

FTI CONSULTING INC
Form 10-Q
November 09, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 001-14875

FTI CONSULTING, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Other Jurisdiction of Incorporation or Organization)

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

500 East Pratt Street, Suite 1400, Baltimore, Maryland
(Address of Principal Executive Offices)

21202
(Zip Code)

(410) 951-4800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-accelerated filer

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). 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 October 31, 2006
Common stock, par value \$0.01 per share	41,577,955

Table of Contents

FTI CONSULTING, INC. AND SUBSIDIARIES

INDEX

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets December 31, 2005 and September 30, 2006</u>	3
<u>Condensed Consolidated Statements of Operations Three and nine months ended September 30, 2005 and 2006</u>	4
<u>Condensed Consolidated Statement of Stockholders Equity Nine months ended September 30, 2006</u>	5
<u>Condensed Consolidated Statements of Cash Flows Nine months ended September 30, 2005 and 2006</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	45
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	46
Item 1A. <u>Risk Factors</u>	46
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 3. <u>Defaults upon Senior Securities</u>	58
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	58
Item 5. <u>Other Information</u>	58
Item 6. <u>Exhibits</u>	59
<u>SIGNATURES</u>	61

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

(in thousands, except per share data)

	December 31, 2005	September 30, 2006 (unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 153,383	\$ 22,491
Accounts receivable		
Billed receivables	87,947	125,958
Unbilled receivables	56,871	72,981
Allowance for doubtful accounts and unbilled services	(17,330)	(20,827)
	127,488	178,112
Notes receivable	2,713	7,528
Prepaid expenses and other current assets	8,147	27,215
Deferred income taxes	6,404	9,816
Total current assets	298,135	245,162
Property and equipment, net	29,302	33,612
Goodwill	576,612	647,317
Other intangible assets, net	21,454	33,442
Notes receivable, net of current portion	6,516	35,687
Other assets	27,445	35,657
Total assets	\$ 959,464	\$ 1,030,877
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable, accrued expenses and other	\$ 21,762	\$ 33,530
Accrued compensation	72,688	56,399
Billings in excess of services provided	10,477	10,746
Total current liabilities	104,927	100,675
Long-term debt, net of current portion	348,431	348,361
Deferred income taxes	33,568	45,648
Other liabilities	18,269	24,662
Commitments and contingent liabilities (notes 3, 5, 6, 7 and 10)		
Stockholders equity		
Preferred stock, \$0.01 par value; 5,000 shares authorized; none outstanding		
Common stock, \$0.01 par value; 75,000 shares authorized; 39,009 shares issued and outstanding 2005; and 40,299 shares issued and outstanding 2006	390	403
Additional paid-in capital	238,055	259,547
Unearned compensation	(11,089)	
Retained earnings	226,913	251,581

Edgar Filing: FTI CONSULTING INC - Form 10-Q

Total stockholders' equity	454,269	511,531
Total liabilities and stockholders' equity	\$ 959,464	\$ 1,030,877

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

Unaudited

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2006	September 30, 2005	September 30, 2006
Revenues	\$ 133,189	\$ 162,068	\$ 373,720	\$ 491,092
Operating expenses				
Direct cost of revenues	73,341	91,554	202,878	276,896
Selling, general and administrative expense	32,587	39,711	90,030	121,547
Special charges (note 7)		22,972		22,972
Amortization of other intangible assets	1,952	2,551	4,309	8,310
	107,880	156,788	297,217	429,725
Operating income	25,309	5,280	76,503	61,367
Other income (expense)				
Interest income	548	411	912	1,887
Interest expense and other	(4,875)	(6,103)	(9,104)	(17,992)
Loss on early extinguishment of terms of loans	(1,687)		(1,687)	
Litigation settlement gains (losses), net	21	688	(991)	419
	(5,993)	(5,004)	(10,870)	(15,686)
Income before income tax provision	19,316	276	65,633	45,681
Income tax provision	8,113	562	27,566	21,013
Net income (loss)	\$ 11,203	\$ (286)	\$ 38,067	\$ 24,668
Earnings (loss) per common share basic	\$ 0.28	\$ (0.01)	\$ 0.91	\$ 0.63
Earnings (loss) per common share diluted	\$ 0.27	\$ (0.01)	\$ 0.90	\$ 0.61

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Statement of Stockholders Equity**

(in thousands)

Unaudited

	Common Stock		Additional			Total
	Shares	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	
Balance, January 1, 2006	39,009	\$ 390	\$ 238,055	\$ (11,089)	\$ 226,913	\$ 454,269
Issuance of common stock in connection with:						
Exercise of options, including income tax benefit of \$1,236	338	3	7,062			7,065
Employee stock purchase plan	402	4	8,432			8,436
Restricted share grants, net of forfeitures	85	1	(1)			
Business combinations	1,065	11	30,124			30,135
Purchase and retirement of common stock	(600)	(6)	(23,370)			(23,376)
Reclassification due to adoption of new accounting standard (note 2)			(11,089)	11,089		
Share-based compensation			10,334			10,334
Net income					24,668	24,668
Balance, September 30, 2006	40,299	\$ 403	\$ 259,547	\$	\$ 251,581	\$ 511,531

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**FTI Consulting, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows**

(in thousands)

Unaudited

	Nine Months Ended	
	September 30,	
	2005	2006
Operating activities		
Net income	\$ 38,067	\$ 24,668
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and other amortization	8,308	9,394
Amortization of other intangible assets	4,309	8,310
Provision for doubtful accounts, net	2,945	6,060
Non-cash share-based compensation	1,374	10,708
Income tax benefit from stock option exercises and other	1,188	
Loss on early extinguishment of term loans	1,687	
Excess tax benefits from share-based compensation		(910)
Loss on subleased facilities	920	
Impairment of other intangible assets		933
Non-cash interest expense	1,338	1,797
Other	718	(17)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(31,471)	(50,724)
Notes receivable	1,467	(33,985)
Prepaid expenses and other assets	(3,414)	(5,940)
Accounts payable, accrued expenses and other	6,985	10,140
Accrued special charges		18,590
Income taxes payable	4,261	(5,206)