shall then be in compliance with all the terms, covenants and conditions of this Agreement which are binding upon it, (b) there shall exist no Event of Default and no event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, and (c) the representations and warranties contained in Part V shall be true with the same effect as though such representations and warranties had been made at the time of the making of the advance.

SECTION 6.11 Conditions Subsequent. Each Lender's obligation to made advances under the Loans is expressly conditioned upon (i) the Agent's receipt of the fully executed Lease Assignments promptly after the Closing Date, but not more than fifteen (15) days after the Closing Date, and (ii) each Borrower using its best efforts in good faith to obtain, within forty-five (45) days of Closing Date, lessor consents as may be reasonably required for the Lease Assignments. The Lease Assignments and all lessor consents shall be in a form satisfactory to the Agent.

VII. AFFIRMATIVE COVENANTS OF BORROWERS

Until payment in full and the performance of all of the Obligations hereunder, the Company shall, and shall cause each of its Subsidiaries to:

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SECTION 7.1 Financial Statements. Furnish to the Agent:

(a) Annual Statements and Certificates. As soon as available but in no event more than ninety (90) days after the close of each of the Company's fiscal years, a copy of the consolidated and consolidating audited financial statement relating to the Company and its Subsidiaries in reasonable detail satisfactory to the Agent, prepared in accordance with GAAP and certified by an independent certified public accountant satisfactory to the Agent, which financial statement shall include a balance sheet as at the end of such fiscal year, profit and loss statement and a statement of changes in financial condition. The annual statements shall be in such detail as Agent may reasonably require and will provide, among other things, detail with regard to expenses, lease expense, non-cash charges and interest expense and shall be accompanied by a certificate in form and detail satisfactory to the Agent in all material respects (the "Compliance Certificate") of that officer stating whether any event has occurred which constitutes an Event of Default or which would constitute an Event of Default with the giving of notice or the lapse of time or both, and, if so, stating the facts with respect thereto. Each Compliance Certificate will clearly set forth the methodology used in determining compliance and/or non-compliance with all financial covenants and shall state the basis for determining the Additional Prime Rate Percentage and the Additional LIBOR Rate Percentage under the Note. In addition, the Company shall provide to the Agent within sixty (60) days of the close of each of the Company's fiscal years an annual budget for the Company and each Subsidiary for the following fiscal year

(b) Annual Opinion of Accountant. As soon as available but in no event more than ninety (90) days after the close of each of the Company's fiscal years, a letter or opinion of the independent certified public accountant who examined the annual financial statement relating to the Company and its Subsidiaries stating whether anything in such certified public accountant's examination has revealed the occurrence of an event which constitutes an Event of Default or which would constitute an Event of Default with the giving of notice or the lapse of time or both, and, if so, stating the facts with respect thereto.

(c) Quarterly Statements and Certificates. As soon as available but in no event more than forty five (45) days after the close of each of the Company's fiscal quarters, other than the fourth fiscal quarter, consolidated and consolidating balance sheets of the Company and its Subsidiaries as at the close of such period and consolidated and consolidating income and expense statements for such period, and an aging of accounts receivable, all certified by the principal financial officer of the Company. The quarterly statements shall be in such detail as Agent may reasonably require and shall be accompanied by a Compliance Certificate. Each Compliance Certificate will clearly set forth the methodology used in determining compliance and/or non-compliance and shall set forth the basis for determining the Additional Prime Rate Percentage and the Additional LIBOR Rate Percentage under the Note.

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(d) Reports to SEC and to Stockholders. The Company will furnish to the Agent, promptly upon the filing or making thereof, but not later than fifteen (15) days after the date of filing, at least one (1) copy of all financial statements, reports, notices and proxy statements sent by any Borrower to its stockholders, and of all regular and other reports filed by any Borrower with any securities exchange or with the Securities and Exchange Commission.

(e) Additional Reports and Information. With reasonable promptness, such additional information, reports or statements as the Agent may from time to time reasonably request.

SECTION 7.2 Financial Covenants.

(a) Fixed Charge Coverage Ratio. Maintain for the trailing twelve (12) months, a Fixed Charge Ratio of not less than the following amounts as of the following dates:

Fixed Charge Coverage Ratio:	Fiscal Quarter Ending:
Not less than 1.15 to 1.0	Closing Date through September 30, 2000;
Not less than 1.20 to 1.0	December 31, 2000 through March 31,
2001; and	
Not less than 1.30 to 1.0	June 30, 2001 and at all times thereafter.

(b) Funded Debt to EBITDA. Maintain, a ratio of Funded Debt to EBITDA not greater than the following amounts at the following times, tested as of the last day of each of the Company's fiscal quarters for the four (4) quarter period ending on that date:

Funded Debt To EBITDA:	Fiscal Quarter Ending:
4.25 to 1.0	Closing Date through September 30, 1999;
4.00 to 1.0	December 31, 1999 through March 31,
	2000; and
3.50 to 1.0	June 30, 2000 and at all times thereafter.

(c) Current Ratio. Maintain a Current Ratio of not less than 1.30 to 1.0, tested as of the last day of each of the Company's fiscal quarters.

(d) Minimum EBITDA. Maintain at all times a minimum EBITDA (the "EBITDA Requirements") of not less than the following amounts at the following times:

Minimum EBITDA:	Fiscal Quarter Ending:
\$11,000,000	Closing Date through June 30, 1999;

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\$12,500,000	September 30, 1999;
\$13,000,000	December 31, 1999; and
\$14,500,000	March 31, 2000 and at all times thereafter.

SECTION 7.3 Taxes and Claims. Pay and discharge and cause each of its Subsidiaries to pay and discharge, all taxes, assessments and governmental charges or levies imposed upon it or any of its income or properties prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a Lien upon any of its properties; provided, however, the Company and the Subsidiaries shall not be required to pay any such tax, assessment, charge, levy or claim, the payment of which is being contested in good faith and by proper proceedings.

SECTION 7.4 Corporate Existence. Maintain, and cause each of its Subsidiaries to maintain, its corporate existence in good standing in the jurisdiction in which it is incorporated and in each jurisdiction where it is required to register or qualify to do business, except where such failure could not have a Material Adverse Effect.

SECTION 7.5 Compliance with Laws. Comply, and cause each of its Subsidiaries to comply, with all applicable federal, state and local laws, rules and regulations to which it is subject and the violation of which could have a Material Adverse Effect.

SECTION 7.6 Governmental Regulation. Promptly notify the Agent in the event that the Company or any Subsidiary receives any notice, claim or demand from any governmental agency which alleges that the Company or any Subsidiary is in violation of any of the terms of, or has failed to comply with any applicable order issued pursuant to any federal or state statute regulating its operation and business, including, but not limited to, the Occupational Safety and Health Act and the Environmental Protection Act.

SECTION 7.7 Litigation. Give prompt notice in writing, with a full

description to the Agent, of all litigation and of all proceedings before any court or any governmental or regulatory agency affecting the Company or any Subsidiary which, if adversely decided, could have a Material Adverse Effect.

SECTION 7.8 Use of Proceeds. Use the proceeds of the Loan for the purpose or purposes set forth in Recital B above and, without the prior written consent of the Agent, for no other purpose or purposes.

