

**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, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-14875

**FTI CONSULTING, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**52-1261113**  
(IRS Employer  
Identification No.)

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

**21401**  
(Zip Code)

**(410) 224-8770**  
(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.01 par value	New York Stock Exchange

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

Indicate by check mark 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.

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

The number of shares of Registrant's Common Stock outstanding on March 17, 2003 was 27,468,531.

The aggregate market value of voting stock of the Registrant, based upon the closing sales price of the Registrant's Common Stock on June 28, 2002 was \$961,637,000.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the Company's fiscal year are incorporated by reference into Part III 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, 2002**

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**PART I**

**ITEM 1. BUSINESS**

**Company Overview**

We are one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. As discussed more fully in this Annual Report, in July 2002, we committed to a plan to sell our applied sciences practice group, consisting of two separate business components. In January 2003, we sold the LWG, Inc. component. Unless specifically stated to the contrary, the descriptions and statistics presented in this Business section refer only to our continuing operations.

Our highly skilled professionals assist distressed companies in improving their financial position or their creditors or other stakeholders in maximizing recovery of their claims. We quickly analyze and implement an array of strategic alternatives, such as rightsizing infrastructure, improving working capital management, selling non-core assets or business units and restructuring capital. Through our corporate recovery services, we can help financially distressed companies implement their plans by providing interim management teams. Our teams of professionals have extensive experience in crisis management, negotiations of complex mergers, acquisitions and capital restructurings, as well as the liquidation of surplus assets.

We also help clients in all phases of litigation, including pre-filing, discovery, jury selection, trial preparation, expert testimony and the actual trial. We assist with refining issues in litigation and venue selection, and provide fraud investigation and securities litigation assistance. Our trial graphics and technology and electronic evidence experts assist clients in preparing for and presenting their cases in court. Furthermore, we provide forensic accounting and economic consulting services. Our forensic accounting and data mining (sorting through large volumes of data) services help clients to unravel complex financial transactions and reconstruct events from incomplete and/or corrupt data. Our specialized expertise in economic consulting allows us to help clients in valuing assets of all types and entire businesses, as well as intellectual property disputes. Our industry expertise extends to the telecommunications, railroad, energy and electric utility industries. In recent months, we have begun initiatives in the merger and acquisition area and dispute settlement services.

We began operations in 1982 as a consulting firm focused on providing forensic investigation, scientific and trial support services. Beginning in 1998, we further expanded into financial consulting services. We achieved this expansion through two acquisitions in 1998 and one acquisition in 2000 and through our internal growth initiatives. Through a combination of organic growth and acquisitions, we have become one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. Our revenues from continuing operations have grown from \$32.2 million in 1997 to \$224.1 million in 2002, at a compounded annual growth rate of nearly 40%. Revenues for 2002 includes four months of revenue from our August 2002 acquisition of the U.S. Business Recovery Services division of PricewaterhouseCoopers LLP ("BRS"), but excludes revenue from our applied sciences practice group, which we have announced our intention to sell.

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On August 30, 2002, we acquired BRS for \$142.0 million in cash and 3,000,000 shares of our common stock valued at \$101.9 million. For its fiscal year ended June 30, 2002, BRS had revenues of \$179.3 million and operating income of \$66.8 million. On a pro forma basis, as adjusted to present BRS as a company separate from PwC, BRS had revenues of \$167.2 million and operating income of \$40.0 million for the year ended December 31, 2001, and revenues of \$109.0 million and operating income of \$24.0 million for the eight-month period ended August 30, 2002.

We believe our acquisition of BRS greatly enhances our ability to provide consulting services in the largest and most complex U.S. turnarounds, restructurings and bankruptcies. The BRS professionals have developed a premier practice handling turnarounds, restructurings and bankruptcies of comparable scale and complexity as we have. As a result of the acquisition of BRS, we have added 371 professionals, including the 49 BRS partners we hired, to our pool of talented, experienced professionals. The BRS acquisition also significantly diversifies our client base, including an increase in debtor-side clients to complement our historical strength in serving creditor-side clients. Immediately after the acquisition, we began integrating BRS into our turnaround, restructuring and bankruptcy practice group.

Our clients are typically companies facing adverse circumstances, as well as their creditors or other stakeholders, such as financial institutions and private equity firms, and the law firms that represent them. Unlike demand for traditional consulting services, which depends primarily on companies' internal budgeting decisions, demand for our services is driven by non-discretionary engagements for businesses facing critical situations that are often adverse. These companies typically focus on our track record and reputation rather than our prices. In the case of bankruptcy proceedings, bankruptcy courts often mandate the selection of third party advisors, reinforcing the non-discretionary nature of our services.

We regularly provide our turnaround, restructuring, bankruptcy and related consulting services to the largest banks in the U.S., including Bank of America, N.A., Wachovia Bank, N.A., and JP Morgan Chase Bank. We are involved in many of the largest bankruptcy proceedings and out-of-court restructurings in the U.S. For example, we are currently involved in the bankruptcies of Enron Corp., WorldCom, Inc., US Airways, Inc. and Adelphia Communications Corporation. We believe clients retain us because of our recognized expertise and capabilities in highly specialized areas, as well as our reputation for satisfying clients' needs. In 2002, no single client accounted for more than 5% of our revenues from continuing operations.

Our applied sciences practice group offers forensic and scientific investigation services. We intend to sell the entire practice group. In January 2003, we sold the LWG, Inc. component for total consideration of \$4.15 million, including a \$2.0 million seven-year note. We incurred a loss after taxes of \$891,000 in connection with this sale. We expect to complete the sale of the other business component of our applied sciences practice group by the end of 2003. We intend to use the proceeds from the sale to reduce our outstanding debt under our credit facility. However, there is no assurance that we will be able to sell the remaining component of our applied sciences practice group within the stated timeframe or at what price we will be able to sell it. Depending on the sale price and the tax structure of the transaction, the amount realized after taxes from the sale may be less than the carrying value.

## Industry Overview

Participants in our industry provide a broad range of financial consulting services to companies facing adverse circumstances or their creditors or other stakeholders. These services include turnaround, restructuring, bankruptcy, forensic accounting and trial support services. We believe demand for services in our industry will continue to be strong, driven by a number of current and anticipated trends, including:

- high debt default rates and ongoing bankruptcy filings;
- continuing use of debt for corporate financings;
- competitive and regulatory complexity faced by a wide range of businesses;
- the current wave of corporate reform legislation that encourages, and in some cases, requires the use of outside financial consultants; and
- need for objective, independent expertise for critical, business processes.

We believe that our reputation, national scale and large staff of highly qualified professionals position us well to capitalize on the trends driving the growth in our industry.

**Trends in Debt Default Rates.** We believe that corporate debt default levels are important indicators of the potential need for turnaround, restructuring, bankruptcy and related consulting services. The current economic environment provides significant opportunity to companies capable of providing these services.

According to *Moody's Investor Service*, 186 corporate issuers of debt rated either investment grade or speculative grade by *Moody's* defaulted on \$106 billion of debt in 2001, compared to \$33.4 billion in 2000. In 2001, *Moody's* also estimated that the dollar volume of the ten largest debt defaults exceeded the total dollar volume of all *Moody's*-rated defaults in 2000. In 2001, *Moody's* rating downgrades exceeded its upgrades by an almost two-to-one margin.

For the first half of 2002, *Moody's* reported that 89 issuers of corporate bond debt rated either investment grade or speculative grade by it defaulted on \$76.7 billion of that debt. This represents a 64% increase in the dollar volume of defaulted debt from the first half of 2001. In the second quarter of 2002 alone, 42 issuers of *Moody's*-rated corporate bond debt defaulted on \$42.6 billion in debt, representing approximately twice the defaulted amount as the first quarter of 2001. *Moody's* reported second quarter 2002 global default rates for speculative grade debt (also known as "junk bonds") at 10.3%, consistent with default rates seen in other periods of economic distress over the past 30 years, including 2001 (10.2%), 1991 (10.5%), 1990 (9.9%) and 1970 (9.2%). In July 2002, *Moody's* reported that the second quarter of 2002 was one of the most severe periods of credit deterioration since the Great Depression.

We believe that a high correlation exists between default rates on all corporate debt and the number of bankruptcy filings. According to the FDIC, the year 2001 saw 257 publicly held companies, with more than \$260 billion in assets, file for bankruptcy, an increase of 46 percent over the prior year when 176 publicly traded companies filed. This was almost triple the previous record, which had stood for a decade. Thirty-nine of those companies were public companies, each with more than \$1 billion of debt; the previous high was the period from 1990-92 when there were 25 with more than \$1 billion of debt. In the calendar year 2002, 189 publicly traded companies, with \$368 billion of assets, filed for bankruptcy. To put this in perspective, no more than \$100 billion in assets had been put into bankruptcy in any one year between 1987 and 2000.

Corporate debt has increased four-fold over the last ten years. While the number of business bankruptcy filings has declined slightly in 2002, the bankruptcies filed have been much larger and have had more significant implications for the economy. Before the Enron bankruptcy filing, the biggest business bankruptcy filing had been Texaco, which was filed in 1987 with assets of \$36 billion. Of the 16 largest business bankruptcy filings in the country since 1980, ten have been filed between March 2001 and July 2002. Eight of the ten largest Chapter 11 cases in history (Enron, Global Crossing, Adelphia, Kmart, NTL, WorldCom, UAL, and Conseco) have been filed since December 2001. WorldCom, Inc. (with \$107 billion in assets), which sought Chapter 11 protection in July 2002, supplanted Enron Corp. (with \$63.4 billion in assets) as the largest bankruptcy proceeding ever filed in the United States. Total business bankruptcies for the years 2001 and 2002 represent approximately \$600 billion in liabilities.

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While the highly visible and large scale publicly traded company bankruptcies draw the most attention, *BankruptcyData.com* reported a total of 40,099 total business bankruptcy filings in 2001, less than the 1980 through 2001 annual average of 58,871 business bankruptcy filings. Regardless of prevailing economic conditions, we believe that there will be a substantial number of business bankruptcy filings in any given year.

**Continuing Use of Corporate Debt.** Although the increased number of debt defaults has generated higher demand for restructuring and restructuring-related services in recent years, we believe demand for these services will remain robust even in periods of general economic recovery. While default rates historically have fluctuated depending upon the state of the economy, the size of the debt market, as measured by the amount of aggregate U.S. corporate debt outstanding, has consistently expanded over the past 30 years, regardless of economic cycles. U.S. and international companies have increasingly relied on debt to finance acquisitions, growth initiatives and working capital requirements. According to the Bond Market Association, the amount of U.S. corporate bond debt outstanding increased from \$777 billion in 1985 to \$3.8 trillion in 2001, a compounded annual growth rate of 10.4%. The outstanding amount of speculative grade debt consistently increased between 1985 and 2001, from \$58 billion to \$649 billion, a compounded annual growth rate of 16.3%. Although the default rate may fluctuate from time to time, an increasing aggregate volume of corporate debt suggests that the aggregate volume of corporate debt under default should remain high.

Although debt default rates tend to decline during periods of economic expansion, we believe that economic expansion also facilitates new issuances of speculative grade debt, as investors are generally willing to tolerate higher levels of risk during these periods. We believe that most speculative grade bond defaults take place within the first three years after issuance. As such, we believe that economic expansion periods could ultimately result in an increased volume of debt defaults, increasing demand for turnaround, restructuring, bankruptcy and related consulting services in the future.

**Escalating Complexity in the Competitive and Regulatory Environment.** We believe that many of the factors driving our industry are non-cyclical. These factors include under-performing companies, ineffective business strategies, highly leveraged capital structures, failed acquisitions and roll-ups, corporate fraud, that often lead to bankruptcies, which in turn lead to scrutiny that often uncovers frauds, the continuing trend in high-stakes litigation and the adverse effect of increased regulation on entire industries. For example, the Sarbanes-Oxley legislation has added a layer of complex regulatory requirements for public companies. Faced with recent enhanced scrutiny by investors and government agencies of financial reporting and corporate governance, in part as a result of this legislation, companies have begun to hire outside professionals to review and analyze their accounting records and financial reporting. We anticipate that ever increasing litigation costs will require businesses to focus on better managing risks and the litigation process, particularly in large, complex, multi-jurisdiction cases and mass tort claims. We believe that recent mandates as a result of the Sarbanes-Oxley legislation, and the emerging trend toward hiring consulting firms unaffiliated with company auditors, represent a fundamental shift in corporate and governmental policy. These trends should directly benefit independent financial consulting service providers in both distress and non-distress oriented projects.

**Increasing Need For Independent Expertise.** We believe that businesses, their creditors and other institutional stakeholders are increasingly utilizing consulting firms to provide objective,

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independent expertise for highly critical business processes. Businesses and financial institutions facing adverse circumstances have a need to access world-class expertise to assist them in implementing tactical operating plans to solve significant business dilemmas. This is particularly true in highly complex and sophisticated areas such as turnarounds, restructurings, bankruptcies and high-stakes legal proceedings.

### **Business Strategy**

We are one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. We intend to continue to provide high caliber financial consulting services through our staff of professionals who are able to quickly staff even the most complex assignments. We also intend to anticipate our clients' needs by expanding the range of consulting services we offer. Success in our marketplace depends primarily on having a reputation for providing quality and timely service and the ability to quickly address and staff very large assignments. The following are the key elements of our business strategy:

- ***Maintain High Utilization Rates Among Our Professionals.*** We carefully manage our growth in order to maintain high utilization rates among all of our professionals rather than intermittently expanding our staff in anticipation of short-term demand. We take a disciplined approach when recruiting additional professionals. Although we maintain enough professionals to staff large, complex assignments, we focus on hiring qualified individuals who meet our selective criteria. High utilization rates allow us to maintain our profitability and make us less vulnerable to temporary declines in our work load.
- ***Retain a Critical Mass of Highly Qualified Professionals.*** Our professionals are crucial to delivering our services to clients and generating new business. Through our substantial staff of highly qualified professionals, we can handle a number of large, complex assignments simultaneously. We offer each of our professionals significant compensation opportunities, often based on his or her utilization rate, along with a competitive benefits package and the chance to work on challenging engagements.
- ***Leverage Our Relationships and Expertise.*** We work hard to maintain our existing client relationships and develop new ones. We believe that our existing client relationships and our reputation among industry professionals, coupled with our recognized expertise, track record and size, are the most critical elements in a company's decision to retain us. We have typically received a significant amount of repeat business from our financial institution clients and referrals from our law firm clients. We have been successful in recent years in expanding the range of consulting services we provide to our clients. Moreover, as a result of the BRS acquisition, we have greater capacity to handle simultaneously a number of complex, high-profile matters. By successfully leveraging our reputation, experience and expanded client base, we believe we will obtain a greater number of engagements from both existing and new clients.

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- ***Expand the Range of Our Financial and Litigation Consulting Services.*** We believe that a number of factors driving demand for our services are non-cyclical in nature. These factors include the adverse effects of increased regulation and competition on various industries, under-performing companies, ineffective business strategies, highly leveraged capital structures, failed acquisitions, corporate fraud and the ever increasing number of high-stakes lawsuits. While we anticipate that during more prosperous economic times, demand for turnaround, restructuring, bankruptcy and related consulting services will continue, we intend to continue to diversify the range of our financial and litigation consulting services. We have recently diversified our service offerings to include lender and transactional support, dispute settlement, intellectual property consulting and mergers and acquisitions advice. We believe this diversification of our service offerings will better insulate our overall business from changing market conditions.
- ***Selectively Acquire Companies to Obtain New Professionals and Capabilities.*** We have always followed a disciplined approach to acquisitions. Our selective approach has allowed us to acquire businesses on attractive terms. Over the past five years, we have made three significant acquisitions that have greatly enhanced our position in the turnaround, restructuring and bankruptcy market. We will continue to selectively pursue strategic acquisitions of complementary service businesses. This should enable us to expand the range of consulting services we offer our existing client base, expand our staff of expert professionals and add new clients to which we can sell our existing services.

### **Our Services**

***Turnaround, Restructuring and Bankruptcy Practice.*** Our turnaround, restructuring and bankruptcy professionals regularly advise companies and creditors in some of the largest, most complex bankruptcy proceedings and out-of-court restructurings in the U.S. When advising a corporate client, we work with the company's management to assess the client's financial condition and viability and structure and implement a business rehabilitation plan to manage the client's cash flow to at least a break-even point. We also identify any non-essential assets or business units that could be sold to generate cash for the client. Typically, we then assist these clients as they negotiate with their lenders to restructure their debt. If an out-of-court workout appears unlikely, we assess the impact of a bankruptcy filing on the client's financial condition and operating performance and seek debtor-in-possession financing on the client's behalf. If the client voluntarily files for bankruptcy or is involuntarily forced into bankruptcy, we assist in managing the entire bankruptcy process, including structuring, negotiating with creditors and implementing the plan of reorganization. We also provide expert testimony in bankruptcy proceedings on such issues as business unit valuation and economic loss.

When we represent creditors, we seek to maximize amounts owed to them by the debtor, whether in an out-of-court workout or bankruptcy. In a workout engagement, we evaluate and monitor the quality and value of the collateral and any other assets available to the creditor, analyze the debtor's business plan and underlying cash flow projections and assess the adequacy of the debtor's financial reporting systems. Based on our analysis, we then assess the debtor's viability and develop and evaluate restructuring plans. If we conclude that an out-of-court workout is not feasible, we assist the creditors in deciding whether to provide debtor-in-possession financing, in working through the bankruptcy process and in structuring and evaluating various reorganization plan



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alternatives.

To better meet the needs of companies suffering a financial or operating crisis, we also offer corporate recovery services. The experienced professionals in our corporate recovery practice group are able to assume interim senior management roles at companies in crisis. Our professionals can function as a chief executive officer, chief operating officer, chief financial officer or chief recovery officer. Our professionals utilize their seasoned business judgment to reevaluate business strategy and financial forecasts and implement plans to meet financial and operating challenges. Our creative approaches and innovative solutions can create short-term liquidity to stabilize the business and afford the distressed company time to explore its options. Our teams of senior experienced professionals are keenly aware of the sensitive nature of these arrangements and the need to build consensus around a realistic restructuring plan.

***Forensic Accounting Practice.*** Our forensic accounting specialists work with companies faced with fraud and financial disclosure issues. Many of these companies are undergoing restructuring or bankruptcy reorganizations. As perpetrators of fraud become more ingenious, the expertise required to unravel their schemes increases. We have a team of forensic accountants, certified fraud examiners and computer technicians who are experts in discovering and analyzing the most sophisticated ways to circumvent internal financial controls. Our forensic accountants routinely unravel complex transactions, reconstruct events from incomplete and/or corrupt data, uncover vital evidence, identify potential claims and assist in the pursuit of recoveries. Our computer technicians utilize sophisticated software tools to analyze and uncover important information from the computer systems used in the frauds. With our advanced search techniques and innovative methods, we are able to uncover valuable information that was considered lost, deleted or hidden.

We also provide asset tracing investigative services. Our forensic accountants and computer experts analyze corporate and personal records and electronic information, conduct interviews and evaluate related financial information to trace the flow of funds and locate assets that may have been misappropriated due to illegal or fraudulent activity. Our financial experts utilize sophisticated software tools, advanced data mining and search techniques as well as databases to conduct asset searches for companies, government agencies and individuals. We have provided investigative services in diverse cases involving misdirected or stolen assets, embezzlements and bank, healthcare, insurance and bankruptcy frauds.

***Trial Support Practice.*** We develop and deliver creative solutions to litigation problems. From the first computer animations used in court to the latest in digital graphic presentations, we have been one of the leaders in providing high-quality, cost-effective methods to prepare for and try cases. Our trial technology professionals have supported clients in the courtroom in some of the largest and most complex civil trials. Through the use of information technology and the Internet, we have demonstrated our ability to help control litigation costs, speed-up the trial process and provide litigants with superior access to data, a key competitive advantage.

We prepare and enhance presentations and expert testimony on complex subjects, such as toxic torts, financial disputes and intellectual property resolutions. We have responded to the increasing demand for document management in cases involving thousands or even millions of pages of depositions, testimony and exhibits by developing document management and exhibit and trial preparation solutions that enable our clients to better focus on preparing for and trying cases. Our range of services for complex litigation matters include visual communication consulting services; graphic exhibit design and production; customized database development and distribution; video

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deposition capture and transcript linking; management of designated trial exhibits; courtroom survey, design and configuration; on-site technical trial support; trial-specific hardware procurement and tracking; and secure extranet storage and distribution of data, documents, transcripts, videos and exhibits.

We have developed a number of technology-based tools to assist our clients in managing complex litigation. TrialMax<sup>®</sup>, our comprehensive trial preparation software, enables a litigation team to easily store, annotate and display documents, computer graphics, video clips and digitized depositions in the courtroom. We employ an automated tool for handling trial data regardless of information source or data type. Secure extranet services is our Internet application for clients that are parties to multi-district litigation.

***Our Other Financial and Litigation Consulting Practices.*** We have recently expanded our consulting services to include regulatory, intellectual property, valuation, mergers and acquisitions advisory, lender and transactional support and dispute settlement services. Our statistical and economic experts in our regulatory practice group use a range of tools to help companies evaluate issues such as the economic impact of deregulation on a particular industry, the amount of commercial damages suffered by a business as a result of a tort or a breach of contract or the value of a business or professional practice. We also work with clients to develop business strategy and tactics on an ongoing basis to address these issues. Our specialists advise clients in the telecommunications, energy and transportation industries in antitrust cases, regulatory proceedings, strategic planning and mergers and acquisitions. Our professionals regularly provide expert testimony on damages, rates and prices, merger benefits and valuations.

Our experienced intellectual property professionals provide valuation, damage analysis and expert testimony services. They provide their services to a range of industries, including oil and gas, technology and consumer products. They perform financial analyses of intellectual property in licensing and royalty disputes, antitrust claims and other types of disputes. Our professionals in this group employ industry research, statistical analysis, regression techniques, portfolio analysis and sophisticated financial modeling to support defensible, credible valuation and damage conclusions.

In 2002, we formed FTI Merger & Acquisition Advisors, LLC, a member of NASD and SIPC. Our mergers and acquisitions advisory specialists assist clients in negotiating and structuring business combinations, acquisitions and dispositions of assets, business units or entire businesses. Our lender and transactional support practice group assists lenders and other institutional clients in performing financial due diligence for loans, acquisitions and other transactions.

Our dispute settlement practice group helps our clients mitigate the cost of, or avoid, litigation by evaluating claims and risks. These professionals coordinate business expertise with legal and technical analysis to develop cost-effective settlement strategies and implement mutually beneficial business resolutions.

### **Our Acquisition of BRS**

On August 30, 2002, we completed the acquisition of certain assets and liabilities of BRS. The purchase price for BRS consisted of \$142.0 million in cash and 3,000,000 shares of our common stock valued at \$101.9 million.

We believe our acquisition of BRS will provide us with many strategic benefits. The

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combination has enhanced our position as one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. On a combined basis, with over 60 senior managing directors and 450 other professionals and support staff, we believe we can continue to increase our market position in this industry. The BRS acquisition solidifies our national presence and broadens the platform from which we can more quickly handle increasingly larger and more complex consulting engagements.

We believe we can successfully integrate BRS into our business. Immediately after the acquisition, BRS began operating as part of our turnaround, restructuring and bankruptcy practice group. We have already integrated the BRS operations into our billing and operations systems. This has allowed our management team to instantly monitor the operating performance of the acquired business at very detailed levels. We have entered into a one-year transition services agreement with PricewaterhouseCoopers LLP (“PwC”) to provide various infrastructure-related services. PwC has agreed to provide us with information technology and other services as well as office space while we fully integrate all aspects of BRS’ operations into our business. PwC is providing these transition services to us on the same allocated cost basis as it did when BRS was part of PwC.

We made offers to 49 BRS partners, all of whom agreed to work for us as senior managing directors. Each has entered into a four-year employment agreement with us. When they withdrew as partners of PwC, 47 of them received shares of our common stock from PwC. These partners received a total of about approximately 1.2 million shares of our common stock and then agreed with us to restrict the transfer of 40% of their shares. All restricted shares are non-transferable for two years. After the second anniversary of the closing of the BRS acquisition, one-half of these restricted shares become unrestricted, and on the fourth anniversary, the remaining shares also become unrestricted. As an added incentive to remain with us, we granted the BRS partners contractual protection against a decline in the value of their restricted shares during the four-year restricted period if the market price for the shares falls below \$28.33 per share. If a BRS partner were to terminate his or her employment with us prior to the expiration of the four-year term of the employment agreement, the restricted period for the remaining restricted shares would be extended to eight years from the date of termination, and these shares would lose their price protection. Nearly all of the BRS partners and selected other executives that joined us also received options to purchase a total of 602,000 shares of our common stock at the fair market value of our common stock on August 30, 2002. These options vest in equal annual installments over three years beginning one year from the closing of the acquisition.

We have entered into a three-year non-competition arrangement with PwC. During the non-competition period, PwC has agreed not to provide restructuring, bankruptcy or insolvency services in the U.S. and to limit the fees it receives for providing its audit clients with debtor-side restructuring services in the U.S. to \$12.0 million during the first year of the non-competition period, \$15.0 million during the second year and \$17.0 million during the third year. PwC also agreed not to market any of its consulting services using the terms “BRS” or “BRS Services.” Our non-competition arrangement with PwC, however, generally permits non-U.S. PwC firms to provide services in the U.S. that are competitive with BRS’ services in cases where the primary engagement is outside of the U.S. or where the provision of work is required by a statutory or fiduciary obligation.

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**Clients**

We have cultivated long-term relationships with many of the premier financial institutions, law firms, private equity firms and other institutions in the U.S. In 2002, we performed work for 865 clients on 2,089 matters, including:

- 364 law firms, 83 of which were rated among the top 100 law firms (based on 2002 U.S. revenues as measured by *American Lawyer* magazine);
- 415 industrial clients, 125 of which were among the *Fortune 500* in 2002; and
- 21 of the 25 largest banks located in the U.S.

In 2002, we believe that over 80% of our business came from existing clients or referrals from existing clients. Our largest client represented less than 5% of our 2002 revenues from continuing operations.

**Marketing and Sales**

We rely primarily on referrals and our reputation to market our services to new and existing clients since most of our work is repeat work for existing clients or comes from referrals from existing clients or relationships with partners in major law firms or other professionals. Our professionals develop close working relationships with clients and often learn about new business opportunities from their frequent contacts with clients. We anticipate that the BRS partners will enhance our ability to obtain business through referrals, given their reputations and contacts in our industry. In marketing our services, we emphasize our experience, the quality of our services and our professionals' particular areas of expertise, as well as our ability to quickly staff a new engagement. While we aggressively seek new business opportunities, we maintain high professional standards and carefully evaluate potential new client relationships and engagements before accepting them.

We do not rely on sales personnel to market our consulting services, except in our trial support practice group. The trial support practice group has about seventeen full-time sales people.

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**Competition**

The industry in which we operate is highly competitive. Our competitors range from large organizations, such as the national accounting firms and the large management consulting companies that offer a broad range of consulting services, to small firms and independent contractors that provide one specialized service. Competitive factors for our services include reputation, size, ability to immediately staff a substantial engagement, performance record, quality of work, range of services provided and existing client relationships. To a lesser extent, we also compete on price, but the critical nature of our services typically reduces price to a secondary consideration.

Some national service providers are larger than we are and, on any given engagement, may have a competitive advantage over us with respect to one or more competitive factors. The smaller local or regional firms, while not offering the range of services we provide, often are able to provide the lowest price on a specific engagement because of their lower overhead costs and proximity to the engagement.

**Human Resources**

At December 31, 2002, we had 769 employees, excluding the 294 employees in our applied sciences practice group. We also maintain consulting arrangements with about 2,300 independent consultants. Most of our professionals have many years of experience in their field of practice, and many are well recognized for their expertise and experience.

**Available Information**

Our Internet website is [www.fticonsulting.com](http://www.fticonsulting.com). We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file with or furnish such materials with the SEC. We also make available on our website our Corporate Governance Guidelines, Policy on Ethics and Business Conduct, charters for the Audit, Compensation and Nominating and Corporate Governance committees of our Board of Directors and other corporate governance documents.

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**Business Risks**

**If we fail to retain our qualified professionals or hire additional qualified professionals, our future growth and financial performance may suffer.**

Our business involves the delivery of professional turnaround, restructuring, bankruptcy and related consulting services. In the consulting business, professional acumen is a critical element of a company's ability to deliver high quality professional services. Our professionals have highly specialized skills. Our continued success depends upon our ability to retain and expand our staff of professionals who have reputations and client relationships critical to maintaining and developing our business. We face intense competition in recruiting and retaining the highly qualified professionals we must have to continue our service offerings. We cannot assure you that we will be able to retain our existing professionals or that in the future we will be able to attract and retain enough qualified professionals to maintain or expand our business. Moreover, competition for retaining or hiring qualified professionals could increase our costs of labor, a trend, which could harm our margins and results of operations.

**Our profitability will suffer if we are not able to maintain our utilization and pricing rates.**

We calculate the utilization rate for our professional staff by dividing the number of hours all of our professionals charged our clients during a year by the total available working hours for all of our professionals assuming a 40-hour work week and a 52-week year. The hourly rates we charge our clients for our services and the number of hours our professionals are able to charge our clients for our services are affected by the level of expertise and experience of the professionals working on a particular engagement and, to a lesser extent, the pricing and staffing policies of our competitors. If we fail to maintain an appropriate utilization rate for our professionals and maintain or increase the hourly rates we charge our clients for our services, our profitability will suffer.

**We rely heavily on our senior management team and practice group leaders for the success of our business.**

We rely heavily upon our senior management team and practice group leaders to manage our turnaround, restructuring, bankruptcy and related consulting business. Given the highly specialized nature of our services and the scale of our operations, these people must have a thorough understanding of our service offerings as well as the skills and experience necessary to manage a large organization. If one or more members of our senior management team or our practice group leaders leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in managing our business properly, and this could harm our business prospects and results of operations.

**We face intense competition in our business. If we fail to compete effectively, we may miss new business opportunities or lose existing clients, and our revenues and profitability may decline.**

The market for our consulting services is highly competitive. Our competitors range from large organizations, such as the national accounting firms and the large management consulting companies that offer a broad range of consulting services, to small firms and independent contractors that provide one specialized service. Some of our competitors have significantly more financial resources, larger professional staffs and greater brand recognition than we do. We cannot assure you

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that we will continue to compete successfully for new business opportunities or retain our existing clients. Although, in connection with our acquisition of BRS, we obtained a limited non-competition arrangement from PwC, we cannot assure that PwC will not compete with us in the future.

**Any claims involving the quality of our services could harm our overall professional reputation, which could harm our ability to compete for new business opportunities or in hiring qualified professionals.**

Many of our engagements involve complex analysis and the exercise of professional judgment. Therefore, we are subject to the risk of professional liability. Often, our engagements involve matters that, if resolved unfavorably, may result in a severe impact on the client's business, cause the client a substantial monetary loss or prevent the client from pursuing business opportunities. Since our ability to generate new client engagements depends upon our ability to maintain a high degree of client satisfaction as well as our reputation among industry professionals, any claims against us involving the quality of our services may be more damaging than similar claims against businesses in other industries.

Any claim by a client against us could expose us to professional liability in excess of our insurance limits. We maintain a limited amount of liability insurance. The damages and/or expenses resulting from any successful claims against us in excess of our insurance limits would have to be borne directly by us and could seriously harm our profitability and financial resources.

**Our clients may terminate our engagements with little or no notice, which may cause us to experience unexpected declines in our profitability.**

Much of our business involves large client engagements that we staff with a substantial number of professionals. We typically enter into engagement letters with clients but these letters do not obligate clients to continue to use our services. Typically, our engagement letters permit clients to terminate our services at any time. If our clients unexpectedly cancel engagements with us or curtail the scope of our engagements, we may be unable to replace the lost revenues from those engagements and may also be unable to quickly eliminate costs associated with those engagements. Any decrease in revenues without a corresponding reduction in our costs will likely harm our profitability.

**Our turnaround, restructuring and bankruptcy practice group has an increased risk of fee nonpayment.**

Many of our clients have engaged us because they are experiencing financial distress. We recognize that these clients may not have sufficient funds to continue operations or to pay for our services. Despite requiring clients to pay us retainers before we begin performing services on their behalf, we cannot assure you that these retainers will adequately cover our fees for the services we perform on behalf of these clients. We are not always able to obtain retainers from clients in bankruptcy as the bankruptcy court must approve our retainer for those clients. Even if a bankruptcy court approves our retainer, the court may subsequently require us to return all or a portion of it. Therefore, we face the risk of nonpayment, which can result in write-offs. For the three years ended December 31, 2002, we wrote off a total of \$5.9 million of uncollectible fees, not including amounts attributable to our applied sciences practice group. If we were to experience more write-offs than we expect in any period, our results of operations could be harmed.

**If the number of debt defaults, bankruptcies or other factors affecting demand for our services declines, our revenues and profitability could suffer.**

Our turnaround, restructuring and bankruptcy practice group is our largest practice group. It provides various restructuring and restructuring-related services to companies in financial distress or their creditors or other stakeholders. A number of factors affects demand for this practice group's services. These include:

- the level of lending activity and over-leveraging of companies;
- over-expansion by various businesses;
- increases in merger and acquisition activity;
- management problems; and
- the general decline in the economy in the U.S. during the past several years.

If demand for our restructuring services decreases, our turnaround, restructuring and bankruptcy practice group could suffer a decline in revenues, which would lower our overall profitability. Since most of the clients of turnaround, restructuring and bankruptcy practice groups are financially distressed, our acquisition of BRS may increase our exposure to the risk of decreased demand for our services.

**If we fail to find suitable acquisition candidates, our ability to expand may be curtailed.**

We may experience an increased level of competition in our efforts to make acquisitions in the future. As a result, we may be unable to continue to make acquisitions or be forced to pay more for the companies that we are able to acquire. In either case, we may be unable to grow our business as quickly as we have in the past, and our profitability may decline. Our ability to grow our business, particularly through acquisitions, may depend on our ability to raise capital by selling equity securities or obtaining additional debt financing. We cannot assure you, however, that we will be able to obtain financing when we need it or on terms acceptable to us. If we cannot, we may have to curtail our planned growth and not pursue acquisition opportunities.

**We may not manage our growth effectively, and our profitability may suffer.**

We have experienced rapid growth in recent years. This rapid expansion of our business may strain our management team, human resources and information systems. Despite our recent growth, we plan to continue evaluating opportunities to acquire other businesses and expanding our business rapidly. We cannot assure you, however, that we can successfully manage the integration of any businesses we may acquire or that they will result in the financial, operational and other benefits that we anticipate. To manage our growth successfully, we may need to add qualified managers and employees and periodically update our operating, financial and other systems, as well as our internal procedures and controls. We also must effectively motivate, train and manage a larger professional staff. If we fail to manage our growth effectively, our business, results of operations and financial condition may be harmed.

**From time to time we operate with a substantial amount of debt, with variable interest rates.**

Our total long-term debt at December 31, 2002, was approximately \$97.8 million. We repaid



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\$49.8 million of this debt with the proceeds of a public offering of our common stock in February 2003 and \$2.15 million with the cash proceeds from the sale of our LWG asset disposal group in January 2003. However, we still have \$45.9 million in debt after these two transactions and have historically incurred debt to acquire additional business units. Operating with a high amount of leverage could require us to redirect a substantial portion of our cash flow from operations to make payments on our debt. This would reduce the funds available for operations, future business opportunities, capital expenditures, acquisitions and other purposes. It will also limit our flexibility in planning for, or reacting to, changes in our business and our industry. The terms of our debt also require us to meet specified financial covenants. If we fail either to meet these financial requirements or our lenders do not waive them, we will be required to pay fees and penalties. Our lenders could also accelerate the maturity of our debt if we fail to meet these covenants, which would force us to seek alternative financing. If this were to happen, we cannot assure you that we would be able to obtain the additional financing we may need or that it would be on terms favorable to us.

Our debt accrues interest at a variable rate. We have historically reduced our exposure to rising interest rates by entering into interest rate swaps. These historical hedge arrangements may result in us incurring higher interest expenses than we would have incurred without the hedges in place. We could also face the same problem if we were to decide to once again enter into new hedge arrangements. Although a few of these historical hedge arrangements will remain in place on our existing debt, we do not intend to enter into new hedge arrangements for the credit facility we put in place to finance our acquisition of BRS. If interest rates increase, we will need to dedicate more of our cash flow from operations to make payments on our debt.

