

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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, 2000

OR

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

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

Commission file number: 001-14875

FTI CONSULTING, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

Maryland

52-1261113

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(IRS Employer Identification No.)

2021 Research Drive, Annapolis, Maryland

21401

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

410-224-8770

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

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

Title of Each Class

Name of Each Exchange on Which Registered

-----  
Common Stock, \$.01 par value

-----  
American Stock Exchange

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

Indicate 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 10, 2000

-----  
Common Stock, par value

\$.01 per share

-----  
10,566,347

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Part I. Financial Information

FTI Consulting, Inc. and Subsidiaries

Consolidated Balance Sheets  
(in thousands of dollars)

	December 31, 1999	September 30, 2000
	----- (audited)	----- (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,046	\$ 6,967
Accounts receivable, less allowance of \$1,065 in 1999 and \$1,207 in 2000	14,458	25,149
Unbilled receivables, less allowance of \$1,160 in 1999 and \$926 in 2000	9,222	13,614
Income taxes recoverable	64	775
Deferred income taxes	641	641
Prepaid expenses and other current assets	1,461	1,240
Total current assets	----- 30,892	----- 48,386
Property and equipment:		
Furniture, equipment and software	17,205	18,804
Leasehold improvements	1,955	3,652
	----- 19,160	----- 22,456
Accumulated depreciation and amortization	(10,781)	(11,682)
	----- 8,379	----- 10,774
Goodwill, net of accumulated amortization of \$3,473 in 1999 and \$6,955 in 2000	43,658	92,489
Other assets	1,363	3,929
Total assets	----- \$ 84,292	----- \$155,578
	=====	=====

See accompanying notes.

FTI Consulting, Inc. and Subsidiaries

Consolidated Balance Sheets  
(in thousands of dollars)

	December 31, 1999	September 30, 2000
	----- (audited)	----- (unaudited)
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,240	\$ 2,720
Accrued compensation expense	5,373	8,938
Deferred income taxes	471	471
Current portion of long-term debt	1,718	4,750
Advances from clients	435	6,626
Other current liabilities	422	2,499
	-----	-----
Total current liabilities	11,659	26,004
Long-term debt, less current portion	41,009	81,070
Other long-term liabilities	411	163
Deferred income taxes	961	961
Commitments and contingent liabilities	-	-
Stockholders' equity:		
Preferred stock, \$.01 par value; 4,000,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par value; 16,000,000 shares authorized; 4,913,905 and 6,541,347 shares issued and outstanding in 1999 and 2000, respectively	49	65
Additional paid-in capital	18,197	30,883
Retained earnings	12,006	16,432
	-----	-----
Total stockholders' equity	30,252	47,380
	-----	-----
Total liabilities and stockholders' equity	\$84,292	\$155,578
	=====	=====

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,		
	Actual 1999	Pro Forma 1999	Actual 2000
	(unaudited)		
Revenues	\$20,855	\$26,164	\$33,395
Direct cost of revenues	11,012	12,782	17,132
Selling, general and administrative expenses	7,114	7,471	9,265
Amortization of goodwill	570	1,229	1,233
Total costs and expenses	18,696	21,482	27,630
Income from operations	2,159	4,682	5,765
Other income (expense):			
Interest and other income	110	110	83
Interest expense	(1,099)	(3,069)	(3,226)
	(989)	(2,959)	(3,143)
Income before income taxes	1,170	1,723	2,622
Income taxes	515	744	1,154
Net income	\$ 655	\$ 979	\$ 1,468
Net income per common share, basic	\$ 0.13	\$ 0.15	\$ 0.22
Net income per common share, diluted	\$ 0.13	\$ 0.15	\$ 0.19

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, 1999	2000
	----- (unaudited)	
Revenues	\$62,127	\$98,993
Direct cost of revenues	32,362	49,942
Selling, general and administrative expenses	21,559	27,476
Amortization of goodwill	1,709	3,482
	-----	
Total costs and expenses	55,630	80,900
	-----	
Income from operations	6,497	18,093
Other income (expense):		
Interest and other income	253	175
Interest expense	(3,061)	(8,812)
	-----	
	(2,808)	(8,637)
	-----	
Income before income taxes and extraordinary item	3,689	9,456
Income taxes	1,704	4,161
	-----	
Income before extraordinary item	1,985	5,295
Extraordinary loss on early extinguishment of debt, net of income taxes of \$660	-	869
	-----	
Net income	\$ 1,985	\$ 4,426
	=====	
Income before extraordinary item per common share, basic	\$ 0.41	\$ 0.84
	=====	
Net income per common share, basic	\$ 0.41	\$ 0.71
	=====	
Income before extraordinary item per common share, diluted	\$ 0.40	\$ 0.73
	=====	
Net income per common share, diluted	\$ 0.40	\$ 0.61
	=====	

See accompanying notes.