SECTION 7.9 Maintenance of Properties. Keep, and cause the Subsidiaries to keep and maintain, its properties, whether owned in fee or otherwise, or leased, in good operating condition (normal wear and tear excepted); make and, cause the Subsidiaries to make, all proper repairs, renewals, replacements, additions and improvements thereto needed to maintain such

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properties in good operating condition; comply, and cause the Subsidiaries to comply, with the material provisions of all material leases to which it is party or under which it occupies property so as to prevent any loss or forfeiture thereof or thereunder; and comply, or cause the Subsidiaries to comply, with all laws, rules, regulations and orders applicable to its properties or business or any part thereof and the violation of which could have a Material Adverse Effect.

SECTION 7.10 Other Liens, Security Interests, etc. Keep, and cause the Subsidiaries to keep, its material properties and assets, including, without limitation, the Collateral, free from all Liens, of every kind and nature, other than the security interest granted to the Agent and the Lenders pursuant to this Agreement and the Permitted Liens.

SECTION 7.11 Books and Records. (a) Keep and maintain and cause the Subsidiaries to keep and maintain accurate books and records, (b) make and cause the Subsidiaries to make entries on such books and records in form satisfactory to the Agent disclosing the Agent's assignment of, and security interest in and lien on, the Collateral and all collections received by the Company or any of the Subsidiaries on its Accounts, (c) furnish and cause the Subsidiaries to furnish to the Agent promptly upon request such information, reports, contracts, invoices, lists of purchases of Inventory (showing names, addresses and amount owing) and other data concerning Account Debtors and the Company's and the Subsidiaries' Accounts and Inventory and all contracts and collection(s) relating thereto as the Agent may from time to time specify, (d) unless the Agent shall otherwise consent in writing, keep and maintain and cause the Subsidiaries to keep and maintain all such books and records mentioned in (a) above only at the addresses listed in EXHIBIT B, and (e) permit and cause the Subsidiaries to permit any Person designated by the Agent to enter the premises of the Company and each of the Subsidiaries and examine, audit and inspect the books and records at any reasonable time and from time to time without notice.

SECTION 7.12 Business Names. Immediately notify, and cause each of the Subsidiaries to notify, the Agent of any change in the name under which it conducts its business.

SECTION 7.13 ERISA. Maintain at all times such bonding as is required by ERISA. As soon as practicable and in any event within fifteen (15) days after it knows or has reason to know that, with respect to any plan, a "reportable event" has occurred, the Company will deliver to the Agent a certificate signed by its chief financial officer setting forth the details of such "reportable event". The Company shall agree that with respect to any pension plan which the Company and/or any Commonly Controlled Entity maintains or contributes to, either now or in the future, that: (a) such bonding as is required under ERISA will be maintained; (b) as soon as practicable and in any event within fifteen (15) days after the Company or any Commonly Controlled Entity knows or has reason to know that a "reportable event" has occurred or is likely to occur, the Company will deliver to the Agent a certificate signed by its chief financial officer setting forth the details of such "reportable event"; (c) within fifteen (15) days after notice is received by the Company or any Commonly Controlled Entity that any

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multiemployer plan has been or will be placed in "reorganization" within the meaning of ERISA ss.4241, the Company will notify the Agent to that effect; and (d) upon the Agent's request, the Company will deliver to the Agent a copy of the most recent actuarial report, financial statements and annual report completed with respect to any "defined benefit plan", as defined in ERISA ss.3(35).

SECTION 7.14 Management. Promptly notify the Agent of any contemplated changes in its Senior Management subsequent to the date hereof.

SECTION 7.15 Banking Relationship. Maintain the Agent as its principal depository.

SECTION 7.16 Notification of Events of Default and Adverse Developments. The Borrowers will promptly notify the Agent upon obtaining knowledge of the occurrence of:

- (a) any Event of Default;
- (b) any Default;
- (c) any event, development or circumstance whereby the financial statements furnished hereunder fail in any material respect to present fairly, in accordance with GAAP, the financial condition and operational results of the Company or its Subsidiaries;
- (d) any judicial, administrative or arbitral proceeding pending against the Company or any of its Subsidiaries and any judicial or administrative proceeding known by the Company to be threatened against it or any of its Subsidiaries which, if adversely decided, could have a Material Adverse Effect; and
- (e) any other development in the business or affairs of the Company and any of its Subsidiaries which could have a Material Adverse Effect;

in each case describing in detail satisfactory to the Agent the nature thereof and, in the case of notification under clauses (a) and (b), the action the Company proposes to take with respect thereto.

SECTION 7.17 Insurance Generally. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible insurance companies on such of its properties, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity; maintain general public liability insurance against claims for personal injury, death or property damage in such amounts as are satisfactory to the Agent in its reasonable

discretion and workmen's compensation insurance in statutory amounts with such companies as are licensed to do business in the state requiring the same; file, and cause each of its Subsidiaries to file, with the Agent, upon its request, a detailed list of the insurance then in effect and stating the names of the insurance companies, the amounts and rates of the insurance, dates of the expiration thereof and the properties and risks covered thereby; and, within thirty (30) days after notice in writing from the Agent, obtain, and cause each of its Subsidiaries to obtain, such additional insurance as the Agent may reasonably request.

SECTION 7.18 Maintenance of the Collateral. Not permit anything to be done to the Collateral which may materially impair the value thereof, other than normal wear and tear on tangible collateral and the sale of Inventory in the ordinary course of business for fair consideration. The Agent, or an agent designated by the Agent, shall be permitted to enter the premises of the Company, and the Subsidiaries, and examine, audit and inspect the Collateral at any reasonable time and from time to time without notice. The Agent agrees to act in a commercially reasonable manner when inspecting, examining or auditing the Collateral. The Agent shall not have any duty to, and the Borrowers hereby release the Agent and each Lender from all claims of loss or damage caused by

the delay or failure to collect or enforce any of the Accounts or to, preserve any rights against any other party with an interest in the Collateral.

SECTION 7.19 Defense of Title and Further Assurances. At its expense defend the title to the Collateral (or any part thereof), and promptly upon request execute, acknowledge and deliver any financing statement, renewal, affidavit, deed, assignment, continuation statement, security agreement, certificate or other document the Agent may reasonably require in order to perfect, preserve, maintain, protect, continue and/or extend the lien or security interest granted to the Agent and the Lenders under this Agreement and its priority. The Borrowers shall pay to the Agent on demand all taxes, costs and reasonable expenses incurred by the Agent in connection with the preparation, execution, recording and filing of any such document or instrument.

SECTION 7.20 Subsequent Opinion of Counsel as to Recording Requirements. Provide to the Agent a subsequent opinion of counsel as to the filing, recording and other requirements with which the Company and the Subsidiaries have complied to maintain the lien and security interest in favor of the Agent in the Collateral in the event that the Company or any Subsidiary shall transfer its principal place of business or the office where it keeps its records pertaining to the Accounts.

SECTION 7.21 Assignments of Accounts. Promptly, upon request, execute and deliver to the Agent written assignments, in form and content acceptable to the Agent, of specific Accounts or groups of Accounts; provided, however, the lien and/or security interest granted to the Agent and each of the Lenders under this Agreement shall not be limited in any way to or by the inclusion or exclusion of Accounts within such assignments. Such Accounts shall secure payment of the Obligations and are not sold to the Agent whether or not any assignment thereof, which is separate from this Agreement, is in form absolute.

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SECTION 7.22 Notice of Returned Goods, etc. Promptly notify and cause the Subsidiaries to promptly notify the Agent of the return, rejection or repossession of any material amount of goods sold or delivered in respect of any Accounts, and of any claims made in regard thereto. Whenever any Borrower obtains possession (by return, rejection, repossession or otherwise) of any material amount of goods, the sale or lease of which gave rise to an Account, the Borrowers will (if requested by the Agent) physically segregate such goods from the any Borrower's other property, and label and hold such goods as trustee for the Agent for such disposition as the Agent may direct.

