SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from ______ to _______

Commission file number: 001-14875

FTI CONSULTING, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland	52-1261113
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

2021 Research Drive, Annapolis, Maryland	21401
(Address of Principal Executive Offices)	(Zip Code)

(410) 224-8770

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	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 [X] No [_]

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

Class	Outstanding at November 6, 2001
Common Stock, par value $.01 per share	12,899,703

FTI CONSULTING, INC.

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Part I. Financial Information

FTI Consulting, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands of dollars, except per share and share amounts)

	December 31, 2000	September 30, 2001
	(audited)	(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,235	$ 2,820
Accounts receivable, less allowance of $1,321 in 2000 and $1,688 in 2001	20,380	24,590
Unbilled receivables, less allowance of $797 in 2000 and $898 in 2001	11,952	14,140
Income taxes recoverable	1,317	2,838
Deferred income taxes	1,029	1,029
Prepaid expenses and other current assets	1,924	2,794
Total current assets	39,837	48,211
Property and equipment:		
Furniture, equipment and software	20,977	21,031
Leasehold improvements	4,560	3,891
	25,537	24,922
Accumulated depreciation and amortization	(12,382)	(13,075)
	13,155	11,847
Goodwill, net of accumulated amortization of $8,196 in 2000 and $11,958 in 2001	91,971	90,968
Other assets	1,168	797
Total assets	$146,131	$151,823

See accompanying notes.

FTI Consulting, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands of dollars, except per share and share amounts)

	December 31, 2000	September 30, 2001
	(audited)	(unaudited)
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,325	$ 5,702
Accrued compensation expense	10,339	11,633
Deferred income taxes	500	500
Current portion of long-term debt	4,333	4,333
Other current liabilities	177	363
Total current liabilities	19,674	22,531
Long-term debt, less current portion	56,167	29,417
Other long-term liabilities	600	1,662
Deferred income taxes	1,066	1,066
Commitments and contingent liabilities	-	-
Stockholders' equity:		
Preferred stock, $.01 par value; 4,000,000 shares authorized in 2000 and 5,000,000 shares authorized in 2001, none outstanding	-	-
Common stock, $.01 par value; 16,000,000 shares authorized in 2000 and 45,000,000 shares authorized in 2001; shares issued and outstanding of 10,567,447 in 2000 and 12,816,298 in 2001	106	128
Additional paid-in capital	53,951	71,871
Retained earnings	14,567	26,200
Accumulated other comprehensive income (loss)	-	(1,052)
Total stockholders' equity	68,624	97,147
Total liabilities and stockholders' equity	$146,131	$151,823

See accompanying notes.

FTI Consulting, Inc. and Subsidiaries

Consolidated Statements of Income
(in thousands of dollars, except per share data)

	Three Months ended September 30, 2000	2001
	(unaudited)	(unaudited)
Revenues	$33,395	$40,555
Direct cost of revenues	17,132	20,814
Selling, general and administrative expenses	9,265	11,479
Amortization of goodwill	1,233	1,255
	27,630	33,548
Income from operations	5,765	7,007
Other income (expense):		
Interest income	83	33
Interest expense	(3,226)	(1,004)
	(3,143)	(971)
Income before income taxes	2,622	6,036
Income taxes	1,154	2,414
Net income	$ 1,468	$ 3,622
Earnings per common share, basic	$ 0.22	$ 0.29
Earnings per common share, diluted	$ 0.19	$ 0.27

See accompanying notes.