FTI Consulting, Inc. and Subsidiaries

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

	Pro Forma	
	Nine months ended September 30, 1999	2000
	----- (unaudited)	
Revenues	\$78,439	\$101,432
Direct cost of revenues	37,550	50,892
Selling, general and administrative expenses	22,684	27,583
Amortization of goodwill	3,687	3,699
	-----	
Total costs and expenses	63,921	82,174
	-----	
Income from operations	14,518	19,258
Other income (expense):		
Interest and other income	253	175
Interest expense	(9,210)	(9,392)
	-----	
	(8,957)	(9,217)
	-----	
Income before income taxes and extraordinary item	5,561	10,041
Income taxes	2,385	4,418
	-----	
Income before extraordinary item	3,176	5,623
Extraordinary loss on early extinguishment of debt, net of income taxes of \$660	-	869
	-----	
Net income	\$ 3,176	\$ 4,754
	=====	
Income before extraordinary item per common share, basic	\$ 0.51	\$ 0.87
	=====	
Net income per common share, basic	\$ 0.51	\$ 0.74
	=====	
Income before extraordinary item per common share, diluted	\$ 0.50	\$ 0.76
	=====	
Net income per common share, diluted	\$ 0.50	\$ 0.64
	=====	

See accompanying notes.

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

	Nine months ended September 30,	
	1999	2000
	(unaudited)	
Operating activities		
Net income	\$ 1,985	\$ 4,426
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	1,709	3,482
Depreciation and other amortization	1,773	2,012
Provision for doubtful accounts	782	(91)
Deferred income taxes	(132)	-
Loss (gain) on disposal of assets	(7)	(41)
Non-cash interest expense	-	1,818
Changes in operating assets and liabilities:		
Accounts receivable	(160)	(5,637)
Unbilled receivables	(2,528)	(3,773)
Prepaid expenses and other current assets	(459)	227
Accounts payable and accrued expenses	(1,059)	(1,443)
Accrued compensation expense	1,465	3,008
Income taxes recoverable/payable	513	(711)
Advances from clients	(86)	3,948
Other current liabilities	947	2,000
Net cash provided by operating activities	4,743	10,754
Investing activities		
Purchase of property and equipment	(1,574)	(4,257)
Proceeds from sale of property and equipment	206	47
Contingent payments to former owners of subsidiaries	(624)	(185)
Costs associated with acquisition of subsidiaries	(67)	-
Acquisition of P&M, including acquisition costs	-	(49,404)
Change in other assets	(19)	(19)
Net cash used in investing activities	(2,078)	(53,818)
Financing activities		
Issuance of common shares	377	1,082
Payments of long-term debt	(15,663)	(40,820)
Retirement of detachable stock warrants	-	(277)
Payment of financing fees	(1,038)	(3,950)
Proceeds from senior credit facility, net	-	58,875
Proceeds from subordinated notes payable and detachable stock warrants	13,000	30,358
Payments of other long-term liabilities	(111)	(283)
Net cash provided by (used in) financing activities	(3,435)	44,985
Net increase (decrease) in cash and cash equivalents	(770)	1,921
Cash and cash equivalents at beginning of period	3,223	5,046
Cash and cash equivalents at end of period	\$ 2,453	\$ 6,967

See accompanying notes.



FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000  
(in thousands of dollars, except per share data)

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, 1999.

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 period ended September 30, 2000, are not necessarily indicative of the results that may be expected for the year ended December 31, 2000.

The accompanying Pro Forma Consolidated Statements of Income for the three months ended September 30, 1999, and nine months ended September 30, 2000 and 1999, are 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, 1999 (see Notes 5 and 6). These Pro Forma Financial Statements should be read in conjunction with the Company's current report on Form 8-K, filed on April 6, 2000. This Form 8-K more fully describes the assumptions used in preparing the pro forma financial information. The Pro Forma Consolidated Statements of Income are not necessarily indicative of the operating results that would have been achieved had the transactions actually occurred on January 1, 1999, nor are they necessarily indicative of future operations.