SECTION 7.23 Collections. Until such time as the Agent shall notify the Company and each of the Subsidiaries of the revocation of such privilege, the Company and each of the Subsidiaries (a) shall at its own expense have the privilege for the account of and in trust for the Agent of collecting its Accounts and receiving in respect thereto all items of payment and shall otherwise completely service all of the Accounts including (i) the billing, posting and maintaining of complete records applicable thereto, and (ii) the taking of such action with respect to such Accounts as the Agent may request or in the absence of such request, as the Company and each of the Subsidiaries may deem advisable; and (b) may grant, in the ordinary course of business, to any Account Debtor, any discount, rebate, refund or adjustment to which the Account Debtor may be lawfully entitled, and may accept, in connection therewith, the return of goods, the sale or lease of which shall have given rise to an Account. The Agent may, at its option, at any time or from time to time after default hereunder and continuation thereof, revoke the collection privilege given to the Company and each of the Subsidiaries herein by either giving notice of its assignment of, and lien on the Collateral to the Account Debtors or giving notice of such revocation to the Company.

SECTION 7.24 Notice to Account Debtors and Escrow Account. In the event (a) an Event of Default exists or (b) an event has occurred or condition exists and is continuing which, with the giving of notice or the lapse of time will constitute an Event of Default, the Company and the Subsidiaries shall promptly upon the request of the Agent (a) in such form and at such times as specified by the Agent, give notice of the Agent's lien on the Accounts to the Account Debtors requiring the Account Debtors to make payments thereon directly to the Agent, (b) promptly upon receipt deposit the Items of Payment into the Collateral Account in the original form received by the Company and the

Subsidiaries (except for the endorsement of the Company and the Subsidiaries where necessary, which endorsement each Borrower agrees to make, and the Agent, by its duly authorized officers or nominee, is also hereby irrevocably authorized to make such endorsement on each Borrower's behalf). Pending deposit thereof to the Collateral Account, the Company and the Subsidiaries shall not commingle any Items of Payment with any of its other funds or property, but will hold them separate and apart therefrom in trust and for the account of the Agent until deposit to the Collateral Account or other delivery thereof is made to the Agent. The Agent will in its discretion apply the whole or any part of the collected funds credited to the Collateral Account against the Obligations or credit such collected

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funds to the depository account of the Borrowers with the Agent, the order and method of such application to be in the sole discretion of the Agent.

SECTION 7.25 Government Accounts. Immediately notify the Agent if any of the Accounts arise out of contracts with the United States or with any state or political subdivision thereof or any department, agency or instrumentality of the United States, or any state or political subdivision thereof, and execute any instruments and take any steps required by the Agent in order that all moneys due and to become due under such contracts shall be assigned to the Agent and notice thereof given to the government under the Federal Assignment of Claims Act or any other applicable law.

SECTION 7.26 Hazardous Materials; Contamination. The Borrowers agree to (a) give notice to the Agent promptly upon any Borrower's acquiring knowledge of the presence of any Hazardous Materials on any property owned or controlled by any Borrower or for which any Borrower is responsible or of any Hazardous Materials Contamination with a full description thereof, except for reasonable quantities of necessary supplies for use by such Borrower in the ordinary course of the its current line of business and stored, used and disposed in accordance with applicable Laws; (b) promptly comply with any Laws requiring the removal, treatment or disposal of Hazardous Materials or Hazardous Materials Contamination and provide the Agent with satisfactory evidence of such compliance; (c) provide the Agent, within thirty (30) days after a demand by the Agent, with a bond, letter of credit or similar financial assurance evidencing to the Agent's satisfaction that the necessary funds are available to pay the cost of removing, treating, and disposing of such Hazardous Materials or Hazardous Materials Contamination and discharging any Lien which may be established as a result thereof on any property owned or controlled by any Borrower or for which any Borrower is responsible; and (d) defend, indemnify and hold harmless the Agent and its agents, employees, trustees, successors and assigns from any and all claims which may now or in the future (whether before or after the termination of this Agreement) be asserted as a result of the presence of any Hazardous Materials on any property owned or controlled by any Borrower for which any Borrower is responsible for any Hazardous Materials Contamination.

SECTION 7.27 Equipment. The Borrowers shall (a) maintain all Equipment as personalty, (b) not affix any Equipment to any real estate in such manner as to become a fixture or part of such real estate, and (c) shall hold no Equipment on a sale on approval basis. The Borrowers hereby declare their intent that, notwithstanding the means of attachment, no goods of the Borrowers hereafter attached to any realty shall be deemed a fixture, which declaration shall be irrevocable, without the Agent's consent, until all of the Obligations have been paid in full and all of the commitments have been terminated.

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VIII. NEGATIVE COVENANTS OF BORROWERS

Until payment in full and the performance of all of the Obligations, without the prior written consent of the Agent, the Company will not and will neither cause nor permit any of its Subsidiaries to, directly or indirectly:

SECTION 8.1 Borrowings. Create, incur, assume or suffer to exist any

Indebtedness for Borrowed Money in excess of One Million Dollars (\$1,000,000) in the aggregate at any one time, including capital leases, purchase money security interests, except (a) borrowings in existence on the date hereof and reflected on the financial statements which the Borrowers furnished to the Agent in writing prior to the date hereof, (b) borrowings secured by Permitted Liens, and (c) the Subordinated Debt.

SECTION 8.2 Mortgages and Pledges. Create, incur, assume or suffer to exist any Lien on any of its property or assets, whether now owned or hereafter acquired, except for Permitted Liens.

SECTION 8.3 Method of Accounting. Change the method of accounting employed in the preparation of the financial statements furnished prior to the date of this Agreement to the Agent pursuant to Part V of this Agreement, unless required to conform to GAAP and on the condition that the Company's accountants shall furnish such information as the Agent may request to reconcile the changes with the Company's prior consolidated financial statements.

SECTION 8.4 Merger, Acquisition or Sale of Assets.

(a) The Company and each Subsidiary shall not alter or amend its capital structure or authorize any additional class of equity, except that the issuance or sale of additional securities of the Company, at fair market value taking into account the restrictions on resale of such securities, as applicable, and issuances under the Company's stock option and employee stock purchase plans shall not be deemed an alteration or amendment to its capital structure or authorization of additional class of equity, except as permitted under subsection (b) hereof, or sell, lease or otherwise dispose of any of net assets in excess of One Million Dollars (\$1,000,000) in the aggregate, during any twelve (12) month period.

(b) The Company may not acquire by merger, stock purchase or asset purchase all or substantially all the assets of any Person or make investments in any such during the existence of this Agreement.

SECTION 8.5 Advances and Loans. Lend money, give credit or make advances to any Person which exceed \$100,000 in the aggregate, including, without limitation, officers,

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directors, employees, Subsidiaries and Affiliates of the Company, other than intercompany accounts and loans or advances to Subsidiaries, made in the ordinary course of business.