FTI Consulting, Inc. and Subsidiaries

Consolidated Statements of Income
(in thousands of dollars, except per share data)

	Nine months ended September 30,		
	2000 Actual	2000 Pro Forma/(1)/	2001 Actual
	(unaudited)	(unaudited)	(unaudited)
Revenues	$98,993	$101,432	$124,184
Direct cost of revenues	49,942	50,892	64,295
Selling, general and administrative expenses	27,476	27,583	32,720
Amortization of goodwill	3,482	3,699	3,762
	80,900	82,174	100,777
Income from operations	18,093	19,258	23,407
Other income (expense):			
Interest income	175	175	127
Interest expense	(8,812)	(9,392)	(3,686)
	(8,637)	(9,217)	(3,559)
Income before income taxes and extraordinary item	9,456	10,041	19,848
Income taxes	4,161	4,418	8,215
Income before extraordinary item	5,295	5,623	11,633
Extraordinary loss on early extinguishment of debt, net of income taxes of $660	869	869	-
Net income	$ 4,426	$ 4,754	$ 11,633
Income before extraordinary item per common share, basic	$ 0.84	$ 0.87	$ 1.01
Earnings per common share, basic	$ 0.71	$ 0.74	$ 1.01
Income before extraordinary item per common share, diluted	$ 0.73	$ 0.76	$ 0.91
Earnings per common share, diluted	$ 0.61	$ 0.64	$ 0.91

(1) Pro forma assumes the acquisition of P&M occurred on January 1, 2000.
See Note 6.

See accompanying notes.

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

	Nine months ended September 30, 2000	2001
	(unaudited)	
Operating activities		
Net income	$ 4,426	$ 11,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary loss on early extinguishment of debt, before income taxes	1,529	-
Amortization of goodwill	3,482	3,762
Depreciation and other amortization	2,012	2,767
Provision for doubtful accounts	(91)	468
Non-cash interest expense	1,818	184
Other	(41)	182
Changes in operating assets and liabilities:		
Accounts receivable, billed and unbilled	(5,462)	(6,866)
Prepaid expenses and other current assets	227	(870)
Accounts payable and accrued expenses	(1,443)	1,377
Accrued compensation expense	3,008	1,294
Income taxes recoverable/payable	(711)	(1,521)
Other current liabilities	2,000	131
Net cash provided by operating activities	10,754	12,541
Investing activities		
Purchase of property and equipment	(4,257)	(2,485)
Proceeds from sale of property and equipment	47	910
Contingent payments to former owners of subsidiaries	(185)	(2,244)
Acquisition of P&M, including acquisition costs	(49,404)	(516)
Change in other assets	(19)	202
Net cash used in investing activities	(53,818)	(4,133)
Financing activities		
Issuance of common stock	1,082	17,942
Payments of long-term debt	(40,820)	(26,750)
Repurchase of detachable stock warrants	(277)	-
Payment of financing fees	(3,950)	(17)
Borrowings under long-term debt arrangements	89,233	-
Changes in other long-term liabilities	(283)	2
Net cash provided by (used) in financing activities	44,985	(8,823)
Net increase (decrease) in cash and cash equivalents	1,921	(415)
Cash and cash equivalents at beginning of period	5,046	3,235
Cash and cash equivalents at end of period	$ 6,967	$ 2,820

See accompanying notes.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month and three month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

The pro forma information included in the Consolidated Statements of Income for the nine months ended September 30, 2000 is presented to give effect to the January 31, 2000 acquisition of Policano & Manzo, L.L.C. and related financing, assuming the transactions occurred on January 1, 2000 (see Note 6). The pro forma information is not necessarily indicative of the operating results that would have been achieved had the transactions actually occurred on January 1, 2000, nor is it necessarily indicative of future operations.

2. Recent Accounting Pronouncements

As of January 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Upon adoption of the Statement on January 1, 2001, the Company maintained interest rate swap agreements in the notional amounts of $32.5 million related to outstanding term loans. The interest rate swaps effectively fix the rate of interest on a portion of the Company's floating rate term loans, and are settled as the related term notes mature. The adoption of Statement 133 on January 1, 2001 resulted in the cumulative effect of an accounting change of $348,000 charged to other comprehensive loss.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in income before taxes of approximately $5 million. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. Currently, management has not yet determined the effect of these tests; however, the impact is not expected to be material to the Company's earnings or financial position.