Effect of Pending Adoption of an Accounting Pronouncement

In December 1999, the SEC staff issued Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements ("SAB 101"). SAB 101 explains how the SEC believes existing rules for revenue recognition should be applied to transactions not specifically addressed by existing rules. In October 2000, the SEC staff issued a Frequently Asked Questions document ("FAQ") on SAB 101 to assist with implementation questions. The Company will be required to adopt SAB 101 in the fourth quarter of 2000, and based upon a preliminary review of the SAB and the FAQ, management believes that the adoption of SAB 101 will not have an effect on the Company's reported operating results.

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

Effect of Pending Adoption of an Accounting Pronouncement (continued)

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement, which the Company will be required to adopt in January 2001, provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The Company currently conducts hedging activities to protect itself against market risk from changes in interest rates. This Statement will require the Company to recognize its derivatives on the balance sheet at fair value. Additionally, changes in the fair value of these derivatives will be recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. Based on the Company's derivative position at September 30, 2000, the Company estimates that upon adoption it will report a gain from the cumulative effect of adoption and an increase in other comprehensive income of approximately \$340,000. See Note 6 -- Debt for the details surrounding the Company's interest rate swaps and cap transactions.

2. Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at January 1, 2000	\$49	\$18,197	\$12,006	\$30,252
Issuance of warrants to purchase 670,404 shares of common stock in connection with debt refinancing		3,714		3,714
Retirement of 130,835 warrants to purchase common stock in connection with early retirement of debt		(277)		(277)
Issuance of 604,504 shares of common stock in exchange for debt to sellers of acquired businesses	6	2,677		2,683
Issuance of 815,000 shares of common stock for the acquisition of Policano & Manzo, L.L.C.	8	5,493		5,501
Issuance of 118,271 shares of common stock under Employee Stock Purchase Plan	1	514		515
Issuance of 20,000 shares of restricted common stock	-	159		159
Exercise of options and warrants to purchase 69,667 shares of common stock	1	406		407
Net income for nine months ended September 30, 2000			4,426	4,426
Balance at September 30, 2000	\$65	\$30,883	\$16,432	\$47,380

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

3. Earnings Per Share

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

	Three months ended September 30,		
	Actual 1999	Pro Forma 1999	Actual 2000
Numerator used in basic and diluted earnings per common share:			
Net income	\$ 655	\$ 979	\$1,468
Denominator:			
Denominator for basic earnings per common share - weighted average shares	4,914	6,333	6,536
Effect of dilutive securities:			
Warrants	213	142	633
Employee stock options	92	92	567
	305	234	1,200
Denominator for diluted earnings per common share - weighted average shares and effect of dilutive securities			
	5,219	6,567	7,736
Net income per common share, basic			
	\$ 0.13	\$ 0.15	\$ 0.22
Net income per common share, diluted			
	\$ 0.13	\$ 0.15	\$ 0.19

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

3. Earnings Per Share (continued)

	Actual		Pro Forma	
	Nine months ended September 30, 1999	2000	Nine months ended September 30, 1999	2000
-----				
Numerator used in basic and diluted earnings per common share:				
Income before extraordinary item	\$1,985	\$5,295	\$3,176	\$5,623
Extraordinary item, net of taxes	-	869	-	869
-----				
Net income	\$1,985	\$4,426	\$3,176	\$4,754
=====				
Denominator:				
Denominator for basic earnings per common share - weighted average shares	4,858	6,272	6,277	6,448
Effect of dilutive securities:				
Warrants	95	526	52	570
Employee stock options	33	404	33	420
-----				
	128	930	85	990
-----				
Denominator for diluted earnings per common share - weighted average shares and effect of dilutive securities	4,986	7,202	6,362	7,438
=====				
Income before extraordinary item per common share, basic	\$ 0.41	\$ 0.84	\$ 0.51	\$ 0.87
Extraordinary loss per common share, basic	-	(0.13)	-	(0.13)
-----				
Net income per common share, basic	\$ 0.41	\$ 0.71	\$ 0.51	\$ 0.74
=====				
Income before extraordinary item per common share, diluted	\$ 0.40	\$ 0.73	\$ 0.50	\$ 0.76
Extraordinary loss per common share, diluted	-	(0.12)	-	(0.12)
-----				
Net income per common share, diluted	\$ 0.40	\$ 0.61	\$ 0.50	\$ 0.64
=====				

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

4. Income Taxes

The income tax provisions for interim periods in 2000 and 1999 are based on the estimated effective tax rates applicable for the full years. The Company's income tax provision of \$4,161 for the nine month period ended September 30, 2000 consists of federal and state income taxes. The effective income tax rate in 2000 is expected to be approximately 44%. This rate is higher than the statutory federal income tax rate of 34%, due principally to state and local taxes and the effects of nondeductible goodwill recorded in certain acquisitions.