### **Our revenues, operating income and cash flows are likely to fluctuate.**

We have experienced fluctuating revenues, operating income and cash flow in some prior periods and expect that this may occur from time to time in the future. We may experience future fluctuations in our annual or quarterly revenues and operating income because of the timing of our client assignments, the types of assignments we are working on at different times, hiring trends and decreased productivity because of vacations taken by our professionals. This means our profitability will likely decline if we experience an unexpected variation in the number or timing of client assignments or during the third quarter when substantial numbers of professionals take vacations, which reduces their utilization rates. We may also experience future fluctuations in our cash flows because of the timing of the payment of incentive compensation to our professionals, which we generally pay during the first quarter of each year. Also, the timing of any future acquisitions and the cost of integrating them may cause fluctuations in our operating results.

## **Risks Related to Our Acquisition of BRS**

**A significant portion of BRS' revenues results from relationships with clients and industry professionals maintained by a small number of our key professionals. The loss of one or more of these key professionals could decrease our revenues and our profitability.**

The success of our acquisition of BRS will depend upon our retention of key partners from BRS as our senior managing directors. These key senior managing directors have reputations in the financial services industry for highly specialized skills as well as important relationships with existing clients and industry professionals. Their reputations and relationships are critical to gaining new client engagements, particularly large, complex matters. Our employment agreements with the former BRS partners provide them with various financial incentives to work for us during the four-year employment period. However, they are not obligated to remain with us for all four years or for any other length of time. The loss of one or more of these key senior managing directors could harm the success of our acquisition of BRS.

**We cannot assure you that we can continue to successfully integrate BRS into our business.**

We completed the acquisition of BRS on August 30, 2002. The BRS acquisition was substantial for us in several respects, including its potential contribution to our results of operations and the addition of a significant number of professionals and client relationships. We have not previously undertaken an integration process as large as that required by the BRS acquisition. We cannot assure you that we will realize the potential financial, operating or other benefits that we expect from this acquisition. Integrating BRS into our business will require a significant amount of our resources and management time to coordinate our operations and personnel with those of BRS. The process of integrating BRS into our existing operations may result in unforeseen operating difficulties and may require significant financial, operational and managerial resources that would otherwise be available for the operation, development and expansion of our existing business. To the extent that we have miscalculated our ability to integrate and properly manage BRS, we may have difficulty in achieving our operating and strategic objectives.

**We have a different system of governance and management from PwC, which could cause some of our key personnel to leave us.**

When BRS was a division of PwC, we believe BRS shared many of the management practices and policies that PwC developed to manage its multinational network of firms. We believe our management practices and policies differ from PwC's. During the transition period while we integrate BRS into our business, it is possible that these different management practices and policies may lead to workplace dissatisfaction on the part of the BRS professionals with our way of conducting business. This may cause some of our key professionals to leave us. The loss of one or more key professionals may harm our business and results of operations.

**The benefits BRS enjoyed when it was part of PwC will no longer be available and this could harm the profitability of BRS.**

BRS benefited from the name recognition and reputation of PwC and received referrals from other practices within PwC. Now that BRS is separate from PwC, BRS only has a limited ability to market its services by referring to the PwC name. Existing and potential clients and industry professionals may not recognize the new brand under which the professionals of BRS now provide

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their services. Consequently, we may need to incur substantial marketing expenses to strengthen and develop our brand, which could lower our profits below the levels BRS was historically able to generate. In addition, PwC has no incentive to refer clients to us, especially since PwC may continue to provide a limited amount of the sort of restructuring services performed by BRS. For information on our non-competition arrangement with PwC, see “Business—Our Acquisition of BRS.” The loss of client referrals may harm our expected revenue growth and results of operations and cause the actual profitability of the acquired business to differ materially from our expectations and the expectations of the investing public. A failure to meet these expectations could cause the price our stock to decline.

**Conflicts of interest may prevent us from providing services to new and existing clients, which could harm our revenues and results of operations.**

Under conflict of interests rules, we generally may not represent both a debtor and its creditors on the same engagement. Accordingly, FTI and BRS together may not be able to accept all the engagements we could have previously accepted as separate entities. Although we have identified six client engagements that have created actual conflicts of interests as a result of our acquisition of BRS, only one of these engagements is a significant engagement for BRS. However, future conflicts of interest may require us to decline new client engagements. Our inability to accept new client engagements as a result of conflicts of interest may harm our revenue growth and results of operations.

**ITEM 2. PROPERTIES**

We lease our principal corporate facility in Annapolis, Maryland, under a lease that expires in February 2007. This facility contains about 17,000 square feet of space. We also have 15 offices across the U.S., in cities such as New York, Chicago, Houston, Dallas, Los Angeles and Washington, D.C., to support our continuing operations. PwC has agreed that for up to one year after our BRS acquisition, our BRS people may continue to occupy PwC's offices in New York, Dallas, Los Angeles, Chicago, Atlanta and ten other cities. We are currently negotiating to lease additional facilities to accommodate the addition of the BRS personnel in the cities where they currently work. We intend to relocate them as soon as possible and expect to obtain additional leased facilities on commercially reasonable terms. In addition, we lease 21 offices that are used by our applied sciences practice group, including its headquarters in Columbus, Ohio.

**ITEM 3. LEGAL PROCEEDINGS**

We are not currently party to any material litigation.

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

No matters were submitted to our stockholders for consideration during the quarter ended December 31, 2002.

**PART II**  
**ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY**  
**AND RELATED STOCKHOLDER MATTERS**

For the period through August 15, 2001, FTI's common stock traded on the American Stock Exchange under the symbol "FCN". On August 16, 2001, FTI's common stock began trading on the New York Stock Exchange, under the same symbol. The following table sets forth for the periods indicated the high and low closing prices per share for the common stock, as reported on the New York Stock Exchange or the American Stock Exchange, as applicable. These prices have been adjusted to give effect to the 3 for 2 stock split that was paid as a stock dividend to shareholders of record on January 2, 2002:

	<u>High</u>	<u>Low</u>
<b>Year Ended December 31, 2001</b>		
First quarter	\$ 8.67	\$ 5.67
Second quarter	\$14.53	\$ 8.67
Third quarter	\$19.60	\$12.83
Fourth quarter	\$22.73	\$18.40
<b>Year Ended December 31, 2002</b>		
First quarter	\$32.26	\$21.47
Second quarter	\$36.30	\$29.90
Third quarter	\$41.95	\$29.01
Fourth quarter	\$42.88	\$32.75

As of March 11, 2003, the number of record holders of the Company's common stock was 151 and the Company believes the number of beneficial holders approximates 11,200.

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. Further, the Company's credit facility restricts the Company's ability to pay dividends.

On March 17, 2003, the Board of Directors approved a three-for-two split of its common stock payable in the form of a stock dividend. The stock split is subject to shareholder approval of an increase in the Company's authorized capital from 45 million to 75 million shares at the Company's annual meeting on May 21, 2003.

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**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data for the five years ended December 31, 2002, are derived from the Company's consolidated financial statements. The consolidated financial statements for the years ended December 31, 1998, 1999, 2000, 2001 and 2002, 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 Financial Condition and Results of Operations."

	Year ended December 31,				
	2002 <sup>(1)</sup>	2001	2000 <sup>(2)</sup>	1999	1998 <sup>(3)</sup>
	(in thousands, except per share data)				
Revenues	\$224,113	\$122,317	\$ 95,532	\$48,914	\$35,771
Direct cost of revenues	108,104	59,074	48,979	25,600	19,752
Selling, general and administrative expenses	51,647	33,085	23,920	16,532	12,895
Amortization of goodwill and other intangible assets	1,033	4,235	3,942	1,554	681
<b>Total costs and expenses</b>	<b>160,784</b>	<b>96,394</b>	<b>76,841</b>	<b>43,686</b>	<b>33,328</b>
Operating income	63,329	25,923	18,691	5,228	2,443
Net interest expense	(4,717)	(4,356)	(10,771)	(4,014)	(1,163)
Income from continuing operations, before income taxes and extraordinary item	58,612	21,567	7,920	1,214	1,280
Income taxes	23,704	8,621	3,262	402	583
Income from continuing operations before extraordinary item	34,908	12,946	4,658	812	697
Discontinued operations:					
Income from operations of discontinued operations	5,343	6,347	5,951	4,088	3,242
Income taxes	2,198	2,824	2,655	1,909	1,371
Income from discontinued operations	3,145	3,523	3,296	2,179	1,871
Loss on disposal of discontinued operations, net of tax benefit of \$607 in 2002	(891)	—	—	—	—
Income before extraordinary item	37,162	16,469	7,954	2,991	2,568
Extraordinary loss on early extinguishment of debt, net of income taxes of \$3,078	—	—	5,393	—	—
<b>Net income</b>	<b>\$ 37,162</b>	<b>\$ 16,469</b>	<b>\$ 2,561</b>	<b>\$ 2,991</b>	<b>\$ 2,568</b>

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	Year ended December 31,				
	2002 <sup>(1)</sup>	2001	2000 <sup>(2)</sup>	1999	1998 <sup>(3)</sup>
	(in thousands, except per share data)				
<b>Earnings per Share:</b>					
Income from continuing operations before extraordinary item per common share, basic	\$ 1.63	\$ 0.72	\$ 0.44	\$ 0.11	\$ 0.10
Earnings per common share, basic	\$ 1.74	\$ 0.92	\$ 0.24	\$ 0.41	\$ 0.36
Income from continuing operations before extraordinary item per common share, diluted	\$ 1.53	\$ 0.66	\$ 0.39	\$ 0.11	\$ 0.09
Earnings per common share, diluted	\$ 1.63	\$ 0.84	\$ 0.21	\$ 0.39	\$ 0.34
Weighted average shares outstanding, basic	21,354	17,841	10,612	7,308	7,088
Weighted average shares outstanding, diluted	22,798	19,631	11,988	7,543	7,615

	December 31				
	2002	2001	2000	1999	1998
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 9,906	\$ 12,856	\$ 3,235	\$ 5,046	\$ 3,223
Working capital	13,778	28,766	20,163	19,233	9,071
Total assets	430,531	159,098	149,246	84,840	80,280
Long-term debt	97,833	28,166	60,500	42,727	46,280
Total stockholder's equity	267,975	105,136	68,624	30,252	25,594

- (1) On January 2, 2002, we acquired Technology & Financial Consulting, Inc. and on August 30, 2002, we acquired the U.S. Business Recovery Services division of PricewaterhouseCoopers, LLP, in business combinations accounted for as purchases.
- (2) Effective January 31, 2000, we acquired Policano & Manzo, L.L.C., in a business combination accounted for as a purchase.
- (3) In June 1998, we acquired Klick, Kent & Allen, Inc. In September 1998, we acquired S.E.A., Inc., Kahn Consulting, Inc., and KCI Management Corp. These business combinations were accounted for as purchases.

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

### Overview

We are one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. Our highly skilled professionals assist distressed companies in improving their financial position, or their creditors or other stakeholders in maximizing recovery of their claims. We also provide other consulting services such as corporate recovery, forensic accounting, fraud investigation and asset tracing, regulatory, intellectual property and mergers and acquisitions advisory services. Our trial support practice group advises clients in all phases of litigation, including pre-filing, discovery, jury selection, trial preparation, expert testimony and the actual trial.

In July 2002, we committed to a plan to sell our applied sciences practice group, which offers a broad range of forensic engineering and scientific investigation services. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the results of operations of our applied sciences practice group are treated as discontinued operations. Unless otherwise indicated, all amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations are from continuing operations. We have included in Note 2 – *Pending Sale of Applied Sciences Practice Group* to the Consolidated Financial Statements a more comprehensive discussion about our discontinued operations.

Our direct cost of revenues consists primarily of employee compensation and related payroll benefits, the cost of outside consultants assigned to revenue-generating activities and other related expenses billable to clients. In 2002, our direct costs were 48.2% of revenues, consistent with our long-term goal of 50.0% and an improvement from 48.3% in 2001 and 51.3% in 2000.

Selling, general and administrative expenses consist primarily of salaries and benefits paid to office and corporate staff, as well as rent, marketing, corporate overhead expenses and depreciation and amortization of property and equipment. In 2002, selling, general and administrative expenses, including depreciation and amortization of property and equipment, accounted for about 23.0% of our revenues, a substantial reduction from the 27.0% of revenues realized in 2001 and 25.0% in 2000. The primary reason for this relative decline is that the majority of our growth in revenues has been in our financial consulting practice groups which have lower ratios of selling, general and administrative expenses than our trial support practice groups. Our corporate overhead costs, which are included in selling, general and administrative expenses, represented about 6.8% of revenues in 2002, 8.6% in 2001 and 8.1% in 2000. The relative decline in our corporate overhead costs reflects the increased leverage of our overhead and corporate support services in relation to our increased revenue base.

We had goodwill related to our continuing operations of about \$299.2 million at December 31, 2002 that we recorded principally from business combinations that we completed in the last five years, including \$219.7 million related to our acquisition of BRS and \$3.7 million related to our acquisition of Technology & Financial Consulting, Inc. (TFC), both during 2002. This goodwill represented about 69.5% of our total assets at December 31, 2002. As of January 1, 2002, we no longer amortize this goodwill, but rather make at least annual assessments of impairment. Our applied sciences practice group had goodwill of approximately \$13.2 million at December 31, 2002, which is included in long-term assets of discontinued operations in the consolidated balance sheets.



**Recent Developments**

*Acquisition of BRS*

On August 30, 2002, we acquired BRS for \$142.0 million in cash and 3,000,000 shares of our common stock valued at \$101.9 million. On a pro forma basis, as adjusted to present BRS as a company separate from PwC, BRS had revenues of \$167.2 million and operating income of \$40.0 million for the year ended December 31, 2001, and revenues of \$109.0 million and operating income of \$24.0 million for the eight-month period ended August 30, 2002.

*Pending Sale of Our Applied Sciences Practice Group*

In July 2002, we committed to a plan to sell our applied sciences practice group, consisting of two separate business components or asset disposal groups, L.W.G., Inc. and S.E.A., Inc. Prior to September 1, 2002, these two business components comprised our applied sciences reporting segment. In January 2003, we sold the LWG asset disposal group for total consideration of \$4.15 million, consisting of cash of \$2.15 million and a seven-year note in the amount of \$2.0 million. An after-tax loss of approximately \$891,000 was recorded in the accompanying financial statements to present the LWG asset disposal group at its fair value less cost to sell. The remaining SEA asset disposal group is available for immediate sale in its present condition, subject only to the terms that are usual and customary for sales of such asset disposal groups. An active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated.

The sale of the SEA asset disposal group is considered probable and is expected to be completed by the end of 2003. Actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. The assets comprising the SEA asset disposal group are measured at the lower of their carrying amount or estimated fair value less cost to sell. Property and equipment held for sale are no longer being amortized. We currently expect to recover the carrying value of the assets of the SEA disposal group, which was \$18.0 million at December 31, 2002. However, it is reasonably possible that the ultimate amount realized from the sale may be less than the carrying value. Depending on the sale price and the tax structure of the transaction, the amount realized after taxes from the sale may be less than the carrying value.

Because the operations and cash flows of the applied sciences practice group will be eliminated from our future operations as a result of the pending disposal transaction, and because we will not have any significant continuing involvement in the held for sale operations after the disposal transactions, the results of the applied sciences practice group's operations are reported for all periods presented as a separate component of income, net of income taxes.

### **Critical Accounting Policies**

**General.** Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which we have prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, goodwill, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

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

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

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

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We believe that the addition of BRS will not have a significant effect on our bad debt expense as a percentage of revenue.

**Goodwill.** We have remaining goodwill from continuing operations of about \$299.2 million at December 31, 2002 that we recorded for business combinations that we completed principally in the last five years. In prior years, this goodwill was amortized over 20 to 25 year periods and resulted in amortization expense approximating \$4.2 million in 2001. As of January 1, 2002, we adopted Financial Accounting Standards Board Statement No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to at least annual impairment tests in accordance with the Statement. Accordingly, we no longer amortize this goodwill, but rather make at least annual assessments of impairment. During the second quarter of 2002, we completed the transitional impairment tests required by Statement 142 for this goodwill as of January 1, 2002. No impairment of goodwill was identified as a result of these tests. In the future, we will be making impairment tests during the fourth quarter of each year. In making these impairment assessments, we must make subjective judgments regarding estimated future cash flows and other factors to determine the fair value of the reporting units of our business that are associated with this goodwill. It is possible that these judgments may change over time as market conditions or our strategies change, and these changes may cause us to record impairment charges to adjust our goodwill to its estimated implied fair value. In December 2002, we wrote down \$1.2 million of goodwill related to the LWG asset disposal group to reflect the net assets of this disposal group at their fair value less cost to sell. The LWG asset disposal group was sold in January 2003.

### **Effect of Recent Accounting Pronouncements**

As of January 1, 2002, the Company adopted Financial Accounting Standards Board Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144"). Statement 144 supersedes and serves to clarify and further define the provisions of Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and provides a single accounting model for long-lived assets to be disposed of.

Statement 144 does not apply to goodwill and other intangible assets that are not amortized, and retains the Company's current policy to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted future cash flows and to measure the impairment loss as the difference between the carrying amount and the fair value of the asset.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("Statement 145"). Among other changes, Statement 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and classified as an extraordinary item, net of the related tax effect. Statement 145 provides that gains and losses from extinguishment of debt should be classified as extraordinary items only if they are unusual or infrequent or they otherwise meet the criteria for classification as an extraordinary item, and observes that debt extinguishment transactions would seldom, if ever, result in extraordinary item classification of the resulting gains and losses. We will adopt Statement 145 in January 2003, and upon adoption, we will report as other expenses any extraordinary losses that we incur upon the extinguishment of our debt. In addition, when we present for comparative purposes financial statements issued prior to December 31, 2002, we will reclassify to other expenses any

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extraordinary losses that we recorded upon the early extinguishment of debt in those periods. In 2000, we reported a \$5.4 million loss from the early extinguishment of certain debt. Upon the sale of the SEA asset disposal group, our agreement with our bank lending group requires the cash proceeds to be used to retire portions of our debt. Also, in February 2003, we completed the public offering of approximately 2.7 million shares of our common stock for \$100.6 million cash (less approximately \$1.0 million of offering costs). In accordance with our credit agreement, we used half the proceeds from the stock offering to retire portions of our long-term debt. In February 2003, we wrote-off \$499,000 of deferred bank financing fees in connection with the early debt retirement related to the public offering and we estimate that we will write-off up to approximately \$400,000 of deferred bank financing fees upon the sale of the SEA asset disposal group, depending upon the sales price and payment terms. In accordance with Statement 145, we will record these charges as other expense in the statement of operations.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("Statement 146"). Statement 146 supersedes EITF Issue No. 94-3 *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. Statement 146 requires that costs associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We do not expect that our adoption of Statement 146 will have a material effect on our reported results of operations and financial position.

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### Recent Acquisitions

We have made three acquisitions since the beginning of 2000, each of which was treated as a purchase business combination for accounting purposes:

Company	Date Acquired	Purchase Price	Goodwill and Other Intangibles Recorded	Sources of Cash Financing	Services
		(in table, dollars in millions)			
U.S. BRS division of PwC	Aug. 2002	\$243.9, in cash and stock(1)	\$ 224.8	Bank financing and our available cash	Turnaround, restructuring and bankruptcy consulting
Technology & Financial Consulting, Inc.	Jan. 2002	\$4.3, in cash and stock(2)	\$ 3.7	Available cash	Intellectual property consulting
Policano & Manzo, L.L.C.	Feb. 2000	\$54.9, in cash and stock(3)	\$ 52.3	Bank financing and our available cash	Turnaround, restructuring and bankruptcy consulting

- (1) The purchase price consisted of \$23.0 million of available cash, incurred debt of \$119.0 million and 3,000,000 shares of common stock valued at \$101.9 million.
- (2) The purchase price consisted of \$3.3 million of available cash, and 46,216 shares of common stock valued at \$1.0 million.
- (3) The purchase price consisted of \$1.9 million of available cash, incurred debt of \$47.5 million and 1,222,000 shares of common stock valued at \$5.5 million.

### Results of Continuing Operations

#### *Years Ended December 31, 2002, 2001 and 2000*

**Revenues.** Revenues from continuing operations for the year ended December 31, 2002 increased 83.2% to \$224.1 million compared with \$122.3 million in 2001. The greatest growth was in our bankruptcy and restructuring practice groups, which includes the August 2002 acquisition of BRS, in addition to our organic growth. Our forensic consulting practices also experienced significant growth in revenue, principally attributable to our ability to recruit seasoned financial professionals to meet the continued strong demand for our consulting services, as well as the acquisition of TFC at the beginning of the year. Our trial support practice groups revenue also grew during 2002, although at a more modest rate. The number of our professional employees at December 31, 2002 grew 246.3% from December 31, 2001. Of this growth, 55.9% occurred as a result of organic growth and the development of new practice areas, and the remainder as a result of the acquisitions of BRS and TFC. During the first quarter of 2002, we also raised our professional rates by an average of 8%. The new practice areas we added during the year have contributed to the revenues and operating income during the year.

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Revenues in 2001 increased 28.0% when compared to 2000, primarily through organic growth. The 2000 revenue growth was principally the result of our acquisition of Policano & Manzo, LLC (“P&M”) in early 2000 and the successful integration of its financial professionals into our existing practices.

**Direct Cost of Revenues.** Direct cost of revenues of our continuing operations was 48.2% of our total revenues in 2002, 48.3% in 2001 and 51.3% in 2000. The improvement in 2002 and 2001 resulted primarily from the relative growth of our turnaround, restructuring and bankruptcy practice area, which has higher gross margins than our other practice areas.

**Selling, General and Administrative Expenses.** As a percent of our total revenues, these expenses, which include depreciation and amortization of property and equipment, were 23.0% in 2002, 27.0% in 2001 and 25.0% in 2000. This decline in 2002 was primarily the result of the growth in our turnaround, restructuring and bankruptcy services, which have a lower selling and general administrative expense as a percent of revenues than our other practice areas. The increase in 2001 was the result of costs incurred to open larger offices in several major cities, including New York and Washington, DC.

**Amortization of Goodwill and Other Intangible Assets.** As required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we no longer amortize goodwill, beginning January 1, 2002. Amortization of goodwill of continuing operations was \$4.2 million in 2001 and \$3.9 million in 2000. In connection with the acquisition of BRS, we recorded approximately \$5.1 million of other intangible assets, consisting primarily of client backlog, which are being amortized over their useful lives ranging from 18 to 36 months. We began to amortize these other intangible assets in September 2002, and amortization expense in 2002 was \$1.0 million.

**Interest Income and Expense, Net.** Net interest expense consisted primarily of interest on debt we incurred to purchase businesses over the past several years. Interest rates during 2002 have been lower than in 2001, which rates were lower than in 2000. As a result, interest expense in 2002 was \$4.7 million, compared to \$4.4 million in 2001 despite our additional borrowings in August 2002 to acquire BRS. Interest expense in 2000 was \$10.8 million related to borrowings to acquire P&M, a portion of which was at 17.0% interest. We achieved lower interest rates by refinancing our outstanding debt in late 2000 and experienced declining market interest rates on our revolving credit facility.

**Income Taxes.** Our effective tax rate for continuing operations in 2002 was 40.4%, compared to 40.0% in 2001 and 41.2% in 2000. We expect our effective tax rate from continuing operations to approximate 40.5% in 2003. See Note 8 of Notes to Consolidated Financial Statements for a reconciliation of the federal statutory rate to our effective tax rates during each of these years, and a summary of the components of our deferred tax assets and liabilities.

**Extraordinary Loss on Early Extinguishment of Debt, Net of Income Taxes.** As a result of the write-off of unamortized debt discount and deferred financing costs associated with the debt that we refinanced or retired early in 2000, we had a \$5.4 million loss on early extinguishment of debt, net of taxes in 2000. We have included in *Effect of Recent Accounting Pronouncements* a more comprehensive discussion of our accounting for this extraordinary loss.

## Liquidity and Capital Resources

During the year ended December 31, 2002, net cash provided by our operations was about \$77.6 million as compared to about \$35.4 million for 2001 and \$15.6 million in 2000. We continue to finance operations and capital expenditures solely through cash flows from operations. Cash flows from operations have improved year-over-year since 2000 primarily due to increases in net income. During 2002, this increase occurred primarily because our total revenues from continuing operations increased by 83.2%, while our direct cost of revenues and our selling, general and administrative expenses declined as a percentage of revenues to 71.3% (from 75.3% in 2001). Additionally, we realized a \$12.8 million income tax benefit from stock option exercises that further increased our cash flows from operations during 2002. The income tax benefit from stock option exercises was \$8.1 million in 2001 and \$34,000 in 2000.

Our operating assets and liabilities consist primarily of billed and unbilled accounts receivable, accounts payable and accrued expenses and accrued compensation expense. Changes in these balances are affected by the timing of billings and collections of receivables as well as payments for compensation arrangements. During 2002, changes in operating assets and liabilities increased cash flows from operations by \$15.9 million. This was primarily because our accrued compensation expenses increased by \$11.6 million and billed and unbilled accounts receivables declined by \$7.7 million when compared to the prior year. A substantial portion of total compensation for our professional employees is in the form of incentive compensation, which is normally paid after year-end. Our average collection period in 2002 declined when compared to 2001, primarily because of retainers paid by clients prior to the performance of our services. Our customary collection terms range from 30 to 60 days for all of our clients.

During 2002, we spent \$8.8 million for net additions to property and equipment, primarily for expansion of one of our major offices and investments in technology and equipment for our new practice areas, including approximately \$2.0 million related to the integration of BRS. This trend in investing activities, after giving effect to the recent acquisition of BRS, is in line with our historical net additions to property and equipment of \$4.4 million in 2001, and \$6.6 million in 2000. In 2003, we expect to spend approximately \$10.0 million for property and equipment additions, including \$4.0 million related to the integration of BRS. We had no material outstanding purchase commitments at December 31, 2002.

Our investment activities during 2002 included the acquisition of two businesses. We paid \$3.3 million in cash as part of the purchase price to acquire TFC, which provides intellectual property consulting services. We paid \$142.0 million in cash as part of the purchase price to acquire BRS.

Our financing activities in all periods have consisted principally of borrowings and repayments under long-term debt arrangements as well as issuances of common stock and exercises of warrants and stock options. Our long-term debt arrangements have principally been obtained to provide financing for our acquisitions of businesses, particularly BRS in 2002 and Policano & Manzo, LLC in 2000. We borrowed \$119.0 million in the third quarter of 2002 to acquire BRS and during the year we repaid \$49.3 million in debt. At December 31, 2002, we had availability under our revolving line of credit of \$100.0 million.

On August 30, 2002, we terminated our previous credit facility and entered into the new credit facility in connection with our acquisition of BRS. The new credit facility consisted of our then existing term loan for \$26.0 million, a new term loan for \$74.0 million and a new revolving credit

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facility for \$100.0 million. On September 30, 2002 and December 31, 2002, we repaid \$1.1 million of the \$26.0 million term loan. Our debt under the credit facility bears interest at an annual rate equal to LIBOR plus an applicable margin or an alternative base rate defined as the higher of (1) the lender's announced prime rate or (2) the federal funds rate plus the sum of 50 basis points and an applicable margin. If not prepaid, our \$23.8 million term loan will mature on December 1, 2005, and our \$74.0 million term loan will mature on August 30, 2006. Under the credit facility, we have granted the lenders a security interest in substantially all of our assets. At December 31, 2002, we had outstanding aggregate debt under the credit facility of \$97.8 million, bearing interest at 4.91% per annum. We will not be subject to any penalties for early payment of the debt under the credit facility. Under the provisions of the credit facility, we must apply at least half of the net proceeds that we obtain from any public offering of our equity securities to repayment of the debt. In February 2003, we completed the public offering of 2.6 million shares of our common stock for \$99.6 million cash. We used half the proceeds of the public offering to reduce our debt. Also, we expect to use cash flows from our operations to further reduce our debt. Assuming we do not make any acquisitions, we expect to repay all amounts under the credit facility by the end of 2003.

During 2002, stock options to purchase 1,210,278 shares of our common stock were exercised and 155,058 shares of our common stock were issued under our employee stock purchase plan. These exercises and issuances generated \$22.3 million in cash (including the \$12.8 million income tax benefit from the stock option exercises).

We intend to complete the sale of our applied sciences practice group by the end of 2003. Depending on the sale price and the tax structure of the transaction, the amount realized after taxes from the sale may be less than the carrying value. Under the credit facility, we are required to apply all of the proceeds from the sale to reduce our outstanding aggregate debt under the facility.

We expect that cash generated from our operations and cash available under our credit facility will be sufficient to meet our normal operating requirements for the foreseeable future.





**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to market risk associated with changes in interest rates on our variable rate debt. We have managed this risk by entering into interest rate swaps. These hedges reduce our exposure to rising interest rates, but also reduce the benefits from lower interest rates. We do not anticipate any material changes to our market risk exposures in 2003.

Interest rate swaps with notional principal amounts of \$21.9 million at December 31, 2002 were designated as hedges against a portion of our outstanding debt and were used to convert the interest rate on a portion of our variable rate debt to fixed rates for the life of the swap. Our pay rate on the hedged portion of our debt was 8.87% at December 31, 2002, compared to our receive rate of 4.15%. Because of the effectiveness of our hedge of variable interest rates associated with our debt, the change in fair value of our interest rate swaps resulting from changes in market interest rates is reported as a component of other comprehensive income.

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**ITEM 8. FINANCIAL STATEMENTS**  
FTI Consulting, Inc. and Subsidiaries  
Consolidated Financial Statements  
Years ended December 31, 2002, 2001 and 2000

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Report of Independent Auditors

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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(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 auditing standards generally accepted in the United States. 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. 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.

As discussed in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for goodwill.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland  
February 12, 2003

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Consolidated Balance Sheets

	December 31,	
	2002	2001
	(dollars in thousands)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,906	\$ 12,856
Accounts receivable, less allowance of \$6,955 in 2002 and \$1,088 in 2001	29,271	12,094
Unbilled receivables, less allowance of \$2,061 in 2002 and \$682 in 2001	35,576	13,675
Income taxes recoverable	—	1,790
Deferred income taxes	2,364	941
Prepaid expenses and other current assets	3,165	2,069
Current assets of discontinued operations	11,084	12,241
Total current assets	91,366	55,666
Property and equipment:		
Furniture, equipment and software	22,588	15,594
Leasehold improvements	4,714	3,863
	27,302	19,457
Accumulated depreciation and amortization	(12,364)	(8,838)
	14,938	10,619
Deferred income taxes	200	150
Goodwill	299,241	75,733
Other intangible assets, net of accumulated amortization of \$1,033 in 2002	4,067	—
Other assets	5,799	873
Long-term assets of discontinued operations	14,920	16,057
Total assets	\$430,531	\$159,098

See accompanying notes

[Table of Contents](#)FTI Consulting, Inc. and Subsidiaries  
Consolidated Balance Sheets (continued)

	December 31,	
	2002	2001
	(dollars in thousands)	
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,410	\$ 4,788
Accrued compensation expense	25,400	12,536
Income taxes payable	3,534	—
Deferred income taxes	193	130
Current portion of long-term debt	20,000	4,333
Billings in excess of services provided	19,921	4,745
Other current liabilities	466	368
Current liabilities of discontinued operations	664	—
Total current liabilities	77,588	26,900
Long-term debt, less current portion	77,833	23,833
Other long-term liabilities	1,405	1,481
Deferred income taxes	5,730	1,748
Commitments and contingent liabilities	—	—
Stockholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none outstanding	—	—
Common stock, \$.01 par value; 45,000,000 shares authorized; 24,004,292 and 19,590,938 shares issued and outstanding in 2002 and 2001, respectively	240	196
Additional paid-in capital	200,576	75,416
Unearned compensation	(346)	(568)
Retained earnings	68,198	31,036
Accumulated other comprehensive loss	(693)	(944)
Total stockholders' equity	267,975	105,136
Total liabilities and stockholders' equity	\$430,531	\$159,098

See accompanying notes.

[Table of Contents](#)FTI Consulting, Inc. and Subsidiaries  
Consolidated Statements of Income

	Years ended December 31,		
	2002	2001	2000
	(dollars in thousands)		
Revenues	\$224,113	\$122,317	\$ 95,532
Direct cost of revenues	108,104	59,074	48,979
Selling, general and administrative expenses	51,647	33,085	23,920
Amortization of goodwill and other intangible assets	1,033	4,235	3,942
	<u>160,784</u>	<u>96,394</u>	<u>76,841</u>
Operating income	63,329	25,923	18,691
Other income (expense):			
Interest income	155	162	253
Interest expense	(4,872)	(4,518)	(11,024)
	<u>(4,717)</u>	<u>(4,356)</u>	<u>(10,771)</u>
Income from continuing operations, before income taxes and extraordinary item	58,612	21,567	7,920
Income taxes	23,704	8,621	3,262
Income from continuing operations before extraordinary item	<u>34,908</u>	<u>12,946</u>	<u>4,658</u>
Discontinued operations:			
Income from operations of discontinued operations	5,343	6,347	5,951
Income taxes	2,198	2,824	2,655
	<u>3,145</u>	<u>3,523</u>	<u>3,296</u>
Loss on disposal of discontinued operations, net of income tax benefit of \$607 in 2002	(891)	—	—
Income before extraordinary item	<u>37,162</u>	<u>16,469</u>	<u>7,954</u>
Extraordinary loss on early extinguishment of debt, net of income taxes of \$3,078 in 2000	—	—	5,393
Net income	<u>\$ 37,162</u>	<u>\$ 16,469</u>	<u>\$ 2,561</u>
Income from continuing operations before extraordinary item, per common share, basic	<u>\$ 1.63</u>	<u>\$ 0.72</u>	<u>\$ 0.44</u>
Earnings per common share, basic	<u>\$ 1.74</u>	<u>\$ 0.92</u>	<u>\$ 0.24</u>
Income from continuing operations before extraordinary item, per common share, diluted	<u>\$ 1.53</u>	<u>\$ 0.66</u>	<u>\$ 0.39</u>
Earnings per common share, diluted	<u>\$ 1.63</u>	<u>\$ 0.84</u>	<u>\$ 0.21</u>

See accompanying notes.

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FTI Consulting, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(dollars in thousands)					
Balance at January 1, 2000	\$ 75	\$ 18,171		\$12,006		\$ 30,252
Issuance of warrants to purchase 1,005,606 shares of common stock in connection with debt refinancing		3,714				3,714
Issuance of 1,222,500 shares of common stock for the acquisition of Policano & Manzo, L.L.C.	12	5,489				5,501
Issuance of 906,756 shares of common stock in exchange for debt to sellers of acquired businesses	9	2,674				2,683
Retirement of 492,001 warrants to purchase common stock in connection with debt refinancing		(1,272)				(1,272)
Issuance of 171,856 shares of common stock under Employee Stock Purchase Plan	2	485				487
Exercise of options and warrants to purchase 111,700 shares of common stock, including income tax benefit of \$34	1	472				473
Issuance of 6,037,500 shares of common stock for cash, net of offering costs of \$2,138	60	24,006				24,066
Issuance of 30,000 shares of restricted common stock		159				159
Net income for 2000				2,561		2,561
Balance at December 31, 2000	159	53,898	—	14,567	—	68,624
Issuance of 174,906 shares of common stock under Employee Stock Purchase Plan	2	1,014				1,016
Exercise of options to purchase 2,498,672 shares of common stock, including income tax benefit of \$8,116	25	19,919				19,944
Exercise of warrants to purchase 1,347,082 shares of common stock	13	3,445				3,458
Retirement of 311,515 shares of common stock in connection with warrant exercise	(3)	(3,455)				(3,458)
Issuance of 32,100 shares of restricted common stock		595	(595)			—
Amortization of unearned compensation expense			27			27
Comprehensive Income:						
Cumulative effect on prior years of changing to a different method of accounting for interest rate swaps					(348)	(348)
Other comprehensive loss—change in fair value of interest rate swaps					(596)	(596)
Net income for 2001				16,469		16,469
Total comprehensive income						15,526
Balance at December 31, 2001	196	75,416	(568)	31,036	(944)	105,136
Payment for fractional shares		(16)				(16)
Issuance of 155,058 shares of common stock under Employee Stock Purchase Plan	2	3,023				3,025
Issuance of 46,216 shares of common stock as part of purchase price of TFC		1,010				1,010
Issuance of 3,000,000 shares of common stock as part of purchase price of BRS	30	101,850				101,880
Exercise of stock options to purchase 1,210,278 shares of common stock, including tax benefit of \$12.8 million	12	19,265				19,277
Issuance of 1,800 shares of restricted common stock		28				28
Amortization of unearned compensation expense			222			222
Comprehensive Income:						
Other comprehensive income—change in fair value of interest rate swaps, net of income taxes of \$185					251	251
Net income for 2002				37,162		37,162
Total comprehensive income						37,413
Balance at December 31, 2002	\$ 240	\$200,576	\$ (346)	\$68,198	\$ (693)	\$267,975

See accompanying notes.