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

3. Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2001	$106	$53,951	$14,567	$ -	$68,624
Issuance of 116,553 shares of common stock under Employee Stock Purchase Plan	1	1,014			1,015
Exercise of options to purchase 1,441,920 shares of common stock	14	16,913			16,927
Exercise of warrants to purchase 898,055 shares of common stock	9	3,449			3,458
Retirement of 207,677 shares of common stock in connection with warrant exercise	(2)	(3,456)			(3,458)
Comprehensive Income:					
Cumulative effect on prior years of changing to a different method of accounting for interest rate swaps (Note 2)				(348)	(348)
Other comprehensive loss - change in fair value of interest rate swaps				(704)	(704)
Net income for the nine months ended September 30, 2001			11,633		11,633
Total comprehensive income					10,581
Balance at September 30, 2001	$128	$71,871	$26,200	$(1,052)	$97,147

Total comprehensive income for the three months ended September 30, 2001 was $2,860 representing the change in fair value of interest rate swaps of ($414,000) and net income of $3,622.

4. Income Taxes

The income tax provisions for interim periods in 2001 and 2000 are based on the estimated effective tax rates applicable for the full years. The Company's income tax provision of $8.2 million for the nine-month period ended September 30, 2001 consists of federal and state income taxes. The effective income tax rate in 2001 is expected to be approximately 41%. This rate is higher than the statutory federal income tax rate of 35% due principally to state and local taxes and the effects of non-deductible goodwill recorded in connection with certain acquisitions.

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

5. Earnings Per Share

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

	Three months ended September 30, 2000	Three months ended September 30, 2001
Numerator used in basic and diluted earnings per common share:		
Net income	$1,468	$ 3,622
Denominator:		
Denominator for basic earnings per common share -- weighted average shares	6,536	12,506
Effect of dilutive securities:		
Warrants	633	18
Employee stock options	567	1,036
	1,200	1,054
Denominator for diluted earnings per common share -- weighted average shares and effect of dilutive securities	7,736	13,560
Earnings per common share, basic	$ 0.22	$ 0.29
Earnings per common share, diluted	$ 0.19	$ 0.27

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

5. Earnings Per Share (continued)

	Pro Forma	Actual	
	Nine months ended September 30,	Nine months ended September 30,	
	2000	2000	2001
Numerator used in basic and diluted earnings per common share:			
Income before extraordinary item	$5,623	$5,295	$11,633
Extraordinary item, net of taxes	(869)	(869)	-
Net income	$4,754	$4,426	$11,633
Denominator:			
Denominator for basic earnings per common share -- weighted average shares	6,448	6,272	11,545
Effect of dilutive securities:			
Warrants	570	526	284
Employee stock options	420	404	990
	990	930	1,274
Denominator for diluted earnings per common share -- weighted average shares and effect of dilutive securities	7,438	7,202	12,819
Income before extraordinary item per common share, basic	$ 0.87	$ 0.84	$ 1.01
Extraordinary loss per common share, basic	(0.13)	(0.13)	-
Earnings per common share, basic	$ 0.74	$ 0.71	$ 1.01
Income before extraordinary item per common share, diluted	$ 0.76	$ 0.73	$ 0.91
Extraordinary loss per common share, diluted	(0.12)	(0.12)	-
Earnings per common share, diluted	$ 0.64	$ 0.61	$ 0.91

6. Acquisition of Policano & Manzo, L.L.C.

Effective on January 31, 2000, the Company acquired the membership interests of Policano & Manzo, L.L.C. ("P&M"). P&M, based in Saddlebrook, 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 initial purchase price totaled approximately $54.9 million, consisting of $48.3 million in cash, 815,000 shares of common stock valued at $5.5 million and acquisition related expenses of $1.1 million. In January 2001, the Company recorded additional purchase price of $516,000 upon the resolution of certain contingencies in the purchase agreement. The acquisition was accounted for using the purchase method of accounting and approximately $52.7 million of goodwill was recorded and is 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 and in the accompanying unaudited pro forma consolidated statement of income as if the acquisition was made on January 1, 2000. The pro forma consolidated results of operations are not necessarily indicative of the results that would have occurred had these transactions been consummated as of the beginning of 2000 or of future operations of the Company.