SECTION 8.6 Dividends. No Borrowers will purchase, redeem or otherwise acquire any shares of its capital stock or warrants now or hereafter outstanding, declare or pay any dividends thereon (other than other than dividends between the Company and the Subsidiaries or between Subsidiaries) apply any of its property or assets to the purchase, redemption or other retirement of, set apart any sum for the payment of any dividends on, or for the purchase, redemption, or other retirement of, make any distribution by reduction of capital or otherwise in respect of, any shares of any class of capital stock of any Borrower, or any warrants, permit any Subsidiary to purchase or acquire any shares of any class of capital stock of, or warrants issued by, any Company, make any distribution to stockholders or set aside any funds for any such purpose, and not prepay, purchase or redeem any Indebtedness for Borrowed Money other than the Obligations, except upon the exercise of outstanding warrants in accordance with their terms, and pursuant to the Company's employee stock purchase and stock option plans.

SECTION 8.7 Contingent Liabilities. Assume, guarantee, endorse, contingently agree to purchase or otherwise become liable upon the obligation of any Person, except (a) by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business and (b) guaranties by any Borrower of contractual obligations (other than for the payment of borrowed money) of any Wholly Owned Subsidiary of the Company..

SECTION 8.8 Investments. Purchase or acquire the obligations or stock of, or any other or additional interest in, any Person, except (a) obligations of,

or obligations unconditionally guaranteed as to principal and interest by, the United States of America, (b) bonds, debentures, participation certificates or notes issued by any agency or corporation which is or may hereafter be created by Act of the Congress of the United States as an agency or instrumentality thereof, (c) Public Housing Bonds, Temporary Note or Preliminary Loan Notes, fully secured by contracts with the United States, and (d) certificates of deposit issued by the Agent.

SECTION 8.9 Subsidiaries. Except as permitted under Section 8.04 of this Agreement, create or acquire any Subsidiaries other than the Subsidiaries existing as of the date hereof.

SECTION 8.10 Additional Stock. Issue any additional stock of any class, except stock of an existing class issued as a stock split or a stock dividend or as permitted under Section 8.04, upon exercise of outstanding warrants, or in the case of a Subsidiary, in connection with the merger or consolidation of a Wholly Owned Subsidiary into the Company, where the Company is the sole surviving corporation, or into another Wholly Owned Subsidiary, provided, further, however, that any additional stock issued in connection with any of the preceding shall be

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delivered to the Agent together with a Pledge Agreement and such additional documents and information as the Agent may require.

SECTION 8.11 ERISA Compliance. Neither the Company nor any Commonly Controlled Entity will: (a) engage in or permit any "prohibited transaction" (as defined in ERISA); (b) cause any "accumulated funding deficiency" as defined in ERISA and/or the Internal Revenue Code; (c) terminate any pension plan in a manner which could result in the imposition of a lien on the property of any Borrower pursuant to ERISA; (d) terminate or consent to the termination of any Multiemployer Plan; or (e) incur a complete or partial withdrawal with respect to any Multiemployer Plan.

SECTION 8.12 Prohibition on Hazardous Materials. The Borrowers shall not place, manufacture or store or permit to be placed, manufactured or stored any Hazardous Materials on any property owned, controlled or operated by any Borrower or for which any Borrower is responsible, except for reasonable quantities of necessary supplies for use by such Borrower in the ordinary course of business and stored, used and disposed in accordance with all applicable Laws.

SECTION 8.13 Transfer of Collateral. Transfer, or permit the transfer, to another location of any of the Collateral or the books and records related to any of the Collateral; provided, however, that the Borrowers may transfer the Collateral or the books and records related thereto to another location if (a) the Company shall have provided to the Agent prior to such transfer an opinion of counsel addressed to the Agent to the effect that the Agent's perfected security interest shall not be affected by such move or if it shall be affected, setting forth the steps necessary to continue the Agent's perfected security interest together with the commencement of such steps by the Company at its expense, and shall have taken such steps, or (b) such Collateral is immaterial in value and constitutes items or goods used, consumed, leased or sold in the ordinary course of business.

SECTION 8.14 Sale and Leaseback. Directly or indirectly enter into any arrangement to sell or transfer all or any substantial part of its fixed assets then owned by it and thereupon or within one year thereafter rent or lease the assets so sold or transferred.

SECTION 8.15 Sale of Accounts. Sell, discount, transfer, assign or otherwise dispose of any of its Accounts, notes receivable, installment or conditional sales agreements or any other rights to receive income, revenues or moneys, however evidenced.

SECTION 8.16 Line of Business. Enter into any lines or areas of business which do not complement the Borrowers' current line of business.

SECTION 8.17 Liquidation, Termination, Dissolution, Change in Management,

etc. The Borrowers shall not liquidate, dissolve or terminate its existence or suspend or

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terminate a substantial portion of their business operations, change the conduct of their businesses, including, but not limited to, acquiring a line of business which does not complement any Borrower's current line of business, or changing the composition of more than two (2) members of the Senior Management of the Company without the prior written consent of the Agent.. For purposes hereof, a change in ownership would include any Person indirectly or directly being a beneficial owner of more than thirty percent (30%) of the total voting power of the voting stock of any Borrower.

SECTION 8.18 Subordinated Indebtedness. The Borrowers will not, and will not permit any Subsidiary to make:

(a) any payment of principal of, or interest on, any of the Subordinated Indebtedness, including, without limitation, the Subordinated Debt, if prohibited by the Subordination Agreement or if any Event of Default then exists hereunder or would result from such payment;

(b) any payment of the principal or interest due on the Subordinated Indebtedness as a result of acceleration thereunder or a mandatory prepayment thereunder;

(c) any amendment or modification of or supplement to the documents evidencing or securing the Subordinated Indebtedness; and

(d) payment of principal or interest on the Subordinated Indebtedness other than when due (without giving effect to any acceleration of maturity or mandatory prepayment).

IX. EVENTS OF DEFAULT

The occurrence of one or more of the following events shall be a "Default" under this Agreement, and the term "Default" shall mean, whenever it is used in this Agreement, any one or more of the following events:

SECTION 9.1 Failure to Pay. The Borrowers shall fail to (a) make any payment of principal or interest on the Notes or (b) pay any of the Obligations, when and as the same shall become due and payable, and such failure shall continue for ten (10) days.

SECTION 9.2 Breach of Representations and Warranties. Any representation or warranty made herein or in any report, certificate, opinion (including any opinion of counsel for the Borrowers), financial statement or other instrument furnished in connection with the Obligations or with the execution and delivery of any of the Financing Documents, shall prove to have been false or misleading when made in any material respect.

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SECTION 9.3 Failure to Comply with Insurance Provisions. The Borrowers shall fail to duly and promptly perform, comply with or observe the terms, covenants, conditions and agreements set forth in SECTION 7.17.

SECTION 9.4 Failure to Comply with Covenants. Default shall be made by any Borrower in the due observance and performance of any covenant, condition or agreement contained in SECTIONS 7.02, 7.04 or 7.08 hereof or in Part VIII hereof.

SECTION 9.5 Other Defaults. Default shall be made by any Borrower in the due observance or performance of any other term, covenant or agreement herein contained, which default shall remain unremedied for thirty (30) days after written notice thereof to the Company by the Agent.

SECTION 9.6 Default Under Other Financing Documents. An event of default shall occur under any of the other Financing Documents, and such event of default is not cured within any applicable grace period provided therein.

SECTION 9.7 Receiver; Bankruptcy. The Company or any Subsidiary shall (a) apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, (b) admit in writing its inability to pay its debts as they mature, (c) make a general assignment for the benefit of creditors, (d) be adjudicated a bankrupt or insolvent, (e) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law or if corporate action shall be taken by the Company or any Subsidiary for the purposes of effecting any of the foregoing, or (f) by any act indicate its consent to, approval of or acquiescence in any such proceeding or the appointment of any receiver or trustee for any of its property, or suffer any such receivership, trusteeship or proceeding to continue undischarged for a period of sixty (60) days.