5. 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 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, 815,000 shares of common stock valued at \$5.5 million, and acquisition related expense of \$1.1 million. The acquisition was accounted for using the purchase method of accounting and approximately \$52.2 million of goodwill was recorded and is being amortized over its estimated useful life of twenty years.

The accompanying unaudited Pro Forma Consolidated Statements of Income give effect to the acquisition of P&M and the related refinancing discussed in Note 6, assuming that these transactions occurred as of January 1, 1999, and should be read in conjunction with the Company's current report on Form 8-K, filed on April 6, 2000.

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

6. Debt

In connection with the acquisition of P&M, the Company entered into a \$68.5 million senior credit facility to provide the cash needed to consummate the acquisition, partially refinance existing long-term debt arrangements and to provide working capital for expansion. The senior credit facility consists of (i) a \$61.0 million amortizing term loan maturing through January 31, 2006, that initially bears interest at LIBOR plus specified margins ranging from 3.25% to 3.75%, and (ii) a \$7.5 million revolving credit facility, initially bearing interest at prime plus 1.75%. The interest rates on these borrowings will decline if the Company's leverage ratios improve.

The Company also issued \$30.0 million of subordinated notes to lenders that mature on January 31, 2007, and bear interest at 17% per annum, payable semi-annually. The interest rate of 17% consists of a cash component equal to 12% per annum of principal and a component payable in additional notes equal to 5% per annum of principal. These lenders also received warrants to purchase 670,404 shares of the Company's common stock at the exercise price of \$4.44 per share that expire on January 31, 2010.

The fair value of these warrants was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 5.5%; expected dividend yield of 0%; expected warrant life of 10 years; and expected stock price volatility of 0.647. Using these assumptions, the fair value of the warrants was computed to be \$5.44 per share, and the total value assigned was \$3.7 million. This amount was recorded as additional paid-in capital and a corresponding debt discount was recorded that is recognized as additional interest expense over the term of the debt instruments.

The proceeds from these borrowings of \$91.0 million, in tandem with \$2.0 million of cash, were used to finance the \$47.5 million cash purchase price of P&M, refinance \$41.2 million of the \$44.0 million of existing long-term debt, and fund acquisition and finance related expenses of \$4.3 million. The remaining \$2.7 million of long-term debt was exchanged for 604,504 shares of common stock.

In connection with the early extinguishment of the \$44.0 million of debt, warrants to purchase 130,835 shares of common stock for \$3.21 per share, were retired. In addition, an extraordinary loss of \$869,000 net of income taxes was incurred related to unamortized debt discount and deferred financing costs attributable to the retired debt.

See Note 8 - Subsequent Events for a description of the partial retirement of the \$30.0 million senior subordinated debt, in connection with an equity offering of 4,025,000 shares of common stock of the Company in October and November 2000.

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

6. Debt (continued)

Debt consists of the following:

	December 31, 1999	September 30, 2000
	-----	-----
Amounts due under the \$61.0 million amortizing term loans	\$ -	\$ 58,875
Amounts due under \$30.0 million subordinated notes (net of discount of \$3.4 million and PIK interest of \$358,000)	-	26,945
Amounts due under a \$27.0 million long-term credit facility (net of discount of \$36,000 in 1999), bearing interest at LIBOR plus variable percentages	19,964	-
Notes payable to former shareholders of acquired businesses (net of discount of \$169,000)	10,611	-
Subordinated debentures (net of discount of \$848,000) bearing interest at 9.25%	12,152	-
	-----	-----
Total debt	42,727	85,820
Less current portion	(1,718)	(4,750)
	-----	-----
Total long-term debt	\$ 41,009	\$ 81,070
	=====	=====

The aggregate maturities of long-term debt outstanding at September 30, 2000, prior to amortization of debt discount are as follows:

October 1 through	
December 31, 2000	\$ 1,063
December 31, 2001	5,750
December 31, 2002	7,750
December 31, 2003	11,250
December 31, 2004	14,500
December 31, 2005	14,875
Thereafter	33,687
	-----
	\$88,875
	=====

FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

6. Debt (continued)

In March 2000, the Company entered into interest rate swap and cap transactions on \$41.0 million of the outstanding amortizing term loans, in accordance with provisions of the credit facility. The \$20.5 million swap transactions resulted in exchanging floating LIBOR rates for fixed rates. The \$20.5 million cap transactions limited the Company's exposure to substantial increases in the LIBOR rate by establishing the maximum rate over the life of the cap to be 7.75%. These interest rate hedge transactions expire in three years. The premium associated with the cap transactions have been incorporated into the swap transactions and resulted in the fixed rates of 7.41% on \$10.0 million and 7.43% on \$10.5 million. The fair value of swap and cap agreements and changes in the fair value as a result of changes in market interest rates are not recognized in the consolidated financial statements.

7. Segment Reporting

The Company provides litigation and claims management consulting services 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. The following table sets forth information on the Company's reportable segments:



FTI Consulting, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2000 (continued)  
(in thousands of dollars, except per share data)

7. Segment Reporting (continued)

	Three months ended September 30, 1999			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 4,355	\$ 9,547	\$ 6,953	\$20,855
Operating expenses	3,508	7,746	5,186	16,440
Segment profit	\$ 847	\$ 1,801	\$ 1,767	\$ 4,415

	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

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

	Three months ended September 30, 1999	Three months ended September 30, 2000
Operating Profit:		
Total segment profit	\$ 4,415	\$ 9,655
Corporate general and administrative expenses	(1,081)	(1,925)
Depreciation and amortization	(1,175)	(1,965)
Interest and other expense	(989)	(3,143)
Income before income taxes	\$ 1,170	\$ 2,622

The following table sets forth information on the Company's reportable segments for the nine months ended September 30, 1999 and nine months ended September 30, 2000:

	Nine months ended September 30, 1999			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 14,259	\$ 27,316	\$ 20,552	\$62,127
Operating expenses	10,755	22,644	14,889	48,288
Segment profit	\$ 3,504	\$ 4,672	\$ 5,663	\$13,839

	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



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

	Nine months ended September 30,	
	1999	2000
-----		
Operating Profit:		
Total segment profit	\$ 13,839	\$ 29,618
Corporate general and administrative expenses	(3,860)	(6,031)
Depreciation and amortization	(3,481)	(5,494)
Interest and other expense	(2,809)	(8,637)
	-----	-----
Income before income taxes and extraordinary item	\$ 3,689	\$ 9,456
	=====	=====

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

#### 8. Subsequent Event

In October and November 2000, the Company completed an equity offering of 4,025,000 shares of common stock, which resulted in net proceeds of \$24 million, after deducting underwriting discounts, commissions and offering expenses. The proceeds from this offering plus other financial resources of the Company were used to retire approximately \$28.5 million of the principal on the senior subordinated debt, plus accrued interest and a prepayment penalty. As a result of retiring a portion of the senior subordinated debt, the Company incurred an extraordinary loss of \$3 million, net of related income taxes, for the prepayment penalty, waivers and the write-off of unamortized deferred financing costs and debt discount.

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

Overview

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 46% of our revenues for the nine-months ended September 30, 2000, 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. Our Litigation Consulting division, which accounted for 24% of our revenues for the nine months ended September 30, 2000, provides advice and services in connection with all phases of the litigation process. Our Applied Sciences division, which accounted for 30% of our revenues for the nine months ended September 30, 2000, 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, mock trial activities and our travel. We recognize revenues in the period when the service is provided.

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, 2000, selling, general and administrative expenses accounted for about 27.8% of our revenues. Our corporate overhead costs, excluding depreciation and amortization, which are included in selling, general and administrative expenses, represented about 6.1% of revenues for the nine months ended September 30, 2000.

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, interest and income taxes for each division. For the nine months ended September 30, 2000, our Financial Consulting division accounted for 63.0% of this operating income, our Litigation Consulting division accounted for 18.2% and our Applied Sciences division accounted for 18.8%.

On September 30, 2000, we had about \$92.5 million of unamortized goodwill, which we are amortizing over periods from 15 to 25 years. Annual goodwill amortization, including goodwill associated with the acquisition of P&M, is approximately \$5.1 million. Approximately \$14.7 million of this goodwill is not deductible for tax purposes. Consequently, we estimate that our effective tax rate for 2000 will be about 42% before amortization of goodwill and 44% after amortization of goodwill.