7. 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, through three distinct operating segments. The Financial Consulting division offers a range of financial consulting services, such as forensic accounting, bankruptcy and restructuring analysis, expert testimony, damage assessment, cost benefit analysis and business valuations. The Litigation Consulting division provides advice and services in connection with all phases of the litigation process. The Applied Sciences division offers engineering and scientific consulting services, accident reconstruction, fire investigation, equipment procurement and expert testimony regarding intellectual property rights.

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

The Company's reportable segments are business units that offer distinct services. The segments are managed separately by division presidents who are most familiar with the segment operations.

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

7. Segment Reporting (continued)

The following table sets forth historical information on the Company's reportable segments:

	Three months ended September 30, 2000			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	$17,063	$9,786	$6,546	$33,395
Operating expenses	10,385	7,838	5,517	23,740
Segment profit	$ 6,678	$1,948	$1,029	$ 9,655

	Three months ended September 30, 2001			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	$23,578	$11,358	$5,619	$40,555
Operating expenses	14,586	8,870	5,277	28,733
Segment profit	$ 8,992	$ 2,488	$ 342	$11,822

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

	Three months ended September 30,	
	2000	2001
Operating Profit:		
Total segment profit	$ 9,655	$11,822
Corporate general and administrative expenses	(1,925)	(2,648)
Depreciation and amortization	(1,965)	(2,167)
Interest expense, net	(3,143)	(971)
Income before income taxes	$ 2,622	$ 6,036

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

7. Segment Reporting (continued)

	Pro forma nine months ended September 30, 2000			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	$48,352	$29,454	$23,626	$101,432
Operating expenses	28,303	23,901	18,224	70,428
Segment profit	$20,049	$ 5,553	$ 5,402	$ 31,004

The following table sets forth historical information on the Company's reportable segments:

	Actual nine months ended September 30, 2000			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	$45,913	$29,454	$23,626	$98,993
Operating expenses	27,250	23,901	18,224	69,375
Segment profit	$18,663	$ 5,553	$ 5,402	$29,618

	Nine months ended September 30, 2001			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	$71,664	$32,358	$20,162	$124,184
Operating expenses	43,464	26,272	17,360	87,096
Segment profit	$28,200	$ 6,086	$ 2,802	$ 37,088

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

	Nine Months ended September 30,		
	Pro forma 2000	Actual 2000	Actual 2001
Operating Profit:			
Total segment profit	$31,004	$29,618	$37,088
Corporate general and administrative expenses	(6,031)	(6,031)	(7,152)
Depreciation and amortization	(5,715)	(5,494)	(6,529)
Interest expense, net	(9,217)	(8,637)	(3,559)
Income before income taxes and extraordinary item	$10,041	$ 9,456	$19,848

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

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

Overview

FTI Consulting, Inc. (the "Company" or "FTI") is a multi-disciplined consulting firm with leading practices in the areas of financial restructuring, litigation support and engineering and scientific investigation. Our Financial Consulting division, which accounted for 58% of our revenues for the nine months ended September 30, 2001 and was our most profitable division, offers a broad range of financial consulting services, such as forensic accounting, bankruptcy and restructuring analysis, expert testimony, damage assessment, cost benefit analysis and business valuations. Our Litigation Consulting division, which accounted for 16% of our revenues for the nine months ended September 30, 2001, provides advice and services in connection with all phases of the litigation process. Our Applied Sciences division, which accounted for 26% of our revenues for the nine months ended September 30, 2001, offers forensic engineering and scientific investigation services, accident reconstruction, fire investigation and expert testimony regarding intellectual property rights.