SECTION 9.8 Judgment. Unless adequately insured in the opinion of the Agent, the entry of a final judgment for the payment of money involving more than \$500,000 against the Company or any Subsidiary and the failure by the Company or such Subsidiary to discharge the same, or cause it to be discharged, within thirty (30) days from the date of the order, decree or process under which or pursuant to which such judgment was entered, or to secure a stay of execution pending appeal of such judgment.

SECTION 9.9 Execution; Attachment. Any execution or attachment shall be levied against the Collateral, or any part thereof, and such execution or attachment shall not be set aside, discharged or stayed within thirty (30) days after the same shall have been levied.

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SECTION 9.10 Default Under Other Borrowings. Default shall be made with respect to any evidence of indebtedness or liability for borrowed money (other than the Loan), including, but not limited to any Subordinated Indebtedness if the effect of such default is to accelerate the maturity of such evidence of indebtedness or liability or to permit the holder or obligee thereof to cause any indebtedness to become due prior to its stated maturity.

SECTION 9.11 Material Adverse Change. If the Agent in its sole discretion determines in good faith that a material adverse change has occurred in the financial condition of any Borrower from the financial condition set forth in the financial statements dated _____, 1998 or from the financial condition of the Borrowers most recently disclosed to the Agent in any manner.

SECTION 9.12 Change in Management. Any change in the composition of more than two (2) members of the Senior Management of the Company, unless a replacement member of Senior Management satisfactory in all respects to the Lender is hired within ninety (90) days of such change.

SECTION 9.13 Audit Results. If the results of any audits of the Company's or any Subsidiary's books and records or the Collateral is unsatisfactory.

X. RIGHTS AND REMEDIES UPON DEFAULT

SECTION 10.1 Demand; Acceleration. The occurrence or non-occurrence of an Event of Default under this Agreement shall in no way affect or condition the right of the Agent to demand payment at any time of any of the Obligations which are payable on demand regardless of whether or not an Event of Default has occurred. Upon the occurrence of a Default, and in every such event and at any time thereafter, the Agent may declare the Obligations due and payable, without presentment, demand, protest, or any notice of any kind, all of which are hereby expressly waived, anything contained herein or in any of the other Financing Documents to the contrary notwithstanding.

SECTION 10.2 Specific Rights With Regard to Collateral. In addition to all other rights and remedies provided hereunder or as shall exist at law or in

equity from time to time, the Agent may, after a Default without notice to the Borrowers:

(a) request any Account Debtor obligated on any of the Accounts to make payments thereon directly to the Agent, with the Agent taking control of the cash and non-cash proceeds thereof;

(b) compromise, extend or renew any of the Collateral or deal with the same as it may deem advisable;

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(c) make exchanges, substitutions or surrenders of all or any part of the Collateral;

(d) remove from any of the Company's or any Subsidiary's place of business all books, records, ledger sheets, correspondence, invoices and documents, relating to or evidencing any of the Collateral or without cost or expense to the Agent, make such use of the Company's or any Subsidiary's place(s) of business as may be reasonably necessary to administer, control and collect the Collateral;

(e) repair, alter or supply goods if necessary to fulfill in whole or in part the purchase order of any Account Debtor;

(f) demand, collect, receipt for and give renewals, extensions, discharges and releases of any of the Collateral;

(g) institute and prosecute legal and equitable proceedings to enforce collection of, or realize upon, any of the Collateral;

(h) settle, renew, extend, compromise, compound, exchange or adjust claims in respect of any of the Collateral or any legal proceedings brought in respect thereof;

(i) endorse the name of any Borrower upon any items of payment relating to the Collateral or on any proof of claim in bankruptcy against an Account Debtor; and

(j) notify the post office authorities to change the address for the delivery of mail to each Borrower to such address or post office box as the Agent may designate and receive and open all mail addressed to any Borrower.

SECTION 10.3 Performance by Agent. Upon the occurrence and continuation of any Event of Default, the Agent without notice to or demand upon the Borrowers and without waiving or releasing any of the Obligations or any Event of Default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of the Borrowers, and may enter upon the premises of each Borrower for that purpose and take all such action thereon as the Agent may consider necessary or appropriate for such purpose. All sums so paid or advanced by the Agent and all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred in connection therewith (the "Expense Payments") together with interest thereon from the date of payment, advance or incurring until paid in full at the rate of two percent (2.0%) per annum in excess of the highest fluctuating interest rate payable under the Revolving Note from time to time shall be paid by the Borrowers to the Agent on demand and shall constitute and become a part of the Obligations.

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SECTION 10.4 Uniform Commercial Code and Other Remedies. Upon the occurrence of a Default (and in addition to all of its rights, powers and remedies under this Agreement), the Agent shall have all of the rights and remedies of a secured party under the Maryland Uniform Commercial Code and other applicable laws, and the Agent is authorized to offset and apply to all or any part of the Obligations all moneys, credits and other property of any nature

whatsoever of any Borrower now or at any time hereafter in the possession of, in transit to or from, under the control or custody of, or on deposit with, the Agent. Upon demand by the Agent, the Borrowers shall assemble the Collateral and make it available to the Agent, at a place designated by the Agent. The Agent or its agents may enter upon any of the Borrower's premises to take possession of the Collateral, to remove it, to render it unusable, or to sell or otherwise dispose of it.

Any written notice of the sale, disposition or other intended action by the Agent with respect to the Collateral which is sent by regular mail, postage prepaid, to the Borrowers at the address set forth in Article XII hereof, or such other address of any Borrower which may from time to time be shown on the Agent's records, at least ten (10) days prior to such sale, disposition or other action, shall constitute reasonable notice to the Borrowers. The Borrowers shall pay on demand all costs and expenses, including, without limitation, reasonable attorney's fees and expenses, incurred by or on behalf of the Agent in preparing for sale or other disposition, selling, managing, collecting or otherwise disposing of, the Collateral. All of such costs and expenses (the "Liquidation Costs") together with interest thereon from the date incurred until paid in full at the Default Rate, shall be paid by the Borrowers to the Agent on demand and shall constitute and become a part of the Obligations. Any proceeds of sale or other disposition of the Collateral will be applied by the Agent to the payment of the Liquidation Costs and Expense Payments, and any balance of such proceeds will be applied by the Agent to the payment of the balance of the Obligations in such order and manner of application as the Agent may from time to time in its sole discretion determine. After such application of the proceeds, any balance shall be paid to the Borrowers or to any other party entitled thereto.

XI. THE AGENT

SECTION 11.1 Appointment and Authority. Each Lender hereby irrevocably designates and appoints NationsBank, N.A. as Agent of such Lender hereunder and under the other Financing Documents, and hereby irrevocably authorizes NationsBank, N.A. as Agent for such Lender, to take such actions on its behalf under the provisions of this Agreement and the other Financing Documents and to exercise such powers and perform such duties as are expressly delegated to the Agent or required of the Agent by the provisions of this Agreement and the other Financing Documents, together with such powers as are reasonably incidental thereto. The relationship between the Agent and each Lender is and shall be that of agent and principal only and nothing herein shall be construed to constitute Agent a trustee for any Lender or to establish a fiduciary relationship with any Lender or impose on the Agent any duties, responsibilities, or obligations other than those expressly set forth in the Financing Documents. No implied

covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Agreement and the other Financing Documents or otherwise exist against the Agent.