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

	Year ended December 31,		
	2002	2001	2000
	(dollars in thousands)		
<b>Operating activities</b>			
Net income	\$ 37,162	\$ 16,469	\$ 2,561
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary loss on early extinguishment of debt, before income taxes	—	—	8,471
Depreciation and other amortization	4,947	3,867	2,769
Amortization of goodwill and other intangible assets	1,033	5,049	4,723
Income tax benefit from stock option exercises	12,754	8,116	34
Provision for doubtful accounts	2,776	205	(116)
Loss on disposal of discontinued operations, net of transaction costs	1,209	—	—
Other	849	449	(111)
Changes in operating assets and liabilities:			
Accounts receivable, billed and unbilled	551	(2,093)	(8,199)
Deferred income taxes	2,956	(134)	(254)
Income taxes recoverable/payable	5,324	(473)	(1,253)
Prepaid expenses and other current assets	(985)	(437)	(458)
Accounts payable and accrued expenses	2,851	463	700
Accrued compensation expense	11,581	2,197	4,409
Billings in excess of services provided	(5,349)	1,630	2,567
Other current liabilities	(11)	120	(247)
Net cash provided by operating activities	77,648	35,428	15,596
<b>Investing activities</b>			
Purchase of property and equipment	(8,777)	(4,366)	(6,640)
Proceeds from landlord reimbursements and sales of property and equipment	—	1,231	47
Contingent payments to former owners of subsidiaries	(121)	(3,023)	(907)
Acquisition of businesses, including acquisition costs	(145,288)	(211)	(49,404)
Change in other assets	(2,200)	67	246
Net cash used in investing activities	(156,386)	(6,302)	(56,658)
<b>Financing activities</b>			
Issuance of common stock and exercise of warrants and options	9,532	12,843	25,151
Borrowings under long-term debt arrangements	119,000	—	151,500
Retirement of detachable stock warrants	—	—	(1,272)
Repayments of long-term debt arrangements	(49,333)	(32,334)	(130,825)
Payment of financing fees and other	(3,411)	(14)	(5,303)
Net cash provided by (used in) financing activities	75,788	(19,505)	39,251
Net increase (decrease) in cash and cash equivalents	(2,950)	9,621	(1,811)
Cash and cash equivalents at beginning of year	12,856	3,235	5,046
Cash and cash equivalents at end of year	\$ 9,906	\$ 12,856	\$ 3,235

See accompanying notes.

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
**December 31, 2002**  
**(dollars in tables expressed 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" or "FTI") is a U.S. provider of turnaround, restructuring, bankruptcy and related consulting services. The Company's highly skilled professionals assist distressed companies in improving their financial position, or their creditors or other stakeholders, in maximizing recovery of their claims. The Company also provides other consulting services such as corporate recovery, forensic accounting, fraud investigation and asset tracing, regulatory, intellectual property, and mergers and acquisition advisory services. The Company's trial support practice group advises clients in all phases of litigation, including pre-filing, discovery, jury selection, trial preparation, expert testimony and the actual trial. The Company employs approximately 750 employees in 18 locations throughout the United States, excluding the 290 employees within the applied sciences practice group (see Note 2).

*Principles of Consolidation*

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

**Significant Accounting Policies**

*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 consolidated 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. Actual collection experience has not varied significantly from estimates, due primarily to credit policies, collection experience, and a lack of concentrations of accounts receivable. Accounts receivable balances are not collateralized.

Estimates are also required in such areas as the Company's self-insurance reserves for certain employee benefit plans and other ordinary accruals. Such estimates are based upon historical trends, current experience and knowledge of relevant factors.

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

**1. Description of Business and Significant Accounting Policies (continued)**

**Significant Accounting Policies (continued)**

*Cash Equivalents*

The Company considers all highly liquid investments with 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. Furniture and equipment are depreciated over estimated useful lives ranging from three to seven years, and leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the lease term.

*Goodwill*

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired in purchase business combinations. Prior to January 1, 2002, goodwill was amortized over periods ranging from 20 to 25 years. Commencing January 1, 2002, goodwill is not amortized, but is tested at least annually for impairment at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The implied fair value of goodwill is the amount determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess. (See also Note 1, *Impact of Recent Accounting Pronouncements*.)

*Impairment of Long-Lived Assets Excluding Goodwill*

Long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows. The discount rate used in any estimate of discounted cash flows would be the rate required for a similar investment of like risk.

Assets to be disposed of are reported at the lower of carrying values or fair values, less estimated costs of disposal.

*Revenue Recognition*

The Company derives most of its revenues from professional service activities. The vast majority of these activities are provided under "time-and-materials" billing arrangements, and revenues, consisting of billed fees and pass-through 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. Billings in excess of services provided represents amounts billed to clients, such as retainers, in advance of work being performed.

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

**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 and Stock 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, compensation expense is recorded over the vesting period to the extent that the fair value of the underlying stock on the date of grant exceeds the exercise or acquisition price of the stock or stock-based award. 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 fair 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.

At December 31, 2002, the Company has two stock-based employee compensation plans, which are described more fully in Note 7. All options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company also periodically issues restricted and unrestricted stock to employees in connection with new hires and performance evaluations. The fair market value on the date of issue of unrestricted stock is immediately charged to compensation expense, and the fair value on the date of issue of restricted stock is charged to compensation expense ratably over the restriction period.

The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of Statement 123 to stock-based employee compensation.

	Year ended December 31		
	2002	2001	2000
Net income, as reported	\$37,162	\$16,469	\$ 2,561
Add: Stock-based employee compensation cost included in net income, net of tax	222	27	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of taxes	(8,119)	(2,369)	(2,758)
<b>Pro forma net income (loss)</b>	<b>\$29,265</b>	<b>\$14,127</b>	<b>\$ (197)</b>
<b>Earnings (loss) per share:</b>			
Basic—as reported	\$ 1.74	\$ 0.92	\$ 0.24
Basic—pro forma	\$ 1.37	\$ 0.79	\$ (0.02)
Diluted—as reported	\$ 1.63	\$ 0.84	\$ 0.21
Diluted—pro forma	\$ 1.22	\$ 0.72	\$ (0.02)

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

## 1. Description of Business and Significant Accounting Policies (continued)

### Significant Accounting Policies (continued)

#### *Stock Options and Stock Granted to Employees (continued)*

The fair value of the stock-based awards was estimated at the date of grant using the Black-Scholes option-pricing model. 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-based awards. The following assumptions were made in computing the fair value of stock-based awards:

	Year ended December 31		
	2002	2001	2000
Risk-free interest rate	3.5%	4.5%	5.5%
Dividend yield	0%	0%	0%
Option life	2.59 years	3.38 years	4.0 years
Stock price volatility	63.4% to 68.5%	75.8% to 78.2%	70.0% to 77.9%
Weighted average fair value of granted options	\$17.46	\$9.40	\$2.09

#### *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.

#### *Interest Rate Swaps*

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that all derivative instruments be reported on the balance sheet at fair value and that changes in a derivative's fair value be recognized currently in earnings unless specified hedge criteria are met. Under Statement 133, if an interest rate swap is designated a cash flow hedge, the effective portions of the changes in the fair value of the swap are recorded in other comprehensive income. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

As part of managing the exposure to changes in the market interest rates on its variable rate debt, the Company has entered into various interest rate swap transactions with financial institutions acting as the counter-party. To ensure both appropriate use as a hedge and hedge accounting treatment, all swaps entered into are designated according to the hedge objective against a specific debt issue. The notional amounts, rates and maturities of the Company's interest rate swaps are closely matched to the related terms of hedged debt obligations. None of the Company's interest rate swaps would result in a significant loss to the Company if a counter-party failed to perform according to the terms of the agreement.

The Company recorded in 2001 a cumulative effect adjustment of \$(348,000), net of taxes, to other comprehensive loss in 2001 in accordance with the transition provisions of Statement 133.

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

**1. Description of Business and Significant Accounting Policies (continued)**

**Significant Accounting Policies (continued)**

*Impact of Recent Accounting Pronouncements—Goodwill and Other Intangible Assets*

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (“Statement 142”). Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized, but are subject to impairment tests at least annually in accordance with the Statement. Other intangible assets with finite lives will continue to be amortized over their useful lives.

The goodwill amortization expense and net income of the Company for the three years ended December 31, 2002 are as follows:

	Year ended December 31,		
	2002	2001	2000
Reported net income	\$ 37,162	\$ 16,469	\$ 2,561
Goodwill amortization, net of income taxes	—	2,502	2,270
<b>Adjusted net income</b>	<b>\$ 37,162</b>	<b>\$ 18,971</b>	<b>\$ 4,831</b>
<b>Earnings per common share, basic:</b>			
Reported net income	\$ 1.74	\$ 0.92	\$ 0.24
Goodwill amortization, net of income taxes	—	0.14	0.21
<b>Adjusted net income</b>	<b>\$ 1.74</b>	<b>\$ 1.06</b>	<b>\$ 0.46</b>
<b>Earnings per common share, diluted:</b>			
Reported net income	\$ 1.63	\$ 0.84	\$ 0.21
Goodwill amortization, net of income taxes	—	0.13	0.19
<b>Adjusted net income</b>	<b>\$ 1.63</b>	<b>\$ 0.97</b>	<b>\$ 0.40</b>

Goodwill amortization included in income from operations of discontinued operations is as follows:

	Year ended December 31,		
	2002	2001	2000
Goodwill amortization	\$ —	\$ 841	\$ 781

During the second quarter of 2002, the Company completed the transitional impairment tests of its recorded goodwill at January 1, 2002. No impairment of goodwill was identified as a result of these tests.

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

**1. Description of Business and Significant Accounting Policies (continued)**

**Significant Accounting Policies (continued)**

*Impact of Recent Accounting Pronouncements – Goodwill and Other Intangible Assets (continued)*

The changes in the carrying amount of goodwill for the year ended December 31, 2002, are as follows:

	As Reported	Less Discontinued Operations	Continuing Operations
Balance as of January 1, 2002	\$ 90,156	\$ (14,423)	\$ 75,733
Impairment charge attributable to disposal of discontinued operations	(1,209)	1,209	—
Goodwill acquired during the year:			
Contingent payments to former owners of subsidiaries	121	—	121
Acquisition of TFC	3,692	—	3,692
Acquisition of BRS	219,695	—	219,695
Balance as of December 31, 2002	<u>\$312,455</u>	<u>\$ (13,214)</u>	<u>\$299,241</u>

*Impact of Recent Accounting Pronouncements – Accounting for the Impairment or Disposal of Long-Lived Assets*

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“Statement 144”). Statement 144 supersedes and serves to clarify and further define the provisions of Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and provides a single accounting model for long-lived assets to be disposed of.

Statement 144 does not apply to goodwill and other intangible assets that are not amortized, and retains the Company’s current policy to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted future cash flows and to measure the impairment loss as the difference between the carrying amount and the fair value of the asset. In July 2002, the Company announced its decision to sell its applied sciences practice group, and in accordance with Statement 144, the Company has restated its December 31, 2001 consolidated balance sheet to segregate the current and non-current assets held for sale of its discontinued operations. The consolidated statements of income for each of the two years in the period ended December 31, 2001 have also been restated to report the results of the applied sciences practice group as a separate component of net income. See Note 2 for additional information.

*Impact of Recent Accounting Pronouncements – Reporting Extraordinary Items*

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (“Statement 145”). Among other changes, Statement 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and classified as an extraordinary item, net of the related tax effect. Statement 145 provides that gains and losses from extinguishment of debt should be classified as extraordinary items only if they are unusual or infrequent or they otherwise meet the criteria for classification as an extraordinary item, and observes that debt extinguishment transactions would seldom, if ever, result in extraordinary item classification of the resulting gains and losses. The Company will adopt Statement 145 in January 2003, and upon adoption, the Company will report as other expenses any extraordinary losses that it incurs upon the extinguishment of debt. In addition, when the Company presents for comparative purposes financial statements issued prior to December 31, 2002, it will reclassify to other expenses any extraordinary losses recorded upon the early extinguishment of debt in those periods. In 2000, the Company reported a \$5.4 million loss from the early extinguishment of certain debt.

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

**1. Description of Business and Significant Accounting Policies (continued)**

**Significant Accounting Policies (continued)**

*Impact of Recent Accounting Pronouncements – Accounting for Costs Associated with Exit or Disposal Activities*

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (“Statement 146”). Statement 146 supersedes EITF Issue No. 94-3 *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. Statement 146 requires that costs associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002, with early application encouraged. The adoption of Statement 146 is not expected to have a significant effect on the Company’s results of operations and financial position.

*Stock Splits*

The Company’s board of directors authorized a three-for-two stock split in the form of a stock dividend to be distributed to stockholders of record on January 2, 2002. All share and per share data included in the consolidated financial statements have been restated to reflect the stock split.

**2. Pending Sale of Applied Sciences Practice Group**

In July 2002, the Company committed to a plan to sell its applied sciences practice group, consisting of two separate business components, LWG, Inc. (“LWG”) and S.E.A. Inc. (“SEA”). In January 2003, the Company sold the LWG disposal group for total consideration of \$4.15 million, consisting of cash of \$2.15 million and a note in the amount of \$2.0 million. An after-tax loss of approximately \$891,000 was recorded as of December 31, 2002 to present the LWG asset disposal group at its fair value less cost to sell. The remaining S.E.A. asset disposal group is available for immediate sale in its present condition, subject only to the terms that are usual and customary for sales of such asset disposal groups. An active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated, and a sale is expected to be completed during 2003. Actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. The assets comprising the applied sciences asset disposal group are measured at the lower of their carrying amount or estimated fair value less cost to sell. The Company currently expects to recover the \$18.2 million carrying value of the assets of the S.E.A asset disposal group, however, it is reasonably possible that the ultimate amount realized from the sale may be less than the carrying value.

Assets of the applied sciences practice group held for sale are as follows:

	Total		LWG		SEA	
	December 31,		December 31,		December 31,	
	2002	2001	2002	2001	2002	2001
Accounts receivable, net	\$ 7,724	\$ 8,341	\$1,303	\$2,898	\$ 6,421	\$ 5,443
Unbilled receivables, net	3,179	3,224	1,080	778	2,099	2,446
Deferred income taxes	—	384	—	304	—	80
Other current assets	181	292	73	122	108	170
<b>Current assets of discontinued operations</b>	<b>11,084</b>	<b>12,241</b>	<b>2,456</b>	<b>4,102</b>	<b>8,628</b>	<b>8,139</b>
Property and equipment, net	1,546	1,634	237	233	1,309	1,401
Goodwill, net	13,214	14,423	1,884	3,093	11,330	11,330
Other assets	160	—	160	—	—	—
<b>Long-term assets of discontinued operations</b>	<b>14,920</b>	<b>16,057</b>	<b>2,281</b>	<b>3,326</b>	<b>12,630</b>	<b>12,731</b>
<b>Current liabilities of discontinued operations</b>	<b>(664)</b>	<b>—</b>	<b>(664)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net assets of discontinued operations</b>	<b>\$25,340</b>	<b>\$28,298</b>	<b>\$4,073</b>	<b>\$7,428</b>	<b>\$21,267</b>	<b>\$20,870</b>



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

**2. Pending Sale of Applied Sciences Practice Group (continued)**

Because the operations and cash flows of the business components comprising the applied sciences practice group will be eliminated from the ongoing operations of the Company as a result of the disposal transaction, and because the Company will not have any significant continuing involvement in the operations after the disposal transactions, the results of the applied sciences practice group's operations are reported for all periods presented as a separate component of income, net of income taxes. Accordingly, the accompanying statements of income for each of the three years in the period ended December 31, 2002 report the operations of the applied sciences practice group as a discontinued operation.

Summarized operating results of the applied sciences practice group are as follows:

	Year ended December 31,		
	2002	2001	2000
Revenue	\$ 45,833	\$ 44,042	\$ 39,232
Income before income taxes	5,343	6,347	5,951
Net income	3,145	3,523	3,296

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

**3. Earnings Per Share**

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

	Years Ended December 31,		
	2002	2001	2000
<b>Numerator used in basic and diluted earnings per common share:</b>			
Income from continuing operations before extraordinary item	\$34,908	\$12,946	\$ 4,658
Income from operations of discontinued operations, net of income taxes	3,145	3,523	3,296
Loss on disposal of discontinued operations	(891)	—	—
	<u>2,254</u>	<u>3,523</u>	<u>3,296</u>
Extraordinary loss on early extinguishment of debt, net of income taxes	—	—	(5,393)
Net income	<u>\$37,162</u>	<u>\$16,469</u>	<u>\$ 2,561</u>
<b>Denominator:</b>			
Denominator for basic earnings per common share—weighted average shares outstanding	21,354	17,841	10,612
Effect of dilutive securities:			
Warrants	—	319	789
Employee stock options	1,444	1,471	587
	<u>1,444</u>	<u>1,790</u>	<u>1,376</u>
Denominator for diluted earnings per common share—weighted average shares outstanding and effect of dilutive securities	<u>22,798</u>	<u>19,631</u>	<u>11,988</u>
Income from continuing operations before extraordinary item,			
Basic	\$ 1.63	\$ 0.72	\$ 0.44
Income from operations of discontinued operations net of income taxes, basic	0.11	0.20	0.31
Extraordinary loss on early extinguishment of debt net of income taxes, basic	—	—	(0.51)
Earnings per common share, basic	<u>\$ 1.74</u>	<u>\$ 0.92</u>	<u>\$ 0.24</u>
Income from continuing operations before extraordinary item,			
Diluted	\$ 1.53	\$ 0.66	\$ 0.39
Income from operations of discontinued operations net of income taxes, diluted	0.10	0.18	0.27
Extraordinary loss on early extinguishment of debt net of income taxes, diluted	—	—	(0.45)
Earnings per common share, diluted	<u>\$ 1.63</u>	<u>\$ 0.84</u>	<u>\$ 0.21</u>

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

#### 4. Supplemental Disclosure of Cash Flow Information

The Company paid interest of \$4.1 million, \$4.6 million and \$10.8 million, and income taxes of \$4.5 million, \$6.0 million and \$4.3 million during fiscal years 2002, 2001 and 2000, respectively.

#### 5. Acquisitions

##### *Domestic Business Recovery Services Division of PwC*

On August 30, 2002, the Company acquired the domestic Business Recovery Services division of PricewaterhouseCoopers, LLP ("BRS") for \$142.0 million in cash (including \$2.0 million in acquisition related expenses) and 3,000,000 shares of common stock valued at \$101.9 million. The fair market value of the common stock was based on the average market price of the shares over the period from two days before to two days after the date the Company entered into the definitive purchase agreement. The Company will be obligated to certain sellers that received 470,464 restricted common shares in the acquisition for additional consideration if the quoted market price of its common stock declines below \$28.33 per share at the date the restrictions lapse. The amount of the additional consideration payable is the difference between \$28.33 per share and the quoted market price on the date the restrictions lapse.

BRS was a leading provider of bankruptcy, turnaround and business restructuring services to corporations in the United States and had more than 350 people located in 14 offices across the U.S., with significant practices in New York, Dallas, Los Angeles, Chicago and Atlanta. The acquisition of BRS enhances the Company's ability to provide consulting services in the largest and most complex turnarounds, restructurings and bankruptcies. The BRS acquisition diversifies the Company's client base, while adding a pool of more than 350 professionals. The Company recorded significant goodwill in the acquisition as a result of the ability to earn a higher rate of return from the acquired business than would be expected if those net assets had to be acquired or developed separately.

The Company believes the goodwill recorded as a result of the BRS acquisition will be fully deductible for income tax purposes. The results of operations of BRS are included in the accompanying consolidated financial statements commencing August 31, 2002.

The following combined unaudited pro forma consolidated results of operations of the Company give effect to the acquisition of BRS as if it occurred on January 1, 2001. The results are not necessarily indicative of what would have occurred had this transaction been consummated on January 1, 2001, or of future operations of the Company.

	Year ended December 31,	
	2002	2001
Revenue	\$333,134	\$289,561
Income from continuing operations before income taxes	76,321	62,491
Income per common share from continuing operations, diluted	\$ 1.84	\$ 1.36

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Notes to Consolidated Financial Statements**5. Acquisitions (continued)***Domestic Business Recovery Services Division of PwC (continued)*

The acquisition was accounted for using the purchase method of accounting. The Company allocated the cost of the acquisition of BRS to identifiable assets and liabilities based upon their estimated relative fair values. The Company has not finalized the allocation process and therefore the allocation of the purchase price of BRS is preliminary. Many of BRS' clients and engagements are subject to the jurisdiction of the various bankruptcy courts and trustees throughout the United States. These authorities have substantial influence and control over the ultimate valuation of the services performed by BRS. Many of the BRS client engagements are very complex and the services are performed for entities in financial distress, often with limited resources to pay professional fees. The valuation of the billed and unbilled receivables at the date of acquisition is very complex and the Company has not yet completed its valuation of these accounts. However, the final purchase price allocation is not expected to vary significantly from the preliminary allocation included in the accompanying consolidated financial statements.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

At August 30, 2002	
Current assets:	
Accounts receivable, net of allowances	\$ 16,943
Unbilled receivables, net of allowances	24,374
	<u>41,317</u>
Estimated intangible assets subject to amortization (estimated two year weighted-average useful life)	
Contracts, backlog	4,200
Intellectual property	360
Non-compete agreement	540
	<u>5,100</u>
Goodwill	219,695
	<u>266,112</u>
Total assets acquired	266,112
Current liabilities:	
Accrued compensation	1,709
Billings in excess of services provided	20,529
	<u>22,238</u>
Total liabilities assumed	22,238
Net assets acquired	<u>\$243,874</u>

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

**5. Acquisitions (continued)**

*Technology & Financial Consulting, Inc.*

On January 2, 2002, the Company completed the acquisition of all of the outstanding common stock of Technology & Financial Consulting, Inc. (“TFC”). TFC, based in Houston, Texas, provides intellectual property consulting services. As a result of the acquisition, the Company has added a new practice area to its service offerings. The total purchase price was \$4.3 million, including cash payments of \$3.3 million and common stock valued at \$1.0 million. The fair market value of the 46,216 shares of common stock was based on the average market price of the shares over the period from two days before to two days after the date the Company entered into the definitive purchase agreement on December 31, 2001. The acquisition was accounted for using the purchase method of accounting. In connection with the acquisition, assets with a fair market value of \$4.3 million, including \$3.7 million of goodwill were acquired and liabilities of \$33,000 were assumed. The results of operations of TFC are included in the accompanying consolidated financial statements commencing January 2, 2002.

*Policano & Manzo, L.L.C.*

Effective January 31, 2000, the Company acquired the membership interests of Policano & Manzo, L.L.C. (“P&M”). P&M, based in Saddle Brook, New Jersey, is a leader in providing bankruptcy and turnaround consulting services to large corporations, money center banks and secured lenders throughout the U.S. The purchase price totaled approximately \$54.9 million, consisting of \$48.3 million in cash, 1,222,000 shares of common stock valued at \$5.5 million and acquisition related expenses of \$1.1 million. The acquisition was accounted for using the purchase method of accounting and approximately \$52.3 million of goodwill was recorded and was being amortized over its estimated useful life of 20 years. The results of operations of P&M are included in the accompanying consolidated statements of income commencing January 31, 2000.

**6. Long-Term Debt**

Long-term debt consists of the following:

	December 31,	
	2002	2001
Amounts due under a \$200.0 million long-term credit facility (\$80.0 million at December 31, 2001), secured by substantially all of the assets of the Company. The unpaid principal matures in varying amounts through August 30, 2006. The long-term credit facility consist of the following:		
<u>Term A, amortizing loan</u> , bearing interest at LIBOR plus variable percentages (4.21% at December 31, 2002)	\$ 23,833	\$28,166
<u>Term B, amortizing loan</u> , bearing interest at a base rate (as defined below), plus variable percentages (5.0% at December 31, 2002)	74,000	—
<u>Revolving credit line</u> of \$100.0 million at December 31, 2002, and \$47.5 million at December 31, 2001	—	—
Total long-term debt	97,833	28,166
Less current portion	(20,000)	(4,333)
Total long-term debt	\$ 77,833	\$23,833

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

**6. Long-Term Debt (continued)**

On August 30, 2002, the Company terminated its previous credit facility and entered into a new credit facility in connection with the acquisition of BRS. The new credit facility consists of a pre-existing term loan of \$26.0 million, a new term loan for \$74.0 million and a new revolving credit facility for \$100.0 million. On September 30, 2002 and December 31, 2002, principal payments of \$1.1 million were made on the Term A amortizing loan.

The debt under the new credit facility bears interest at an annual rate equal to LIBOR plus an applicable margin or an alternative base rate defined as the higher of (1) the lender's announced prime rate or (2) the federal funds rate plus the sum of 50 basis points and an applicable margin. If not prepaid, the \$23.8 million Term A loan will mature on December 1, 2005, and the \$74.0 million Term B loan and the revolving credit facility will mature on August 30, 2006. Under the credit facility, the lenders have a security interest in substantially all of the Company's assets.

Aggregate maturities of debt at December 31, 2002 are as follows:

2003	\$	20,000
2004		26,417
2005		30,000
2006		21,416
		<hr/>
Total	\$	97,833

Under the terms of the new credit facility, the Company must apply at least half of the net proceeds obtained from any public offering of its equity securities to the repayment of the debt. Also, under the new credit facility, the Company is required to apply all of the proceeds from the sale of its applied sciences practice group to reduce the outstanding debt. As discussed in Note 15, *Subsequent Event*, in February 2003, the Company completed a public offering of its common stock and raised \$99.6 million (net of offering costs of approximately \$1.0 million), and retired \$49.8 million of its long-term debt. Also, as discussed in Note 2, *Pending Sale of Applied Sciences Practice Group*, in January 2003, the Company sold the LWG asset disposal group and used the \$2.15 million cash proceeds to retire additional debt. After these two transactions, total debt was \$45.9 million.

The Company has entered into interest rate swap transactions on a portion of the outstanding amortizing term loans. At December 31, 2002, the notional amount of the interest rate swap transactions was \$21.9 million. The swap transactions resulted in exchanging floating LIBOR rates for a fixed rate of 6.64%, and expire in 2004. The changes in the fair value of the swaps are recognized in the consolidated financial statements as changes in accumulated other comprehensive income (loss). During 2002, the Company did not recognize a net gain (loss) related to the interest rate swap transactions as there was no ineffective portion of the cash flow hedge nor was there any portion of the hedged instrument excluded from the assessment of hedge effectiveness. During the next twelve months, the Company does not expect to reclassify the effective portion of the cash flow hedge captured in other comprehensive income (loss) as it does not expect a change in the probability assessment regarding the forecasted cash flows generated from the interest rate swap transaction and the related debt obligations.

The Company is required to comply with certain financial and non-financial covenants contained in the revolving credit and term loan agreements. The Company is in compliance with all covenants as stipulated in the agreements. The terms of the credit facility prohibit the payment of dividends without the consent of the lender.

The fair value of long-term debt approximates its carrying value at December 31, 2002, based on an assessment of currently available terms for similar arrangements.

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

**7. Stock Option Plans and Employee Stock Purchase Plan**

Prior to 1997, the Company granted 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, provides for the granting to employees and non-employee directors of qualified and non-qualified options to purchase an aggregate of up to 7,725,000 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.

The following table summarizes the option activity under the plans for the three-year period ended December 31, 2002:

	2002	Weighted Avg. Exercise Price	2001	Weighted Avg. Exercise Price	2000	Weighted Avg. Exercise Price
Option outstanding at January 1	3,171,852	\$ 8.09	4,896,193	\$ 4.74	3,027,044	\$ 4.74
Options granted	1,913,590	\$ 34.55	853,331	\$ 17.11	2,013,300	\$ 4.65
Options exercised	(1,210,278)	\$ 4.98	(2,498,672)	\$ 4.69	(96,701)	\$ 3.71
Options forfeited	(3,750)	\$ 6.34	(79,000)	\$ 3.65	(47,450)	\$ 4.69
Options outstanding at December 31	3,871,414	\$ 22.14	3,171,852	\$ 8.09	4,896,193	\$ 4.74
Options exercisable at December 31	1,056,912	\$ 13.93	1,024,352	\$ 5.25	2,655,200	\$ 4.99

All options granted have an exercise price equal to or greater than the quoted market price of the Company's common stock on the date of grant. Exercise prices for options outstanding as of December 31, 2002, ranged from \$2.17 to \$45.76 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 Price of Options Exercisable
\$ 2.17 – \$ 6.88	1,064,993	\$ 4.58	6.84	479,991	\$ 4.69
\$ 7.36 – \$29.15	1,289,421	\$19.28	8.61	501,921	\$ 18.67
\$31.99 – \$45.76	1,517,000	\$36.71	9.67	75,000	\$ 41.40
	3,871,414	\$22.14		1,056,912	\$ 13.93

*Employee Stock Purchase Plan*

The Company maintains the FTI Consulting, Inc. Employee Stock Purchase Plan. The plan allows eligible employees to purchase shares of common stock at 85% of the lower of the closing price of the Company's common stock on the first trading day or the last trading day of each semi-annual offering periods. Employees may authorize the Company to withhold up to 15% of their compensation during any offering period, subject to certain limitations. During 2002, 155,058 shares were issued under the plan at an average price of \$19.53 per share.

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

**8. Income Taxes**

Significant components of the Company's deferred tax assets and liabilities from continuing operations are as follows:

	December 31,	
	2002	2001
<b>Deferred tax assets:</b>		
Allowance for doubtful accounts	\$ 1,217	\$ 784
Accrued vacation and bonus	523	275
State net operating loss	604	—
Depreciation	200	—
Other	20	32
<b>Total deferred tax assets</b>	<b>2,564</b>	<b>1,091</b>
<b>Deferred tax liabilities:</b>		
Gain on sale of fixed assets	292	—
Prepays	163	—
Goodwill amortization	5,358	1,407
Capitalized software	44	341
Other	66	130
<b>Total deferred tax liabilities</b>	<b>5,923</b>	<b>1,878</b>
<b>Net deferred tax liability</b>	<b>\$(3,359)</b>	<b>\$ (787)</b>

Income tax expense (benefit) from continuing operations before extraordinary item consisted of the following:

	Year ended December 31,		
	2002	2001	2000
<b>Current:</b>			
Federal	\$17,219	\$6,749	\$2,469
State	3,529	2,006	1,047
	<b>20,748</b>	<b>8,755</b>	<b>3,516</b>
<b>Deferred (benefit):</b>			
Federal	2,533	(49)	(145)
State	423	(85)	(109)
	<b>2,956</b>	<b>(134)</b>	<b>(254)</b>
	<b>\$23,704</b>	<b>\$8,621</b>	<b>\$3,262</b>

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

	Year ended December 31,		
	2002	2001	2000
Expected federal income tax provision	\$20,514	\$7,548	\$2,693
Expenses not deductible for tax purposes	82	74	283
State income taxes, net of federal benefit	3,104	1,076	374
Other	4	(77)	(88)
	<b>\$23,704</b>	<b>\$8,621</b>	<b>\$3,262</b>



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

### 9. Operating Leases

The Company leases office space under non-cancelable operating leases that expire in various years through 2010. 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 non-cancelable operating leases with initial terms of one year or more consist of the following at December 31, 2002:

2003	\$	4,971
2004		4,766
2005		4,258
2006		3,477
2007		3,087
Thereafter		9,476
		<hr/>
Total minimum lease payments	\$	30,035

Rental expense included in continuing operations consists of the following:

	Year ended December 31,		
	2002	2001	2000
Furniture and equipment	\$ 301	\$ 375	\$ 323
Office and storage	7,365	3,586	2,206
	<hr/>	<hr/>	<hr/>
	\$7,666	\$3,961	\$2,529

### 10. Employee Benefit Plans

The Company maintains a qualified defined contribution 401(k) plan, which covers substantially all employees. Under the plan, 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 the plan, which are limited to a percent of the participant's eligible compensation. The percentage match is at the discretion of the Board of Directors. The Company made contributions of \$1.6 million, \$1.1 million and \$685,000 during 2002, 2001 and 2000, respectively, related to the plan.

### 11. Extraordinary Loss

The Company refinanced its debt during the first quarter of 2000 and retired all long-term debt outstanding at February 4, 2000. In connection with this early extinguishment of debt, the Company wrote-off unamortized debt discount and financing fees, incurring an extraordinary loss of \$869,000 (net of a \$660,000 income tax benefit).

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

**11. Extraordinary Loss (continued)**

During the fourth quarter of 2000, the Company successfully completed a secondary offering of 6,037,500 shares of common stock. The \$24.0 million proceeds, net of offering costs, together with internal cash resources, were used to repay the \$30.0 million of subordinated notes. Concurrent with the repayment of the subordinated notes, the Company refinanced its long-term debt to obtain more attractive terms and to reduce interest expense. In connection with the fourth quarter early extinguishment of debt, the Company wrote-off unamortized debt discount and financing fees and pre-payment penalties, resulting in an extraordinary loss of \$4.5 million (net of a \$2.4 million income tax benefit).

**12. Segment Reporting**

The Company is a multi-disciplined consulting firm with leading practices in the areas of financial restructuring, litigation consulting and engineering and scientific investigation. Prior to September 1, 2002, the Company was organized into three operating segments: Financial Consulting, Litigation Consulting and Applied Sciences. As a result of the acquisition of the domestic Business Recovery Services division of PricewaterhouseCoopers, LLP in August 2002 (see Note 5) and the decision to sell the applied sciences practice group, the Company is now managing its operations as one segment.

Substantially all revenue and assets are attributed to or located in the United States. The Company does not have a single customer that represents ten percent or more of consolidated revenues for any period presented.

**13. Quarterly Financial Data (unaudited)**

	Quarter ended			
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Revenues	\$37,907	\$39,790	\$ 55,859	\$ 90,557
Operating expenses	28,504	29,280	40,776	62,224
Operating income	9,403	10,510	15,083	28,333
Interest, net	(730)	(601)	(1,251)	(2,135)
Income from continuing operations before income taxes	8,673	9,909	13,832	26,198
Income taxes	3,500	4,001	5,596	10,607
Income from continuing operations	\$ 5,173	\$ 5,908	\$ 8,236	\$ 15,591
Income from continuing operations per common share, basic	\$ 0.26	\$ 0.29	\$ 0.38	\$ 0.66
Income from continuing operations per common share, diluted	\$ 0.24	\$ 0.27	\$ 0.36	\$ 0.62
Weighted average shares outstanding:				
Basic	19,783	20,176	21,623	23,787
Diluted	21,353	21,647	23,010	25,130

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

**13. Quarterly Financial Data (unaudited) – continued**

	Quarter ended			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Revenues	\$31,265	\$31,364	\$ 29,197	\$ 30,491
Operating expenses	24,559	24,584	24,325	22,926
Operating income	6,706	6,780	4,872	7,565
Interest, net	(1,443)	(1,147)	(943)	(823)
Income from continuing operations before income taxes	5,263	5,633	3,929	6,742
Income taxes	2,209	2,295	1,475	2,642
Income from continuing operations	\$ 3,054	\$ 3,338	\$ 2,454	\$ 4,100
Income from continuing operations per common share, basic	\$ 0.19	\$ 0.19	\$ 0.13	\$ 0.21
Income from continuing operations per common share, diluted	\$ 0.17	\$ 0.17	\$ 0.12	\$ 0.20
Weighted average shares outstanding:				
Basic	15,933	17,228	18,760	19,397
Diluted	18,051	19,202	20,340	20,827

**14. Contingencies**

The Company is subject to 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.

**15. Subsequent Event**

In February 2003, the Company completed a public offering of its common stock and raised \$99.6 million from the sale of 2,661,595 shares of common stock (net of offering costs of \$1.0 million). In accordance with the terms of its credit agreement, the Company used 50% of the net proceeds from this offering to retire a portion of its long-term debt.

**ITEM 9. CHANGES 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 2003 Annual Meeting of Stockholders to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2002 (the "Proxy Statement"), pursuant to Regulation 14A with the Securities and Exchange Commission.

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY**

The information contained in the Proxy Statement under the captions "The Board of Directors", "Executive Officers and Compensation" and "Section 16(a) Beneficial Ownership Reporting Compliance" 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 AND RELATED STOCKHOLDER MATTERS**

The information contained in the Proxy Statement under the captions "Stock Ownership" and "Equity Compensation Plans" 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.