Recent Acquisitions

Since September 1997, we made nine major acquisitions, all of which were accounted for as purchases.

On February 4, 2000, we acquired Policano & Manzo as further described in Note 5 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 work-out and bankruptcy community. These services are provided on a nationwide basis to financially distressed businesses,

creditors, investors and other interested parties. The purchase price consisted of \$48.3 million in cash and 815,000 shares of our common stock.

In September 1998, we acquired both S.E.A., Inc. ("SEA") and Kahn Consulting, Inc. ("KCI"). SEA, headquartered in Columbus, Ohio, provides investigation, research, analysis and quality control services in areas such as distress, product failure, fire and explosion, and vehicle and workplace accidents. The SEA acquisition has allowed us to significantly expand our scientific consulting offerings, in addition to providing geographic expansion into the southeast and mid-west markets. KCI, headquartered in New York City, provides expert testimony on accounting and financial issues; forensic accounting and fraud investigation services; strategic advisory, turnaround, bankruptcy and trustee services; and government contract consulting.

In June 1998, we acquired Klick, Kent & Allen ("KK&A"). KK&A provides strategic and economic consulting to various regulated businesses, advising on such matters as industry deregulation, mergers and acquisitions, rate and cost structures, economic and financial modeling and litigation risk analysis. The acquisitions of KCI and KK&A provided the foundation for our expansion of financial consulting services into cities where we already had a presence.

In September 1997, we acquired L.W.G., Inc. ("LWG") and Bodaken & Associates. LWG broadened our offerings to the insurance market by adding capabilities in claims management consulting and restoration services. Bodaken enhanced our jury and trial consulting capabilities, particularly in the western region of the U.S.

#### Results of Operations

Three Months Ended September 30, 2000 and September 30, 1999

Revenues. Total revenues for the three months ended September 30, 2000, increased 59.8% to \$33.4 million compared to \$20.9 million for the three months ended September 30, 1999. For the three months ended September 30, 2000, revenues in our Financial Consulting division grew by \$12.7 million, or 288.6%, to \$17.1 million, compared to the third quarter of 1999. Our acquisition of P&M, as of January 31, 2000, accounted for \$7.8 million of this growth, with \$4.9 million generated by internal growth. Litigation Consulting division revenues decreased 5.7% from \$7.0 million in the third quarter of 1999 to \$6.6 million in the third quarter of 2000. The Applied Sciences division had 3.2% growth to \$9.8 million in revenues in the three months ended September 30, 2000, compared to \$9.5 million in the third quarter of 1999.

Direct Cost of Revenues. Direct cost of revenues consists primarily of billable employee compensation and related payroll benefits, the cost of outside consultants assigned to revenue-generating activities and other related expenses billable to clients. Direct cost of revenues improved to 51.3% of total revenues for the three months ended September 30, 2000, compared to 52.8% of total revenues for the three months ended September 30, 1999. We attribute this improvement primarily to the acquisition of P&M and productivity increases in the Applied Sciences and Financial Consulting divisions that exceeded a productivity decrease in the Litigation Consulting division.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of salaries and benefits paid to our office and corporate staff, as well as rent, marketing and corporate overhead expenses. These expenses were 27.7% of total revenues for the three months ended September 30, 2000, compared to 34.1% for the three months ended September 30, 1999. This improvement resulted primarily from the fact that P&M's selling, general and administrative expenses are a lower percentage of revenues and our significant revenue increases that exceeded the rate of increase of our selling, general and administrative expenses.

Amortization of Goodwill. Amortization of goodwill increased from \$570,000 in the third quarter of 1999 to \$1.2 million in the third quarter of 2000 as a result of our acquisition of P&M as of January 31, 2000.

Interest Expense, net. Net interest expense increased to \$3.1 million for the three months ended September 30, 2000, from \$1.0 million for the three months ended September 30, 1999. Interest expense consisted primarily of net interest expense associated with the purchased businesses referred to above, including P&M, and the refinancing of our debt on February 4, 2000. We discuss this refinancing below in "Liquidity and Capital Resources."

Income Taxes. Our effective income tax rates remained at 44.0% in the third quarters of 2000 and 1999.