SECTION 11.2 Performance and Delegation of Duties. In exercising its duties and powers hereunder, the Agent shall exercise the same care which it would exercise in dealing with loans for its own account. The Agent may execute any of its duties under this Agreement and the other Financing Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care. In acting hereunder as the Agent (including, without limitation, the taking out, holding, managing and disposing of Collateral), NationsBank, N.A. shall be acting for its own account and for the account of, and as agent for, the other Lenders to the extent of their respective shares in the Loan.

SECTION 11.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or the other Financing Documents (except for its or such Person's own gross negligence or willful misconduct), (b) liable for any action lawfully taken or omitted to be taken by it or such Person at the request or with the approval of the Required Lenders,

or, where expressly provided herein, all the Lenders, as the case may be, or (c) responsible in any manner to any Lender for any recitals, representations or warranties made by any other Lender or the Borrowers or any officer thereof contained in the Financing Documents or in any certificate, report, statement or other document referred to or provided for in, or received by it under or in connection herewith or therewith or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of the Financing Documents or the Collateral or perfection of Liens on the Collateral or the priority of Liens on the Collateral or for any failure of any or all of the Borrowers or any other Person who is a party to the Financing Documents to perform its obligations under the Financing Documents. The Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of the Financing Documents or to inspect the properties, books, or records of any Borrower.

SECTION 11.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying upon, any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletype, telex or teletype message, statement, order or other document, conversation, or communication believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrowers, independent accountants, and other experts selected by it), and shall not be liable to any of the parties hereto or any future holder of either Note for the consequences of such reliance. The Agent shall be fully justified in failing or refusing to take any action under the Financing Documents unless it first receives such advice or concurrence of the Required Lenders as it deems appropriate or it is

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first indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Furthermore, in connection with any action taken or failure or refusal to act under the Financing Documents, the Agent may request and each Lender shall provide specific indemnification, to the Agent's satisfaction, ratably according to such Lender's share of the Loan, against any and all liability and expense which may be incurred by the Agent by taking, failing to take, or refusing to take, such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under the Financing Documents in accordance with an instruction to it of the Required Lenders, unless the consent of all the Lenders is expressly required hereunder, in which case the Agent shall be so protected when acting in accordance with instructions from all the Lenders. Such request and any action taken or failure to act pursuant thereto shall be binding upon all Lenders and future holders of the Note. In fulfilling any agreement in any of the Financing Documents relating to the release of any item of Collateral, the Agent may rely upon any certification of the Borrowers as to the fulfillment of any conditions to, or the compliance with any covenants or agreements relating to, such release, including, without limitation, any such condition as to the nonexistence of any Default or Event of Default and any such covenant that any such item be sold or otherwise disposed of in connection with such release.

SECTION 11.5 No Amendment to Agent's Duties Without Consent. The Agent shall not be bound by any waiver, amendment, supplement, or modification of this Agreement which affects its duties under this Agreement unless it shall have given its prior written consent as Agent thereto.

SECTION 11.6 Non-Reliance of Lenders on Agent and Other Lenders. Each Lender expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to such Lender and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrowers, shall be deemed to constitute any representation or warranty by it to such Lender. Each Lender represents to the Agent and each other Lender that it has, independently and without reliance upon the Agent or such other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial, and other condition and creditworthiness of the Borrowers and made its own decision to make its Loan hereunder, authorize the issuance of Letters

of Credit and to enter into the Financing Documents. Each Lender also represents that it will, independently and without reliance upon the Agent or any other Lender, and based upon such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals, and decisions in taking or not taking action required of or permitted to it under the Financing Documents and the agreements contemplated thereby, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial, and other condition and creditworthiness of the Borrowers. Except for any notices, reports, and other documents expressly required to be furnished to the Lenders by the Agent hereunder, the Agent shall not have any duty or responsibility to provide the Lenders with any credit or other

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information concerning the business, operations, property, financial, and other condition or creditworthiness of the Borrower which may come into its possession or any of its officers, directors, employees, agents, attorneys-in-fact, or Affiliates.

SECTION 11.7 Indemnification of Agent. Each Lender hereby agrees to indemnify the Agent (in its capacity as such) to the extent not reimbursed by the Borrowers and without limiting the obligation of the Borrowers to do so, ratably according to its share of the Loans, from and against any and all liabilities, Obligations, losses, claims, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including without limitation at any time following the payment of the Notes and the other Obligations) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Financing Documents or the transactions contemplated thereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided, however, that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, claims, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the gross negligence or willful misconduct of Agent. The agreements in this Section shall survive the payment of the Notes and all other Obligations.

SECTION 11.8 Reliance by Borrowers on Agent. The Borrowers shall not be bound to ascertain the authority of the Agent to act on behalf of the Lenders in connection with any of the matters governed or contemplated by this Agreement or the other Financing Documents, or to inquire as to the satisfaction of any conditions precedent to the exercise of such authority. The Borrowers shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document, conversation or communication believed by it to be genuine and correct and to have been signed, sent or made by the Agent on behalf of the Lenders.

SECTION 11.9 Knowledge of Default. The Agent shall be entitled to assume that no Default or Event of Default has occurred and is continuing, unless the Agent has been notified in writing by a Lender or the Borrowers that such Lender or Borrowers considers that a Default or an Event of Default has occurred and is continuing and specifying the nature thereof.

SECTION 11.10 Action by the Agent. So long as the Agent shall be entitled, pursuant to Section 11.09, to assume that no Default or Event of Default shall have occurred and be continuing, the Agent shall be entitled to use its discretion with respect to exercising or refraining from exercising any rights which may be vested in it by this Agreement, or with respect to anything it may do or refrain from doing which may seem to it to be necessary or desirable.

SECTION 11.11 Actions After Default, etc. In the event that the Agent, pursuant to Section 11.09 shall have been notified of any Default or Event of Default, the Agent:

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(a) shall promptly notify the Lenders;

(b) shall take such action and assert such rights under this Agreement as it is expressly required to do pursuant to the terms of this Agreement;

(c) may take such other actions and assert such other rights as it deems advisable, in its sole discretion, for the protection of the interests of the Lenders;

(d) shall, upon the written request of the Required Lenders, as expeditiously and effectively as is reasonably practicable, enforce or attempt to enforce the Security Documents or to otherwise realize upon the Collateral; provided, however, (i) the Agent shall be guided by the Required Lenders as to the action to be taken in enforcing or attempting to enforce the Security Documents; and (ii) the Agent, notwithstanding indemnification, need not take any action which it believes, upon advice of counsel, is prohibited by this Agreement or applicable Law; and

(e) shall inform all the Lenders of the taking of action or assertion of rights pursuant to this Section.

Each Lender agrees with the Agent and the other Lenders that the decisions and determinations of the Required Lenders in enforcing the Note, the Security Documents and the other Financing Documents and realizing (or attempting to realize) upon the Collateral and in guiding the Agent in those matters shall be binding upon all the Lenders, including, without limitation, authorizing the Agent at the pro rata expense of all the Lenders (to the extent not reimbursed by the Borrowers) to retain attorneys to seek judgment on the Notes and to foreclose upon or exercise other rights under the Security Documents. Each Lender similarly agrees with the other Lenders that it will not, without the consent of the Required Lenders, seek to separately institute any legal action on its Note or the other Financing Documents or to institute proceedings to foreclose upon the Collateral. All rights of action under the Financing Documents and all rights to the Collateral may be enforced by the Agent and any suit or proceeding instituted by the Agent in furtherance of such enforcement may be brought in its name as Agent without the necessity of joining as plaintiffs or defendants any of the Lenders, and the recovery of any judgment shall be for the benefit of the Lenders, subject to the expenses of the Agent.

