

FTI CONSULTING INC
Form S-3
October 08, 2002
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As filed with the Securities and Exchange Commission on October 8, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FTI CONSULTING, INC.

(Exact name of registrant as specified in its charter)

900 Bestgate Road, Suite 100
Annapolis, MD 21401
(410) 224-8770
(Address of principal executive offices)

Maryland
(State or other jurisdiction of incorporation or organization)

52-1261113
(I.R.S. employer identification number)

Jack B. Dunn, IV
Chairman of the Board and
Chief Executive Officer
FTI Consulting, Inc.
900 Bestgate Road, Suite 100
Annapolis, MD 21401
(410) 224-8770
(Name, address, including zip code and telephone number, including area code of agent for service)

Copies to:

Richard C. Tilghman, Jr., Esquire
Piper Rudnick LLP
6225 Smith Avenue
Baltimore, Maryland 21209
(410) 580-3000

Kevin P. Kennedy, Esquire
Simpson Thacher & Bartlett
3330 Hillview Avenue
Palo Alto, California 94304
(650) 251-5000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act) check the following box. " _____

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. " _____

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$0.01	2,437,389 shares	\$ 36.70	\$ 89,452,167	\$ 8,230

(1) Includes 317,920 shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

(2) Estimated solely for purposes of determining the registration fee pursuant to Rule 457 under the Securities Act of 1933, as amended, based on the closing price of our common stock of \$36.70 on October 7, 2002, as reported on the New York Stock Exchange.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated October , 2002

PROSPECTUS

2,119,469 Shares

FTI Consulting, Inc.

Common Stock

FTI Consulting, Inc. is offering 2,100,000 shares of common stock and the selling stockholders are offering 19,469 shares of common stock by this prospectus. We will not receive any of the proceeds from the shares sold by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol FCN. The last reported sale price of our common stock on October 7, 2002 was \$36.70 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 6.

	<u>Per Share</u>	<u>Total</u>
Public Offering Price	\$	\$
Underwriting Discounts and Commissions	\$	\$
Proceeds to FTI Consulting, Inc. (before expenses)	\$	\$
Proceeds to Selling Stockholders	\$	\$

Some of the executive officers of FTI Consulting, Inc. have granted the underwriters the right to purchase up to 317,920 additional shares of common stock to cover any over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the common stock on or about , 2002.

LEHMAN BROTHERS

BANC OF AMERICA SECURITIES LLC

ADAMS, HARKNESS & HILL, INC.

JANNEY MONTGOMERY SCOTT LLC

SUNTRUST ROBINSON HUMPHREY

, 2002

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You should rely only on the information contained in this document or in those documents to which we refer you. We and the underwriters have not authorized anyone to provide you with additional or different information. This document may only be used where it is legal to sell these securities. The information in this document is accurate only as of the date of this document, regardless of the time of its delivery or of any sale of common stock.

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SUMMARY

This summary highlights selected information from this prospectus. It may not contain all the information that is important to you. To understand this offering fully, you should carefully read the entire prospectus, including the risk factors and the financial statements and related notes. Unless the context requires otherwise, in this prospectus, FTI, we, us and our refer to FTI Consulting, Inc. and its subsidiaries, BRS refers to the U.S. Business Recovery Services Division of PricewaterhouseCoopers LLP (excluding the broker-dealer business of that division), which we acquired on August 30, 2002, and PwC refers to U.S. PricewaterhouseCoopers LLP.

The information in this prospectus, unless otherwise indicated, assumes that the underwriters will not exercise their option to purchase additional shares.

Our Business

We are one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. Our highly skilled professionals assist distressed companies in improving their financial position or their creditors or other stakeholders in maximizing recovery of their claims. We assist our clients in exploring and implementing the various strategic alternatives available to troubled companies. Our professionals have extensive experience in crisis management, negotiations of complex mergers, acquisitions and capital restructurings, as well as the liquidation of surplus assets.