Revenues generated by our business divisions consist primarily of fees for our professional services. We charge our professionals' time at hourly rates, which vary from professional to professional, based on the professional's position, experience and expertise. We also directly bill our clients for services provided by our independent consultants. We recognize revenues for the production of our work product, including static graph boards, color copies and digital video production and fees for use of our equipment and facilities. We also pass through our out-of-pocket expenses, such as our cost of recruiting subjects and participants for research surveys and mock trial activities and our travel. We recognize revenues in the period when the service is provided. Retainers received from clients are excluded from revenue and offset against accounts receivable.

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.

Selling, general and administrative expenses consist primarily of salaries and benefits paid to office and corporate staff, as well as rent, marketing and corporate overhead expenses. For the nine months ended September 30, 2001, selling, general and administrative expenses accounted for about 26.3% of revenues. Our corporate costs, which are included in selling, general and administrative expenses, represented about 5.8% of revenues for the nine months ended September 30, 2001.

We are organized into three distinct operating segments that contribute to the overall performance of our company. As such, we evaluate segment performance and allocate resources based on the operating income before depreciation and amortization, corporate general and administrative expenses and income taxes for each division. In the first nine months of 2001, our Financial Consulting division accounted for 76.0% of our total segment profit, while our Litigation Consulting division accounted for 7.6% and our Applied Sciences division accounted for 16.4%.

On September 30, 2001, we had about $91.0 million of unamortized goodwill, which we are amortizing over 20 to 25 year periods. Annual goodwill amortization is approximately $5.0 million. (See "Future Assessment of Recoverability and Impairment of Goodwill" and "Effect of Recent Accounting Pronouncements" below.) Approximately $14.0 million of our unamortized goodwill is not deductible for tax purposes. Consequently, our effective tax rate for 2001 is anticipated to be 40.5% before amortization of goodwill and 41.4% after amortization of goodwill.

Acquisition

On February 4, 2000, we acquired Policano & Manzo, L.L.C. ("P&M") as further described in Note 6 of "Notes to Consolidated Financial Statements." P&M, based in Saddle Brook, New Jersey, specializes in providing financial restructuring, advisory and forensic accounting services to the workout and bankruptcy community. These services are provided on a nationwide basis to financially distressed businesses, creditors, investors and other interested parties. The initial purchase price totaled $54.9 million, consisting of $48.3 million in cash, 815,000 shares of our common stock valued at $5.5 million and acquisition-related expenses of $1.1 million.

Results of Operations

Three Months Ended September 30, 2001 and September 30, 2000

Revenues. Total revenues for the three months ended September 30, 2001 increased 21.6% to $40.6 million from $33.4 million for the three months ended September 30, 2000. Our Financial Consulting division's revenues grew by 38.0% to $23.6 million from $17.1 million, primarily as a result of the Company's ability to recruit seasoned financial professionals to meet the continued strong demand for our financial consulting services. Our Litigation Consulting division's revenues decreased 13.8% to $5.6 million in the third quarter of 2001 from $6.5 million in the third quarter of 2000, continuing the decline that began in the third quarter of 2000 primarily as a result of an unusual number of trials that were deferred or cancelled due to settlement or settlement discussions. Management continues to monitor this business segment closely and has taken significant steps to contain costs, including reorganizing responsibilities along national lines for our two principal practice areas, trial consulting and trial technologies. Our goals are to improve our overall utilization of employees, further standardize practices, install new incentive systems for our sales and marketing efforts, establish new profit incentive programs for these practice areas, and to continue to reduce costs by flattening our organizational structure. Our Applied Sciences division showed 16.3% revenue growth in the third quarter of 2001, to $11.4 million, from $9.8 million in the third quarter of 2000, as it continues to enjoy a very strong market for its services.