SECTION 11.12 Distribution of Proceeds. All collections upon the Obligations and all proceeds of the Collateral and all other sums and property received by the Agent and/or any Lender or then held by the Agent and/or any Lender or received by voluntary payment or through exercise of the right of setoff, counterclaim, cross-action, or otherwise, shall be shared by the Lenders pro rata in accordance with their respective shares of the Loans, in the following order:

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(a) First, to all Enforcement Costs and other expenses of the Agent and/or the Lenders;

(b) Second, to all amounts due to the Agent (in its capacity as Agent hereunder) from the Borrowers or the Lenders;

(c) Third, to the Lenders, in accordance with their respective shares of the Loans, for past due interest on the Loans, and any of the other Obligations;

(d) Fourth, to the Lenders, in accordance with their respective shares of the Loans, for principal of the Loans;

(e) Fifth, to the Lenders, in accordance with their respective shares of the Loans, for all other amounts owed the Lenders pursuant to the provisions of this Agreement or the other Financing Documents; and

(f) Sixth, to the Lenders to the extent permitted by applicable Laws, in accordance with their respective shares of the Loans, for all Obligations arising other than under this Agreement or the other Financing Documents.

SECTION 11.13 Obligations of Lenders Several. The obligations, representations, and warranties of the Lenders hereunder are several, and no Lender hereunder shall be responsible for the obligations, representations and warranties of any other Lender hereunder, and the failure of any Lender to perform any of its obligations hereunder shall not relieve the other Lenders, or any of them, from the performance of their or its respective obligations hereunder.

SECTION 11.14 Participation for Own Account. Each Lender represents and warrants to the other Lenders that it is participating herein for its own account as a commercial transaction and not with a view to the distribution, disposition, or participation of its interest herein, and it has no present intention of making any such distribution, disposition, or participation.

SECTION 11.15 Agent in Its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from, and generally engage in any kind of business with the Borrowers as though the Agent were not the Agent hereunder. With respect to any Loan made or renewed by it, and any Notes issued to it, the Agent shall have the same duties, rights and powers under the Financing Documents as any Lender and may exercise the same as though it were not the Agent and the terms "Lender" and "Lenders" shall include the Agent in its individual capacity.

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SECTION 11.16 Removal of Agent. The Agent, or any successor Agent, may be removed for "cause" (as hereinafter defined) upon at least thirty (30) days prior written notice to such Agent and the Borrowers by the Lenders together holding seventy-five percent (75.0%) or more of the aggregate shares of the Loan of all Lenders, after deducting the share of the Loan of the Agent in its individual Lender capacity. For purpose of this Section, the term "cause" shall mean a material breach by the Agent, or any successor Agent, of its obligations and duties to the Lenders hereunder. Any notice of removal shall set forth the specific reasons constituting such removal. Such removal shall be effective upon the appointment of a successor Agent and the acceptance of such appointment in accordance with Section 11.17 hereof. All costs of removing an Agent and appointing a successor shall be borne by the Lenders.

SECTION 11.17 Successor Agent. The Lenders shall appoint one of the Lenders to succeed the Agent or any successor Agent removed pursuant to Section 11.16 hereof, and the successor Agent so appointed shall execute and deliver to its predecessor, the Lenders, and the Borrowers an instrument in writing accepting such appointment and assuming all of the obligations and liabilities of the Agent for the Lenders under the Financing Documents, and thereupon such successor Agent, without any further act, deed or conveyance, shall become fully vested with all the properties, rights, duties and obligations of its predecessor Agent. The predecessor Agent shall deliver to its successor Agent forthwith all collateral security, documents, and moneys, if any, held by it as Agent for the Lenders, whereupon such predecessor Agent shall be discharged from its duties and obligations as Agent for the Lenders under this Agreement; provided, however, that it shall not be relieved of any liabilities incurred or arising prior to the effective date of such removal or arising out of its agency.

SECTION 11.18 Action by Lenders. Wherever the mutual consent, approval or agreement of the Required Lenders or all of the Lenders is required by the provisions hereof, each of the Lenders agrees to use its best efforts to act reasonably under the circumstances and, if reasonably possible under the circumstances, to act in concert with the other.

SECTION 11.19 Benefits. None of the provisions contained in this Article are intended to benefit the Borrowers or any Person other than the Lenders and the Agent; provided, however, such provisions are binding upon the Borrowers. Accordingly, neither the Borrowers nor any Person other than one of the Lenders and the Agent shall be entitled to rely upon or to raise as a defense the failure of the Agent or one of the Lenders to comply with the provisions of this Article.

SECTION 11.20 Participations. Each of the Lenders shall have the right to grant participations in the Obligations held by it to others at any time and from time to time in minimum increments of One Million Dollars (\$1,000,000), and

such Lender may divulge to any such participant or potential participant all information, reports, financial statements and documents obtained in connection with this Agreement, any Notes and any of the other Financing Documents or otherwise.

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XII. MISCELLANEOUS

SECTION 12.1 Notices. All notices, certificates or other communications hereunder shall be deemed given when delivered by hand or courier, or three (3) days after the date when mailed by certified mail, postage prepaid, return receipt requested, addressed as follows:

if to the Agent
and the Lenders: NATIONSBANK, N.A.
6610 Rockledge Drive
Bethesda, Maryland 20817
Attn: Barbara P. Levy, Senior Vice President

if to the Borrowers: c/o FTI CONSULTING, INC.
2021 Research Drive
Annapolis, Maryland 21401
Attn: Mr. Jack B. Dunn, IV, Chairman
and Chief Financial Officer

SECTION 12.2 Consents and Approvals. If any consent, approval, or authorization of any state, municipal or other governmental department, agency or authority or of any person, or any person, corporation, partnership or other entity having any interest therein, should be necessary to effectuate any sale or other disposition of the Collateral, each Borrower agrees to execute all such applications and other instruments, and to take all other action, as may be required in connection with securing any such consent, approval or authorization.

SECTION 12.3 Remedies, etc. Cumulative. Each right, power and remedy of the Agent as provided for in this Agreement or in any of the other Financing Documents or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Agreement or in any of the other Financing Documents or now or hereafter existing at law or in equity, by statute or otherwise, and the exercise or beginning of the exercise by the Agent of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by the Agent of any or all such other rights, powers or remedies. In order to entitle the Agent to exercise any remedy reserved to it herein, it shall not be necessary to give any notice, other than such notice as may be expressly required in this Agreement.

SECTION 12.4 No Waiver of Rights by the Agent. No failure or delay by the Agent to insist upon the strict performance of any term, condition, covenant or agreement of this Agreement or of any of the other Financing Documents, or to exercise any right, power or remedy consequent upon a breach thereof, shall constitute a waiver of any such term, condition, covenant or agreement or of any such breach or preclude the Agent from exercising any such

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right, power or remedy at any later time or times. By accepting payment after the due date of any amount payable under this Agreement or under any of the other Financing Documents, the Agent shall not be deemed to waive the right either to require prompt payment when due of all other amounts payable under this Agreement or under any of the other Financing Documents, or to declare a default for failure to effect such prompt payment of any such other amount.