#### ITEM 14. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings. The Company's management, including the CEO and CFO, does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the deterioration of the degree of compliance with the policies and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART IV**  
**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES,**  
**AND REPORTS ON FORM 8-K**

(a) FINANCIAL STATEMENTS, EXHIBITS AND SCHEDULES

1. FINANCIAL STATEMENTS (See Item 8 hereof.)

Report of Independent Auditors

Consolidated Balance Sheets as of December 31, 2002 and December 31, 2001

Consolidated Statements of Income for the years ended December 31, 2002, December 31, 2001 and December 31, 2000

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, December 31, 2001 and December 31, 2000

Consolidated Statements of Cash Flows for the years ended December 31, 2002, December 31, 2001 and December 31, 2000

Notes to Consolidated Financial Statements

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2. FINANCIAL STATEMENT SCHEDULES

Schedule II—Valuation and Qualifying Accounts

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

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

FTI Consulting, Inc. and Subsidiaries

COLUMN A  Description	(in thousands)		COLUMN C		COLUMN D	COLUMN E
	COLUMN B		Additions			
	Balance at Beginning of Period		Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
<b>YEAR ENDED DECEMBER 31, 2002:</b>						
Reserves and allowances deducted from asset accounts:						
Allowance for doubtful accounts	1,770		2,906	6,396 <sup>(2)</sup>	2,056 <sup>(1)</sup>	9,016
<b>YEAR ENDED DECEMBER 31, 2001:</b>						
Reserves and allowances deducted from asset accounts:						
Allowance for doubtful accounts	1,608		1,999		1,837 <sup>(1)</sup>	1,770
<b>YEAR ENDED DECEMBER 31, 2000:</b>						
Reserves and allowances deducted from asset accounts:						
Allowance for doubtful accounts	1,991		1,626	9 <sup>(2)</sup>	2,018 <sup>(1)</sup>	1,608

(1) Uncollectible accounts written off, net of recoveries.

(2) Allowance recorded upon acquisitions.

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3. EXHIBITS

<u>NUMBER</u>	<u>DESCRIPTION</u>
2.1	Agreement for the Purchase and Sale of Assets dated as of July 24, 2002, by and between PricewaterhouseCoopers LLP and FTI Consulting, Inc. (schedules and exhibits omitted) (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on July 26, 2002, and incorporated herein by reference.)
2.2	LLC Membership Interests Purchase Agreement dated as of January 31, 2000, by and among FTI Consulting, Inc., and Michael Policano and Robert Manzo (schedules and exhibits omitted). (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on February 15, 2000, and incorporated herein by reference.)
3.1	Articles of Incorporation of FTI Consulting, Inc., as amended and restated. (Filed as an exhibit to FTI's Registration Statement on Form S-8 (File No. 333-64050), and incorporated herein by reference.)
3.2	Bylaws of FTI Consulting, Inc., as amended and restated. (Filed as an exhibit to FTI's Annual Report on Form 10-K/A for the year ended December 31, 2000, and incorporated herein by reference.)
4.1	Specimen Stock Certificate. (Filed as an exhibit to FTI's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference.)
10.1*	1992 Stock Option Plan, as amended. (Filed as an exhibit to FTI's Registration Statement on Form SB-1, as amended (File No. 333-2002), and incorporated herein by reference.)
10.2*	1997 Stock Option Plan, as amended (Filed as an exhibit to FTI's definitive proxy statement on Schedule 14A filed with the SEC on April 10, 2002, and incorporated herein by reference.)
10.3*	Employee Stock Purchase Plan, as amended. (Filed as an exhibit to FTI's definitive proxy statement on Schedule 14A filed with the SEC on April 10, 2002, and incorporated herein by reference.)
10.4*	Employment Agreement dated as of November 5, 2002, between FTI Consulting, Inc. and Jack B. Dunn, IV.
10.5*	Employment Agreement dated as of November 5, 2002, between FTI Consulting, Inc. and Stewart J. Kahn.
10.6*	Employment Agreement dated as of November 5, 2002, between FTI Consulting, Inc. and Theodore I. Pincus.



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- 10.7 Credit Agreement dated as of August 30, 2002, by and among FTI Consulting, Inc. and its subsidiaries named therein, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders and the arranger and book manager named therein. (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on September 13, 2002, and incorporated herein by reference.)
- 10.8 Pledge Agreement dated as of August 30, 2002, by and among the pledgors named therein and Bank of America, N.A., as Administrative Agent. (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on September 13, 2002, and incorporated herein by reference.)
- 10.9 Security Agreement dated as of August 30, 2002, by and among the grantors named therein and Bank of America, N.A., as Administrative Agent. (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on September 13, 2002, and incorporated herein by reference.)
- 10.10 First Amendment dated as of September 20, 2002 to the Credit Agreement dated as of August 30, 2002, by and among FTI Consulting, Inc. and its subsidiaries named therein, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders and the arranger and book manager named therein. (Filed as an exhibit to FTI's Current Report on Form 8-K/A filed with the SEC on October 9, 2002, and incorporated herein by reference.)
- 10.11 Second Amendment dated as of January 24, 2003 to the Credit Agreement dated as of August 30, 2002, by and among FTI Consulting, Inc. and its subsidiaries named therein, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders and the arranger and book manager named therein.
- 10.12 Registration Rights Agreement dated as of August 30, 2002, by and between FTI Consulting, Inc., PricewaterhouseCoopers LLP and the other signatories thereto. (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on September 13, 2002, and incorporated herein by reference.)
- 10.13 Transition Services Agreement dated as of August 30, 2002, by and between PricewaterhouseCoopers LLP and FTI Consulting, Inc. (Filed as an exhibit to FTI's Current Report on Form 8-K filed with the SEC on September 13, 2002, and incorporated herein by reference.)
- 10.14 Lease Agreement dated as of September 25, 1998, by and between GBDG, Ltd. and S.E.A., Inc., as amended. (Filed as an exhibit to FTI's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated herein by reference.)

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10.15	Lease Agreement dated as of September 25, 1998, by and between SEA Properties and S.E.A., Inc., as amended. (Filed as an exhibit to FTI's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated herein by reference.)
11.0	Computation of Earnings Per Share (included in Note 3 to the Consolidated Financial Statements included in Item 8 herein).
21.0	Schedule of Subsidiaries.
23.0	Consent of Ernst & Young LLP.
99.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
99.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
99.3	Policy on Disclosure Controls.
99.4	Policy on Ethics and Business Conduct.
99.5	Policy Statement on Inside Information and Insider Trading.
99.6	Policy on Conflicts of Interest.
99.7	Corporate Governance Guidelines.
99.8	Categorical Standards for Director Independence.
*	Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

(b) On September 13, 2002, FTI filed a Current Report on Form 8-K relating to FTI's acquisition of the U.S. Business Recovery Services Division of PricewaterhouseCoopers LLP. On October 9, 2002, FTI amended such Current Report by filing a Current Report on Form 8-K/A (item 7), containing audited financial statements of PricewaterhouseCoopers Business Recovery Services Excluding its Broker/Dealer Activities at June 30, 2000, 2001 and 2002, and for each of the three years in the period ended June 30, 2002, including notes thereto, and unaudited pro forma combined statements of income for the year ended December 31, 2001 and the six-month period ended June 30, 2002, including notes thereto, and unaudited pro forma combined balance sheet at June 30, 2002, including notes thereto.



**CERTIFICATIONS**

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

1. I have reviewed this annual report on Form 10-K of FTI Consulting, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JACK B. DUNN, IV

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**Jack B. Dunn, IV**  
**Chairman of the Board and Chief Executive Officer**

Date: March 27, 2003

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I, Theodore I. Pincus, certify that:

1. I have reviewed this annual report on Form 10-K of FTI Consulting, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ THEODORE I. PINCUS

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**Theodore I. Pincus**  
**Executive Vice President and Chief Financial Officer**

Date: March 27, 2003

EMPLOYMENT AGREEMENT  
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THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of November 5, 2002 (the "Effective Date"), by and between FTI Consulting, Inc., a Maryland corporation with its principal offices in Annapolis, Maryland ("Company"), and Jack B. Dunn, IV ("Executive").

W I T N E S S E T H :  
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WHEREAS, Executive is a member of the Board of Directors and Chairman and Chief Executive Officer of Company; and

WHEREAS, Company desires to insure the continued availability to Company of Executive's services, and Executive is willing to render such services, all upon and subject to the terms and conditions contained in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, Company and Executive agree as follows:

1. Employment. Company employs Executive and Executive accepts such employment upon the terms and conditions set forth in this Agreement.

2. Term of Employment.  
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(a) Employment Term. Executive's full-time employment under this Agreement will begin as of the Effective Date and, unless otherwise terminated as provided in SECTION 9, will continue for an initial term (the "Initial Term") of three years through the day before the third anniversary of the Effective Date in 2005. Effective at the close of business on the day before the first, second and third anniversaries of the Effective Date in 2003, 2004 and 2005, the term of Executive's employment under this Agreement, if not otherwise terminated as provided in SECTION 9, will be extended for an additional one-year period unless either party has, before the close of business on the day on which the additional one-year extension would otherwise become effective, given notice to the other of his or its intention not to further extend the term. The Initial Term, together with each additional one-year extension that becomes effective pursuant to the preceding sentence, is referred to in this Agreement as the "Employment Term." The period remaining from time to time in the Employment Term will fluctuate from three years (as of, for example, the Effective Date or, absent notice, any of the first three anniversaries thereof) to two years (as of, for example, the day before the first anniversary of the Effective Date in 2003, the day on which, absent notice before the close of business on that day, the Employment Term will be extended for an additional year) or less once no additional extensions are applicable.

(b) Transition Period. Upon expiration of the Employment Term or its earlier termination pursuant to SECTION 9 other than as a result of Executive's death or Disability (as defined in SECTION 9(D)) or termination of Executive's employment by the Company for Cause (as defined in SECTION 9(B)), Executive shall continue to provide services to Company as described in SECTION 3(B), but in the capacity of a part-time employee, for a period of three years (the "Transition Period").

(c) Contract Term. The Employment Term, together with the Transition Period, is referred to in this Agreement as the "Contract Term."

3. Position and Duties.  
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(a) During the Employment Term. During the Employment Term, Executive will (i) be employed to serve as, and have the title of,

Chairman and Chief Executive Officer, with overall charge and responsibility for Company and to perform such duties consistent with such positions as Executive shall reasonably be directed to perform by the Board of Directors of Company commensurate with Executive's positions or as may be specified in Company's By-Laws, if applicable, (ii) have such authority as may be reasonably necessary or appropriate in order to enable Executive to carry out the duties and responsibilities of Executive's employment under this Agreement, (iii) have Executive's principal office located at Company's offices in Annapolis, Maryland, and (iv) be entitled to office services and support commensurate with Executive's position, duties and responsibilities. During the Employment Term, Executive will devote substantially all of Executive's business time, attention, and energies to the performance of Executive's duties and responsibilities under this Agreement, provided that Executive may engage in personal, charitable, professional and investment activities to the extent such activities do not conflict or materially interfere with the ability of Executive to perform said duties and responsibilities; provided, further, that service on the board of directors or other governing body of another for-profit business entity is subject to the consent of the Board of Directors of Company.

(b) During the Transition Period. During the Transition Period, Executive will (i) be employed by Company as a part-time employee providing, at the request and direction of the Board of Directors of Company, not more than 500 hours of service per 12-month period at the Company's offices in Annapolis, Maryland, such services to be commensurate with the general nature of services performed by Executive or other executive-level employees of Company during the Employment Term or of a nature that the Chief Executive Officer or the Board of Directors of Company determines is necessary or desirable to transition Executive's position to his successor, and (ii) have such title, or no title, as shall be determined by the Chief Executive Officer or the Board of Directors of Company in his or its discretion.

(c) Service on Board of Directors. Executive shall serve on Company's Board of Directors during the Employment Term, and whenever during the Employment Term, Executive's term on Company's Board of Directors is due to expire, Company shall include Executive as a nominee for reelection in Company's Proxy Statement for the annual meeting of stockholders for the year in which such expiration is to occur.

4. Annual Salary and Transition Payment.  
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(a) During the Employment Term. During the Employment Term, Company will pay or cause to be paid to Executive an annual base salary ("Base Salary") equal to \$900,000 for each year of the Employment Term, payable in cash on a periodic basis in accordance with Company's normal payroll practices applicable to its executive officers, but not less often than monthly. Executive's Base Salary will be subject to annual review by the Compensation Committee of the Board of Directors of Company (the "Committee") and may be adjusted upwards (but not downwards) in such amounts as the Committee may determine in its sole discretion. The term "Base Salary" as used in this Agreement refers to the Base Salary as so increased.

(b) During the Transition Period. During the Transition Period, in lieu of payment of a Base Salary, Company will pay or cause to be paid to Executive in cash, in periodic installments not less frequently than monthly, an amount equal to \$500,000 (the "Transition Payment") for each year of the Transition Period; provided, however, that Company's obligation to

pay such Transition Payment during the Transition Period shall terminate immediately upon any breach by Executive of his duties under SECTION 3(B) or of the restrictive covenant provisions of SECTION 12. Notwithstanding such cessation of payment upon a breach of the restrictive covenant provisions of SECTION 12, Company shall retain the right to fully enforce the restrictive covenant provisions. In the event that a Change of Control occurs after the Transition Period has commenced, the aggregate amount of the unpaid Transition Payment payable for the period measured from the date of the Change of Control through the end of the Transition Period will be paid to Executive by Company in a single sum payment on the date that the Change of Control occurs, but Executive's obligations under SECTION 3(B) shall remain intact and Company shall retain the right to fully enforce the restrictive covenant provisions of SECTION 12. In the event that the Transition Period commences on or after a Change of

Control (as defined in SECTION 10(C)) as a result of a termination of employment under the circumstances described in SECTION 10(C), Executive shall receive the amounts and benefits set forth in SECTION 10(C) in lieu of the amounts set forth in this SECTION 4(B), but Executive's obligations under SECTION 3(B) shall remain intact and Company shall retain the right to fully enforce the restrictive covenant provisions of SECTION 12.

5. Annual Incentive Bonus. With respect to each fiscal year during the Employment Term, Executive will be entitled to participate in Company's Incentive Compensation Plan (or any successor thereto) and any other bonus plan(s) adopted by the Board of Directors or Committee for one or more of the executive officers of Company and its subsidiaries, other than any such bonus arrangement specific to another individual executive. Executive will be eligible to receive a bonus each year in such amount, if any, as determined by the Committee in accordance with the terms of Company's Incentive Compensation Plan (or any successor thereto).

6. Employee Benefit Programs and Perquisites.  
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(a) General. During the Employment Term and the Transition Period, Executive will be entitled to participate in such qualified and nonqualified employee pension plans, group health, long-term disability and group life insurance plans, and any other welfare and fringe benefit plans, arrangements, programs and perquisites generally maintained or provided by Company from time to time to or for the benefit of its executive employees or employees generally ("Benefit Plans"), at a level commensurate with Executive's position. The preceding sentence does not, however, entitle Executive to participate in any plans specific to other individual executives or employees. Executive's participation in any Benefit Plans will be subject to the terms of the applicable plan documents and Company's generally applied policies and procedures. Company in its discretion may from time to time adopt, modify, interpret, or discontinue such plans, policies and procedures in a manner generally applicable to Company's executives or employees. During the Employment Term and the Transition Period, Executive will be entitled to the payment by Company of the cost of life, health and dental benefits and long-term disability insurance for himself and, as applicable, his dependents, at the same percentage level of Company contribution as in effect on the Effective Date and in accordance with Company policies and procedures. During the Employment Term, Executive will be entitled to at least six weeks of paid vacation for each calendar year (pro-rated for partial calendar years), subject to Company's policies and procedures on use and retention of such vacation in effect from time to time, but with no payment for unused vacation. During the Employment Term and the Transition Period, Executive will be entitled to lease and use, for business or personal purposes, an automobile of his choice at Company's expense.

(b) Stock Options. In connection with this Agreement, Company has granted Executive an option (the "Option") to purchase 90,000 shares of Common Stock of Company under and subject to the terms of Company's 1997 Stock Option Plan. The Option vests in three equal installments, beginning on the Effective Date and continuing on the first and second anniversaries of

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the Effective Date, provided that Executive is employed with Company on each such date, so that the Option will be fully vested on the second anniversary of the Effective Date. The Option and all outstanding past and future stock options and other equity-based awards granted to Executive will vest in full immediately before the occurrence of a Change of Control (as defined in SECTION 10(C)) or upon the termination of Executive's employment (i) by Company without Cause (as defined in SECTION 9(B)), (ii) by Executive with Good Reason (as defined in SECTION 9(E)), or (iii) due to Executive's death or Disability (as defined in SECTION 9(D)). Vesting of the Option and other stock options and equity-based awards will continue through the Transition Period.

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



7. No Other Employment. Executive represents to Company that he is not subject to any agreement, commitment or policy of any third party that would prevent him from entering into or performing the duties of his employment under this Agreement. Executive will not enter into any agreement or commitment or agree to any policy that would prevent or hinder the performance of his duties or obligations under this Agreement.

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

9. Termination of Employment.  
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(a) Resignation. Executive may voluntarily resign his employment under this Agreement without Good Reason (as defined in SECTION 9(E)) at any time upon at least 60 days' prior written notice to Company. Company may waive such notice or authorize a shorter notice period. Upon the effectiveness of any such resignation, Executive's obligations under the Transition Period shall commence pursuant to SECTION 3(B).

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

(i) commits a material breach of his obligations or agreements under this Agreement;

(ii) commits an act of gross negligence or otherwise acts with willful disregard for the best interests of Company and its affiliates;

(iii) fails or refuses to perform any duties delegated to him that are consistent with the duties of similarly-situated executives or are otherwise required under this Agreement;

(iv) is convicted of or pleads guilty or no contest to a felony, or violates any federal or state securities or tax laws, or with respect to his employment, commits either a material dishonest act or common law fraud;

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(v) seizes a corporate opportunity for himself instead of offering such opportunity to Company or its affiliates;

(vi) is absent (and not traveling on business) for a reason other than illness, vacation, or approved leave for more than 30 consecutive days; or

(vii) commits a material violation of a material Company policy.

Executive's termination for Cause will be effective immediately upon Company's mailing or transmitting written notice of such termination. Before terminating Executive for Cause under clause (i), (ii) or (iii) above, Company will specify in writing to Executive the nature of the act, omission, refusal, or failure that it deems to constitute Cause and if the action is curable, give Executive at least 30 days from receipt of such notice to correct the situation (and thus avoid termination for Cause). Executive agrees that Company's Board of Directors will have the discretion, exercising good faith judgment, to determine whether Executive's correction is sufficient.

(c) Termination by Company Without Cause. Subject to the provisions hereof, Company may terminate Executive's employment under this Agreement before the end of the Employment Term, without Cause, upon 60 days' prior written notice. Upon the effectiveness of any such termination without Cause, Executive's obligations during the Transition Period shall commence pursuant to SECTION 3(B). If, in accordance with SECTION 2, Company furnishes Executive with a notice of non-renewal of the Employment Term, such action and the subsequent expiration of the Employment Term will not be considered a

termination of Executive's employment without Cause.

(d) Termination Due to Disability. If Executive becomes "Disabled" (as defined below), Company may terminate Executive's employment. For purposes of this Agreement, Executive will be deemed to be "Disabled" or to have a "Disability" if Executive is determined to be totally and permanently disabled under Company's long-term disability insurance plan in which he participates or if Executive is unable to substantially perform the customary duties and responsibilities of Executive's employment for a period of at least 120 days within an 180-day period by reason of a physical or mental incapacity.

(e) Termination by Executive for Good Reason. Executive may resign for "Good Reason" if, without Executive's prior written consent, Company:

(i) assigns Executive duties materially and adversely inconsistent with Executive's positions as described in this Agreement;

(ii) materially reduces Executive's target annual bonus level for any year below the target for the preceding year, other than as a result of a decline in Company's results of operations or other adverse event;

(iii) materially breaches a material provision of this Agreement; or

(iv) changes Executive's principal place of employment to a place more than 50 miles from Executive's principal place of employment on the Effective Date.

Before resigning for Good Reason, Executive must specify in writing to Company the nature of the act or omission that Executive deems to constitute Good Reason and, if the situation can be cured, give Company at least 30 days after receipt of such notice to correct the situation (and thus prevent Executive's resignation for Good Reason). Upon the effectiveness of any such

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termination for Good Reason, Executive's obligations during the Transition Period shall commence pursuant to SECTION 3(B).

(f) Death. If Executive dies during the Contract Term, the Contract Term will end as of the date of Executive's death.

10. Payments on Termination of Employment.

(a) Termination by Company for Cause or Executive's Resignation Without Good Reason. If, during the Employment Term, Company terminates Executive's employment for Cause or Executive resigns without Good Reason, Company will promptly pay to Executive: (i) the unpaid amount, if any, of Executive's Base Salary through the date of termination, (ii) the unpaid amount, if any, of Executive's previously earned and unpaid incentive bonus, (iii) the amount of any substantiated but previously unreimbursed business expenses incurred through the date of termination, and (iv) any additional vested benefits, if any, to which Executive is entitled under the terms of any Company employee pension or welfare benefit plan in which Executive was a participant (the amounts specified in clauses (i) through (iv), collectively, "Accrued Compensation"). In addition, if Executive resigns without Good Reason, Company will pay to Executive the Transition Payment provided for under, and subject to the terms of, SECTION 4(B). Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(A) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

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

(i) any Accrued Compensation;

(ii) continued payment of Base Salary (without giving effect to any reduction in Base Salary that constitutes Good Reason) for the remainder of the Employment Term;

(iii) payment of the Transition Payment provided for under, and subject to the terms of, SECTION 4(B);

(iv) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year or, if no target annual incentive bonus was established for the year or the target annual incentive bonus for the year was materially reduced so as to constitute Good Reason, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(v) an additional incentive bonus equal to one-half of the annual incentive bonus paid to Executive on account of the immediately preceding fiscal year, payable at the time Company would otherwise have paid to Executive the annual incentive bonus for the year of his termination;

(vi) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12

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months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(vii) continuing group health and group life insurance coverage for Executive and, where applicable, Executive's spouse and eligible dependents, at the same benefit levels in effect from time to time with respect to active senior executives of Company ("Benefit Continuation Coverage"), for the lifetimes of Executive and his spouse and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(B) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

(c) On or After a Change of Control -- Termination by Company Without Cause or by Executive for Good Reason. Executive will be entitled to receive the payments and benefits set forth in this SECTION 10(C), in lieu of the payments and benefits set forth in SECTION 10(B), if Executive's employment is terminated during the Employment Term (1) by Executive for any or no reason coincident with or during the 12-month period after a Change of Control occurs, (2) by Executive for Good Reason coincident with or during the 24-month period after a Change of Control occurs, or (3) by Company without Cause coincident with or during the 24-month period after a Change of Control occurs:

(i) any Accrued Compensation;

(ii) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year or, if no target annual incentive bonus was established for the year or

the target annual incentive bonus for the year was materially reduced so as to constitute Good Reason, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) a severance payment equal to 3 times the sum of (A) Executive's annualized Base Salary as in effect immediately before Executive's termination of employment (without giving effect to any reduction in Base Salary that gave rise to Good Reason), plus (B) the greater of the target annual incentive bonus for the year in which termination occurs or the highest annual incentive bonus earned within the immediately prior 3 years, plus (C) the aggregate amount of any other bonuses, including special bonuses, earned by Executive within the immediately prior year, which severance payment shall be paid in a lump sum within ten days of the date of termination;

(iv) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or

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equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(v) Benefit Continuation Coverage for the lifetimes of Executive and his spouse and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(C) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

For purposes of this SECTION 10(C), "Change of Control" means: (i) the acquisition, in one or more transactions, by any Person of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) of 50% or more of (A) all shares of capital stock of the Company to be outstanding immediately following such acquisition, or (B) the combined voting power of all shares of capital stock of the Company to be outstanding immediately following such acquisition that are entitled to vote generally in the election of directors (the shares described in clauses (A) and (B), collectively "Company Voting Stock"); (ii) the closing of a sale or other conveyance of all or substantially all of the assets of Company; or (iii) the effective time of any merger, share exchange, consolidation, or other business combination involving Company if immediately after such transaction, persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who, immediately prior to such transaction, held Company Voting Stock. For purposes of this SECTION 10(C), a "Person" means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than an entity controlled by Company.

(d) Termination Due to Death or Disability. In the event of the termination of Executive's employment due to death or Disability during the Employment Term or Transition Period, Executive (or Executive's estate or other beneficiary) will be entitled to receive the following payments and

benefits:

(i) any Accrued Compensation;

(ii) only if such death or Disability occurs during the Employment Term, a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year, or if no target annual incentive bonus was established for the year, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination,

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and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(iv) Benefit Continuation Coverage, where applicable, for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the then remaining balance of the Contract Term shall be split between Company and Executive, or as applicable his spouse and/or dependents, in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Contract Term shall be borne 100% by Executive, or as applicable his spouse and/or dependents. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive, or as applicable his spouse and/or dependents, will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Contract Term.

(e) Termination Due to Expiration of the Employment Term. In the event of the termination of Executive's employment due to expiration of the Employment Term, whether or not as a result of a notice of non-renewal by either party, Executive will be entitled to receive the following payments and benefits:

(i) any Accrued Compensation;

(ii) payment of the Transition Payment provided for under, and subject to the terms of, SECTION 4(B);

(iii) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year, or if no target annual incentive bonus was established for the year, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum at the same time as such bonus would otherwise have been paid for such year; and

(iv) Benefit Continuation Coverage for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient

to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount

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of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(E) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

(f) Termination Due to Expiration of the Transition Period. Upon the expiration of the Transition Period, Executive will be entitled to receive:

(i) the amount of any substantiated but previously unreimbursed business expenses incurred;

(ii) any additional vested benefits to which Executive is entitled under the terms of any Company employee pension or welfare benefit plan in which Executive was a participant; and

(iii) Benefit Continuation Coverage for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage shall be borne 100% by Executive.

11. Certain Additional Payments.

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(a) Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by Company or its affiliate to or for the benefit of Executive, whether paid, payable, distributed or distributable pursuant to this Agreement or otherwise (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") (or any successor provision) or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to in this Agreement as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of SECTION 11(C), all determinations required to be made under this SECTION 11, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Company's then independent auditors (the "Accounting Firm"), which shall provide detailed supporting calculations to both Company and Executive within 15 business days of receipt of written notice from Executive that there has been a Payment giving rise to a Gross-Up Payment, or such earlier time as is requested by Company. Any Gross-Up Payment, as determined pursuant to this SECTION 11, shall be paid by Company to Executive within five days of receipt of the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by Company. Any determination by the Accounting Firm shall be binding upon Company and Executive. As a result of the possible uncertainty in application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments will not have been made by Company that should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that

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Company exhausts its remedies pursuant to SECTION 11(C) and Executive thereafter

is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, and any such Underpayment shall be promptly paid by Company to or for the benefit of Executive.

(c) Executive shall notify Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise Company of the nature of such claim and the date on which such claim is to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) give Company any information reasonably requested by Company relating to such claim,

(ii) take such action in connection with contesting such claim as Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by Company and reasonably acceptable to Executive,

(iii) cooperate with Company in good faith in order effectively to contest such claim, and

(iv) permit Company to participate in any proceedings relating to such claim; provided, however, that Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section, Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as Company shall determine; provided, however, that if Company directs Executive to pay such claim and sue for a refund, Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled in his sole discretion to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

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(d) If, after receipt by Executive of an amount advanced by Company pursuant to SECTION 11(C), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to Company's complying with the requirements of such Section) promptly pay to Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after receipt by Executive of an amount advanced by Company pursuant to SECTION 11(C), a determination is made that Executive shall not be entitled to any refund with respect to such claim and Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid, and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment

required to be paid.

12. Restrictive Covenants; Company Inventions.  
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(a) Restrictive Covenants.  
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(i) Non-Competition. In consideration for Executive's employment and continued employment by the Company, the salary and benefits under this Agreement, including the promise of post-termination compensation under certain circumstances, and other good and valuable consideration provided herein, Executive acknowledges and agrees that, while the Company employs Executive and through the end of the Restricted Period (as defined below), Executive will not, directly or indirectly, singly or jointly, on Executive's own behalf or on behalf of any third party, establish, create, be employed by, serve as an officer, director, advisor or consultant to, lend money to, invest in, provide advice to, or engage or otherwise participate in any way in any Competitive Business (as defined below) within any Market Areas (as defined below). Executive may own up to 5% of any class of stock that is registered under the Securities Exchange Act of 1934 and listed or traded on a national securities exchange or the Nasdaq National Market without violating this covenant. The parties further agree that the foregoing shall not prevent Executive from working for or performing services on behalf of any individual or entity that is engaged in a Competitive Business if such individual or entity is also engaged in other lines of business and if Executive's employment or services are restricted to such other lines of business, and Executive will not be providing support, advice, instruction, direction or other guidance to lines of business that constitute the Competitive Business.

(1) For purposes of this Agreement, the term "Competitive Business" shall mean any consulting practice in the areas of financial restructuring, litigation consulting and engineering and scientific investigation or any other line of business that competes with the Company or its successors, assigns, predecessors, affiliates or subsidiaries (collectively, the "Company Group"), but only to the extent that the Company Group either engaged in such areas or lines of business during the Contract Term or Executive had knowledge before termination of his employment with the Company Group that the Company Group intended to or contemplated entering such areas or lines of business.

(2) For purposes of this Agreement, the term "Market Area" shall be defined as each location in which any member of the Company Group has an office, manufactures products, sells products or services, or provides services to customers or clients during the Restricted Period (as defined below). If the location where one or more of the relevant companies has or is engaged in business is within a "metropolitan area" as defined by the United States Office of Management and Budget from time to time, the term "Market Area" means that metropolitan area. In all other cases, the term "Market Area" shall encompass an area within a thirty-five (35) mile radius of the location where any member of the Company Group has or had an office, manufactures

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or manufactured products, sells or sold products or services, or provides or provided services to customers or clients.

(3) For purposes of this Agreement, the term "Restricted Period" shall mean the time period running from the beginning of Executive's employment with the Company Group through the third anniversary of the date that Executive's employment (including the Transition Period, if applicable) with the Company Group terminates for any reason.

(ii) Non-Interference with Clients or Vendors. During the Restricted Period, Executive agrees that he will not intentionally:

(1) seek to reduce the amount of business performed or engaged in by the Company or any member of the Company Group with any person or entity who is or has been, within the Restricted Period, a customer, client, supplier or vendor of any member of the Company Group;



(2) solicit any person or entity who is or has been, within the Restricted Period, a customer, client, supplier or vendor of the Company or any member of the Company Group, to terminate their relationship with any member of the Company Group.

(iii) Non-Solicitation of Company Group Employees or Contractors. During the Restricted Period, Executive agrees that he will not, directly or indirectly, whether for himself or for any other individual or entity (other than any entity belonging to the Company Group), hire, solicit, or endeavor to hire away or solicit away from the Company Group, or otherwise induce to terminate their relationship with the Company Group, any person whom the Company Group employs or otherwise engages to perform services, or has employed or engaged for services within the 12-month period immediately prior to the date Executive's termination of employment became effective, including, but not limited to, any independent consultant, engineer, sales representative, contractor, subcontractor, supplier or vendor. Executive further agrees that he will not otherwise interfere with or disrupt the Company Group's relationship with any of its employees, contractors, subcontractors, suppliers or vendors.

(b) Confidentiality.  
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(i) Confidentiality Obligation. In connection with Executive's employment with the Company Group, Executive has been and will continue to be given access to confidential and proprietary information and trade secrets concerning the business, plans, operations and prospects of the Company Group and other information not generally known outside of the Company Group that may be of value to the Company Group. Furthermore, in connection with Executive's employment with the Company Group, Executive has been and will in the future be given confidential and proprietary information and trade secrets that have been given to the Company or the Company Group in confidence by third parties (the confidential and proprietary information and trade secrets of the Company Group and third parties, as further defined below, shall be referred to herein as "Confidential Information"). Executive understands that employment by the Company creates a relationship of confidence and trust with respect to any such Confidential Information that has been or may be disclosed to Executive and that the Company has a protectable business interest in its Confidential Information. Executive acknowledges and agrees that using, disclosing or publishing any Confidential Information in an unauthorized or improper manner could cause the Company or Company Group substantial loss and damages that could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Executive acknowledges and agrees that Executive shall not at any time, except in performing Executive's employment duties to the

Company Group under this Agreement (except with the prior written consent of the Company's Board of Directors), directly or indirectly, use, disclose or publish any Confidential Information that Executive may learn or become aware of, or have learned or become aware of because of Executive's prior or continuing employment, ownership or association with the Company Group or any of their predecessors, or use any such information in a manner detrimental to the interests of the Company or the Company Group. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and Executive's employment with the Company Group.

(ii) Confidential Information. "Confidential Information" includes, without limitation, information not previously disclosed to the public or to the trade by the Company or the Company Group with respect to the Company's or any member of the Company Group's present or future business, operations, services, products, research, inventions, discoveries, drawings, designs, plans, processes, models, technical information, facilities, methods, trade secrets, copyrights, software, source code, systems, patents, procedures, manuals, specifications, any other intellectual property, confidential reports, price lists, pricing formulas, customer lists, financial information (including the revenues, costs, or profits associated with any of the Company's or the Company Group's products or services), business plans, lease structure, projections, prospects, or opportunities or strategies, acquisitions or mergers, advertising or promotions, personnel matters, legal matters, any other confidential and proprietary information and any other information not generally known outside the Company or the Company Group that may be of value to the Company or the Company Group, but excludes any

information already properly in the public domain. "Confidential Information" also includes confidential and proprietary information and trade secrets that third parties entrust to the Company or the Company Group in confidence.

Confidential Information shall not include any information that (i) has been properly published in a form generally available to the public prior to the date Executive proposes to disclose or use such information or otherwise is or becomes public knowledge through legal means without fault by Executive, (ii) is already public knowledge prior to the signing of this Agreement, (iii) was available to Executive on a non-confidential basis prior to its disclosure by the Company, (iv) was disclosed by Executive in the proper performance of Executive's duties hereunder, or (v) must be disclosed pursuant to applicable law or court order. Information shall not be deemed to have been published merely because individual portions of the information have been separately published, but only if all material features comprising such information have been published in combination.

(iii) Preserving Third Party's Confidences.

Executive agrees not to use in working for the Company Group and not to disclose to the Company Group any Confidential Information Executive does not have the right to use or disclose and that the Company Group is not free to use without liability of any kind. Executive agrees to promptly inform the Company in writing of any patents, copyrights, trademarks or other proprietary rights known to Executive that the Company or the Company Group might violate because of information Executive provides.

(c) Exclusive Property. Executive confirms that all

Confidential Information is and must remain the exclusive property of the relevant member of the Company Group. All business records, business papers and business documents Executive keeps or makes in the course of Executive's employment by the Company must be and remain the property of the relevant member of the Company Group. Upon the termination of this Agreement with the Company or upon the Company's or the Company Group's request at any time, Executive shall promptly deliver to the Company or relevant member of the Company Group any Confidential Information or other materials (written or otherwise) not available to the public or made available to the public in a manner Executive knows or should reasonably recognize the Company or the Company Group did

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not authorize, and any copies, excerpts, summaries, compilations, records and documents Executive made or that came into Executive's possession during Executive's employment. Executive agrees that Executive will not, without the Company's consent, retain copies, excerpts, summaries or compilations of the foregoing information and materials. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and Executive's employment with the Company Group.