Direct Cost of Revenues. Direct cost of revenues was 51.3% of our total revenues in the third quarters of 2001 and 2000.

Selling, General and Administrative Expenses. These expenses were 28.3% of total revenues in the third quarter of 2001 and 27.7% in 2000. The change in 2001 was primarily attributable to increased occupancy costs in our Financial Consulting Division, and increased corporate expenses.

Amortization of Goodwill. Amortization of goodwill in the third quarters of 2001 and 2000 remained approximately the same. We discuss goodwill amortization further in "Future Assessment of Recoverability and Impairment of Goodwill" below.

Other Income and Expenses. Interest expense consisted primarily of interest on debt we incurred to purchase businesses over the past several years. Interest expense decreased substantially in the third quarter of 2001 compared to 2000 through the reduction in debt and interest rates. We used the proceeds of an equity offering in October 2000 to repay $30.0 million of debt; refinanced our remaining debt in late 2000 to achieve lower interest rates; used cash generated from operations and proceeds from the exercise of options and warrants to pay down debt; and market interest rates on our revolving credit facility have declined.

Income Taxes. Our effective tax rate decreased to 40.0% in the third quarter of 2001 from 44.0% in 2000, principally from the reduced effect of non-deductible goodwill amortization as income increases. Approximately $14.0 million of our unamortized goodwill is not deductible for tax purposes. Consequently, our effective tax rate for 2001 is anticipated to be 40.5% before amortization of goodwill and 41.4% after amortization of goodwill.

Nine Months Ended September 30, 2001 and September 30, 2000

Revenues. Total revenues for the nine months ended September 30, 2001 increased 25.5% to $124.2 million from $99.0 million for the nine months ended September 30, 2000, or 22.5% based on pro forma revenues of $101.4 million for the first nine months of 2000 including the P&M acquisition. Our Financial Consulting division's revenues grew by 56.2% to $71.7 million from $45.9 million, or 48.1% on a pro forma basis from $48.4 million including the P&M acquisition. Our Litigation Consulting division's revenues decreased 14.4% to $20.2 million in the first nine months of 2001 from $23.6 million in the first nine months of 2000. Our Applied Sciences division experienced 9.8% revenue growth in the first nine months of 2001 to $32.4 million from $29.5 million in the first nine months of 2000.

Direct Cost of Revenues. Direct cost of revenues was 51.8% of our total revenues in the first nine months of 2001 and 50.4% in the first nine months of 2000, or 50.1% based on pro forma revenues and direct costs for the first nine months of 2000 including the P&M acquisition. The reduction in gross margin in 2001 resulted primarily from decreased productivity in the Litigation Consulting division.

Selling, General and Administrative Expenses. These expenses were 26.3% of total revenues in the first nine months of 2001, 27.8% in 2000 and 27.2% on a pro forma basis in 2000. The decrease in 2001 was primarily attributable to the growth of the Financial Consulting division, which has a lower ratio of selling, general and administrative expenses to revenues than the Litigation Consulting and Applied Sciences divisions, net of increases in Financial Consulting division occupancy costs and corporate expenses.

Amortization of Goodwill. Amortization of goodwill in the first nine months of 2001 and 2000 on a pro forma basis remained approximately the same. We discuss goodwill amortization further in "Future Assessment of Recoverability and Impairment of Goodwill" below.

Other Income and Expenses. Interest expense consisted primarily of interest on debt we incurred to purchase businesses over the past several years. Interest expense decreased substantially in the first nine months of 2001 compared to 2000 through the reduction in debt and interest rates. We used the proceeds of an equity offering in October 2000 to repay $30.0 million of debt; refinanced our remaining debt in late 2000 to achieve lower interest rates; used cash generated from operations and proceeds from the exercise of options and warrants to pay down debt; and market interest rates on our revolving credit facility have declined.