We also help clients in all phases of the litigation process. We assist our clients in refining issues relating to litigation and venue selection, and provide fraud investigation, securities litigation assistance, trial graphics and technology and electronic evidence services. Furthermore, we provide forensic accounting and economic consulting services. In recent months, we have begun initiatives in the areas of mergers and acquisitions and dispute settlement services.

Through a combination of organic growth and acquisitions, our revenues have grown from \$44.2 million in 1997 to \$166.4 million in 2001, a compounded annual growth rate of nearly 40%. In 2001, we had \$289.6 million in revenues on a pro forma basis, which includes BRS revenues but excludes revenues from our applied sciences practice group, which we have announced our intention to sell. For the first six months of 2002, we had \$101.8 million in revenues on an actual basis and \$169.1 million in revenues on a pro forma basis.

Our clients include troubled companies and financial institutions and the law firms that represent them. Our services typically represent non-discretionary engagements for businesses facing decisions that are critical to their survival. We are regularly engaged by the largest banks in the U.S., including Bank of America, N.A., Wachovia, N.A. and JP Morgan Chase Bank. We are currently providing our services in connection with the largest bankruptcy proceedings and out-of-court restructurings in the U.S., including the bankruptcies of Enron Corp., WorldCom, Inc., US Airways, Inc. and Adelphia Communications Corporation.

We believe demand for our services will continue to be strong, driven by a number of current and anticipated trends, including:

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

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

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Business Strategy

We intend to continue to provide high caliber financial consulting services on even the most complex assignments. We also intend to expand the range of consulting services we offer. The following are the key elements of our business strategy:

maintain high utilization rates among all of our professionals rather than intermittently expanding our staff in anticipation of short-term demand;

maintain a sufficient staff of highly qualified professionals to enable us to handle a number of large, complex assignments simultaneously;

successfully leverage our reputation, experience and client base to obtain a greater number of engagements from both existing and new clients;

diversify our range of service offerings, including further development of new practice areas such as lender and transactional support, dispute settlement, intellectual property consulting and mergers and acquisitions advice, in order to better insulate our business from changing market demands; and

selectively pursue strategic acquisitions to expand our range of consulting services, expand our staff of expert professionals and add new clients to which we can sell our existing services.

Our Company

We were incorporated in Maryland in 1982 and completed our initial public offering of common stock in May 1996. Our executive offices are located at 900 Bestgate Road, Suite 100, Annapolis, Maryland 21401. Our telephone number is (410) 224-8770. Our website is located at www.fticonsulting.com. Information contained on our website does not constitute part of this prospectus.

Recent Developments

Acquisition of BRS

On August 30, 2002, we acquired BRS for \$141.1 million in cash and 3,000,000 shares of our common stock valued at \$101.9 million. We incurred expenses of approximately \$1.4 million in connection with this acquisition. BRS had revenues of \$179.3 million and operating income of \$66.8 million for its fiscal year ended June 30, 2002. On a pro forma basis, as adjusted to present BRS as a company separate from PwC, BRS had revenues of \$167.2 million and operating income of \$51.4 million for the year ended December 31, 2001, and revenues of \$91.4 million and operating income of \$29.3 million for the six-month period ended June 30, 2002.

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

Intended Sale of Our Applied Sciences Practice Group

In connection with the BRS acquisition, we have decided to sell our applied sciences practice group because the practice is no longer a core part of our business. We expect to complete the sale by the end of 2002. We intend to use the proceeds from the sale to reduce our outstanding debt under our credit facility. However, we cannot assure you that we will be able to sell our applied sciences practice group within the stated timeframe or at what price we will be able to sell it. For the six months ended June 30, 2002, our applied sciences practice group accounted for 23.6% of our total revenues and 12.7% of our segment operating income.