(d) Intellectual Property. Executive agrees that all

records, documents, papers, inventions, notebooks, drawings, designs, technical information, source or object code, processes, methods, ideas, discoveries, improvements or other copyrightable or otherwise protectable works, whether patentable or not, in any media, Executive conceives, creates, invents or discovers, that relates to or results from any work Executive performs or performed for the Company or any member of the Company Group or that arises from the use of the facilities, materials, personnel or Confidential Information of the Company or any member of the Company Group in the course of Executive's employment (whether or not during working hours), whether conceived, created, discovered, or invented individually or jointly with others ("Company Inventions"), will, together with all worldwide patent, copyright, trademark, trade secret, mask works or other intellectual property rights in such works, including reissues thereof, as well as the right to prosecute or sue for infringements or other violations of these intellectual property rights (collectively "Intellectual Property Rights"), be and remain absolutely the property of the Company and/or the relevant member of the Company Group. Executive irrevocably and unconditionally waives all rights that vest in Executive (whether before, on, or after the date of this Agreement) in connection with Executive's authorship of any copyrightable works in the course of Executive's employment with the Company and/or the Company Group, wherever in the world enforceable. Executive recognizes any such works are "works for hire" of which the Company is the author. If, for any reason, any such Company Inventions shall not legally be a "work-for-hire" or there are rights which do

not accrue to the Company under the preceding provisions, then Executive hereby irrevocably assigns to the Company and agrees to quitclaim any and all of Executive's right, title and interest thereto, including, without limitation, all Intellectual Property Rights or other rights of whatsoever nature therein, whether now or hereafter known, existing, contemplated, recognized or developed, and the Company shall have the right to use the same in perpetuity throughout the universe in any manner the Company determines, all without any further payment to Executive. Without limitation, Executive waives the right to be identified as the author of any such works and the right not to have any such works subjected to derogatory treatment, and irrevocably transfers and assigns to the Company any and all moral rights that Executive may have in any Company Invention and authorizes the Company to make any desired changes to any part of any Company Invention and combine it with other materials in any manner desired.

Executive will promptly disclose, grant and assign ownership to the Company and/or the relevant member of the Company Group for its sole use and benefit any and all Company Inventions that Executive develops, acquires, conceives or reduces to practice while the Company and/or the Company Group employs Executive and will take all steps necessary to assist the Company in obtaining and/or protecting its ownership rights therein. Executive will promptly disclose and hereby grants and assigns ownership to the Company of all Company Inventions, Intellectual Property Rights and any foreign equivalents thereof that may at any time be filed or granted for or upon any such Company Invention.

(e) Maximum Limits. If any provision of this SECTION 12 is ever deemed to exceed the time, geographic area or activity limitations the law permits, Executive and the Company agree to reduce such limitations to the maximum permissible limitation, and Executive and the Company authorize a court or arbitrator having jurisdiction to reform each such provision to the

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maximum time, geographic area or activity limitations the law permits, provided, however, that such reductions shall apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made.

(f) Injunctive Relief. Without limiting the remedies available to the Company and/or the Company Group, Executive acknowledges that a breach of any of the covenants regarding non-competition, non-interference, non-solicitation, confidentiality or intellectual property rights contained in this Agreement may result in material irreparable injury to the Company Group for which there is no adequate remedy at law and that it will not be possible to accurately measure damages for such injuries. Executive agrees that, if there is a breach or threatened breach of this Agreement, the Company and/or the Company Group will be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Executive from engaging in activities prohibited by any provision of SECTION 12 of this Agreement, or such other relief as may be required to specifically enforce any of the covenants contained in SECTION 12 of this Agreement. Executive agrees that all remedies expressly provided for in this Agreement are cumulative of any and all other remedies now existing at law or in equity. The Company or any Company Group member will, in addition to the remedies provided in this Agreement, be entitled to avail itself of all such other remedies as may now or hereafter exist at law or in equity for compensation and for the specific enforcement of the covenants contained in this Agreement. Resort to any remedy provided for in this Section or provided for by law will not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies, or preclude the Company or the Company Group's recovery of monetary damages and compensation. Executive also agrees that the Restricted Period or such longer period during which the covenants hereunder by their terms survive will extend for any and all periods for which a court with personal jurisdiction over Executive finds that Executive violated the covenants contained herein.

13. Assignment and Successors. This Agreement is personal to Executive and, shall not be assignable by Executive, except that Executive's rights to receive any compensation or benefits under this Agreement may be transferred or disposed of pursuant to testamentary disposition or intestate succession. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, beneficiaries and/or legal representatives. This Agreement shall inure to the benefit of and be binding upon Company and its successors and assigns. Company shall require any successor to all or

substantially all of the business and/or assets of Company, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Company would be required to perform if no such succession had taken place.

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

15. Amendment; Waiver. Neither Executive nor Company may modify, amend, or waive the terms of this Agreement other than by a written instrument signed by Executive and Company. Either party's waiver of the other party's compliance with any provision of this Agreement shall not

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be deemed a waiver of any other provision of this Agreement or of any subsequent breach by such party of a provision of this Agreement. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

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

17. Governing Law. The laws of the State of Maryland (other than its conflict of laws provisions) govern this Agreement.

18. Notices. Notices may be given in writing by personal delivery, by certified mail, return receipt requested, by telecopy or by overnight delivery. Executive should send or deliver notices to the office of the Secretary of Company at 900 Bestgate Road, Annapolis, Maryland 21401, fax number: (410) 224-2809. Company will send or deliver any notice given to Executive at Executive's address as reflected on Company's personnel records. Executive and Company may change their addresses for notice by like notice to the other. Executive and Company agree that notice is deemed received on the date it is personally delivered, the date it is received by certified mail, the date of guaranteed delivery by overnight service, or the date the fax machine confirms receipt.

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

20. Arbitration.  
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(a) Any dispute or controversy arising under or in connection with this Agreement or Executive's employment relationship with Company, irrespective of whether this Agreement or Executive's employment relationship with Company has terminated, will be settled exclusively by binding arbitration to be held in the metropolitan area in which Executive is then employed and conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA"), or the corresponding rules of such other entity as may be mutually agreed upon by the parties, as then in effect.

(b) After either party submits a request for arbitration, AAA or such other entity mutually agreed upon by the parties (either,

hereinafter referred to as the "ADR Entity"), the ADR Entity will be requested to appoint a single, neutral arbitrator from a panel of former or retired judges, within ten business days after such request, to preside over the arbitration and resolve the dispute. The parties agree to raise any objections to such appointment within ten business days after it is made and to limit those objections to the arbitrator's actual conflict of interest. The ADR Entity, in its sole discretion, will determine within ten business days the validity of any objection to the appointment of the arbitrator based on the arbitrator's actual conflict of interest. The arbitrator will be directed to render a full decision on all issues properly before the arbitrator within 60 days after being appointed to serve as arbitrator, unless the parties otherwise agree in writing or the arbitrator makes a finding that a party has carried the burden of showing good cause for a longer period.

(c) The parties will use their best efforts to cooperate with each other in causing the arbitration to be held in as efficient and expeditious a manner as practicable, including but not limited to, providing such documents and making available such of their personnel and agents as the

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arbitrator may request. The parties direct the arbitrator to take into account their stated goal of expedited proceedings in determining whether to authorize discovery and, if so, the scope of permissible discovery and other hearing and pre-hearing procedures.

(d) The arbitrator will not have the authority to add to, detract from or modify any provision of this Agreement or to award punitive damages to any injured party. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Company will bear all expenses of any such arbitration proceeding, except that each party will bear its own counsel fees unless the arbitrator decides to award counsel fees to one of the parties.

(e) Notwithstanding the foregoing, each party shall be entitled to seek injunctive or other equitable relief, as contemplated by SECTION 12(F) above, from any court of competent jurisdiction, without the need to resort to arbitration.

21. Indemnification and Liability Insurance. Company shall indemnify Executive to the fullest extent permitted by applicable law and Company's by-laws with regard to Executive's actions (or inactions) on behalf of Company in his capacity as an officer and/or director, with advancement of legal fees and other expenses on a current basis to the fullest extent permitted by law. Company shall cover Executive under professional and other appropriate liability insurance policies both during and, while any potential liability exists, after the Contract Term; provided that the amount and extent of such coverage shall be at least as great and extensive as such coverage on Company's other senior executives and directors.

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

FTI CONSULTING, INC.

By: /s/ Stewart J. Kahn

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Name: Stewart J. Kahn  
Title: President and Chief Operating Officer

EXECUTIVE

/s/ Jack B. Dunn, IV

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Jack B. Dunn, IV

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EMPLOYMENT AGREEMENT  
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THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of November 5, 2002 (the "Effective Date"), by and between FTI Consulting, Inc., a Maryland corporation with its principal offices in Annapolis, Maryland ("Company"), and Stewart J. Kahn ("Executive").

W I T N E S S E T H :  
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WHEREAS, Executive is a member of the Board of Directors and President and Chief Operating Officer of Company; and

WHEREAS, Company desires to insure the continued availability to Company of Executive's services, and Executive is willing to render such services, all upon and subject to the terms and conditions contained in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, Company and Executive agree as follows:

1. Employment. Company employs Executive and Executive accepts such employment upon the terms and conditions set forth in this Agreement.

2. Term of Employment.  
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(a) Employment Term. Executive's full-time employment under this Agreement will begin as of the Effective Date and, unless otherwise terminated as provided in SECTION 9, will continue for an initial term (the "Initial Term") of three years through the day before the third anniversary of the Effective Date in 2005. Effective at the close of business on the day before the first anniversary of the Effective Date in 2003, the term of Executive's employment under this Agreement, if not otherwise terminated as provided in SECTION 9, will be extended for an additional one-year period unless either party has, before the close of business on the day on which the additional one-year extension would otherwise become effective, given notice to the other of his or its intention not to further extend the term. The Initial Term, together with the additional one-year extension that becomes effective pursuant to the preceding sentence, is referred to in this Agreement as the "Employment Term." The period remaining from time to time in the Employment Term will fluctuate from three years (as of, for example, the Effective Date or, absent notice, the first anniversary thereof) to two years (as of, for example, the day before the first anniversary of the Effective Date in 2003, the day on which, absent notice before the close of business on that day, the Employment Term will be extended for an additional year) or less once no additional extensions are applicable.

(b) Transition Period. Upon expiration of the Employment Term or its earlier termination pursuant to SECTION 9 other than as a result of Executive's death or Disability (as defined in SECTION 9(D)) or termination of Executive's employment by the Company for Cause (as defined in SECTION 9(B)), Executive shall continue to provide services to Company as described in SECTION 3(B), but in the capacity of a part-time employee, for a period of three years (the "Transition Period").

(c) Contract Term. The Employment Term, together with the Transition Period, is referred to in this Agreement as the "Contract Term."

3. Position and Duties.  
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(a) During the Employment Term. During the Employment Term, Executive will (i) be employed to serve as, and have the title of,

President and Chief Operating Officer, with overall charge and responsibility for Company's operations and to perform such duties consistent with such positions as Executive shall reasonably be directed to perform by the Chief Executive Officer or the Board of Directors of Company commensurate with Executive's positions or as may be specified in Company's By-Laws, if applicable, (ii) have such authority as may be reasonably necessary or appropriate in order to enable Executive to carry out the duties and responsibilities of Executive's employment under this Agreement, (iii) have Executive's principal office located at Company's offices in New York, New York, and (iv) be entitled to office services and support commensurate with Executive's position, duties and responsibilities. During the Employment Term, Executive will devote substantially all of Executive's business time, attention, and energies to the performance of Executive's duties and responsibilities under this Agreement, provided that Executive may engage in personal, charitable, professional and investment activities to the extent such activities do not conflict or materially interfere with the ability of Executive to perform said duties and responsibilities; provided, further, that service on the board of directors or other governing body of another for-profit business entity is subject to the consent of the Chief Executive Officer.

(b) During the Transition Period. During the Transition Period, Executive will (i) be employed by Company as a part-time employee providing, at the request and direction of the Chief Executive Officer or the Board of Directors of Company, not more than 500 hours of service per 12-month period at the Company's offices in New York, New York, such services to be commensurate with the general nature of services performed by Executive or other executive-level employees of Company during the Employment Term or of a nature that the Chief Executive Officer or the Board of Directors of Company determines is necessary or desirable to transition Executive's position to his successor, and (ii) have such title, or no title, as shall be determined by the Chief Executive Officer or the Board of Directors of Company in his or its discretion.

(c) Service on Board of Directors. Executive shall serve on Company's Board of Directors during the Employment Term, and whenever during the Employment Term, Executive's term on Company's Board of Directors is due to expire, Company shall include Executive as a nominee for reelection in Company's Proxy Statement for the annual meeting of stockholders for the year in which such expiration is to occur.

4. Annual Salary and Transition Payment.  
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(a) During the Employment Term. During the Employment Term, Company will pay or cause to be paid to Executive an annual base salary ("Base Salary") equal to \$900,000 for each year of the Employment Term, payable in cash on a periodic basis in accordance with Company's normal payroll practices applicable to its executive officers, but not less often than monthly. Executive's Base Salary will be subject to annual review by the Compensation Committee of the Board of Directors of Company (the "Committee") and may be adjusted upwards (but not downwards) in such amounts as the Committee may determine in its sole discretion. The term "Base Salary" as used in this Agreement refers to the Base Salary as so increased.

(b) During the Transition Period. During the Transition Period, in lieu of payment of a Base Salary, Company will pay or cause to be paid to Executive in cash, in periodic installments not less frequently than monthly, an amount equal to \$500,000 (the "Transition Payment") for each year of the Transition Period; provided, however, that Company's obligation to pay such Transition Payment during the Transition Period shall terminate immediately upon any breach by Executive of his duties under SECTION 3(B) or of the restrictive covenant provisions of SECTION 12. Notwithstanding such cessation of payment upon a breach of the restrictive covenant provisions of SECTION 12, Company shall retain the right to fully enforce the restrictive covenant provisions. In the event that a Change of Control occurs after the Transition Period has commenced, the aggregate amount of the unpaid Transition Payment payable for the period measured from the date of the Change of Control through the end of the Transition Period will be paid to Executive by Company in a single sum payment on the date that the Change of Control occurs, but Executive's obligations under SECTION 3(B) shall remain intact and Company shall retain the right to fully enforce the restrictive covenant provisions of SECTION 12. In the event that the Transition Period commences on or after a Change of Control (as defined in

SECTION 10(C)) as a result of a termination of employment under the circumstances described in SECTION 10(C), Executive shall receive the amounts and benefits set forth in SECTION 10(C) in lieu of the amounts set forth in this SECTION 4(B), but Executive's obligations under SECTION 3(B) shall remain intact and Company shall retain the right to fully enforce the restrictive covenant provisions of SECTION 12.

5. Annual Incentive Bonus. With respect to each fiscal year during the Employment Term, Executive will be entitled to participate in Company's Incentive Compensation Plan (or any successor thereto) and any other bonus plan(s) adopted by the Board of Directors or Committee for one or more of the executive officers of Company and its subsidiaries, other than any such bonus arrangement specific to another individual executive. Executive will be eligible to receive a bonus each year in such amount, if any, as determined by the Committee in accordance with the terms of Company's Incentive Compensation Plan (or any successor thereto).

6. Employee Benefit Programs and Perquisites.  
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(a) General. During the Employment Term and the Transition Period, Executive will be entitled to participate in such qualified and nonqualified employee pension plans, group health, long-term disability and group life insurance plans, and any other welfare and fringe benefit plans, arrangements, programs and perquisites generally maintained or provided by Company from time to time to or for the benefit of its executive employees or employees generally ("Benefit Plans"), at a level commensurate with Executive's position. The preceding sentence does not, however, entitle Executive to participate in any plans specific to other individual executives or employees. Executive's participation in any Benefit Plans will be subject to the terms of the applicable plan documents and Company's generally applied policies and procedures. Company in its discretion may from time to time adopt, modify, interpret, or discontinue such plans, policies and procedures in a manner generally applicable to Company's executives or employees. During the Employment Term and the Transition Period, Executive will be entitled to the payment by Company of the cost of life, health and dental benefits and long-term disability insurance for himself and, as applicable, his dependents, at the same percentage level of Company contribution as in effect on the Effective Date and in accordance with Company policies and procedures. During the Employment Term, Executive will be entitled to at least six weeks of paid vacation for each calendar year (pro-rated for partial calendar years), subject to Company's policies and procedures on use and retention of such vacation in effect from time to time, but with no payment for unused vacation. During the Employment Term and the Transition Period, Executive will be entitled to lease and use, for business or personal purposes, two automobiles of his choice at Company's expense, one for use with respect to the performance of services and personal purposes in and around his principal place of

employment and one for such use in and around Annapolis, Maryland or such other location at which Company maintains its principal executive office.

(b) Stock Options. In connection with this Agreement, Company has granted Executive an option (the "Option") to purchase 90,000 shares of Common Stock of Company under and subject to the terms of Company's 1997 Stock Option Plan. The Option vests in three equal installments, beginning on the Effective Date and continuing on the first and second anniversaries of the Effective Date, provided that Executive is employed with Company on each such date, so that the Option will be fully vested on the second anniversary of the Effective Date. The Option and all outstanding past and future stock options and other equity-based awards granted to Executive will vest in full immediately before the occurrence of a Change of Control (as defined in SECTION 10(C)) or upon the termination of Executive's employment (i) by Company without Cause (as defined in SECTION 9(B)), (ii) by Executive with Good Reason (as defined in SECTION 9(E)), or (iii) due to Executive's death or Disability (as defined in SECTION 9(D)). Vesting of the Option and other stock options and equity-based awards will continue through the Transition Period.

(c) Reimbursement of Business Expenses. Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, and Company will promptly pay or reimburse Executive for all such expenses that are so incurred upon presentation



of appropriate vouchers or receipts, subject to Company's expense reimbursement policies and procedures in effect from time to time with respect to executives of Company.

7. No Other Employment. Executive represents to Company that he is not subject to any agreement, commitment or policy of any third party that would prevent him from entering into or performing the duties of his employment under this Agreement. Executive will not enter into any agreement or commitment or agree to any policy that would prevent or hinder the performance of his duties or obligations under this Agreement.

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

9. Termination of Employment.  
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(a) Resignation. Executive may voluntarily resign his employment under this Agreement without Good Reason (as defined in SECTION 9(E)) at any time upon at least 60 days' prior written notice to Company. Company may waive such notice or authorize a shorter notice period. Upon the effectiveness of any such resignation, Executive's obligations under the Transition Period shall commence pursuant to SECTION 3(B).

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

(i) commits a material breach of his obligations or agreements under this Agreement;

(ii) commits an act of gross negligence or otherwise acts with willful disregard for the best interests of Company and its affiliates;

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(iii) fails or refuses to perform any duties delegated to him that are consistent with the duties of similarly-situated executives or are otherwise required under this Agreement;

(iv) is convicted of or pleads guilty or no contest to a felony, or violates any federal or state securities or tax laws, or with respect to his employment, commits either a material dishonest act or common law fraud;

(v) seizes a corporate opportunity for himself instead of offering such opportunity to Company or its affiliates;

(vi) is absent (and not traveling on business) for a reason other than illness, vacation, or approved leave for more than 30 consecutive days; or

(vii) commits a material violation of a material Company policy.

Executive's termination for Cause will be effective immediately upon Company's mailing or transmitting written notice of such termination. Before terminating Executive for Cause under clause (i), (ii) or (iii) above, Company will specify in writing to Executive the nature of the act, omission, refusal, or failure that it deems to constitute Cause and if the action is curable, give Executive at least 30 days from receipt of such notice to correct the situation (and thus avoid termination for Cause). Executive agrees that Company's Chief Executive Officer or Board of Directors will have the discretion, exercising good faith judgment, to determine whether Executive's correction is sufficient.

(c) Termination by Company Without Cause. Subject to the provisions hereof, Company may terminate Executive's employment under this Agreement before the end of the Employment Term, without Cause, upon 60 days' prior written notice. Upon the effectiveness of any such termination without

Cause, Executive's obligations during the Transition Period shall commence pursuant to SECTION 3(B). If, in accordance with SECTION 2, Company furnishes Executive with a notice of non-renewal of the Employment Term, such action and the subsequent expiration of the Employment Term will not be considered a termination of Executive's employment without Cause.

(d) Termination Due to Disability. If Executive becomes "Disabled" (as defined below), Company may terminate Executive's employment. For purposes of this Agreement, Executive will be deemed to be "Disabled" or to have a "Disability" if Executive is determined to be totally and permanently disabled under Company's long-term disability insurance plan in which he participates or if Executive is unable to substantially perform the customary duties and responsibilities of Executive's employment for a period of at least 120 days within an 180-day period by reason of a physical or mental incapacity.

(e) Termination by Executive for Good Reason. Executive may resign for "Good Reason" if, without Executive's prior written consent, Company:

(i) assigns Executive duties materially and adversely inconsistent with Executive's positions as described in this Agreement;

(ii) materially reduces Executive's target annual bonus level for any year below the target for the preceding year, other than as a result of a decline in Company's results of operations or other adverse event;

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(iii) materially breaches a material provision of this Agreement; or

(iv) changes Executive's principal place of employment to a place more than 50 miles from Executive's principal place of employment on the Effective Date.

Before resigning for Good Reason, Executive must specify in writing to Company the nature of the act or omission that Executive deems to constitute Good Reason and, if the situation can be cured, give Company at least 30 days after receipt of such notice to correct the situation (and thus prevent Executive's resignation for Good Reason). Upon the effectiveness of any such termination for Good Reason, Executive's obligations during the Transition Period shall commence pursuant to SECTION 3(B).

(f) Death. If Executive dies during the Contract Term, the Contract Term will end as of the date of Executive's death.

10. Payments on Termination of Employment.

(a) Termination by Company for Cause or Executive's Resignation Without Good Reason. If, during the Employment Term, Company terminates Executive's employment for Cause or Executive resigns without Good Reason, Company will promptly pay to Executive: (i) the unpaid amount, if any, of Executive's Base Salary through the date of termination, (ii) the unpaid amount, if any, of Executive's previously earned and unpaid incentive bonus, (iii) the amount of any substantiated but previously unreimbursed business expenses incurred through the date of termination, and (iv) any additional vested benefits, if any, to which Executive is entitled under the terms of any Company employee pension or welfare benefit plan in which Executive was a participant (the amounts specified in clauses (i) through (iv), collectively, "Accrued Compensation"). In addition, if Executive resigns without Good Reason, Company will pay to Executive the Transition Payment provided for under, and subject to the terms of, SECTION 4(B). Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(A) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

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

(i) any Accrued Compensation;

(ii) continued payment of Base Salary (without giving effect to any reduction in Base Salary that constitutes Good Reason) for the remainder of the Employment Term;

(iii) payment of the Transition Payment provided for under, and subject to the terms of, SECTION 4(B);

(iv) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year or, if no target annual incentive bonus was established for the year or the target annual incentive bonus for the year was materially reduced so as to constitute Good Reason, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar

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year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(v) an additional incentive bonus equal to one-half of the annual incentive bonus paid to Executive on account of the immediately preceding fiscal year, payable at the time Company would otherwise have paid to Executive the annual incentive bonus for the year of his termination;

(vi) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(vii) continuing group health and group life insurance coverage for Executive and, where applicable, Executive's spouse and eligible dependents, at the same benefit levels in effect from time to time with respect to active senior executives of Company ("Benefit Continuation Coverage"), for the lifetimes of Executive and his spouse and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(B) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

(c) On or After a Change of Control -- Termination by Company Without Cause or by Executive for Good Reason. Executive will be entitled to receive the payments and benefits set forth in this SECTION 10(C), in lieu of the payments and benefits set forth in SECTION 10(B), if Executive's employment is terminated during the Employment Term (1) by Executive for any or no reason coincident with or during the 12-month period after a Change of Control occurs, (2) by Executive for Good Reason coincident with or during the 24-month period after a Change of Control occurs, or (3) by Company without Cause coincident with or during the 24-month period after a Change of Control occurs:

(i) any Accrued Compensation;

(ii) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year or, if no target annual incentive bonus was established for the year or the target annual incentive bonus for the year was materially reduced so as to constitute Good Reason, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar

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year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) a severance payment equal to 3 times the sum of (A) Executive's annualized Base Salary as in effect immediately before Executive's termination of employment (without giving effect to any reduction in Base Salary that gave rise to Good Reason), plus (B) the greater of the target annual incentive bonus for the year in which termination occurs or the highest annual incentive bonus earned within the immediately prior 3 years, plus (C) the aggregate amount of any other bonuses, including special bonuses, earned by Executive within the immediately prior year, which severance payment shall be paid in a lump sum within ten days of the date of termination;

(iv) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(v) Benefit Continuation Coverage for the lifetimes of Executive and his spouse and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(C) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

For purposes of this SECTION 10(C), "Change of Control" means: (i) the acquisition, in one or more transactions, by any Person of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) of 50% or more of (A) all shares of capital stock of the Company to be outstanding immediately following such acquisition, or (B) the combined voting power of all shares of capital stock of the Company to be outstanding immediately following such acquisition that are entitled to vote generally in the election of directors (the shares described in clauses (A) and (B), collectively "Company Voting Stock"); (ii) the closing of a sale or other conveyance of all or substantially all of the assets of Company; or (iii) the effective time of any merger, share exchange, consolidation, or other business combination involving Company if immediately after such transaction, persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who, immediately prior to such transaction, held Company Voting Stock. For purposes of this SECTION 10(C), a "Person" means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than an entity controlled by Company.

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

(i) any Accrued Compensation;

(ii) only if such death or Disability occurs during the Employment Term, a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year, or if no target annual incentive bonus was established for the year, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(iv) Benefit Continuation Coverage, where applicable, for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the then remaining balance of the Contract Term shall be split between Company and Executive, or as applicable his spouse and/or dependents, in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Contract Term shall be borne 100% by Executive, or as applicable his spouse and/or dependents. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive, or as applicable his spouse and/or dependents, will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Contract Term.

(e) Termination Due to Expiration of the Employment Term. In the event of the termination of Executive's employment due to expiration of the Employment Term, whether or not as a result of a notice of non-renewal by either party, Executive will be entitled to receive the following payments and benefits:

(i) any Accrued Compensation;

(ii) payment of the Transition Payment provided for under, and subject to the terms of, SECTION 4(B);

(iii) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year, or if no target annual incentive bonus was established for the year, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year

through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum at the same time as such bonus would otherwise have been paid for such year; and

(iv) Benefit Continuation Coverage for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period

shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(E) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

(f) Termination Due to Expiration of the Transition Period. Upon the expiration of the Transition Period, Executive will be entitled to receive:

(i) the amount of any substantiated but previously unreimbursed business expenses incurred;

(ii) any additional vested benefits to which Executive is entitled under the terms of any Company employee pension or welfare benefit plan in which Executive was a participant; and

(iii) Benefit Continuation Coverage for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage shall be borne 100% by Executive.

11. Certain Additional Payments.  
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(a) Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by Company or its affiliate to or for the benefit of Executive, whether paid, payable, distributed or distributable pursuant to this Agreement or otherwise (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") (or any successor provision) or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to in this Agreement as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of SECTION 11(C), all determinations required to be made under this SECTION 11, including whether and when a Gross-Up Payment is required and the

amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Company's then independent auditors (the "Accounting Firm"), which shall provide detailed supporting calculations to both Company and Executive within 15 business days of receipt of written notice from Executive that there has been a Payment giving rise to a Gross-Up Payment, or such earlier time as is requested by Company. Any Gross-Up Payment, as determined pursuant to this SECTION 11, shall be paid by Company to Executive within five days of receipt of the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by Company. Any determination by the Accounting Firm shall be binding upon Company and Executive. As a result of the possible uncertainty in application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments will not have been made by Company that should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that Company exhausts

its remedies pursuant to SECTION 11(C) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, and any such Underpayment shall be promptly paid by Company to or for the benefit of Executive.

(c) Executive shall notify Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise Company of the nature of such claim and the date on which such claim is to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) give Company any information reasonably requested by Company relating to such claim,

(ii) take such action in connection with contesting such claim as Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by Company and reasonably acceptable to Executive,

(iii) cooperate with Company in good faith in order effectively to contest such claim, and

(iv) permit Company to participate in any proceedings relating to such claim; provided, however, that Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section, Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as Company shall determine; provided, however, that if Company directs Executive to pay such claim and sue for a refund, Company shall advance the

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amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled in his sole discretion to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after receipt by Executive of an amount advanced by Company pursuant to SECTION 11(C), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to Company's complying with the requirements of such Section) promptly pay to Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after receipt by Executive of an amount advanced by Company pursuant to SECTION 11(C), a determination is made that Executive shall not be entitled to any refund with respect to such claim and Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid, and the amount of such

advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

12. Restrictive Covenants; Company Inventions.  
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(a) Restrictive Covenants.  
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(i) Non-Competition. In consideration for Executive's employment and continued employment by the Company, the salary and benefits under this Agreement, including the promise of post-termination compensation under certain circumstances, and other good and valuable consideration provided herein, Executive acknowledges and agrees that, while the Company employs Executive and through the end of the Restricted Period (as defined below), Executive will not, directly or indirectly, singly or jointly, on Executive's own behalf or on behalf of any third party, establish, create, be employed by, serve as an officer, director, advisor or consultant to, lend money to, invest in, provide advice to, or engage or otherwise participate in any way in any Competitive Business (as defined below) within any Market Areas (as defined below). Executive may own up to 5% of any class of stock that is registered under the Securities Exchange Act of 1934 and listed or traded on a national securities exchange or the Nasdaq National Market without violating this covenant. The parties further agree that the foregoing shall not prevent Executive from working for or performing services on behalf of any individual or entity that is engaged in a Competitive Business if such individual or entity is also engaged in other lines of business and if Executive's employment or services are restricted to such other lines of business, and Executive will not be providing support, advice, instruction, direction or other guidance to lines of business that constitute the Competitive Business.

(1) For purposes of this Agreement, the term "Competitive Business" shall mean any consulting practice in the areas of financial restructuring, litigation consulting and engineering and scientific investigation or any other line of business that competes with the Company or its successors, assigns, predecessors, affiliates or subsidiaries (collectively, the "Company Group"), but only to the extent that the Company Group either engaged in such areas or lines of business during the Contract Term or Executive had knowledge before termination of his

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employment with the Company Group that the Company Group intended to or contemplated entering such areas or lines of business.

(2) For purposes of this Agreement, the term "Market Area" shall be defined as each location in which any member of the Company Group has an office, manufactures products, sells products or services, or provides services to customers or clients during the Restricted Period (as defined below). If the location where one or more of the relevant companies has or is engaged in business is within a "metropolitan area" as defined by the United States Office of Management and Budget from time to time, the term "Market Area" means that metropolitan area. In all other cases, the term "Market Area" shall encompass an area within a thirty-five (35) mile radius of the location where any member of the Company Group has or had an office, manufactures or manufactured products, sells or sold products or services, or provides or provided services to customers or clients.

(3) For purposes of this Agreement, the term "Restricted Period" shall mean the time period running from the beginning of Executive's employment with the Company Group through the third anniversary of the date that Executive's employment (including the Transition Period, if applicable) with the Company Group terminates for any reason.

(ii) Non-Interference with Clients or Vendors. During the Restricted Period, Executive agrees that he will not intentionally:

(1) seek to reduce the amount of business performed or engaged in by the Company or any member of the Company Group with any person or entity who is or has been, within the Restricted Period, a customer, client, supplier or vendor of any member of the Company Group;



(2) solicit any person or entity who is or has been, within the Restricted Period, a customer, client, supplier or vendor of the Company or any member of the Company Group, to terminate their relationship with any member of the Company Group.

(iii) Non-Solicitation of Company Group Employees or Contractors. During the Restricted Period, Executive agrees that he will not, directly or indirectly, whether for himself or for any other individual or entity (other than any entity belonging to the Company Group), hire, solicit, or endeavor to hire away or solicit away from the Company Group, or otherwise induce to terminate their relationship with the Company Group, any person whom the Company Group employs or otherwise engages to perform services, or has employed or engaged for services within the 12-month period immediately prior to the date Executive's termination of employment became effective, including, but not limited to, any independent consultant, engineer, sales representative, contractor, subcontractor, supplier or vendor. Executive further agrees that he will not otherwise interfere with or disrupt the Company Group's relationship with any of its employees, contractors, subcontractors, suppliers or vendors.

(b) Confidentiality.  
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(i) Confidentiality Obligation. In connection with Executive's employment with the Company Group, Executive has been and will continue to be given access to confidential and proprietary information and trade secrets concerning the business, plans, operations and prospects of the Company Group and other information not generally known outside of the Company Group that may be of value to the Company Group. Furthermore, in connection with Executive's employment with the Company Group, Executive has been and will in the future be given confidential and proprietary information and trade secrets that have been given to the Company

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or the Company Group in confidence by third parties (the confidential and proprietary information and trade secrets of the Company Group and third parties, as further defined below, shall be referred to herein as "Confidential Information"). Executive understands that employment by the Company creates a relationship of confidence and trust with respect to any such Confidential Information that has been or may be disclosed to Executive and that the Company has a protectable business interest in its Confidential Information. Executive acknowledges and agrees that using, disclosing or publishing any Confidential Information in an unauthorized or improper manner could cause the Company or Company Group substantial loss and damages that could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Executive acknowledges and agrees that Executive shall not at any time, except in performing Executive's employment duties to the Company Group under this Agreement (except with the prior written consent of the Company's Board of Directors), directly or indirectly, use, disclose or publish any Confidential Information that Executive may learn or become aware of, or have learned or become aware of because of Executive's prior or continuing employment, ownership or association with the Company Group or any of their predecessors, or use any such information in a manner detrimental to the interests of the Company or the Company Group. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and Executive's employment with the Company Group.

(ii) Confidential Information. "Confidential Information" includes, without limitation, information not previously disclosed to the public or to the trade by the Company or the Company Group with respect to the Company's or any member of the Company Group's present or future business, operations, services, products, research, inventions, discoveries, drawings, designs, plans, processes, models, technical information, facilities, methods, trade secrets, copyrights, software, source code, systems, patents, procedures, manuals, specifications, any other intellectual property, confidential reports, price lists, pricing formulas, customer lists, financial information (including the revenues, costs, or profits associated with any of the Company's or the Company Group's products or services), business plans, lease structure, projections, prospects, or opportunities or strategies, acquisitions or mergers, advertising or promotions, personnel matters, legal matters, any other confidential and proprietary information and any other information not generally known outside the Company or the Company Group that may be of value to the Company or the Company Group, but excludes any

information already properly in the public domain. "Confidential Information" also includes confidential and proprietary information and trade secrets that third parties entrust to the Company or the Company Group in confidence.

Confidential Information shall not include any information that (i) has been properly published in a form generally available to the public prior to the date Executive proposes to disclose or use such information or otherwise is or becomes public knowledge through legal means without fault by Executive, (ii) is already public knowledge prior to the signing of this Agreement, (iii) was available to Executive on a non-confidential basis prior to its disclosure by the Company, (iv) was disclosed by Executive in the proper performance of Executive's duties hereunder, or (v) must be disclosed pursuant to applicable law or court order. Information shall not be deemed to have been published merely because individual portions of the information have been separately published, but only if all material features comprising such information have been published in combination.

(iii) Preserving Third Party's Confidences.

Executive agrees not to use in working for the Company Group and not to disclose to the Company Group any Confidential Information Executive does not have the right to use or disclose and that the Company Group is not free to use without liability of any kind. Executive agrees to promptly inform the Company in

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writing of any patents, copyrights, trademarks or other proprietary rights known to Executive that the Company or the Company Group might violate because of information Executive provides.

(c) Exclusive Property. Executive confirms that all

Confidential Information is and must remain the exclusive property of the relevant member of the Company Group. All business records, business papers and business documents Executive keeps or makes in the course of Executive's employment by the Company must be and remain the property of the relevant member of the Company Group. Upon the termination of this Agreement with the Company or upon the Company's or the Company Group's request at any time, Executive shall promptly deliver to the Company or relevant member of the Company Group any Confidential Information or other materials (written or otherwise) not available to the public or made available to the public in a manner Executive knows or should reasonably recognize the Company or the Company Group did not authorize, and any copies, excerpts, summaries, compilations, records and documents Executive made or that came into Executive's possession during Executive's employment. Executive agrees that Executive will not, without the Company's consent, retain copies, excerpts, summaries or compilations of the foregoing information and materials. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and Executive's employment with the Company Group.