Nine Months ended September 30, 2000 and September 30, 1999

Revenues. Total revenues for the nine months ended September 30, 2000 increased 59.4% to \$99.0 million compared to \$62.1 million for the nine months ended September 30, 1999. For the nine months ended September 30, 2000, revenues in our Financial Consulting division grew by \$31.6 million, or 221.0%, to \$45.9 million, compared to the first nine months of 1999. Our acquisition of P&M as of January 31, 2000 accounted for \$21.1 million of this growth, with \$10.5 million generated by internal growth. Litigation Consulting division revenues increased 14.6% from \$20.6 million in the first nine months of 1999 to \$23.6 million in the first nine months of 2000. The Applied Sciences division increased 8.1% to \$29.5 million in revenues in the nine months ended September 30, 2000, compared to \$27.3 million in the first nine months of 1999.

Direct Cost of Revenues. Direct cost of revenues consists primarily of billable employee compensation and related payroll benefits, the cost of outside consultants assigned to revenue-generating activities and other related expenses billable to clients. Direct cost of revenues improved to 50.5% of total revenues for the nine months ended September 30, 2000, compared to 52.1% of total revenues for the nine months ended September 30, 1999. We attribute this improvement primarily to the acquisition of P&M and productivity increases in the Applied Sciences and Financial Consulting divisions that exceeded a productivity decrease in the Litigation Consulting division.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of salaries and benefits paid to our office and corporate staff, as well as rent, marketing and corporate overhead expenses. These expenses were 27.8% of total revenues for the nine months ended September 30, 2000, compared to 34.7% for the nine months ended September 30, 1999. This improvement resulted primarily from the fact that P&M's selling, general and administrative expenses are a lower percentage of revenues and our significant revenue increases that exceeded the rate of increase of our selling, general and administrative expenses.

Amortization of Goodwill. Amortization of goodwill increased from \$1.7 million in the first nine months of 1999 to \$3.5 million in the first nine months of 2000 as a result of our acquisition of P&M as of January 31, 2000.

Interest Expense, net. Net interest expense increased to \$8.6 million for the nine months ended September 30, 2000, from \$3.0 million for the nine months ended September 30, 1999. Interest expense consisted primarily of net interest expense associated with the purchased businesses referred to above, including P&M, and the refinancing of our debt on February 4, 2000. We discuss this refinancing below in "Liquidity and Capital Resources."

Income Taxes. In the first nine months of 2000, our effective income tax rate decreased to 44.0% from 46.2% in the first nine months of 1999. This decrease was primarily the result of the proportionately lower non-deductible goodwill amortization resulting from our acquisitions in 1997 and 1998.

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, including P&M, we recorded goodwill, which we are amortizing on a straight-line basis over periods of 15 to 25 years. These are the periods during which we estimate we will benefit from this goodwill. At September 30, 2000, unamortized goodwill was \$92.5 million, or 59.4% of our total assets and 195.1% 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, including our inability to maintain market share, development of competitive products or services and imposition of additional regulatory requirements.

#### Liquidity and Capital Resources

In the first nine months of 2000, we generated \$10.8 million of cash flow in our operations, compared to \$4.7 million in the first nine months of 1999. This greater generation of cash was attributable to the significant increase in net income excluding non-cash charges for depreciation and amortization and the extraordinary item of \$1.5 million before taxes, reduced by increases in net working capital balances, including the working capital needs of P&M. We anticipate that our cash flow from operations for the rest of 2000 will increase over 1999 in part by an increase in net income before non-cash charges.

To finance the P&M acquisition, we entered into a senior credit facility, consisting of a \$61.0 million amortizing term loan maturing through January 31, 2006, initially bearing interest at LIBOR plus specified margins ranging from 3.25% to 3.75%, which may decline based on our leverage ratio; a \$7.5 million revolving credit facility, bearing interest at prime plus 1.75%, which also may decline based on our leverage ratio; and \$30.0 million of senior subordinated notes maturing January 31, 2007, bearing 12% annual cash interest and 5% annual interest payable in kind (PIK). We obtained interest rate protection on \$41.0 million of the \$61.0 million term loan.

The credit facilities are secured by all of our assets. We are required to comply with various specified financial covenants related to our operating performance and liquidity at the end of each quarter. We believe we will be in compliance with all covenants throughout 2000. We used the proceeds of these facilities, together with approximately \$3.0 million of our existing cash, to purchase P&M and to refinance our existing debt of approximately \$44.0 million. We also issued 604,504 shares of our common stock to retire approximately \$2.7 million of our seller notes to several members of our senior management team whose businesses we had previously acquired.