Income Taxes. Our effective tax rate decreased to 41.4% in the first nine months of 2001 from pro forma 44.0% in 2000, principally from the reduced effect of non-deductible goodwill amortization. Approximately $14.0 million of our unamortized goodwill is not deductible for tax purposes. Consequently, our effective tax rate for 2001 is anticipated to be 40.5% before amortization of goodwill and 41.4% after amortization of goodwill.

Extraordinary Item, net of Taxes. As a result of the write-off of unamortized debt discount and deferred financing costs associated with the debt that we refinanced on February 4, 2000, we had an $869,000 loss on early extinguishment of debt, net of taxes, in the first nine months of 2000.

Future Assessment of Recoverability and Impairment of Goodwill

In connection with our various acquisitions, we recorded goodwill, which we are amortizing on a straight-line basis over periods of 20 to 25 years. These are the periods during which we estimate we will benefit from this goodwill. At September 30, 2001, unamortized goodwill was $91.0 million, or 59.9% of our total assets and 93.7% of our stockholders' equity. Goodwill arises when an acquirer pays more for a business than the fair value of the tangible and separately measurable intangible net assets. For financial reporting purposes, goodwill and all other intangible assets are amortized over the estimated period benefited. We have determined the period for amortizing goodwill based upon several factors, the most significant of which are the relative size, historical financial viability, growth trends of the acquired companies and the relative lengths of time these companies have been in existence.

Our management periodically reviews the carrying value and recoverability of our unamortized goodwill. If the facts and circumstances suggest that the goodwill may be impaired, we would adjust the carrying value of the goodwill. This would result in an immediate charge against income during the period of the adjustment and/or a shortening of the length of the remaining amortization period, which would result in an increase in the amount of goodwill amortization during the period of adjustment and each period thereafter until fully amortized. If we adjust goodwill, we cannot assure you that we will not have to make further adjustments for impairment and recoverability in future periods. The most significant of the factors we will consider in determining whether goodwill is impaired will be losses from operations; loss of customers; and industry developments such as our inability to maintain market share, the development of competitive products or services or imposition of additional regulatory requirements. (See "Effect of Recent Accounting Pronouncements" below.)

Liquidity and Capital Resources

In the first nine months of 2001, we generated $12.5 million of cash flow from our operations, compared to cash generated from operations of $10.8 million in the first nine months of 2000. We attribute this increase in cash flow primarily to a $7.2 million increase in net income in 2001 reduced by increases in working capital requirements. We experienced a temporary reduction in the customary level of our collections during the period immediately following September 11, 2001, which resulted in higher than normal receivable balances at September 30, 2001. Collections in the early part of October 2001 were accelerated.

During the first nine months of 2001, we spent $2.5 million for additions to property and equipment. At September 30, 2001, we continued the expansion or renovation of five of our major offices scheduled to begin during the fourth quarter of 2001. We expect to spend approximately $3 million on these five offices in the fourth quarter of 2001 and the first half of 2002. We also paid $2.2 million to former owners of businesses we acquired in previous years to satisfy contingent consideration obligations.

During the nine months ended September 30, 2001, options to purchase 1,441,920 shares of common stock were exercised, generating $17.9 million in new capital including related tax benefits. In addition, we sold 116,553 shares of common stock to our employees participating in the Employee Stock Purchase Plan, generating $1.0 million of cash. We used these net proceeds and cash flow from operations to pay-down $26.8 million of debt during the first nine months of 2001.

In the fourth quarter of 2000, we completed a public offering of 4.025 million shares of common stock. We used the net proceeds and our other financial resources to repay the $30.0 million senior subordinated notes that we issued on February 4, 2000. In December 2000, we refinanced our $61.0 million term loan and the $7.5 million revolving credit facility. Our new credit facility consists of an amortizing term loan of $32.5 million, of which $29.4 million was outstanding at September 30, 2001, and a $47.5 million revolving credit line, of which $4.3 million was outstanding at September 30, 2001. The new credit facility bears interest at LIBOR plus 2.25%, which declines if our leverage ratio improves. The interest rate declined to LIBOR plus 2.00% at the beginning of August 2001 based on our leverage ratio as of June 30, 2001 and will decline to 1.75% at the beginning of November 2001 based on our leverage ratio at September 30, 2001. We obtained interest rate protection, through interest rate swaps, on the $32.5 million term loan.