(d) Intellectual Property. Executive agrees that all

records, documents, papers, inventions, notebooks, drawings, designs, technical information, source or object code, processes, methods, ideas, discoveries, improvements or other copyrightable or otherwise protectable works, whether patentable or not, in any media, Executive conceives, creates, invents or discovers, that relates to or results from any work Executive performs or performed for the Company or any member of the Company Group or that arises from the use of the facilities, materials, personnel or Confidential Information of the Company or any member of the Company Group in the course of Executive's employment (whether or not during working hours), whether conceived, created, discovered, or invented individually or jointly with others ("Company Inventions"), will, together with all worldwide patent, copyright, trademark, trade secret, mask works or other intellectual property rights in such works, including reissues thereof, as well as the right to prosecute or sue for infringements or other violations of these intellectual property rights (collectively "Intellectual Property Rights"), be and remain absolutely the property of the Company and/or the relevant member of the Company Group. Executive irrevocably and unconditionally waives all rights that vest in Executive (whether before, on, or after the date of this Agreement) in connection with Executive's authorship of any copyrightable works in the course of Executive's employment with the Company and/or the Company Group, wherever in the world enforceable. Executive recognizes any such works are "works for hire" of which the Company is the author. If, for any reason, any such Company Inventions shall not legally be a "work-for-hire" or there are rights which do

not accrue to the Company under the preceding provisions, then Executive hereby irrevocably assigns to the Company and agrees to quitclaim any and all of Executive's right, title and interest thereto, including, without limitation, all Intellectual Property Rights or other rights of whatsoever nature therein, whether now or hereafter known, existing, contemplated, recognized or developed, and the Company shall have the right to use the same in perpetuity throughout the universe in any manner the Company determines, all without any further payment to Executive. Without limitation, Executive waives the right to be identified as the author of any such works and the right not to have any such works subjected to derogatory treatment, and irrevocably transfers and assigns to the Company any and all moral rights that Executive may have in any Company Invention and authorizes the Company to make any desired changes to any part of any Company Invention and combine it with other materials in any manner desired.

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Executive will promptly disclose, grant and assign ownership to the Company and/or the relevant member of the Company Group for its sole use and benefit any and all Company Inventions that Executive develops, acquires, conceives or reduces to practice while the Company and/or the Company Group employs Executive and will take all steps necessary to assist the Company in obtaining and/or protecting its ownership rights therein. Executive will promptly disclose and hereby grants and assigns ownership to the Company of all Company Inventions, Intellectual Property Rights and any foreign equivalents thereof that may at any time be filed or granted for or upon any such Company Invention.

(e) Maximum Limits. If any provision of this SECTION 12 is ever deemed to exceed the time, geographic area or activity limitations the law permits, Executive and the Company agree to reduce such limitations to the maximum permissible limitation, and Executive and the Company authorize a court or arbitrator having jurisdiction to reform each such provision to the maximum time, geographic area or activity limitations the law permits, provided, however, that such reductions shall apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made.

(f) Injunctive Relief. Without limiting the remedies available to the Company and/or the Company Group, Executive acknowledges that a breach of any of the covenants regarding non-competition, non-interference, non-solicitation, confidentiality or intellectual property rights contained in this Agreement may result in material irreparable injury to the Company Group for which there is no adequate remedy at law and that it will not be possible to accurately measure damages for such injuries. Executive agrees that, if there is a breach or threatened breach of this Agreement, the Company and/or the Company Group will be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Executive from engaging in activities prohibited by any provision of SECTION 12 of this Agreement, or such other relief as may be required to specifically enforce any of the covenants contained in SECTION 12 of this Agreement. Executive agrees that all remedies expressly provided for in this Agreement are cumulative of any and all other remedies now existing at law or in equity. The Company or any Company Group member will, in addition to the remedies provided in this Agreement, be entitled to avail itself of all such other remedies as may now or hereafter exist at law or in equity for compensation and for the specific enforcement of the covenants contained in this Agreement. Resort to any remedy provided for in this Section or provided for by law will not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies, or preclude the Company or the Company Group's recovery of monetary damages and compensation. Executive also agrees that the Restricted Period or such longer period during which the covenants hereunder by their terms survive will extend for any and all periods for which a court with personal jurisdiction over Executive finds that Executive violated the covenants contained herein.

13. Assignment and Successors. This Agreement is personal to Executive and, shall not be assignable by Executive, except that Executive's rights to receive any compensation or benefits under this Agreement may be transferred or disposed of pursuant to testamentary disposition or intestate succession. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, beneficiaries and/or legal representatives. This Agreement shall inure to the benefit of and be binding upon Company and its successors and assigns. Company shall require any successor to all or substantially all of the business and/or assets of Company, whether direct or

indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Company would be required to perform if no such succession had taken place.

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

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

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

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

18. Notices. Notices may be given in writing by personal delivery, by certified mail, return receipt requested, by telecopy or by overnight delivery. Executive should send or deliver notices to the office of the Secretary of Company at 900 Bestgate Road, Annapolis, Maryland 21401, fax number: (410) 224-2809. Company will send or deliver any notice given to Executive at Executive's address as reflected on Company's personnel records. Executive and Company may change their addresses for notice by like notice to the other. Executive and Company agree that notice is deemed received on the date it is personally delivered, the date it is received by certified mail, the date of guaranteed delivery by overnight service, or the date the fax machine confirms receipt.

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

20. Arbitration.

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(a) Any dispute or controversy arising under or in connection with this Agreement or Executive's employment relationship with Company, irrespective of whether this Agreement or Executive's employment relationship with Company has terminated, will be settled exclusively by binding arbitration to be held in the metropolitan area in which Executive is then employed and conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA"), or the corresponding rules of such other entity as may be mutually agreed upon by the parties, as then in effect.

(b) After either party submits a request for arbitration, AAA or such other entity mutually agreed upon by the parties (either, hereinafter referred to as the "ADR Entity"), the ADR

Entity will be requested to appoint a single, neutral arbitrator from a panel of former or retired judges, within ten business days after such request, to preside over the arbitration and resolve the dispute. The parties agree to raise any objections to such appointment within ten business days after it is made and to limit those objections to the arbitrator's actual conflict of interest. The ADR Entity, in its sole discretion, will determine within ten business days the validity of any objection to the appointment of the arbitrator based on the arbitrator's actual conflict of interest. The arbitrator will be directed to render a full decision on all issues properly before the arbitrator within 60 days after being appointed to serve as arbitrator, unless the parties otherwise agree in writing or the arbitrator makes a finding that a party has carried the burden of showing good cause for a longer period.

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

(d) The arbitrator will not have the authority to add to, detract from or modify any provision of this Agreement or to award punitive damages to any injured party. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Company will bear all expenses of any such arbitration proceeding, except that each party will bear its own counsel fees unless the arbitrator decides to award counsel fees to one of the parties.

(e) Notwithstanding the foregoing, each party shall be entitled to seek injunctive or other equitable relief, as contemplated by SECTION 12(F) above, from any court of competent jurisdiction, without the need to resort to arbitration.

21. Indemnification and Liability Insurance. Company shall indemnify Executive to the fullest extent permitted by applicable law and Company's by-laws with regard to Executive's actions (or inactions) on behalf of Company in his capacity as an officer and/or director, with advancement of legal fees and other expenses on a current basis to the fullest extent permitted by law. Company shall cover Executive under professional and other appropriate liability insurance policies both during and, while any potential liability exists, after the Contract Term; provided that the amount and extent of such coverage shall be at least as great and extensive as such coverage on Company's other senior executives and directors.

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

FTI CONSULTING, INC.

By: /s/ Jack B. Dunn, IV  
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Name: Jack B. Dunn, IV  
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Stewart J. Kahn  
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Stewart J. Kahn

EMPLOYMENT AGREEMENT  
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THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of November 5, 2002 (the "Effective Date"), by and between FTI Consulting, Inc., a Maryland corporation with its principal offices in Annapolis, Maryland ("Company"), and Theodore I. Pincus ("Executive").

W I T N E S S E T H :  
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WHEREAS, Executive is Executive Vice President and Chief Financial Officer of Company; and

WHEREAS, Company desires to insure the continued availability to Company of Executive's services, and Executive is willing to render such services, all upon and subject to the terms and conditions contained in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, Company and Executive agree as follows:

1. Employment. Company employs Executive and Executive accepts such employment upon the terms and conditions set forth in this Agreement.

2. Term of Employment.  
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(a) Employment Term. Executive's full-time employment under this Agreement will begin as of the Effective Date and, unless otherwise terminated as provided in SECTION 9, will continue for an initial term (the "Initial Term") of three years through the day before the third anniversary of the Effective Date in 2005. Effective at the close of business on the day before the first anniversary of the Effective Date in 2003, the term of Executive's employment under this Agreement, if not otherwise terminated as provided in SECTION 9, will be extended for an additional one-year period unless either party has, before the close of business on the day on which the additional one-year extension would otherwise become effective, given notice to the other of his or its intention not to further extend the term. The Initial Term, together with the additional one-year extension that becomes effective pursuant to the preceding sentence, is referred to in this Agreement as the "Employment Term." The period remaining from time to time in the Employment Term will fluctuate from three years (as of, for example, the Effective Date or, absent notice, the first anniversary thereof) to two years (as of, for example, the day before the first anniversary of the Effective Date in 2003, the day on which, absent notice before the close of business on that day, the Employment Term will be extended for an additional year) or less once no additional extensions are applicable.

(b) Transition Period. Upon expiration of the Employment Term or its earlier termination pursuant to SECTION 9 other than as a result of Executive's death or Disability (as defined in SECTION 9(D)) or termination of Executive's employment by the Company for Cause (as defined in SECTION 9(B)), Executive shall continue to provide services to Company as described in SECTION 3(B), but in the capacity of a part-time employee, for a period of three years (the "Transition Period").

(c) Contract Term. The Employment Term, together with the Transition Period, is referred to in this Agreement as the "Contract Term."

3. Position and Duties.  
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(a) During the Employment Term. During the Employment Term, Executive will (i) be employed to serve as, and have the title of,

Executive Vice President and Chief Financial Officer, with overall charge and responsibility for Company's financial functions and to perform such duties consistent with such positions as Executive shall reasonably be directed to perform by the Chief Executive Officer or the Board of Directors of Company commensurate with Executive's positions or as may be specified in Company's By-Laws, if applicable, (ii) have such authority as may be reasonably necessary or appropriate in order to enable Executive to carry out the duties and responsibilities of Executive's employment under this Agreement, (iii) have Executive's principal office located at Company's offices in Annapolis, Maryland, and (iv) be entitled to office services and support commensurate with Executive's position, duties and responsibilities. During the Employment Term, Executive will devote substantially all of Executive's business time, attention, and energies to the performance of Executive's duties and responsibilities under this Agreement, provided that Executive may engage in personal, charitable, professional and investment activities to the extent such activities do not conflict or materially interfere with the ability of Executive to perform said duties and responsibilities; provided, further, that service on the board of directors or other governing body of another for-profit business entity is subject to the consent of the Chief Executive Officer.

(b) During the Transition Period. During the Transition Period, Executive will (i) be employed by Company as a part-time employee providing, at the request and direction of the Chief Executive Officer or the Board of Directors of Company, not more than 500 hours of service per 12-month period at the Company's offices in Annapolis, Maryland, such services to be commensurate with the general nature of services performed by Executive or other executive-level employees of Company during the Employment Term or of a nature that the Chief Executive Officer or the Board of Directors of Company determines is necessary or desirable to transition Executive's position to his successor, and (ii) have such title, or no title, as shall be determined by the Chief Executive Officer or the Board of Directors of Company in his or its discretion.

4. Annual Salary and Transition Payment.  
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(a) During the Employment Term. During the Employment Term, Company will pay or cause to be paid to Executive an annual base salary ("Base Salary") equal to \$400,000 for each year of the Employment Term, payable in cash on a periodic basis in accordance with Company's normal payroll practices applicable to its executive officers, but not less often than monthly. Executive's Base Salary will be subject to annual review by the Compensation Committee of the Board of Directors of Company (the "Committee") and may be adjusted upwards (but not downwards) in such amounts as the Committee may determine in its sole discretion. The term "Base Salary" as used in this Agreement refers to the Base Salary as so increased.

(b) During the Transition Period. During the Transition Period, in lieu of payment of a Base Salary, Company will pay or cause to be paid to Executive in cash, in periodic installments not less frequently than monthly, an amount equal to \$250,000 (the "Transition Payment") for each year of the Transition Period; provided, however, that Company's obligation to pay such Transition Payment during the Transition Period shall terminate immediately upon any breach by Executive of his duties under SECTION 3(B) or of the restrictive covenant provisions of SECTION 12. Notwithstanding such cessation of payment upon a breach of the restrictive covenant

provisions of SECTION 12, Company shall retain the right to fully enforce the restrictive covenant provisions. In the event that a Change of Control occurs after the Transition Period has commenced, the aggregate amount of the unpaid Transition Payment payable for the period measured from the date of the Change of Control through the end of the Transition Period will be paid to Executive by Company in a single sum payment on the date that the Change of Control occurs, but Executive's obligations under SECTION 3(B) shall remain intact and Company shall retain the right to fully enforce the restrictive covenant provisions of SECTION 12. In the event that the Transition Period commences on or after a Change of Control (as defined in SECTION 10(C)) as a result of a termination of employment under the circumstances described in SECTION 10(C), Executive shall receive the amounts and benefits set forth in SECTION 10(C) in lieu of the amounts set forth in this SECTION 4(B), but Executive's obligations under SECTION 3(B) shall remain intact and Company shall retain the right to fully

enforce the restrictive covenant provisions of SECTION 12.

5. Annual Incentive Bonus. With respect to each fiscal year during the Employment Term, Executive will be entitled to participate in Company's Incentive Compensation Plan (or any successor thereto) and any other bonus plan(s) adopted by the Board of Directors or Committee for one or more of the executive officers of Company and its subsidiaries, other than any such bonus arrangement specific to another individual executive. Executive will be eligible to receive a bonus each year in such amount, if any, as determined by the Committee in accordance with the terms of Company's Incentive Compensation Plan (or any successor thereto).

6. Employee Benefit Programs and Perquisites.  
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(a) General. During the Employment Term and the Transition Period, Executive will be entitled to participate in such qualified and nonqualified employee pension plans, group health, long-term disability and group life insurance plans, and any other welfare and fringe benefit plans, arrangements, programs and perquisites generally maintained or provided by Company from time to time to or for the benefit of its executive employees or employees generally ("Benefit Plans"), at a level commensurate with Executive's position. The preceding sentence does not, however, entitle Executive to participate in any plans specific to other individual executives or employees. Executive's participation in any Benefit Plans will be subject to the terms of the applicable plan documents and Company's generally applied policies and procedures. Company in its discretion may from time to time adopt, modify, interpret, or discontinue such plans, policies and procedures in a manner generally applicable to Company's executives or employees. During the Employment Term and the Transition Period, Executive will be entitled to the payment by Company of the cost of life, health and dental benefits and long-term disability insurance for himself and, as applicable, his dependents, at the same percentage level of Company contribution as in effect on the Effective Date and in accordance with Company policies and procedures. During the Employment Term, Executive will be entitled to at least six weeks of paid vacation for each calendar year (pro-rated for partial calendar years), subject to Company's policies and procedures on use and retention of such vacation in effect from time to time, but with no payment for unused vacation. During the Employment Term and the Transition Period, Executive will be entitled to lease and use, for business or personal purposes, an automobile of his choice at Company's expense.

(b) Stock Options. In connection with this Agreement, Company has granted Executive an option (the "Option") to purchase 45,000 shares of Common Stock of Company under and subject to the terms of Company's 1997 Stock Option Plan. The Option vests in three equal installments, beginning on the Effective Date and continuing on the first and second anniversaries of the Effective Date, provided that Executive is employed with Company on each such date, so that the Option will be fully vested on the second anniversary of the Effective Date. The Option and all outstanding past and future stock options and other equity-based awards granted to Executive will

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vest in full immediately before the occurrence of a Change of Control (as defined in SECTION 10(C)) or upon the termination of Executive's employment (i) by Company without Cause (as defined in SECTION 9(B)), (ii) by Executive with Good Reason (as defined in SECTION 9(E)), or (iii) due to Executive's death or Disability (as defined in SECTION 9(D)). Vesting of the Option and other stock options and equity-based awards will continue through the Transition Period.

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

7. No Other Employment. Executive represents to Company that he is not subject to any agreement, commitment or policy of any third party that would prevent him from entering into or performing the duties of his employment under this Agreement. Executive will not enter into any agreement or commitment or agree to any policy that would prevent or hinder the performance of his



duties or obligations under this Agreement.

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

9. Termination of Employment.  
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(a) Resignation. Executive may voluntarily resign his employment under this Agreement without Good Reason (as defined in SECTION 9(E)) at any time upon at least 60 days' prior written notice to Company. Company may waive such notice or authorize a shorter notice period. Upon the effectiveness of any such resignation, Executive's obligations under the Transition Period shall commence pursuant to SECTION 3(B).

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

(i) commits a material breach of his obligations or agreements under this Agreement;

(ii) commits an act of gross negligence or otherwise acts with willful disregard for the best interests of Company and its affiliates;

(iii) fails or refuses to perform any duties delegated to him that are consistent with the duties of similarly-situated executives or are otherwise required under this Agreement;

(iv) is convicted of or pleads guilty or no contest to a felony, or violates any federal or state securities or tax laws, or with respect to his employment, commits either a material dishonest act or common law fraud;

(v) seizes a corporate opportunity for himself instead of offering such opportunity to Company or its affiliates;

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(vi) is absent (and not traveling on business) for a reason other than illness, vacation, or approved leave for more than 30 consecutive days; or

(vii) commits a material violation of a material Company policy.

Executive's termination for Cause will be effective immediately upon Company's mailing or transmitting written notice of such termination. Before terminating Executive for Cause under clause (i), (ii) or (iii) above, Company will specify in writing to Executive the nature of the act, omission, refusal, or failure that it deems to constitute Cause and if the action is curable, give Executive at least 30 days from receipt of such notice to correct the situation (and thus avoid termination for Cause). Executive agrees that Company's Chief Executive Officer or Board of Directors, will have the discretion, exercising good faith judgment, to determine whether Executive's correction is sufficient.

(c) Termination by Company Without Cause. Subject to the provisions hereof, Company may terminate Executive's employment under this Agreement before the end of the Employment Term, without Cause, upon 60 days' prior written notice. Upon the effectiveness of any such termination without Cause, Executive's obligations during the Transition Period shall commence pursuant to SECTION 3(B). If, in accordance with SECTION 2, Company furnishes Executive with a notice of non-renewal of the Employment Term, such action and the subsequent expiration of the Employment Term will not be considered a termination of Executive's employment without Cause.

(d) Termination Due to Disability. If Executive becomes "Disabled" (as defined below), Company may terminate Executive's employment. For purposes of this Agreement, Executive will be deemed to be "Disabled" or to have

a "Disability" if Executive is determined to be totally and permanently disabled under Company's long-term disability insurance plan in which he participates or if Executive is unable to substantially perform the customary duties and responsibilities of Executive's employment for a period of at least 120 days within an 180-day period by reason of a physical or mental incapacity.

(e) Termination by Executive for Good Reason. Executive may resign for "Good Reason" if, without Executive's prior written consent, Company:

(i) assigns Executive duties materially and adversely inconsistent with Executive's positions as described in this Agreement;

(ii) materially reduces Executive's target annual bonus level for any year below the target for the preceding year, other than as a result of a decline in Company's results of operations or other adverse event;

(iii) materially breaches a material provision of this Agreement; or

(iv) changes Executive's principal place of employment to a place more than 50 miles from Executive's principal place of employment on the Effective Date.

Before resigning for Good Reason, Executive must specify in writing to Company the nature of the act or omission that Executive deems to constitute Good Reason and, if the situation can be cured, give Company at least 30 days after receipt of such notice to correct the situation (and thus prevent Executive's resignation for Good Reason). Upon the effectiveness of any such termination for Good Reason, Executive's obligations during the Transition Period shall

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commence pursuant to SECTION 3(B).

(f) Death. If Executive dies during the Contract Term, the Contract Term will end as of the date of Executive's death.

10. Payments on Termination of Employment.

(a) Termination by Company for Cause or Executive's Resignation Without Good Reason. If, during the Employment Term, Company terminates Executive's employment for Cause or Executive resigns without Good Reason, Company will promptly pay to Executive: (i) the unpaid amount, if any, of Executive's Base Salary through the date of termination, (ii) the unpaid amount, if any, of Executive's previously earned and unpaid incentive bonus, (iii) the amount of any substantiated but previously unreimbursed business expenses incurred through the date of termination, and (iv) any additional vested benefits, if any, to which Executive is entitled under the terms of any Company employee pension or welfare benefit plan in which Executive was a participant (the amounts specified in clauses (i) through (iv), collectively, "Accrued Compensation"). In addition, if Executive resigns without Good Reason, Company will pay to Executive the Transition Payment provided for under, and subject to the terms of, SECTION 4(B). Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(A) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

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

(i) any Accrued Compensation;

(ii) continued payment of Base Salary (without giving effect to any reduction in Base Salary that constitutes Good Reason) for the remainder of the Employment Term;

(iii) payment of the Transition Payment provided for under, and subject to the terms of, SECTION 4(B);

(iv) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year or, if no target annual incentive bonus was established for the year or the target annual incentive bonus for the year was materially reduced so as to constitute Good Reason, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(v) an additional incentive bonus equal to one-half of the annual incentive bonus paid to Executive on account of the immediately preceding fiscal year, payable at the time Company would otherwise have paid to Executive the annual incentive bonus for the year of his termination;

(vi) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12

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months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(vii) continuing group health and group life insurance coverage for Executive and, where applicable, Executive's spouse and eligible dependents, at the same benefit levels in effect from time to time with respect to active senior executives of Company ("Benefit Continuation Coverage"), for the lifetimes of Executive and his spouse and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(B) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

(c) On or After a Change of Control -- Termination by Company Without Cause or by Executive for Good Reason. Executive will be entitled to receive the payments and benefits set forth in this SECTION 10(C), in lieu of the payments and benefits set forth in SECTION 10(B), if Executive's employment is terminated during the Employment Term (1) by Executive for any or no reason coincident with or during the 12-month period after a Change of Control occurs, (2) by Executive for Good Reason coincident with or during the 24-month period after a Change of Control occurs, or (3) by Company without Cause coincident with or during the 24-month period after a Change of Control occurs:

(i) any Accrued Compensation;

(ii) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year or, if no target annual incentive bonus was established for the year or the target annual incentive bonus for the year was materially reduced so as to constitute Good Reason, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the

denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) a severance payment equal to 3 times the sum of (A) Executive's annualized Base Salary as in effect immediately before Executive's termination of employment (without giving effect to any reduction in Base Salary that gave rise to Good Reason), plus (B) the greater of the target annual incentive bonus for the year in which termination occurs or the highest annual incentive bonus earned within the immediately prior 3 years, plus (C) the aggregate amount of any other bonuses, including special bonuses, earned by Executive within the immediately prior year, which severance payment shall be paid in a lump sum within ten days of the date of termination;

(iv) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or

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equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(v) Benefit Continuation Coverage for the lifetimes of Executive and his spouse and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(C) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

For purposes of this SECTION 10(C), "Change of Control" means: (i) the acquisition, in one or more transactions, by any Person of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) of 50% or more of (A) all shares of capital stock of the Company to be outstanding immediately following such acquisition, or (B) the combined voting power of all shares of capital stock of the Company to be outstanding immediately following such acquisition that are entitled to vote generally in the election of directors (the shares described in clauses (A) and (B), collectively "Company Voting Stock"); (ii) the closing of a sale or other conveyance of all or substantially all of the assets of Company; or (iii) the effective time of any merger, share exchange, consolidation, or other business combination involving Company if immediately after such transaction, persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who, immediately prior to such transaction, held Company Voting Stock. For purposes of this SECTION 10(C), a "Person" means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than an entity controlled by Company.

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

(i) any Accrued Compensation;

(ii) only if such death or Disability occurs during the Employment Term, a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year, or if no target annual incentive bonus was established for the year, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination,

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and the denominator of which is 365, which amount shall be paid in a lump sum within ten days of the date of termination;

(iii) full and immediate vesting of the Option and any outstanding stock options or other equity-based awards and, in the case of the Option and such other stock options or equity-based awards, the continued right to exercise the options (or other awards) for at least 12 months following the date of termination, but in no event beyond the expiration of the stated term of such option (or other award); and

(iv) Benefit Continuation Coverage, where applicable, for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the then remaining balance of the Contract Term shall be split between Company and Executive, or as applicable his spouse and/or dependents, in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Contract Term shall be borne 100% by Executive, or as applicable his spouse and/or dependents. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive, or as applicable his spouse and/or dependents, will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount of the reasonable cost of comparable individual or other replacement coverage through the end of the Contract Term.

(e) Termination Due to Expiration of the Employment Term. In the event of the termination of Executive's employment due to expiration of the Employment Term, whether or not as a result of a notice of non-renewal by either party, Executive will be entitled to receive the following payments and benefits:

(i) any Accrued Compensation;

(ii) payment of the Transition Payment provided for under, and subject to the terms of, SECTION 4(B);

(iii) a pro rated incentive bonus for the year of termination, determined by multiplying (A) the target annual incentive bonus for the year, or if no target annual incentive bonus was established for the year, the highest incentive bonus earned within the preceding three years, by (B) a fraction, the numerator of which is the number of days from the beginning of the calendar year through the date of termination, and the denominator of which is 365, which amount shall be paid in a lump sum at the same time as such bonus would otherwise have been paid for such year; and

(iv) Benefit Continuation Coverage for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage during the Transition Period shall be split between Company and Executive in the same ratio as the cost-sharing in effect under the Company's policies and procedures for Company executives at that time, and the cost of such coverage after the expiration of the Transition Period shall be borne 100% by Executive. If and to the extent such Benefit Continuation Coverage is not permitted by the applicable plan or by applicable law, Executive will instead be entitled to cash payments sufficient to reimburse Executive and/or Executive's spouse and eligible dependents, on an after-tax basis, for a proportionate amount

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of the reasonable cost of comparable individual or other replacement coverage through the end of the Transition Period.

Executive agrees that if he breaches the restrictive covenants set forth in SECTION 12, Company may cease paying Executive amounts otherwise payable under this SECTION 10(E) and will retain its rights to enforce the restrictive covenants and to seek any other remedies available at law.

(f) Termination Due to Expiration of the Transition Period. Upon the expiration of the Transition Period, Executive will be entitled to receive:

(i) the amount of any substantiated but previously unreimbursed business expenses incurred;

(ii) any additional vested benefits to which Executive is entitled under the terms of any Company employee pension or welfare benefit plan in which Executive was a participant; and

(iii) Benefit Continuation Coverage for Executive and/or Executive's spouse for their lifetimes and, in the case of Executive's eligible dependents, until such dependent's attainment of the maximum age up to which the Company's plan, as then in effect, covers dependents of Company employees; provided that the cost of such coverage shall be borne 100% by Executive.

11. Certain Additional Payments.  
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(a) Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by Company or its affiliate to or for the benefit of Executive, whether paid, payable, distributed or distributable pursuant to this Agreement or otherwise (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") (or any successor provision) or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to in this Agreement as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of SECTION 11(C), all determinations required to be made under this SECTION 11, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Company's then independent auditors (the "Accounting Firm"), which shall provide detailed supporting calculations to both Company and Executive within 15 business days of receipt of written notice from Executive that there has been a Payment giving rise to a Gross-Up Payment, or such earlier time as is requested by Company. Any Gross-Up Payment, as determined pursuant to this SECTION 11, shall be paid by Company to Executive within five days of receipt of the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by Company. Any determination by the Accounting Firm shall be binding upon Company and Executive. As a result of the possible uncertainty in application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments will not have been made by Company that should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that

Company exhausts its remedies pursuant to SECTION 11(C) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, and any such Underpayment shall be promptly paid by Company to or for the benefit of Executive.

(c) Executive shall notify Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise Company of the nature of such claim and the date on which such claim is to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) give Company any information reasonably requested by Company relating to such claim,

(ii) take such action in connection with contesting such claim as Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by Company and reasonably acceptable to Executive,

(iii) cooperate with Company in good faith in order effectively to contest such claim, and

(iv) permit Company to participate in any proceedings relating to such claim; provided, however, that Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section, Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as Company shall determine; provided, however, that if Company directs Executive to pay such claim and sue for a refund, Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled in his sole discretion to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

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(d) If, after receipt by Executive of an amount advanced by Company pursuant to SECTION 11(C), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to Company's complying with the requirements of such Section) promptly pay to Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after receipt by Executive of an amount advanced by Company pursuant to SECTION 11(C), a determination is made that Executive shall not be entitled to any refund with respect to such claim and Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid, and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

12. Restrictive Covenants; Company Inventions.  
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(a) Restrictive Covenants.

(i) Non-Competition. In consideration for

Executive's employment and continued employment by the Company, the salary and benefits under this Agreement, including the promise of post-termination compensation under certain circumstances, and other good and valuable consideration provided herein, Executive acknowledges and agrees that, while the Company employs Executive and through the end of the Restricted Period (as defined below), Executive will not, directly or indirectly, singly or jointly, on Executive's own behalf or on behalf of any third party, establish, create, be employed by, serve as an officer, director, advisor or consultant to, lend money to, invest in, provide advice to, or engage or otherwise participate in any way in any Competitive Business (as defined below) within any Market Areas (as defined below). Executive may own up to 5% of any class of stock that is registered under the Securities Exchange Act of 1934 and listed or traded on a national securities exchange or the Nasdaq National Market without violating this covenant. The parties further agree that the foregoing shall not prevent Executive from working for or performing services on behalf of any individual or entity that is engaged in a Competitive Business if such individual or entity is also engaged in other lines of business and if Executive's employment or services are restricted to such other lines of business, and Executive will not be providing support, advice, instruction, direction or other guidance to lines of business that constitute the Competitive Business.

(1) For purposes of this Agreement, the term "Competitive Business" shall mean any consulting practice in the areas of financial restructuring, litigation consulting and engineering and scientific investigation or any other line of business that competes with the Company or its successors, assigns, predecessors, affiliates or subsidiaries (collectively, the "Company Group"), but only to the extent that the Company Group either engaged in such areas or lines of business during the Contract Term or Executive had knowledge before termination of his employment with the Company Group that the Company Group intended to or contemplated entering such areas or lines of business.

(2) For purposes of this Agreement, the term "Market Area" shall be defined as each location in which any member of the Company Group has an office, manufactures products, sells products or services, or provides services to customers or clients during the Restricted Period (as defined below). If the location where one or more of the relevant companies has or is engaged in business is within a "metropolitan area" as defined by the United States Office of Management and Budget from time to time, the term "Market Area" means that metropolitan area. In all other cases, the term "Market Area" shall encompass an area within a thirty-five (35) mile radius of the location where any member of the Company Group has or had an office, manufactures

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or manufactured products, sells or sold products or services, or provides or provided services to customers or clients.

(3) For purposes of this Agreement, the term "Restricted Period" shall mean the time period running from the beginning of Executive's employment with the Company Group through the third anniversary of the date that Executive's employment (including the Transition Period, if applicable) with the Company Group terminates for any reason.

(ii) Non-Interference with Clients or Vendors.

During the Restricted Period, Executive agrees that he will not intentionally:

(1) seek to reduce the amount of business performed or engaged in by the Company or any member of the Company Group with any person or entity who is or has been, within the Restricted Period, a customer, client, supplier or vendor of any member of the Company Group;

(2) solicit any person or entity who is or has been, within the Restricted Period, a customer, client, supplier or vendor of the Company or any member of the Company Group, to terminate their relationship with any member of the Company Group.



(iii) Non-Solicitation of Company Group Employees or Contractors. During the Restricted Period, Executive agrees that he will not, directly or indirectly, whether for himself or for any other individual or entity (other than any entity belonging to the Company Group), hire, solicit, or endeavor to hire away or solicit away from the Company Group, or otherwise induce to terminate their relationship with the Company Group, any person whom the Company Group employs or otherwise engages to perform services, or has employed or engaged for services within the 12-month period immediately prior to the date Executive's termination of employment became effective, including, but not limited to, any independent consultant, engineer, sales representative, contractor, subcontractor, supplier or vendor. Executive further agrees that he will not otherwise interfere with or disrupt the Company Group's relationship with any of its employees, contractors, subcontractors, suppliers or vendors.

(b) Confidentiality.  
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(i) Confidentiality Obligation. In connection with Executive's employment with the Company Group, Executive has been and will continue to be given access to confidential and proprietary information and trade secrets concerning the business, plans, operations and prospects of the Company Group and other information not generally known outside of the Company Group that may be of value to the Company Group. Furthermore, in connection with Executive's employment with the Company Group, Executive has been and will in the future be given confidential and proprietary information and trade secrets that have been given to the Company or the Company Group in confidence by third parties (the confidential and proprietary information and trade secrets of the Company Group and third parties, as further defined below, shall be referred to herein as "Confidential Information"). Executive understands that employment by the Company creates a relationship of confidence and trust with respect to any such Confidential Information that has been or may be disclosed to Executive and that the Company has a protectable business interest in its Confidential Information. Executive acknowledges and agrees that using, disclosing or publishing any Confidential Information in an unauthorized or improper manner could cause the Company or Company Group substantial loss and damages that could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Executive acknowledges and agrees that Executive shall not at any time, except in performing Executive's employment duties to the

Company Group under this Agreement (except with the prior written consent of the Company's Board of Directors), directly or indirectly, use, disclose or publish any Confidential Information that Executive may learn or become aware of, or have learned or become aware of because of Executive's prior or continuing employment, ownership or association with the Company Group or any of their predecessors, or use any such information in a manner detrimental to the interests of the Company or the Company Group. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and Executive's employment with the Company Group.

(ii) Confidential Information. "Confidential Information" includes, without limitation, information not previously disclosed to the public or to the trade by the Company or the Company Group with respect to the Company's or any member of the Company Group's present or future business, operations, services, products, research, inventions, discoveries, drawings, designs, plans, processes, models, technical information, facilities, methods, trade secrets, copyrights, software, source code, systems, patents, procedures, manuals, specifications, any other intellectual property, confidential reports, price lists, pricing formulas, customer lists, financial information (including the revenues, costs, or profits associated with any of the Company's or the Company Group's products or services), business plans, lease structure, projections, prospects, or opportunities or strategies, acquisitions or mergers, advertising or promotions, personnel matters, legal matters, any other confidential and proprietary information and any other information not generally known outside the Company or the Company Group that may be of value to the Company or the Company Group, but excludes any information already properly in the public domain. "Confidential Information" also includes confidential and proprietary information and trade secrets that third parties entrust to the Company or the Company Group in confidence.

Confidential Information shall not include any information that (i) has been properly published in a form generally available to the public prior to the date Executive proposes to disclose or use such information or otherwise is or becomes public knowledge through legal means without fault by Executive, (ii) is already public knowledge prior to the signing of this Agreement, (iii) was available to Executive on a non-confidential basis prior to its disclosure by the Company, (iv) was disclosed by Executive in the proper performance of Executive's duties hereunder, or (v) must be disclosed pursuant to applicable law or court order. Information shall not be deemed to have been published merely because individual portions of the information have been separately published, but only if all material features comprising such information have been published in combination.

(iii) Preserving Third Party's Confidences.

Executive agrees not to use in working for the Company Group and not to disclose to the Company Group any Confidential Information Executive does not have the right to use or disclose and that the Company Group is not free to use without liability of any kind. Executive agrees to promptly inform the Company in writing of any patents, copyrights, trademarks or other proprietary rights known to Executive that the Company or the Company Group might violate because of information Executive provides.

(c) Exclusive Property. Executive confirms that all

Confidential Information is and must remain the exclusive property of the relevant member of the Company Group. All business records, business papers and business documents Executive keeps or makes in the course of Executive's employment by the Company must be and remain the property of the relevant member of the Company Group. Upon the termination of this Agreement with the Company or upon the Company's or the Company Group's request at any time, Executive shall promptly deliver to the Company or relevant member of the Company Group any Confidential Information or other materials (written or otherwise) not available to the public or made available to the public in a manner Executive knows or should reasonably recognize the Company or the Company Group did

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not authorize, and any copies, excerpts, summaries, compilations, records and documents Executive made or that came into Executive's possession during Executive's employment. Executive agrees that Executive will not, without the Company's consent, retain copies, excerpts, summaries or compilations of the foregoing information and materials. Executive understands and agrees that the rights and obligations set forth in this Section will continue indefinitely and will survive termination of this Agreement and Executive's employment with the Company Group.