SECTION 12.5 Entire Agreement. The Financing Documents shall completely and fully supersede all other agreements, both written and oral, including, but not limited to the Original Financing Agreement, between the Agent, the Lenders and

the Borrowers relating to the Obligations. Neither the Agent, the Lenders nor the Borrowers shall hereafter have any rights under such prior agreements but shall look solely to the Financing Documents for definition and determination of all of their respective rights, liabilities and responsibilities relating to the Obligations.

SECTION 12.6 Survival of Agreement; Successors and Assigns. All covenants, agreements, representations and warranties made by the Borrowers herein and in any certificate, in the Financing Documents and in any other instruments or documents delivered pursuant hereto shall survive the making by the Agent and the Lenders of the Loans and the execution and delivery of the Note, and shall continue in full force and effect so long as any of the Obligations are outstanding and unpaid. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Borrower, which are contained in this Agreement shall inure to the benefit of the successors and assigns of the Agent and each Lender, and all covenants, promises and agreements by or on behalf of the Agent which are contained in this Agreement shall inure to the benefit of the permitted successors and permitted assigns of the Borrowers, but this Agreement may not be assigned by the Borrowers without the prior written consent of the Agent.

SECTION 12.7 Expenses. The Borrowers jointly and severally agree to pay all out-of-pocket expenses of the Agent (including the reasonable fees and expenses of its legal counsel) in connection with the preparation of this Agreement, the recordation of all financing statements and such other instruments as may be required by the Agent at the time of, or subsequent to, the execution of this Agreement to secure the Obligations (including any and all recordation tax and other costs and taxes incident to recording), the enforcement of any provision of this Agreement and the collection of the Obligations. The Borrowers jointly and severally agree to indemnify and save harmless the Agent and each Lender for any liability resulting from the failure to pay any required recordation tax, transfer taxes, recording costs or any other expenses incurred by the Agent in connection with the Obligations. The provisions of this Section shall survive the execution and delivery of this Agreement and the repayment of the Obligations. The Borrowers further jointly and severally agree to reimburse the Agent and each Lender upon demand for all out-of-pocket expenses (including reasonable attorneys' fees and legal expenses) incurred by the Agent and each Lender in enforcing any of the Obligations or any

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security therefor, which agreement shall survive the termination of this Agreement and the repayment of the Obligations.

SECTION 12.8 Counterparts. This Agreement may be executed in any number of counterparts all of which together shall constitute a single instrument.

SECTION 12.9 Governing Law. This Agreement and all of the other Financing Documents shall be governed by, and construed in accordance with the laws of the State of Maryland.

SECTION 12.10 Modifications. No modification or waiver of any provision of this Agreement or of any of the other Financing Documents, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Borrower in any case shall entitle any Borrower to any other or further notice or demand in the same, similar or other circumstance.

SECTION 12.11 Illegality. If fulfillment of any provision hereof or any transaction related hereto or to any of the other Financing Documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity; and if any clause or provisions herein contained other than the provisions hereof pertaining to repayment of the Obligations operates or would prospectively operate to invalidate this Agreement in whole or in part, then such clause or provision only shall be void, as though not herein contained, and the remainder of this Agreement shall remain operative and in full force and effect; and if such

provision pertains to repayment of the Obligations, then, at the option of the Agent, all of the Obligations of the Borrowers to the Agent and each Lender shall become immediately due and payable.

SECTION 12.12 Extension of Maturity. Should the principal of or interest on the Notes become due and payable on other than a Banking Day, the maturity thereof shall be extended to the next succeeding Banking Day and in the case of principal, interest shall be payable thereon at the rate per annum specified in the Notes during such extension.

SECTION 12.13 Gender, etc. Whenever used herein, the singular number shall include the plural, the plural the singular and the use of the masculine, feminine or neuter gender shall include all genders.

SECTION 12.14 Headings. The headings in this Agreement are for convenience only and shall not limit or otherwise affect any of the terms hereof.

SECTION 12.15 Liability of the Agent. The Borrowers each hereby agree that the Agent and each of the Lenders shall not be chargeable for any negligence, mistake, act or omission of any accountant, examiner, agency or attorney employed by the Agent or any Lender (except for the willful misconduct or gross negligence of any Person employed by the Agent or any Lender) in making examinations, investigations or collections, or otherwise in perfecting, maintaining, protecting or realizing upon any lien or security interest or any other interest in the Collateral or other security for the Obligations.

SECTION 12.16. Joint and Several Liability. Each of the Borrowers shall be jointly and severally liable for the payment of the Obligations as and when due and payable in accordance with the provisions of this Agreement, the Notes and/or the other Financing Documents. The term "Borrowers" whenever used herein shall include each Borrower, individually and jointly, and the Agent (with the necessary approval of the Lenders as herein required) may (without notice to or consent of any or all of the Borrowers and with or without consideration) release, compromise, settle with, and proceed against any or all of the Borrowers and any Collateral given by such Borrower without affecting, impairing, lessening and releasing the obligations of the other Borrowers hereunder.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have signed and sealed this Agreement on the day and year first above written.

Company:

WITNESS OR ATTEST:

FTI CONSULTING, INC.

By: _____ (Seal)

Name:
Title:

Subsidiaries:

WITNESS OR ATTEST:

TEKLICON, INC.

By: _____ (Seal)

Name:
Title:

WITNESS OR ATTEST:

L.W.G., INC.

By: _____ (Seal)

Name:
Title:

WITNESS OR ATTEST:

KLICK, KENT & ALLEN, INC.

By: _____ (Seal)

Name:
Title:

WITNESS OR ATTEST:

S.E.A., INC.

By: _____ (Seal)

Name:
Title:

WITNESS OR ATTEST:

KAHN CONSULTING, INC.

By: _____ (Seal)

Name:
Title:

WITNESS OR ATTEST:

KCI MANAGEMENT CORP.

By: _____ (Seal)

Name:
Title:

WITNESS:

NATIONSBANK, N.A. , as Agent and for
itself as a lender

By: _____ (Seal)

Barbara P. Levy
Senior Vice President

EXHIBITS

- A. Note
- B. Places of Business
- C. Liens on Collateral
- D. Swing Line Note
- E. Places to Record Financing Statements

SCHEDULES

5.7 Changes in Financial Condition

5.19 Business Names

EXHIBIT B

PLACES OF BUSINESS

The Company's Chief Executive Office is:

2021 Research Drive
Annapolis, Maryland 21401

Subsidiaries' Chief Executive Offices are:

The Company and Subsidiaries have other places of business at the following addresses:

The Collateral is located at the following addresses:

2021 Research Drive
Annapolis, Maryland 21401

EXHIBIT C

LIENS ON COLLATERAL

SCHEDULE 5.7

SCHEDULE 5.19

SCHEDULE OF SUBSIDIARIES

Name	Jurisdiction of Incorporation
-----	-----
Kahn Consulting, Inc.	New York
KCI Management, Inc.	New York
Klick, Kent & Allen, Inc.	Virginia
L.W.G., Inc.	Illinois
S.E.A., Inc.	Ohio
Teklicon, Inc.	California

Consent of Independent Auditors

We consent to the incorporation by reference in the following Registration Statements of our report dated March 30, 1999, with respect to the consolidated financial statements and schedule of FTI Consulting, Inc. and subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

REGISTRATION STATEMENTS ON FORM S-8

Name	Registration Number	Date Filed
1992 Stock Option Plan (As Amended)	33-19251	January 3, 1997
1997 Stock Option Plan	33-30357	June 30, 1997
Employee Stock Purchase Plan	33-30173	June 27, 1997

/s/ Ernst & Young LLP

Baltimore, Maryland
March 31, 1999

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