In connection with the senior subordinated notes, we issued the holders warrants to purchase approximately 670,000 shares of our common stock at an exercise price of \$4.44 per share. The warrants expire ten years from the date of closing. At the same time, we retired warrants for 130,835 shares of our common stock issued in March 1999, in connection with our prior subordinated debt of \$13.0 million, which we repaid as part of this refinancing.

In 1998, we had borrowed \$26.0 million under our prior \$27.0 million long-term credit facility with a bank to provide the \$26.4 million of cash needed for the initial payments in the acquisition of KK&A, KCI and SEA. We renegotiated this credit facility in March 1999, and repaid it on February 4, 2000. In March 1999, we issued \$13.0 million of subordinated debentures, that we also repaid on February 4, 2000.

In connection with the acquisition of businesses in 1997 and 1998, we issued seller notes that totaled \$10.8 million at December 31, 1999. We repaid \$8.1 million of these notes in the refinancing on February 4, 2000, and exchanged approximately \$2.7 million for our common stock as noted in Note 6 of Notes to Consolidated Financial Statements.

During the nine months ended September 30, 2000, we spent \$4.3 million for additions to property and equipment. This amount included expenditures for internal information systems that allow us to better manage our expanding operations, software developed to provide service to our clients, and about \$2.2 million for leasehold improvements, furniture and fixtures for a new office in New York City, which we occupied in late September 2000.

We believe that cash generated from our operations will allow us to meet our obligations that mature in 2000 and thereafter, and also provide us the necessary cash resources we will need in the near term to fund our expanding operations.

In addition, in October 2000, we completed an equity offering of 3.5 million shares of common stock, which resulted in net proceeds of \$20.8 million, after deducting underwriting discounts, commissions and offering expenses. The proceeds of this offering plus other financial resources of the company were used to retire approximately \$25.3 million of the principal on our senior subordinated notes, plus accrued interest and a prepayment penalty. As a result of retiring a portion of the senior subordinated debt, the company incurred an extraordinary loss of approximately \$3 million, net of related income taxes, for the prepayment penalty, waivers and the write-off of unamortized deferred financing costs and debt discount.

Further, in November 2000, we issued 525,000 shares of common stock upon the exercise of an over allotment option by the underwriters of our equity offering. The proceeds of this issuance were used to retire \$3.2 million of the principal on our senior subordinated notes.

#### Year 2000 Compliance

During 1999, we completed a four-stage process to assure Year 2000 compliance of all hardware, software and ancillary equipment that were date dependent and believe that the Year 2000 issue did not and will not cause us any significant operational problems. We also contacted our important suppliers and customers and received positive statements of compliance from all significant third parties. To date, we are not aware of any Year 2000 non-compliance by our customers or suppliers that would have a material impact on our business, and we are not aware of any other material Year 2000 non-compliance that would require repair or replacement or that could have a material effect on our financial position.

#### 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 loss of key officers of the Company, without 90 day replacement, which would constitute an event of default under the Company's senior and subordinated credit facilities; (3) the availability and terms of additional capital or debt financing to fund future acquisitions and for working capital purposes; (4) significant competition for business opportunities and acquisition candidates; (5) technological changes affecting our Litigation Consulting division; (6) the risks of professional liability; (7) any factor that diminishes our professional reputation; (8) fluctuations of revenue and operating income between quarters or termination of client engagements; (9) the successful management of the growth of our business; (10) the integration of P&M and of future acquisitions; and (11) risks associated with quantitative and qualitative market risks such as fluctuations in interest rates.



### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from the changes in the price of financial instruments. We are exposed to market risk from changes in interest rates, which could affect our future results of operations and financial condition. We manage our exposures to these risks through our regular operating and financing activities, including the use of derivative financial instruments.

At September 30, 2000, \$58.9 million of our long-term debt bore interest at variable rates. Accordingly, our earnings and after-tax cash flow are affected by changes in interest rates. To mitigate our exposure, management has utilized three year interest rate swap and cap agreements initially covering \$41.0 million of this long-term debt. In the event of adverse changes in interest rates, management may take actions to further mitigate our exposure.

## 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

27. Financial Data Schedule for nine months ended September 30, 2000

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K on February 15, 2000, regarding the Company's acquisition of P&M and refinancing of its indebtedness. On April 6, 2000, the Company amended the foregoing Report to add financial statements of P&M and pro forma financial information.

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 10, 2000

By /s/Theodore I. Pincus

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



9-MOS

	DEC-31-2000	
	SEP-30-2000	
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	0.61	