(d) Intellectual Property. Executive agrees that all

records, documents, papers, inventions, notebooks, drawings, designs, technical information, source or object code, processes, methods, ideas, discoveries, improvements or other copyrightable or otherwise protectable works, whether patentable or not, in any media, Executive conceives, creates, invents or discovers, that relates to or results from any work Executive performs or performed for the Company or any member of the Company Group or that arises from the use of the facilities, materials, personnel or Confidential Information of the Company or any member of the Company Group in the course of Executive's employment (whether or not during working hours), whether conceived, created, discovered, or invented individually or jointly with others ("Company Inventions"), will, together with all worldwide patent, copyright, trademark, trade secret, mask works or other intellectual property rights in such works, including reissues thereof, as well as the right to prosecute or sue for infringements or other violations of these intellectual property rights (collectively "Intellectual Property Rights"), be and remain absolutely the property of the Company and/or the relevant member of the Company Group. Executive irrevocably and unconditionally waives all rights that vest in Executive (whether before, on, or after the date of this Agreement) in connection with Executive's authorship of any copyrightable works in the course of Executive's employment with the Company and/or the Company Group, wherever in the world enforceable. Executive recognizes any such works are "works for hire" of which the Company is the author. If, for any reason, any such Company Inventions shall not legally be a "work-for-hire" or there are rights which do not accrue to the Company under the preceding provisions, then Executive hereby irrevocably assigns to the Company and agrees to quitclaim any and all of Executive's right, title and interest thereto, including, without limitation, all Intellectual Property Rights or other rights of whatsoever nature therein,

whether now or hereafter known, existing, contemplated, recognized or developed, and the Company shall have the right to use the same in perpetuity throughout the universe in any manner the Company determines, all without any further payment to Executive. Without limitation, Executive waives the right to be identified as the author of any such works and the right not to have any such works subjected to derogatory treatment, and irrevocably transfers and assigns to the Company any and all moral rights that Executive may have in any Company Invention and authorizes the Company to make any desired changes to any part of any Company Invention and combine it with other materials in any manner desired.

Executive will promptly disclose, grant and assign ownership to the Company and/or the relevant member of the Company Group for its sole use and benefit any and all Company Inventions that Executive develops, acquires, conceives or reduces to practice while the Company and/or the Company Group employs Executive and will take all steps necessary to assist the Company in obtaining and/or protecting its ownership rights therein. Executive will promptly disclose and hereby grants and assigns ownership to the Company of all Company Inventions, Intellectual Property Rights and any foreign equivalents thereof that may at any time be filed or granted for or upon any such Company Invention.

(e) Maximum Limits. If any provision of this SECTION 12 is ever deemed to exceed the time, geographic area or activity limitations the law permits, Executive and the Company agree to reduce such limitations to the maximum permissible limitation, and Executive and the Company authorize a court or arbitrator having jurisdiction to reform each such provision to the

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maximum time, geographic area or activity limitations the law permits, provided, however, that such reductions shall apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made.

(f) Injunctive Relief. Without limiting the remedies available to the Company and/or the Company Group, Executive acknowledges that a breach of any of the covenants regarding non-competition, non-interference, non-solicitation, confidentiality or intellectual property rights contained in this Agreement may result in material irreparable injury to the Company Group for which there is no adequate remedy at law and that it will not be possible to accurately measure damages for such injuries. Executive agrees that, if there is a breach or threatened breach of this Agreement, the Company and/or the Company Group will be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Executive from engaging in activities prohibited by any provision of SECTION 12 of this Agreement, or such other relief as may be required to specifically enforce any of the covenants contained in SECTION 12 of this Agreement. Executive agrees that all remedies expressly provided for in this Agreement are cumulative of any and all other remedies now existing at law or in equity. The Company or any Company Group member will, in addition to the remedies provided in this Agreement, be entitled to avail itself of all such other remedies as may now or hereafter exist at law or in equity for compensation and for the specific enforcement of the covenants contained in this Agreement. Resort to any remedy provided for in this Section or provided for by law will not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies, or preclude the Company or the Company Group's recovery of monetary damages and compensation. Executive also agrees that the Restricted Period or such longer period during which the covenants hereunder by their terms survive will extend for any and all periods for which a court with personal jurisdiction over Executive finds that Executive violated the covenants contained herein.

13. Assignment and Successors. This Agreement is personal to Executive and, shall not be assignable by Executive, except that Executive's rights to receive any compensation or benefits under this Agreement may be transferred or disposed of pursuant to testamentary disposition or interstate succession. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, beneficiaries and/or legal representatives. This Agreement shall inure to the benefit of and be binding upon Company and its successors and assigns. Company shall require any successor to all or substantially all of the business and/or assets of Company, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and

to the same extent as Company would be required to perform if no such succession had taken place.

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

15. Amendment; Waiver. Neither Executive nor Company may modify, amend, or waive the terms of this Agreement other than by a written instrument signed by Executive and Company. Either party's waiver of the other party's compliance with any provision of this Agreement shall not

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be deemed a waiver of any other provision of this Agreement or of any subsequent breach by such party of a provision of this Agreement. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

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

17. Governing Law. The laws of the State of Maryland (other than its conflict of laws provisions) govern this Agreement.

18. Notices. Notices may be given in writing by personal delivery, by certified mail, return receipt requested, by telecopy or by overnight delivery. Executive should send or deliver notices to the office of the Secretary of Company at 900 Bestgate Road, Annapolis, Maryland 21401, fax number: (410) 224-2809. Company will send or deliver any notice given to Executive at Executive's address as reflected on Company's personnel records. Executive and Company may change their addresses for notice by like notice to the other. Executive and Company agree that notice is deemed received on the date it is personally delivered, the date it is received by certified mail, the date of guaranteed delivery by overnight service, or the date the fax machine confirms receipt.

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

20. Arbitration.  
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(a) Any dispute or controversy arising under or in connection with this Agreement or Executive's employment relationship with Company, irrespective of whether this Agreement or Executive's employment relationship with Company has terminated, will be settled exclusively by binding arbitration to be held in the metropolitan area in which Executive is then employed and conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA"), or the corresponding rules of such other entity as may be mutually agreed upon by the parties, as then in effect.

(b) After either party submits a request for arbitration, AAA or such other entity mutually agreed upon by the parties (either, hereinafter referred to as the "ADR Entity"), the ADR Entity will be requested to appoint a single, neutral arbitrator from a panel of former or retired judges, within ten business days after such request, to preside over the arbitration and resolve the dispute. The parties agree to raise any objections

to such appointment within ten business days after it is made and to limit those objections to the arbitrator's actual conflict of interest. The ADR Entity, in its sole discretion, will determine within ten business days the validity of any objection to the appointment of the arbitrator based on the arbitrator's actual conflict of interest. The arbitrator will be directed to render a full decision on all issues properly before the arbitrator within 60 days after being appointed to serve as arbitrator, unless the parties otherwise agree in writing or the arbitrator makes a finding that a party has carried the burden of showing good cause for a longer period.

(c) The parties will use their best efforts to cooperate with each other in causing the arbitration to be held in as efficient and expeditious a manner as practicable, including but not limited to, providing such documents and making available such of their personnel and agents as the

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arbitrator may request. The parties direct the arbitrator to take into account their stated goal of expedited proceedings in determining whether to authorize discovery and, if so, the scope of permissible discovery and other hearing and pre-hearing procedures.

(d) The arbitrator will not have the authority to add to, detract from or modify any provision of this Agreement or to award punitive damages to any injured party. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Company will bear all expenses of any such arbitration proceeding, except that each party will bear its own counsel fees unless the arbitrator decides to award counsel fees to one of the parties.

(e) Notwithstanding the foregoing, each party shall be entitled to seek injunctive or other equitable relief, as contemplated by SECTION 12(F) above, from any court of competent jurisdiction, without the need to resort to arbitration.

21. Indemnification and Liability Insurance. Company shall indemnify Executive to the fullest extent permitted by applicable law and Company's by-laws with regard to Executive's actions (or inactions) on behalf of Company in his capacity as an officer and/or director, with advancement of legal fees and other expenses on a current basis to the fullest extent permitted by law. Company shall cover Executive under professional and other appropriate liability insurance policies both during and, while any potential liability exists, after the Contract Term; provided that the amount and extent of such coverage shall be at least as great and extensive as such coverage on Company's other senior executives and directors.

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

FTI CONSULTING, INC.

By: /s/ Jack B. Dunn, IV

-----  
Name: Jack B. Dunn, IV  
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Theodore I. Pincus

-----  
Theodore I. Pincus

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SECOND AMENDMENT

THIS SECOND AMENDMENT (this "Amendment") dated as of January 24, 2003 to the Credit Agreement referenced below is by and among FTI Consulting, Inc., a Maryland corporation (the "Borrower"), the Guarantors identified on the signature pages hereto, the Lenders identified on the signature pages hereto and Bank of America, N.A., as administrative agent (the "Administrative Agent").

W I T N E S S E T H

WHEREAS, \$200 million in credit facilities have been established in favor of the Borrower pursuant to the terms of that Credit Agreement (as amended, modified and supplemented from time to time, the "Credit Agreement") dated as of August 30, 2002 among the Borrower, the Guarantors identified therein, the Lenders identified therein and the Administrative Agent; and

WHEREAS, the Borrower and the Lenders have agreed to modify the Credit Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Capitalized terms used herein but not otherwise defined herein shall have the meanings provided to such terms in the Credit Agreement.

2. Amendments.

(a) In clause (c) of the definition of "Cash Equivalents" in Section 1.1 of the Credit Agreement, the phrase "or having an auction date" is added immediately following "maturing".

(b) In the definition of "Cash Equivalents" in Section 1.1 of the Credit Agreement, the "and" before clause (e) is deleted, clause (e) is amended to read as set forth below and a new clause (f) is added to read as set forth below:

(e) Investments, classified in accordance with GAAP as current assets, in money market mutual funds (as defined by Rule 2(a)-7 of the Investment Company Act of 1940) registered under the Investment Company Act of 1940, as amended, which are administered by reputable financial institutions having capital of at least \$500,000,000 and which have the highest credit rating by any two of S&P, Moody's and Fitch Ratings Services, and

(f) Investments in private placements which (i) seek to preserve principal, (ii) maintain a high degree of liquidity, (iii) invest in a diversified group of money market instruments and other short-term obligations, in each case which have the highest credit rating by any two of S&P, Moody's and Fitch Ratings Services, and (iv) generally maintain a dollar-weighted average portfolio maturity of 90 days or less, although the average portfolio maturity may extend to 120 days in the event of material redemption activity.

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(c) The following definition is added to Section 1.1 of the Credit Agreement to read as follows:

"LWG Disposition" means the sale or other disposition of the Capital Stock or Property of L.W.G., Inc. and Restortek, Inc.

(d) The parenthetical in clause (a) of Section 8.5(a) of the Credit Agreement is amended to read as follows:

(except up to 20% of the consideration of the Permitted Disposition may be deferred purchase price payment obligations of

the purchasers, provided that (i) if the LWG Disposition is consummated prior to March 31, 2003, then up to 50% of the consideration for the LWG Disposition may be deferred purchase price payment obligations of the purchasers and (ii) if any other Permitted Disposition is consummated prior to March 31, 2003, then up to 30% of the consideration for such other Permitted Disposition may be deferred purchase price payment obligations of the purchasers)

3. Conditions Precedent. This Amendment shall be effective as of the date hereof upon receipt by the Administrative Agent of counterparts of this Amendment duly executed by the Borrower, the Guarantors and the Lenders.

4. Representations and Warranties. The Borrower hereby represents and warrants that (a) it has the requisite corporate power and authority to execute, deliver and perform this Amendment, (b) it is duly authorized to, and has been authorized by all necessary corporate action to, execute, deliver and perform this Amendment and (c) the representations and warranties contained in Article VI of the Credit Agreement are true and correct in all material respects on and as of the date hereof as though made on and as of such date (except for those which expressly relate to an earlier date)

5. No Other Changes. Except as expressly modified hereby, all of the terms and provisions of the Credit Agreement (including schedules and exhibits thereto) shall remain in full force and effect.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

7. Governing Law. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with, the laws of the State of North Carolina.

[SIGNATURE PAGES FOLLOW]

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IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWER:

FTI CONSULTING, INC.,  
a Maryland corporation

By: /s/ Theodore I. Pincus

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

GUARANTORS:

FTI APPLIED SCIENCES (ANNAPOLIS), LLC,  
a Maryland limited liability company  
FTI CORPORATE RECOVERY, INC.,  
a Maryland corporation  
FTI LITIGATION CONSULTING, LLC,  
a Maryland limited liability company  
KAHN CONSULTING, INC.,  
a New York corporation  
KLICK, KENT & ALLEN, INC.,  
a Virginia corporation  
L.W.G., INC.,  
an Illinois corporation  
POLICANO & MANZO, L.L.C.,  
a New Jersey limited liability company  
RESTORTEK, INC.,  
an Illinois corporation  
S.E.A., INC.,  
an Ohio corporation  
TECHNOLOGY & FINANCIAL CONSULTING, INC.,  
a Texas corporation  
TEKLICON, INC.,

a California corporation

By: /s/ Theodore I. Pincus

-----  
Name: Theodore I. Pincus

Title: Treasurer of each of the Guarantors

[Signature Pages Follow]

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ADMINISTRATIVE  
AGENT:

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Michael Brashler

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Name: Michael Brashler

Title: Senior Agency Officer

LENDERS:

BANK OF AMERICA, N.A.

By: /s/ Michael J. Landini

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Name: Michael J. Landini

Title: Senior Vice President

SUNTRUST BANK

By: /s/ Katherine A. Boozer

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Name: Katherine A. Boozer

Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ William R. Goley

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Name: William R. Goley

Title: Director

COMERICA BANK

By: /s/ Jeffrey M. Lafferty

-----  
Name: Jeffrey M. Lafferty

Title: Account Officer

NATIONAL CITY BANK

By: /s/ Heather M. McIntyre

-----  
Name: Heather M. McIntyre

Title: Corporate Banking Officer

WEBSTER BANK

By: /s/ Matthew Daly

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Name: Matthew Daly

Title: Vice President

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## Schedule of Subsidiaries

Name -----	Jurisdiction of Incorporation or Formation -----
FTI Applied Sciences (Annapolis), L.L.C.	Maryland
FTI Corporate Recovery, Inc.	Maryland
FTI Merger & Acquisition Advisors, L.L.C.	Maryland
FTI Litigation Consulting, L.L.C.	Maryland
Kahn Consulting, Inc.	New York
KCI Management, Inc.	New York
Klick, Kent & Allen, Inc.	Virginia
**L.W.G., Inc.	Illinois
Policano & Manzo, L.L.C.	New Jersey
**RestorTek, Inc.	Illinois
S.E.A., Inc.	Ohio
Technology & Financial Consulting, Inc.	Texas
Teklicon, Inc.	California

L.W.G, Inc. and RestorTek, Inc. were sold on January 27, 2003.

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of our report dated February 12, 2003, 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, 2002.

Registration Statements on Form S-8:

Name	Registration Number	Date Filed
-----		
1992 Stock Option Plan, as Amended Employee Stock Purchase Plan	333-19251	January 3, 1997
1997 Stock Option Plan	333-30173	June 27, 1997
1997 Stock Option Plan, as Amended	333-30357	June 30, 1997
1997 Stock Option Plan, as Amended and Employee Stock Purchase Plan, as Amended	333-32160	March 10, 2000
1997 Stock Option Plan, as Amended and Employee Stock Purchase Plan	333-64050	June 28, 2001
	333-92384	July 15, 2002

/s/ Ernst & Young LLP

Baltimore, Maryland  
March 25, 2003

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

I, Jack B. Dunn, IV, Chairman of the Board and Chief Executive Officer (principal executive officer) of FTI Consulting, Inc. (the "Registrant"), hereby certify that to the best of my knowledge, based upon a review of the Annual Report on Form 10-K for the year ended December 31, 2002 of the Registrant (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Jack B. Dunn, IV

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Name: Jack B. Dunn, IV  
Date: March 27, 2003

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

I, Theodore I. Pincus, Executive Vice President and Chief Financial Officer (principal financial officer) of FTI Consulting, Inc. (the "Registrant"), hereby certify that to the best of my knowledge, based upon a review of the Annual Report on Form 10-K for the year ended December 31, 2002 of the Registrant (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Theodore I. Pincus

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Name: Theodore I. Pincus  
Date: March 27, 2003

FTI CONSULTING, INC.  
POLICY ON DISCLOSURE CONTROLS

Statement of Policy

FTI Consulting, Inc., ("FTI" or "Company") is committed to providing consistent, full and fair public disclosure of material information pertaining to its business, in accordance with the requirements of the Securities and Exchange Commission (the "SEC"), the New York Stock Exchange ("NYSE") and applicable law. It is FTI's policy that all disclosures made by FTI to its security holders, the investment community or the press should be accurate and complete and fairly present FTI's financial condition, results of operations and business in all material respects, and should be made on a timely basis as required by the SEC, the NYSE and applicable law.

FTI has adopted this disclosure policy ("Policy") to ensure that information required to be disclosed by FTI in the reports that it files with the SEC under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the SEC. In addition, FTI has adopted this Policy in an effort to minimize the potential for the selective disclosure of material nonpublic information and to comply with the SEC's Regulation FD.

All employees are expected to comply with this Policy, and failure to do so subjects an employee to disciplinary action and may be grounds for termination.

Background

SEC Rules 13a-15 and 15d-15 require that issuers maintain disclosure controls and procedures. The SEC defines the term, "disclosure controls" as controls and other procedures designed to ensure that information required to be disclosed by the issuer in all the reports that it files under the Securities Exchange Act of 1934 is: (a) recorded, processed, summarized and reported, within the time periods specified in the Commissions rules and forms, and (b) accumulated and communicated to the issuer's management, as appropriate to allow timely decisions regarding required disclosures.

Disclosure controls and procedures are designed to collect any material information (financial or non-financial) for inclusion in Forms 10K, 10Q, 8K, and 6K reports. Internal controls over financial reporting are part of disclosure controls as long as the controls are relevant to the production of financial statements.

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The SEC defines financial disclosures to encompass financial statements, footnotes, management discussion and analysis of financial condition and results of operations, financial reporting internal controls and any other financial information included in the report. Non-financial disclosures include any material information included in annual, quarterly, current reports, proxy materials, information in registration statements, press releases, earnings guidance, presentations to the investment community and informational statements (e.g. material acquisitions or dispositions, changes in lines of business, geographic expansion and changes in personnel involved with disclosure controls and procedures). Non-financial disclosure controls and procedures must capture information relevant to disclose new developments and risks that pertain to the issuer's business and should ensure an issuer's systems are capable of producing reports that are timely, accurate and reliable.

A material weakness in disclosure and internal controls is a significant deficiency that could have a material effect on the financial statements. Management should consult with its external auditors to determine if a weakness is material. Management includes the Company's principal executive officer or officers and principal financial officer or officers. A significant deficiency occurs when the design or operations of disclosure and internal controls adversely affects the Company's ability to record, process, summarize, and report financial data.

## Principles

FTI believes that proper disclosure controls and procedures involve the following key components:

- A. Environment. The establishment of a proper corporate environment is essential. Proper disclosure depends on: (1) the integrity, ethical values and competence of FTI's employees, (2) management's philosophy and operating style, (3) the way management assigns authority and responsibility and organizes and develops its employees, and (4) the attention and direction provided by the Board of Directors.
- B. Risk Management. The identification, analysis and control of risks relevant to accurate and timely disclosure.
- C. Information and Communication. Timely transmission of information and communications within the organization.
- D. Monitoring. The assessment of the quality of FTI's disclosure system over time through periodic monitoring and separate evaluations, including regular management supervision, with reports of deficiencies up and down through the organization.

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## Scope

This Policy applies to all employees of the Company. This Policy covers the Company's (1) Annual Report on Form 10-K and each Quarterly Report on Form 10-Q filed with the SEC (collectively, the "Periodic Reports"), (2) current reports, proxy statements, information statements, registration statements and any other information filed with the SEC, (3) press releases containing financial information, earnings guidance, information about material acquisitions or dispositions or other information material to the Company's security holders, and (4) correspondence broadly disseminated to shareholders, presentations to securities analysts and the investment community and any other disclosures to third parties. The documents referred to in items (1), (2), (3) and (4) are collectively referred to as the "Disclosure Statements."

## Required Certifications

The Company's CEO and CFO are required to certify (the "Certifications") in each Form 10-K and Form 10-Q that they (1) are responsible for establishing and maintaining the Company's disclosure controls and procedures, (2) have designed the disclosure controls and procedures to ensure that material information relating to the Company is made known to them by others within the Company, (3) have evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days before the date of the Certification and (4) have presented their conclusions in the report.

The Sarbanes Oxley Act does not provide any specific procedures, but rather states that a Company must maintain adequate procedures that are periodically reviewed. The procedures should address whether existing controls and procedures provide reasonable assurance that disclosure objectives can be met and that Company information is documented, summarized and communicated to certifying officers in a timely manner, reviewed by the CEO and CFO before periodic reports are filed, and that: (i) Transactions are executed in accordance with management's authorization, (ii) Transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP, (iii) Access to assets is permitted only in accordance with management's authorization.

## Disclosure Committee

In order to enable the Company's CEO and CFO to make the Certifications, they shall appoint a Disclosure Committee ("Committee"). The Committee will review and reassess this Policy quarterly and recommend any proposed changes to the CEO, the CFO and the Company's Audit Committee for approval.

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Subject to the supervision and oversight of the CEO and the CFO, the Committee shall:

- A. Recommend controls and other procedures (which may include procedures currently used by the Company) that are designed to ensure that (1) information required by the Company to be disclosed to the SEC and other information that the Company will disclose to the investment community is recorded, processed, summarized and reported accurately and on a timely basis and (2) information is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding the required disclosure (the "Disclosure Controls").
- B. Monitor the integrity and effectiveness of the Company's Disclosure Controls.
- C. Review the Company's Disclosure Statements and review disclosure policies for the Company's website.
- D. Evaluate the effectiveness of the Disclosure Controls within 90 days prior to the filing of the Company's Periodic Reports, in accordance with the procedures suggested by this Policy. A "Disclosure Checklist" has been prepared by the Company to assist in this process.
- E. Discuss with the CEO and the CFO all relevant information with respect to the Committee's evaluation of the effectiveness of the Disclosure Controls.
- F. Each member of the Committee will provide a certification to the CEO and the CFO prior to the filing of each Periodic Report with the SEC of the Committee's conclusions resulting from its evaluation of the effectiveness of the Disclosure Controls.
- G. Perform other duties as the CEO and the CFO may assign to it from time to time.

The CEO and the CFO, at their option, may at any time assume any or all of the responsibilities of the Committee identified in this Policy.

The Committee shall meet as frequently as circumstances dictate, but at least once per quarter, to (1) evaluate the accuracy and completeness of the Disclosure Statements, and (2) evaluate the Disclosure Controls and determine whether any changes to the Disclosure Controls are necessary or advisable in connection with the preparation of the Company's upcoming Periodic Reports or other Disclosure Statements, taking into account developments since the most recent meeting, including changes in the Company's organization and business lines and any change in economic or industry conditions.

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#### Designated Officers

The Committee shall designate one officer (the "Disclosure Officer") knowledgeable about SEC rules and regulations with respect to disclosure and financial reporting. The initial Disclosure Officer shall be the Company's Chief Financial Officer. The Disclosure Officer shall be responsible for managing the preparation of the Disclosure Statements.

#### Internal Reporting

The success of this Policy and the Company's disclosure depends on the communication of information within the Company. This involves communication, through appropriate reporting channels, from the bottom of to the top of the organization, as well as communication among and within practice areas. The practice area heads shall (1) establish reporting channels and procedures within their practice area that ensure that material information involving their practice area is reported to them, (2) ensure that their employees understand this Policy and the importance of full and accurate disclosure of material information, and (3) report any material information they receive.

#### Preparation of Periodic Reports

At the beginning of each fiscal year, the CFO and Controller shall prepare a timeline for the preparation of the Company's Periodic Reports for the upcoming year. The timeline shall provide sufficient time for proper preparation and review of the Periodic Reports. This timeline will be provided to each employee involved in a substantial part of preparation or review of the Periodic Reports. Before beginning preparation of each Periodic Report, the Disclosure Officer shall identify any areas of particular risk or sensitivity that require special attention or additional time.

The CFO and Controller shall assign drafting responsibilities for each Periodic Report prior to the start of the year. Employees with drafting responsibilities shall be (1) made aware of their role in the process, (2) familiar with SEC reporting requirements in their area of responsibility, and (3) provided with copies of the relevant sections of the SEC's disclosure rules. In addition, employees drafting Periodic Report should:

- A. provide back-up for any information they include in the Periodic Report.
- B. report information that is material to their area or department, or to the Company taken as a whole.
- C. review disclosures by peer companies.
- D. consider economic and industry trends and other factors that have affected or may affect the Company's business.

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#### Internal Review of Periodic Reports

After the various sections of a Periodic Report have been combined into a single document and have been subject to initial review, the draft of the report should be distributed to members of the Disclosure Committee for its review.

#### External Review of Periodic Reports

After review by the Committee, the Periodic Report will be distributed to the Company's outside auditors and legal counsel. The Company's outside auditors shall review the Management's Discussion and Analysis section and all other financial sections of the Periodic Report. The Company's outside legal counsel shall review the Periodic Report with particular reference to compliance with SEC requirements, as well as any legal or regulatory matters on which such counsel has been retained. The Disclosure Officer shall coordinate the responses of the outside auditors and legal counsel. In addition, the Company's outside auditors and legal counsel should be consulted in advance where the Disclosure Officer has identified any difficult disclosure or other issues.

#### Coordination with Audit Committee and Board of Directors

After the internal and external reviews described above, the Periodic Report will be given to the Company's Audit Committee, along with an oral report highlighting any particular issues. In connection with this presentation, the CEO and CFO shall disclose to the Company's Audit Committee any significant deficiencies in the design or operation of the Company's internal controls, as well as any fraud that involves management or other employees with a significant role in the Company's internal controls. The CEO and CFO must certify that they have made this disclosure to the Audit Committee and outside auditors. The Audit Committee shall review the Periodic Report and discuss any comments or issues with the Disclosure Officer and, if they deem it necessary, the CEO, CFO or any other employee. A Report that involves particularly difficult disclosure issues shall also be presented to the entire Board of Directors for review and discussion.

#### Certifications

After the Periodic Report has been approved by members of the Audit Committee and the entire Board of Directors (in the case of the annual report), members of the Committee shall certify to the CEO and the CFO that it has complied with this Policy. Other individuals responsible for material aspects of the disclosure process shall also certify their compliance with this Policy and



that they have provided all information believed to be responsive. The CEO and the CFO will rely on these certifications in making their Certifications.

#### Financial Internal Controls

The procedures and controls described in this Policy are in addition to the Company's system of internal controls for financial reporting purposes. This Policy is meant to supplement, and not replace, the Company's system of financial controls.

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#### Testing and Evaluation

The CEO and CFO shall test and evaluate the effectiveness of this Policy at such times as appropriate, but at least on a quarterly basis. They shall:

- A. Plan the evaluation, taking into account those areas that are most sensitive or risky and merit particular attention.
- B. Ensure that the members of the Committee understand the Disclosure Controls being used.
- C. Evaluate whether the design of the Disclosure Controls is appropriate, taking into account any changes in the Company's organization or business, such as new personnel or significant acquisitions or dispositions, as well as evolving regulatory developments and changing industry practices.
- D. Consider (1) whether additional participants should be included in the disclosure process, (2) whether adequate staffing is being provided, (3) whether sufficient time is being allotted to discuss and resolve any disclosure issues and to review Periodic Reports and (4) whether participants should receive any additional training.
- E. Meet with internal and outside auditors and outside counsel to discuss their conclusions and concerns about the Disclosure Controls, internal controls and general corporate compliance with applicable legal requirements.

#### Continuous Reporting

The preparation of Periodic Reports is only one aspect of the Company's disclosure obligation. In addition to the regular gathering of information for Periodic Reports, participants in the drafting process and other appropriate Company employees shall notify the Disclosure Officer as soon as material developments occur to ensure that other Disclosure Statements, including earnings releases and guidance, reflect the Company's current situation. For Current Reports on Form 8-K and press releases, the Disclosure Officer may use a modified process that reflects the shorter time period for preparation and review prior to public dissemination. In connection with the preparation of each Periodic Report, drafters and reviewers of the Periodic Reports will be required to certify that they have properly and timely reported all material information since the date of the preceding Periodic Report as to which they have provided a certification.

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#### Spokespersons

It is the Company's intent to limit the number of Spokespersons authorized to speak on the Company's behalf. Accordingly, the Company has authorized the following representatives to act as Spokespersons in discussing the Company's financial performance or corporate activities:

- . CEO
- . President
- . CFO

Additional representatives may be authorized by the Spokespersons to act as Company Spokespersons to make presentations at industry or investor conferences or to respond to specific inquiries as appropriate.

The CEO and CFO shall be integrally involved in scheduling and developing presentations for all meetings and other communications with financial analysts, institutional investors and shareholders. They shall also be involved in arranging appropriate meetings or interviews with the Company's management and responding to all inquiries from the public or the media for additional information. After public dissemination of news, all coverage of the Company's disclosure shall be monitored by the Company Spokespersons to ensure accurate reporting and to take corrective measures if and when necessary.

Employees who are not authorized Spokespersons shall refer all calls and e-mail messages from outside parties, such as the financial community, shareholders and business and industry media, to the Company's authorized Spokespersons.

#### News Releases

The Company will issue quarterly financial news releases, as well as other news releases pertaining to the full and fair disclosure of material information. Material news releases should be prepared for distribution as soon as it has been determined that a public disclosure of that information is required or appropriate, given the circumstances.

All corporate news releases must be reviewed and approved by at least two of the Company's CEO, President, CFO or the Disclosure Officer. Upon approval, the Company will notify the NYSE of its intention to distribute the news release. The news release will be distributed to a news wire service, which will then make it available to the general public. Promptly after a material news release has been made available to the general public, it will be posted on the Company's website.

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#### Responding to Market Rumors

As long as representatives of the Company are not the source of market rumors, the Company's policy is to respond consistently to questions about rumors in the following manner: "It is our policy not to comment about market rumors or speculation." In addition, it is the Company's policy not to issue news releases, without the approval of the Independent Directors, that deny or confirm a market rumor unless it has been determined that the Company is the source of the rumor.

#### Forward-looking Information

The Company may make forward-looking statements in relation to its earnings, business and performance outlook and its policy is to provide investors with forward-looking information and guidance in conformity with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

All public disclosures by the Company in the form of news releases, conference calls and investor presentations containing financial information shall be accompanied by a "safe harbor" discussion that reviews or refers to specific risk factors that could cause actual results to differ materially from those projected in the statement.

#### Conference Calls, Analyst Meetings and Media Interviews

If management determines that it will conduct a conference call to discuss its earnings, the conference call shall be simultaneously Webcast after advance public notice. Earnings calls shall be made available for replay on the Company's website for an appropriate period after the call.

When practical, the Company should encourage investor and analyst conferences to be open to the public. The planned portion of any conference presentation should be reviewed in advance by the Company's CEO, CFO and the Disclosure Officer. If the conference is not open to the public, consideration should be given to both publishing the planned presentation on the Company's website simultaneously with the conference and making other appropriate public

disclosure. Special care should be given to statements made during informal or one-on-one meetings with analysts or institutional investors in order to avoid the inadvertent disclosure of material nonpublic information and to comply with SEC Regulation FD.

Forecasts of the Company's financial performance should be disclosed, if at all, by press release during earnings calls or, where appropriate, other recognized methods of public dissemination, and, thereafter, the need to update this information should be regularly considered. Selective disclosure rules place a "high degree of risk" on private discussions with analysts or others about whether "the Company's anticipated earnings will be higher than, lower than, or even the same as what analysts have been forecasting. Depending on the circumstances, Company Spokespersons should decline to comment.

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The Company should anticipate and provide during earnings calls or other public disclosures the information that analysts need to build their financial models. The Company should not comment privately on analyst reports or financial models other than to provide non-material factual information or to point out inaccuracies relating to historical information or omissions of publicly disclosed information.

In all venues not open to the public, Company Spokespersons should avoid disclosing material, non-public information. However, should material, non-public information be disclosed inadvertently, the Company shall either receive assurances that the recipient will refrain from repeating the information and trading in the Company's securities or issue publicly a news release detailing and clarifying such information in accordance with the requirements of SEC Regulation FD.

#### The "Quiet Period"

To facilitate compliance with the Federal securities laws, the Company has adopted a quiet period applicable to all external communications regarding quarterly results, which begins after the 15<sup>th</sup> day of the last month of each fiscal quarter and extends until the third day after the public release of earnings for that quarter.

- . Communications: During the quiet period, the Company should not comment on quarterly results or otherwise discuss material nonpublic information.
- . Reviewing Analyst's Reports: The Company should not review or otherwise comment upon analyst's reports or financial models during the quiet period.

#### Communication List

The Company will maintain a list of investors, analysts and members of the media for dissemination of publicly-released information by e-mail or fax. Notice of this list may be posted on the Company's website and investors given the opportunity to subscribe.

#### Website Policy

The Company maintains its own corporate website, on which it offers updated, timely information such as news releases, SEC filings and shareholder reports. Information intended for inclusion in the Company's website must be reviewed and approved by the CEO, the CFO or the Disclosure Officer prior to posting.

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#### Internet Chat Rooms and Bulletin Boards

Company employees are prohibited from posting any information about the Company, its business or future performance on the Internet, including posting in chat rooms or on bulletin boards. Any such posting, even though well-intentioned, may be damaging to the Company and its interests. This policy will be strictly enforced and may result in disciplinary action up to and

including termination.

#### Requests for Information

The Company's policy is to respond to all legitimate requests from investors, securities analysts and the media for information about the Company. The Disclosure Officer will oversee maintenance of an investor kit and its contents. Upon legitimate request, an investor kit will be sent within one week of the request. Any request for material, non-public information will be denied. Legitimate telephone inquiries about the Company will be returned by an authorized Company Spokesperson within a reasonable period of time.

FTI CONSULTING, INC.  
POLICY ON ETHICS AND BUSINESS CONDUCT

Statement of General Policy

This Policy on Ethics and Business Conduct ("Policy") shall guide and govern the directors, officers and employees of FTI Consulting, Inc., ("FTI") in the performance of their duties, and should be read in conjunction with FTI's other policies on corporate conduct.

The statements contained here regarding "Conflicts of Interest" and "Insider Trading and Insider Information" are summaries of more detailed policies on these subjects which are given to employees and directors, are in an employee handbook and posted on FTI's web site. The reference to "Disclosure Controls" is a summary of a policy adopted by FTI. All policies have been approved by FTI's Board of Directors.

The basic principle which governs FTI's officers, directors and employees is that FTI's business should be carried on with fidelity to the interest of its stockholders, customers, suppliers, co-workers, strategic partners and other business associates. No one covered by this policy shall: (a) employ any device, scheme or artifice to defraud FTI or another party, or (b) engage in any act, practice or course of conduct which operates or would operate as fraud or deceit upon FTI or another party.

FTI is committed to the highest standard of business conduct, conducts business in accordance with the spirit and letter of applicable laws and regulations and in accordance with ethical business practices. This Policy applies to Insiders and their Family Members, who are also responsible for complying with the laws and regulations applicable to FTI, and stands as a statement of the fundamental principles that govern the conduct of FTI's business.

1. Definitions of Terms

- (a) Authorized Officers means the Chairman of the Board and Chief Executive Officer, President and Chief Operating Officer and Executive Vice President and Chief Financial Officer.
- (b) Business Associates are suppliers of services, materials, customer, consultant, advisor, lessor of space or goods, tenant, licensor, licensee or partner of FTI.
- (c) Compliance Officer shall mean the Chief Financial Officer ("CFO") of FTI who is the officer charged with monitoring the business practices and activities of the officers, directors, senior management and their families in regard to Insider activity, and prohibited and unacceptable business activities.
- (d) Family Members includes the spouse, life partner, children and any other relative (by blood or marriage) of an Insider or spouse or life partner residing in the same household as such Insider, and any company, partnership, limited liability company, trust or other entity that is directly or indirectly controlled by the Insider or by any Family Member of that Insider.
- (e) FTI includes FTI Consulting, Inc. and each of its subsidiaries and affiliated business entities and includes by reference officers, directors and employees.
- (f) Insider means any officer, director or employee of FTI.

- (g) Material Inside Information is non-public information as to which (1) there is a substantial likelihood that a reasonable investor would find the information important in determining whether to trade in a security, or (2) if made public, would likely affect the market price of a company's securities. Inside information typically includes, but is not

limited to, knowledge of pending business transactions, corporate financial activity, mergers or acquisitions, unannounced earnings, financial results and other significant developments.

- (h) Non-public Information means information that has not been publicly disclosed with adequate time passing for the securities markets to absorb the information. A delay of two (2) business days is usually considered a sufficient period for routine information to be absorbed by the market. A longer period may be necessary for particularly significant or complex matters.