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The Offering

Common stock offered by FTI Consulting, Inc.	2,100,000 shares
Common stock offered by the selling stockholders	19,469 shares
Total shares offered	2,119,469 shares
Common stock to be outstanding after this offering	25,813,052 shares
Use of proceeds	We will use all of the net proceeds that we receive from this offering to repay a portion of our outstanding debt. We will not receive any proceeds from the sale of shares by the selling stockholders.
New York Stock Exchange symbol	FCN
Risk factors	You should carefully read and consider the information set forth in Risk Factors beginning on page 6 and all other information set forth in this prospectus before investing in our common stock.

The number of shares of our common stock to be outstanding after this offering is based on 23,713,052 shares outstanding at September 30, 2002. The number of outstanding shares excludes:

1,131,944 shares of our common stock reserved for future option awards or stock grants under our stock option plans;

3,651,714 shares of our common stock reserved for issuance upon exercise of stock options outstanding under our stock option plans with a weighted average exercise price of \$18.73 per share at September 30, 2002; and

278,893 shares of our common stock reserved for future grants under our employee stock purchase plan.

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**Summary Historical Consolidated and Unaudited
Pro Forma Combined Financial and Other Data**

The following summary historical consolidated and unaudited pro forma combined financial and other data present our:

audited historical consolidated statement of income and other data for each of the three years in the period ended December 31, 2001;

unaudited historical consolidated statement of income and other data for the six-month periods ended June 30, 2001 and 2002;

unaudited pro forma combined statement of income data for the year ended December 31, 2001 and for the six-month period ended June 30, 2002; and

unaudited historical consolidated, pro forma combined and pro forma as adjusted balance sheet data at June 30, 2002.

Our unaudited pro forma combined statement of income data for the year ended December 31, 2001 and the six months ended June 30, 2002 give effect to the acquisition of BRS, including the assumed effects of the debt financing transactions related to the acquisition, as if the acquisition had occurred on January 1, 2001. Our unaudited pro forma combined statement of income data are also adjusted to remove the historical operating results of the applied sciences practice group from our historical continuing operations for the periods presented. In July 2002, we committed to a plan to sell the applied sciences practice group. As a result, the operations for this practice group will be presented as discontinued operations in all financial statements that we prepare after July 31, 2002.

Our unaudited pro forma combined balance sheet data at June 30, 2002 give effect to the acquisition of BRS, including the debt financing transactions related to the acquisition, as if the acquisition occurred on June 30, 2002. Our unaudited pro forma as adjusted balance sheet data at June 30, 2002 give effect to the acquisition of BRS, including the assumed effects of the debt financing transactions related to the acquisition, as if the acquisition occurred on June 30, 2002, the receipt of the estimated net proceeds from the sale of 2,100,000 shares of our common stock by us in this offering and the application of these proceeds to repay \$72.0 million of our debt under our credit facility.

The pro forma adjustments are described in the notes accompanying the unaudited pro forma combined financial statements beginning on page 15 and are based upon available information and various assumptions that management believes are reasonable. These adjustments give effect to events directly attributable to the transactions and do not reflect any restructuring or integration related costs, or any potential cost savings or other synergies that management expects to realize as a result of the transaction. The unaudited pro forma combined financial statements do not purport to represent what our financial position and results of operations would actually have been had these transactions occurred on January 1, 2001 or June 30, 2002.

You should also refer to our historical consolidated financial statements and the historical financial statements of BRS, which we have included elsewhere in this prospectus.