The new credit facility is secured by all of our assets. Under this facility, we are required to comply with various specified financial covenants related to our operating performance at the end of each quarter, and the payment of dividends is restricted. We believe we will be in compliance with all loan covenants throughout 2001. The Company expects that available cash and credit facilities will be sufficient to meet its normal operating requirements in the near term.

Effect of Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board approved the issuance of Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 on business combinations changes current practice by requiring the use of the purchase method for all business combinations initiated after June 30, 2001, thereby eliminating the use of the pooling-of-interests method of accounting. Additionally, Statement No. 141 provides new criteria for determining whether acquired intangible assets should be recognized separately from goodwill and continues to ensure that the presentation of pro forma information required under Accounting Principle Board No. 16, Business Combinations, is included in the financial statements.

Statement No. 142, Goodwill and Other Intangible Assets, eliminates the requirement to amortize goodwill over finite lives. Rather, the asset must be tested for impairment at least annually at the reporting unit level using an approach defined by the Statement. Upon adoption of Statement No. 142, goodwill amortization will cease. Any impairment loss recognized as a result of a transitional impairment test of goodwill is recognized as the effect of a change in accounting principle in the period of adoption. Statement No. 142 will be effective for the Company beginning January 1, 2002.

Upon adopting Statement No. 142, management believes that a transitional impairment charge will not be required. Amortization of goodwill, expected to total approximately $5 million in 2001 will cease in 2002.

Forward-Looking Statements

Some of the statements under "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and elsewhere in this Quarterly Report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements expressed or implied by such forward-looking statements not to be fully achieved. These forward-looking statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These statements are only predictions. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform such statements to actual results and do not intend to do so. Factors which may cause the actual results of operations in future periods to differ materially from intended or expected results include, but are not limited to (1) the loss of any key employees because the Company's business involves the delivery of professional services and is labor-intensive; (2) the availability and terms of additional capital or debt financing to fund future acquisitions and for working capital purposes; (3) significant competition for business opportunities and acquisition candidates; (4) technological changes affecting our Litigation Consulting division; (5) the risks of professional liability; (6) any factor that diminishes our professional reputation; (7) fluctuations of revenue and operating income between quarters or termination of client engagements; (8) the successful management of the growth of our business; (9) the integration of future acquisitions; and (10) risks associated with quantitative and qualitative market risks such as fluctuations in interest rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At September 30, 2001, the Company had $33.7 million in long-term debt. As discussed in Note 2 to the Consolidated Financial Statements (unaudited) at September 30, 2001, $29.4 million of long-term debt was hedged with interest rate swaps, effectively fixing the interest rate at 6.63% and 6.65%. This debt bears interest at variable percentages above LIBOR, currently 2.0%, as determined by the credit agreement.

Therefore, at September 30, 2001, the remaining $4.3 million of the Company's long-term debt bears interest at variable rates. The Company's earnings and after-tax cash flow are affected by changes in interest rates. Assuming the current level of borrowings and assuming a hypothetical 200 basis point increase in interest rates under the Company's long-term bank credit facility for one year, the Company's annual interest expense would increase by approximately $86,000 and net income would decrease by approximately $51,000.

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not presently a party to any material litigation.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

SIGNATURES

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

FTI CONSULTING, INC.

Date: November 8, 2001

By /s/Theodore I. Pincus

THEODORE I. PINCUS
Executive Vice President, Chief Financial Officer (principal financial and accounting officer) and Secretary