## 2. Insider Transactions

FTI and its employees are encouraged to do business with Business Associates in the normal course of their affairs, however,

- (a) Insiders and their Family Members must not profit, directly or indirectly, through their position, to the detriment or at the expense of FTI or any Business Associate, nor shall Insiders take personal advantage of any corporate opportunity for profit, learned about in his position with FTI to the detriment or at the expense of FTI.
- (b) Except in the ordinary course, an Insider or Family Member should not:
  - (i) sell or purchase any goods or services, or
  - (ii) borrow money or other property from a Business Associate, unless that Business Associate is regularly engaged in such business and the sale of goods or loan and its terms are in the ordinary course of the Business Associate's business.
- (c) Insiders shall not make any payment or take any action with a government official, agent or representative of the United States, a State or jurisdiction in the United States or a foreign country in regard to a matter involving FTI, without the prior consent of the Compliance Officer, nor make any payment or take any action in violation of the U.S. Foreign Corrupt Practices Act.

## 3. Non-Disclosure of Information

- (a) No Insider or Family Member shall discuss or inform others about an actual or contemplated business transaction by a Business Associate or FTI, except in the performance of employment duties or an official capacity, and then only for the benefit of the Business Associate or FTI, and not for personal gain.
- (b) No Insider or Family Member shall give information to a third party about a proposed or pending business transaction of FTI or its Business Associates, unless expressly authorized to do so by the Compliance Officer.
- (c) No one other than FTI's Authorized Officers may discuss FTI or its Business Associates with any member of the press or media, except with the prior authorization of an Authorized Officer. Insiders and Family Members shall refer all press inquiries to an Authorized Officer.

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## 4. Preferential Treatment and Gifts

No Insider shall seek or accept for himself or Family Members any favors, preferential treatment, special benefits, documents, gifts or other consideration, other than of nominal value, as a result of the Insider's association with a Business Associate or FTI, except those usual and normal benefits provided by a Business Associate or FTI.

## 5. Conflicts of Interest

- (a) Insiders shall maintain integrity and independence of judgment in the conduct of FTI's business, avoid activity or personal interest that creates, or appears to create, a conflict between his interests and the interests of FTI.
- (b) Conflicts of interest arise any time an Insider has a duty or interest that may conflict with the proper and impartial fulfillment of the Insider's duties, responsibilities or obligations to FTI, and include,

but are not limited to: (1) making an investment that may affect his business decisions, (2) owning a controlling financial interest in, or, being employed by, an entity that competes with FTI, (3) owning a meaningful financial interest in, or being employed by, an entity that does, or seeks, business with FTI, (4) making a material decision on a matter where a person's self-interests call the decision into question, or (5) being employed by or accepting compensation from a person as a result of business activity or prospective business activity affecting FTI.

- (c) An Insider who becomes aware of a personal interest which is, or may be viewed as, in conflict for himself should promptly present the situation and the nature of the possible conflict to the Compliance Officer. A director that becomes aware of a conflict should bring the matter to the attention of the Chairman, unless disqualified, and if so to the Board of Directors.
- (d) No Insider or Family Member shall personally benefit, directly or indirectly from any FTI purchase or sale, or derive any other personal gain from any other FTI activity, except when the transaction has been fully disclosed to and approved in writing.
- (e) No Insider or Family Member shall have meaningful personal or financial interest in any Business Associate or competitor of FTI, without written consent. For such purposes, holding 5% or less of the shares of a Business Associate or competitor whose shares are publicly traded is not "meaningful."
- (f) No Insider shall hold any position with, including as a member of the board of directors or other governing body, or perform services for a Business Associate or a competitor of FTI, without written consent.
- (g) No Insider shall provide services to business enterprises which could reasonably be deemed to adversely affect the performance of his work for FTI or which might jeopardize FTI's interests, including serving as a director, officer, consultant or advisor of another business, without written consent.
- (h) No Insider shall direct, or seek to direct, FTI business with any business enterprise in which the Insider or his or her Family Member has a meaningful ownership position or serves in a leadership capacity, without written consent.

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## 6. Inside Information

- a) Securities laws and regulations prohibit the use of Material Inside Information ("inside") information when purchasing, selling or recommending securities.
- b) Insiders and Family Members are prohibited from Insider trading (trading securities when in possession of material, nonpublic information) or tipping (passing such information on to someone who may buy or sell securities).
- c) This prohibition on Insider trading applies to FTI securities and the securities of Business Associates if such person learns Material Inside Information about them as a result of his position with FTI.
- d) If an Insider leaves FTI, he must maintain the confidentiality of all Material Inside Information until it has been disclosed to the public. If there is a question as to whether such information is material or has been disclosed to the public, the Compliance Officer must be contacted to make a determination.

## 7. Personal Securities Transactions

No Insider shall knowingly take advantage of corporate opportunities for personal benefit or act inconsistently with Insider's obligations to Business Associates.

## 8. Guarding Corporate Assets

Insiders have a duty to safeguard FTI assets, including its physical premises and equipment, records, customer information and FTI trademarks, trade secrets and other intellectual property. FTI assets shall be used for FTI business only. Without specific authorization, no Insider or Family Member may take, loan, sell, damage or dispose of FTI property or use, or allow others to use, FTI property for any non-FTI purposes.

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#### 9. Corporate Books and Records

- (a) Insiders must ensure that all FTI documents are completed accurately, truthfully, in a timely manner and properly authorized.
- (b) Financial activities and transactions must be recorded in compliance with all applicable laws and accounting practices and in accordance with the generally accepted accounting principles designated by FTI. The making of false or misleading entries, records or documentation is strictly prohibited.
- (c) Insiders shall not create false or misleading reports under FTI's name, use established accounts shall be used for any purpose other than as described by their documentation, and no undisclosed funds or assets may be established.
- (d) Insiders may not take any action to defraud, influence, coerce, manipulate or mislead another employee, officer, director, outside auditor or lawyer for FTI to render the books, records or financial statements of FTI incorrect or misleading.
- (e) Errors, or possible errors or misstatements in FTI's books and records must be brought to the attention of the Compliance Officer promptly upon discovery thereof. The Compliance Officer shall promptly inform the Authorized Officers of any such error or misstatement.
- (f) Insiders shall cooperate fully with FTI's internal and external auditors and shall not impede or interfere with the financial statement audit process.

#### 10. Document Retention

- (a) FTI seeks to comply fully with all laws and regulations relating to the retention and preservation of records. Insiders shall comply fully with FTI's policies regarding the retention and preservation of records. Under no circumstances may FTI records be destroyed selectively or maintained outside FTI premises or designated storage facilities or in contravention of FTI policies.
- (b) If the existence, threat or possibility of a subpoena or impending government investigation becomes known to an Insider, he must immediately contact the Compliance Officer and retain all records and documents that may be responsive to a subpoena or pertain to an investigation. Questions regarding the relevance of a record or document to an investigation or whether the document is responsive to a subpoena should be directed to the Compliance Officer before any record or document is destroyed. Insiders shall strictly adhere to the directions of the Compliance Officer in handling records or documents.

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#### 11. Compliance with Internal Controls and Disclosure Controls

- (a) FTI adopted a system of internal controls that Insiders must strictly adhere to in providing financial and business information within FTI. Insiders shall promptly report to the Compliance Officer: (i) actual or suspected breaches or violations of internal controls that come to the attention of the Insider, (ii) actual or suspected fraudulent or questionable transactions or events known to the Insider, which include, but are not limited to: embezzlement, forgery or alteration of checks and other documents, theft, misappropriation or conversion to personal use of



FTI assets, and falsification of records.

- (b) FTI has adopted a system of disclosure controls to assure that all information regarding the business and prospects of FTI is brought to the attention of FTI's officers. The accuracy and timeliness of compliance is critical to this system of disclosure controls and necessary to enable those officers to provide the financial statement and periodic report certifications required by federal law.
- (c) Insiders shall strictly adhere to the system of disclosure controls, including the internal reporting responsibilities assigned to him by FTI. Insiders should inform the Compliance Officer of any changes that they believe may improve FTI's system of internal controls.
- (d) Each Insider shall promptly report in accordance with FTI policy any significant event or occurrence (whether positive or negative) that arises in the course of the Insider's duties and responsibilities. Events or occurrences include those that affect or may affect FTI or its Business Associates, competitors or industry. General economic conditions need not be reported.
- (e) Insiders shall be candid in discussing matters concerning internal controls and business disclosures with FTI's management, internal auditors, outside auditors, outside counsel and directors. Factual information is important, and opinions and observations are strongly encouraged.

## 12. Implementation of the Policy

While each Insider is individually responsible for compliance with the Policy, he does not do so in a vacuum. FTI has the resources, people and processes in place to answer questions and guide Insiders through difficult decisions.

- (a) Reporting Violations. If an Insider knows of or suspects a violation of law, regulations, this Policy, or any of FTI's other policies, he must immediately report that information to the Compliance Officer or to FTI's Hotline. Insiders who report an actual or suspected violation in shall not be subject to retaliation.
- (b) FTI's Hotline. FTI has a 24-hour hotline which can be used to report actual or suspected violations of applicable law or regulations, this or any other FTI policy, including theft of FTI property or other business abuse. To the extent possible, all calls will be kept confidential.
- (c) Investigations of Violations. To the extent possible, violations will be promptly investigated and treated confidentially. Those reporting violations should not conduct preliminary investigations of his own, as investigations of alleged violations may involve complex legal issues and no one should compromise the integrity of an investigation and adversely affect themselves and FTI.

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## 13. Enforcement

The Compliance Officer will take the action he deems appropriate with respect to any Insider or Family Member who violates this Policy, and will inform the Board Of Directors of all material violations. Any alleged violation by the Compliance Officer will be presented promptly to the CEO and the Audit Committee of the Board for consideration and such action as the Committee, in its sole judgment, deems warranted. The Compliance Officer will keep records of all reports created and actions taken under this Policy, and all records will be maintained in a manner and for the periods required under applicable Federal and state law.

## 14. Condition of Employment or Service

Insiders shall conduct themselves in the best interests of FTI, and compliance with this Policy is to be a condition of continued employment and conduct not in accordance with this Policy shall constitute grounds for disciplinary action, including termination of employment.

This policy is not an employment contract nor is it intended to be an

all inclusive policy statement on the part of FTI, which reserves the right to provide the final interpretation of the policies contained herein and revise those policies as deemed necessary or appropriate.

FTI CONSULTING, INC.  
POLICY STATEMENT ON INSIDE INFORMATION  
AND INSIDER TRADING

FTI Consulting, Inc., and its subsidiaries ("FTI"), are adopting this Policy to guide Directors or employees who are likely to have information about FTI that is not generally available to the public. Statements reflecting this Policy have been filed publicly with the SEC and are available on FTI's public website.

Under federal securities laws, it is unlawful for persons with insider information to trade shares of FTI's securities. The purpose of this Policy Statement is to reaffirm FTI's policies regarding the protection of material, non-public and other confidential information, the stringent ethical and legal prohibitions against insider trading and tipping, and the expected standards of conduct of all FTI employees with respect to these highly sensitive matters. This Policy Statement explains your obligations under the law and FTI's policies. Every Director, employee and consultant should read this Policy Statement carefully and take the utmost care to comply with the Policy at all times.

I. SUMMARY OF POLICY

To avoid even the appearance of impropriety, all rules set forth in this Policy will apply to Directors, employees or consultants of FTI, as well as all members of the family who reside in the same household.

FTI's Policy regarding securities trading can be summarized by four cardinal rules:

1. You may not trade in securities of FTI (or any other public company) at any time that you possess material, non-public (what is described below as "inside") information about FTI (or about such other public company) that you acquired directly or indirectly by virtue of your association with FTI or your work for one of our clients.
2. You may not convey to any other person ("tip") inside information regarding FTI (or any other public company).
3. Assuming you do not possess inside information concerning FTI, if you are: (i) a member of the Board of Directors of FTI, (ii) an officer of FTI holding the office of Vice President or higher, (iii) an employee of FTI working in either the Corporate Headquarters of FTI or the Corporate Controller's Office, (iv) or certain other employees or consultants designated by the CFO who have access to a range of financial and other sensitive information about FTI or who are asked to work on sensitive projects or transactions, or who gain access to material non-public information in connection with a specific project or transaction (the "Restricted Employees"), you may trade in securities of FTI only:

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- a) during the period beginning on the third business day after the release of FTI's quarterly and annual earnings and ending on the 15th day of the month prior to the close of each fiscal quarter and fiscal year (the "trading window");
  - b) from the beginning of the third business day after any public release of material information; and
  - c) during any period, subject to (a) and (b) above, when you are not aware that FTI expects to make a public release of material information in the near future.
4. If you are a Director, officer or Restricted Employee, you must

-- in addition to trading only within the trading window --  
obtain prior approval from FTI's CFO before making any trade in  
FTI's securities.

Notwithstanding the foregoing, the exercise of stock options for cash and bona fide gifts of securities of FTI (subject to certain exceptions described below) are permitted at all times. Section III below contains FTI's complete Policy Statement on inside information and insider trading.

## II. INSIDE INFORMATION

### A. What is Inside Information?

"Inside" information is material information about FTI (or any other public company) that is not available to the public. Information generally becomes available to the public when it has been disclosed by FTI or third parties in a press release or other public statement, including any filing with the Securities and Exchange Commission (the "SEC"). In general, information is considered to have been made available to the public two business days after the formal release of the information. In other words, there is a presumption that the public needs two business days to receive and absorb such information.

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### B. What is Material Information?

As a general rule, information about FTI (or any other public company) is material if it could reasonably be expected to affect someone's decision to buy, hold, or sell its securities. For example, information generally is considered "material" if its disclosure to the public would be reasonably likely to affect (1) an investor's decision to buy or sell the securities of that company that the information concerns, or (2) the market price of that company's securities. Some examples of material information that you may encounter include the following: (a) a merger or acquisition involving FTI or another public company; (b) information regarding FTI's revenues or earnings; (c) pending regulatory action or major litigation concerning FTI; (d) the public or private sale of additional securities of FTI; (e) a tender offer by FTI for another company's securities or by a third party for FTI's securities; (f) major management changes; or (g) the awarding or loss of a significant contract.

It can sometimes be difficult to know whether information would be considered "material." The determination of whether information was material is almost always made after the fact, when the effect of that information on the market can be quantified. Although you may have information about FTI that you do not consider material, federal regulators and others may conclude that such information was material. Therefore, trading in FTI's securities when you possess non-public information about FTI can be risky. When doubt exists, the information should be presumed to be material. If you are unsure whether information of which you are aware is material or non-public, you should consult with FTI's CFO.

### C. What are the Reasons for Maintaining Confidentiality?

FTI has ethical and legal responsibilities to maintain the confidence of its shareholders and of the public securities markets generally, to protect as valuable assets confidential information developed by or entrusted to FTI, and to ensure that FTI employees do not derive improper benefits through the misuse of FTI assets. Although FTI respects the right of each of its employees to engage in investment activities and encourages employees to become and remain shareholders of FTI, it is important that such activities avoid any appearance of impropriety and remain in full compliance with the law.

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The federal securities laws strictly prohibit any person who obtains material inside information and has a duty not to disclose it from using such information in connection with the purchase or sale of securities. Every FTI employee has three main duties under the federal securities laws related to trading: (1) a duty not to place or execute trades in securities of FTI while in possession of material, non-public information regarding FTI; (2) a duty not to place or execute trades in securities of other companies while in possession of

material, non-public information regarding those companies that the employee learns as a result of business dealings between FTI and other companies; and (3) a duty not to communicate such information to anyone outside FTI (what is commonly referred to as "tipping") and to take steps to prevent the inadvertent disclosure of such information to outsiders.

Whether information is obtained in the course of employment, from friends, relatives, acquaintances or strangers, or from overhearing the conversations of others, trading based on inside information is prohibited and violates the law. Congress enacted this prohibition because the integrity of the securities markets would be seriously undermined if the "deck were stacked" against persons not aware of such information. Moreover, your failure to maintain the confidentiality of material non-public information about FTI could damage FTI's reputation and greatly harm FTI's ability to conduct and grow its business. You could be fired for disclosing or trading on material non-public information. In addition, as discussed below, you also could be exposed to significant civil penalties and criminal charges.

D. What is the Penalty for Insider Trading?

Trading on inside information is a crime. Penalties for insider trading include fines of up to \$1,000,000 and 10 years in jail for individuals. In addition, the SEC may seek the imposition of a civil penalty of up to three times the profits made or losses avoided from trading on inside information. Those who trade on inside information also must return any profits made, and they are often subject to an injunction against future violations. Finally, under some circumstances, people who trade on inside information may be subjected to civil liability in private lawsuits.

Employers and other controlling persons (including supervisory personnel) also are at risk under federal law. Controlling persons may, among other things, face penalties of the greater of \$1,000,000 or three times the profits made or losses avoided by the trader if they recklessly fail to take preventive steps to control insider trading.

The SEC and the Department of Justice have committed large staffs, computer investigative techniques, and other resources to the detection and prosecution of insider trading cases. Criminal prosecution and the imposition of fines and/or imprisonment is commonplace.

For all of the above reasons, both you and FTI have a significant interest in ensuring that insider trading is scrupulously avoided.

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E. How Should Material Information be Safeguarded?

Before material information relating to FTI or its business has been disclosed to the general public, it must be kept in strict confidence. Such information should be discussed only with persons who have a "need to know" and should be confined to as small a group as possible. The utmost care and circumspection must be exercised at all times. Therefore, conversations in public places, such as elevators, restaurants and airplanes, should be limited to matters that do not involve information of a sensitive or confidential nature.

To ensure that FTI confidences are protected to the maximum extent possible, no individuals other than specifically authorized personnel may release material information to the public or respond to inquiries from the media, analysts, or others outside FTI. If you are contacted by the media or by an analyst seeking information about FTI, and if you have not been expressly authorized by FTI's Chief Executive Officer, President or CFO to provide information to the media or to analysts, you should refer the call to one of these three senior officers of FTI.

III. STATEMENT OF POLICY

1. For purposes of this Policy Statement, all references to "you" shall mean FTI Director, employee or consultant and any family member (including in-laws) of such FTI Director, employee or consultant residing in the same household as such FTI Director, employee or consultant (each of the foregoing, an "Immediate Family member"), as well as any trust, partnership or other entity (including a charitable

trust or foundation) of which you or any Immediate Family member is a trustee, director, general partner or officer (each of the foregoing, a "Related Entity").

2. You may not buy or sell the securities of FTI (or any other company) when you are in possession of material non-public information concerning FTI (or such other company), which you acquired directly or indirectly by virtue of your association with FTI or your work for one of our clients. The insider trading rules apply both to securities purchases (to make a profit based on good news) and securities sales (to avoid a loss based on bad news), regardless of how or from whom the material non-public information has been obtained.

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3. If you are a member of the Board of Directors of FTI, an officer of FTI holding the office of Vice President or higher, an employee of FTI working in either the Headquarters of FTI or the Controller's Office, or certain other employees or consultants designated by the CFO who have access to a range of financial and other sensitive information about FTI or who are asked to work on sensitive projects or transactions, or who gain access to material non-public information in connection with a specific project or transaction (the "Restricted Employees"), you may trade in securities of FTI only during the period beginning on the third business day after the release of FTI's quarterly and annual earnings and ending on the 15th day of the month prior to the close of each fiscal quarter and fiscal year (the "trading window"), so long as you are not trading in violation of the Policy set forth in paragraph 2 above.
4. If you are a Director, officer or Restricted Employee, in addition to complying with paragraphs 2 and 3 of this Policy Statement, you must obtain prior approval from FTI's CFO before you buy or sell any of FTI's securities.
5. Members of the Board of Directors of FTI or executive officers of FTI (a "Section 16 Person"), must report each transaction in securities of FTI to the CFO, orally or in writing, no later than one day after such transaction (see Exhibit I attached hereto for a suggested written notification). You will be notified if you are a Section 16 Person.
6. This Policy also applies to all former, temporary or retired officers, directors or employees of FTI and its independent contractors.
7. You may not convey or "tip" material non-public information to any other person by providing them with material non-public information regarding FTI's securities or assisting them in any way. The concept of unlawful tipping includes passing on such information to friends, family members or acquaintances under circumstances that suggest that you were trying to help them make a profit or avoid a loss. You may, of course, provide such information to other FTI employees on a "need to know" basis in the course of performing your job with FTI.
8. The foregoing restrictions apply to trading in call or put options involving FTI's securities, or other derivative securities, as well as "short sales" of FTI's securities.
9. If you are a Director, officer or Restricted Employee, you may make bona fide gifts of securities of FTI regardless of whether the trading window is open, so long as you obtain the prior approval of FTI's CFO, and (a) in the case of a gift to a charitable organization, neither you nor any of your Immediate Family Members is a trustee, director, officer or employee of the charitable organization, and (b) in the case of gifts to family members or a Related Entity, the family member or Related Entity agrees not to sell the securities of FTI except during a trading window.

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10. All officers, Directors, and employees of FTI will at all times observe the foregoing policies and procedures. Your failure to do so will be

grounds for dismissal or other disciplinary action.

- 11. You must promptly report to FTI's CFO any trading in FTI's securities (or the securities of any other public company) by FTI personnel or disclosure of material non-public information by FTI personnel that you have reason to believe may violate this Policy Statement or the securities laws.

IV. CERTIFICATION

Please sign, date, and return the following Certification stating that you received FTI's Policy Statement regarding insider trading and the preservation of the confidentiality of material non-public information and related procedures, and you agree to comply with it. Please note that you are bound by the Policy Statement whether or not you sign the Certification.

CERTIFICATION

The undersigned hereby certifies that he or she:

- a. has read and understands the Policy Statement on Inside Information and Securities Insider Trading and related procedures, a copy of which was distributed with this certificate;
- b. since employment commenced with FTI, has complied with the foregoing Policy and procedures;
- c. will continue to comply with the Policy and procedures set forth in the Policy Statement;

Signature: \_\_\_\_\_

Name: \_\_\_\_\_  
(please print)

Department or Title: \_\_\_\_\_

Date: \_\_\_\_\_

EXHIBIT I

FTI Consulting, Inc.  
"SECTION 16" CONFIDENTIAL MEMORANDUM

To: CFO  
From:  
Date:  
Subject: Securities Transaction Report

On \_\_\_\_\_, \_\_\_\_\_, my security holdings of FTI Consulting, Inc. changed as follows:

Number of shares of Common Stock _____	Number of Stock Options _____
Date of Transaction _____	Date of Transaction _____
_____ acquired _____ sold	_____ acquired _____ sold
_____ transferred _____ other	_____ exercised _____ other
Number of Warrants _____	Other FTI Securities (type and number) _____
Date of Transaction _____	Date of Transaction _____
_____ acquired _____ sold	_____ acquired _____ sold
_____ transferred _____ other	_____ transferred _____ other

If any acquisition or transfer was effected indirectly (e.g., by or for your

spouse or other family member, through an individual or entity who has agreed with you to acquire or transfer the securities on your behalf, etc., or by or for an entity of which you are a partner, member or 5% or greater stockholder), in addition to the above information, please identify the person through whom the transaction was effected and your relationship with such person:

Name of Individual or Entity: \_\_\_\_\_

Relationship with you: \_\_\_\_\_

\_\_\_\_\_  
(Signed)

(please print)

THIS REPORT IS DUE NO LATER THAN ONE CALENDAR DAY AFTER THE DATE OF EACH TRANSACTION IN WHICH A CHANGE IN BENEFICIAL STOCK OWNERSHIP OCCURS, EITHER DIRECTLY OR INDIRECTLY. IF APPLICABLE, A FORM 4 WILL BE PREPARED FOR YOUR SIGNATURE AND WILL BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BY THE SECOND DAY AFTER THE TRANSACTION OCCURRED.



FTI CONSULTING, INC.  
POLICY ON CONFLICTS OF INTEREST

I. Summary.

Any direct or indirect conflict of interest between FTI and any Director, Officer, employee or consultant is prohibited unless otherwise consented to by FTI. FTI believes that it is in its best interest and is consistent with the obligations of Directors, officers, employees and consultants of FTI, to establish the Policy that all business decisions will reflect independent judgment and discretion, uninfluenced by any considerations other than those honestly believed to be in the best interest of FTI and its stockholders.

Any decision will be deemed to be in conflict with this Policy and the interests of FTI if, in the course of employment, the Directors, officer's, employee's or consultant's judgment and discretion is or may be influenced by considerations of personal gain or benefit, or gain or benefit to a third party, whether or not affiliated with the officer or employee. The divided loyalty that is present when an officer, employee or consultant has a conflict of interest could potentially lead to serious problems for FTI and could be grounds for disciplinary action or termination by FTI.

II. Situations That May Lead to Conflicts of Interest.

While it is not possible to describe every situation or occurrence that could lead to a conflict of interest with FTI's clients, FTI Directors, officers, employees and consultants should endeavor to avoid the appearance of conflict as well as actual conflicts.

- A. Relationships with Suppliers, Clients or Competitors. FTI does not prohibit the ownership of stock or other financial interest in its clients or suppliers or competitors, per se. If an FTI Director, officer, employee or consultant has such an interest that is material to the person or to such client or supplier, the relationship should be fully disclosed to the CFO of FTI or other appropriate FTI executive before engaging directly or indirectly in any FTI business with such client or supplier, and will be considered on a case-by-case basis.

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- B. Indirect Interests and Relationships. A conflict of interest can arise because of the business activities of an affiliate of the director, officer, employee or consultant. The term affiliate includes close family members and family members who live in the same household as the officer, employee or consultant. A Director, officer, employee or consultant has a potential conflict of interest whenever an affiliate has a significant interest in a transaction or a significant relationship with any supplier, client or competitor of FTI. The Director, officer, employee or consultant should not make or influence any decision which could directly or indirectly benefit his or her affiliate and, in order to protect the Director, officer, employee and consultant and FTI from the appearance of a conflict of interest, all relationships of this nature will need to be reported to FTI.
- C. Gifts, Loans and Entertainment. A Director, officer, employee or consultant to FTI will not accept gifts from competitors or from anyone having or seeking business with FTI, other than non-cash gifts of nominal value generally used for promotional purposes by the giver, or accept loans from any person having or seeking business with FTI (other than loans from banks or financial institutions at prevailing market rates and terms).
- D. Business-Related Functions. Participation in business related functions is permitted, including the acceptance of lunches or other meals. However, each Director, officer, employee and consultant should exercise care to ensure that such functions are necessary and related to the conduct of business on behalf of FTI. If in doubt, the CFO of FTI should be consulted.

- E. Outside Business Activities. As a general rule FTI does not allow its full-time employees and consultants to participate or engage in business activities outside of their employment with FTI. As a general rule, participation on a part-time or other basis in any outside business or employment will be a conflict of interest if the officer's or the employee's or consultant's participation in that business could interfere with his or her ability to devote proper time and attention to his or her employment with FTI.
  
- F. Non-business Activities. Participation in the activities of a trade association, professional society, charitable institution or governmental institution on a non-compensated basis or holding a part-time office (with or without compensation) will not generally create a conflict of interest under this Policy. However, if any officer or employee is unsure of his or her particular situation, the CFO of FTI should be consulted.
  
- G. Personal Use of Corporate Property and Corporate Information. It is against FTI Policy for any Director, officer, employee or consultant to use or divert any corporate property, including services of other employees, for his or her own advantage or benefit or use the corporate letterhead when writing personal correspondence.

FTI CONSULTING, INC.  
CORPORATE GOVERNANCE  
GUIDELINES

The Board of Directors ("Board") of FTI Consulting, Inc., ("Corporation") represents the stockholders' interest in perpetuating a successful business and optimizing long-term financial returns. The Board is responsible for establishing the Corporation's policies and strategies and for regularly monitoring the effectiveness of management in carrying out those policies and strategies. The Board is accountable to the stockholders of the Corporation. The Board has adopted these guidelines as part of the Board's commitment to these principles.

Board Composition and Related Matters

1. Positions of Chairman and Chief Executive Officer. The Board believes that the positions of Chief Executive Officer and Chairman of the Board should be combined to provide unified leadership and direction. This combination has served the Corporation well over the years. The Board reserves the right to adopt a different policy should circumstances change.

2. Size of the Board. The Board has determined that it should have no less than seven and no more than ten Directors. This permits a full range of experience and fosters effective interaction and productivity. The Board will periodically review the appropriate size of the Board.

3. Composition of Board. The Board believes that the Board should be composed of a significant majority of independent Directors and that the Chief Executive Officer should be a Director. The Board believes that it may be appropriate to have other members of management serve as Directors, depending upon various facts and circumstances.

4. Board Definition of What Constitutes Independence for Outside Directors. The Corporation will comply at all times with the requirements for independent directors as established by the New York Stock Exchange ("NYSE"), federal law and the rules of the Securities and Exchange Commission ("SEC").

5. Board Membership Criteria. Nominating and Corporate Governance Committee shall develop criteria for selecting candidates for election as Directors and identifying, evaluating (including inquiries into the background of candidates), recruiting and nominating candidates. In identifying candidates for membership on the Board, this Committee takes into account all factors it considers appropriate, which may include strength of character, maturity of judgment, career specialization, relevant skills and the extent to which a particular candidate would fill a present need on the Board of Directors. The Nominating and Corporate Governance Committee also reviews and determines whether existing members of the Board should stand for reelection, taking into consideration and changes in the needs of the Board.

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6. Directors' Change in Circumstances. Upon termination of a Director's primary employment or other significant change in business or professional circumstances, that Director shall offer to resign from the Board. The Board will decide whether to accept the resignation.

7. Director Orientation and Continuing Education. The Nominating and Corporate Governance Committee is responsible for establishing appropriate director orientation and continuing education programs in order to assure that all Directors have a fundamental understanding of the Corporation's business and their duties and responsibilities as Directors.

8. Term Limits and Retirement. The Board does not believe it should establish term limits or a retirement age for Directors.

9. Conflicts of Interests. In accordance with FTI's Policy on Conflicts of Interest, Directors are expected to avoid any action, position or interest that conflicts with an interest of the Corporation, or gives the

appearance of a conflict. The Board shall annually obtain information from each Director in order to monitor potential conflicts of interests, and Directors are expected to be mindful of their fiduciary obligations to the Corporation.

10. Board Compensation. The Board believes that it must offer a fair and competitive compensation package to the Directors in order to attract and retain highly qualified individuals. The Compensation Committee should periodically review Board compensation in light of then current circumstances. Changes in Board compensation, if any, should come at the recommendation of the Compensation Committee, after full discussion and concurrence by the Board. Directors who are employees of the Corporation shall receive no additional remuneration for serving on the Board. Independent Directors shall receive no additional remuneration, in the form of consulting fees or other special benefits, beyond that provided for service on the Board. The Board is committed to fostering compensation programs and policies designed to encourage Director stock ownership over the long-term. In the view of the Board, these programs and policies help align the interests of Directors with those of the Corporation's stockholders.

11. Annual Review. The Board will engage in an annual self-evaluation. This evaluation will involve the Board as a collective body rather than directors on an individual basis. The evaluation process will be administered by the Nominating and Corporate Governance Committee, with the results of the evaluation provided to the Board for its consideration.

#### Board Meetings

1. Scheduling and Selection of Agenda Items for Board Meetings. To the extent possible, Board meetings should be scheduled well in advance. The Board expects to hold a minimum of five meetings per year. The Chairman is responsible for drafting the agenda for each Board meeting and distributing it in advance to the Directors. Each Board member is encouraged to suggest inclusion of items on the agenda. The Chairman should also consult with each Committee Chairman regarding items appropriate for the Board agenda.

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2. Board Material Distributed in Advance. Information important to the Board's understanding of matters to be discussed at a Board meeting should be distributed in advance so that meeting time may be conserved and the discussion more focused. When appropriate, sensitive subject matters may be discussed at a meeting without advance distribution of written materials to the Board. The Board expects the Chairman and management to regularly provide Directors with information about the Corporation's business so that the Board is fully informed.

3. Director's Attendance and Participation. Most meetings will be held at the Corporation's headquarters in Annapolis, Maryland, but may be elsewhere. Directors' attendance at regularly scheduled meetings is required. However, if a Director is unable to attend in person, he may request an exception from the Chairman who may grant an exception to this rule. Participation via conference telephone, videoconference, or similar communication equipment is allowed for telephonic and special meetings. Each Board member is expected to ensure that other existing and planned future commitments will not materially interfere with the member's service as a Director. Each Board member is expected to become familiar with the Corporation's business and the duties and responsibilities of a director of a publicly-traded company.

4. Management Attendance and Board Access to Management. Key members of management ordinarily should attend Board meetings. The Board encourages management to schedule employees to present at Board Meetings who can provide insight into the items being discussed or should be given exposure to the Board because of their roles in the Corporation's business. The Board should have complete access to the Corporation's management.

5. Independent Directors' Discussion. It is Board policy to set aside time during each meeting for the Independent Directors to meet without any members of management present, and the Independent Directors may designate a Director to preside at each of these sessions.

6. Confidentiality. The Board believes that maintaining the confidentiality of all information about the Corporation and all deliberations

by the Board is imperative.

#### Committee Matters

1. Board Committees. The Board now has three Committees: Audit, Compensation and Nominating and Corporate Governance. The Board, from time to time, should consider whether to add other Committees, disband a current Committee, add responsibilities to a Committee or reassign responsibilities among Committees.

2. Committee Charters. The Board has adopted written charters for each Committee, which should be evaluated periodically by the Committee and the Board. These Committee charters will be made available on the Corporation's website.

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3. Committee Assignments and Chair. The Board is responsible for the appointment of individual Directors to the Committees and the appointment of the Chair of each Committee. Each independent Director should be a member of at least one Committee, and each Committee Chair should have previous service on that Committee. Only independent Directors may serve on the Audit, Compensation and Nominating and Corporate Governance Committees.

4. Frequency of Committee Meetings and Committee Agenda. The Chair of each Committee, in consultation with appropriate members of management, should determine the frequency of Committee meetings and develop the agenda for each meeting. All agendas and minutes of Committee meetings shall be made available to all Directors. The Chairman of the Board and all Independent Directors may attend and participate in discussions of any Board Committee, although formal Committee action will only be through the vote of Committee members. Committee members are expected to be present at all meetings. Attendance at Committee meetings via conference telephone, videoconference or similar communication equipment is allowed. Most Committee meetings will be held at the Corporation's headquarters in Annapolis, Maryland, but may be held elsewhere.

5. Resources. Each Committee shall have access to accountants, compensation consultants, counsel, investment bankers and others whose expertise is deemed by the Committee necessary or appropriate to the Committee's carrying out its responsibilities.

#### Management Responsibility and Review

1. Role of Management. The Board recognizes that it is management's responsibility to carry out the policies and strategies established by the Board of Directors and to carry out the operation of the Corporation's business. To this end, the Board acknowledges that it should not interfere in management's discharge of its responsibilities but should provide oversight and encouragement of management.

2. Board Interaction with Media, Institutional Investors, Press and Others. The Board believes that management should speak for the Corporation. Individual Directors may meet or otherwise communicate with the Corporation's various constituencies when appropriate, but only with the knowledge of management, and, in most instances, at the request of management.

#### Other

1. Implementation and Alteration of these Guidelines. Implementation of and changes to these guidelines shall be the responsibility of the Nominating and Governance Committee, working with the Chairman of the Board and Chief Executive Officer.

2. Disclosure of Guidelines. These guidelines will be available on the Corporation's website.

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FTI CONSULTING, INC.  
CATEGORICAL STANDARDS  
FOR DIRECTOR INDEPENDENCE

A director who meets all of the following categorical standards shall be presumed to be "independent":

- A. During the past five years, the Company has not employed the director, and has not employed (except in a non-officer capacity) any of his or her immediate family members.
- B. During the past five years, the director has not been employed by (or affiliated with) the Company's present or former auditors, and none of his or her immediate family members has been so employed or affiliated (except in a non-officer capacity not involving the Company's business).
- C. During the past five years, neither the director, nor any of his or her immediate family members, has been part of an "interlocking directorate" in which an executive officer of the Company serves on the compensation (or equivalent) committee of another company that employs the director.
- D. The director does not (directly or indirectly as a partner, stockholder or officer of another company) provide consulting, legal or financial advisory services to the Company or the Company's present or former auditors.
- E. The director is not employed by (or affiliated with) a significant supplier or client of the Company. For the purposes of this categorical standard, a supplier or client shall be considered significant if its sales to, or the services it receives from, the Company represent more than (1) 5% of the sales of the supplier or (2) 5% of the Company's revenues.
- F. During the past five years, the director has not had a personal services contract with the Company, its chairman, chief executive officer or other executive officer, or any affiliate of the Company.
- G. The director is not an employee, officer or director of a foundation, university or other non-profit organization to which the Company gives directly, or indirectly through the provision of services, more than \$200,000 per annum or 5% of the total annual donations received (whichever is less).
- H. The director does not, either directly or indirectly as a partner, stockholder or officer of another company, own more than 5% of the Company's common stock.