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	Year ended December 31,				Six months ended June 30,		
	Historical			Pro Forma 2001	Historical		Pro Forma 2002
	1999	2000	2001		2001	2002	
	(in thousands, except percentages and per share data)						
Revenues	\$ 84,607	\$ 134,764	\$ 166,359	\$ 289,561	\$ 83,629	\$ 101,755	\$ 169,143
Direct cost of revenues	44,149	68,667	83,449	156,102	43,483	51,386	86,941
Selling, general and administrative expenses	28,829	36,732	45,591	51,951	21,240	26,690	33,137
Amortization expense	2,313	4,723	5,049	6,235	2,507		1,000
Total costs and expenses	75,291	110,122	134,089	214,288	67,230	78,076	121,078
Income from operations	9,316	24,642	32,270	75,273	16,399	23,679	48,065
Interest expense, net	(4,014)	(10,771)	(4,356)	(10,234)	(2,588)	(1,340)	(4,357)
Income before income taxes and extraordinary item	5,302	13,871	27,914	65,039	13,811	22,339	43,708
Income taxes	2,311	5,917	11,445	26,138	5,801	9,047	17,493
Income before extraordinary item	\$ 2,991	\$ 7,954	\$ 16,469	\$ 38,901	\$ 8,010	\$ 13,292	\$ 26,215
Net income	\$ 2,991	\$ 2,561	\$ 16,469		\$ 8,010	\$ 13,292	
Income before extraordinary item per share, diluted	\$ 0.39	\$ 0.66	\$ 0.84	\$ 1.72	\$ 0.43	\$ 0.62	\$ 1.07
Earnings per common share, diluted	\$ 0.39	\$ 0.21	\$ 0.84	\$ 1.72	\$ 0.43	\$ 0.62	\$ 1.07
Weighted average shares outstanding, diluted	7,543	11,988	19,631	22,631	18,612	21,501	24,501
EBITDA (1)	\$ 14,012	\$ 32,134	\$ 41,185	\$ 84,749	\$ 20,761	\$ 25,980	\$ 51,053
EBITDA margin (2)	16.6%	23.8%	24.8%	29.3%	24.8%	25.5%	30.2%

Balance Sheet Data:

	At June 30, 2002		
	Historical FTI	Pro Forma	Pro Forma As Adjusted
Cash and cash equivalents	\$ 21,236	\$ 4,000	\$ 4,000
Working capital	47,502	10,732	10,732
Total assets	176,663	454,998	454,998

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Total debt	26,000	155,214	83,190
Total stockholders' equity	132,150	234,030	306,054

- (1) EBITDA refers to earnings before taxes, net interest expense and depreciation and amortization. Because all companies do not calculate EBITDA or similarly titled financial measures in the same manner, other companies' disclosures of EBITDA may not be comparable with EBITDA as we calculate it. EBITDA should not be considered as an alternative to net income or loss (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under generally accepted accounting principles. EBITDA is intended to provide additional information for evaluating the ability of an entity to meet its financial obligations.
- (2) EBITDA margin equals EBITDA divided by our total revenues for each period presented, in percentage format.

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RISK FACTORS

You should carefully consider each of the following risks and all of the other information in this prospectus and the documents we incorporate by reference before you decide to buy our common stock. Additional risks and uncertainties not currently known to us may also harm our business, financial condition or results of operations. If any of these risks or uncertainties occurs, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

We have made statements in this prospectus and in documents incorporated by reference into this prospectus that constitute forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties. These forward-looking statements generally are accompanied by words such as believe, intend, anticipate, estimate, expect, should, could, may, will or similar expressions. You should understand that these forward-looking statements are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from estimates or projections contained in forward-looking statements include the below described risk factors.

Risks Related to Our Business

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

Our business involves the delivery of professional services. Our continued success depends upon our ability to retain and expand our staff of professionals who have reputations and client relationships critical to maintaining and developing our business. We face intense competition in recruiting and retaining qualified professionals in our fields of practice. We cannot assure you that we will be able to retain our existing professionals or that in the future we will be able to attract and retain enough qualified professionals to maintain or expand our business. Moreover, competition for retaining or hiring qualified professionals could increase our costs of labor, a trend which could harm our margins and results of operations.

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

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

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

We rely heavily upon our senior management team and practice group leaders to manage our business. If one or more members of our senior management team or our practice group leaders leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in managing our business properly, and this could harm our business prospects and results of operations.

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

The market for our consulting services is highly competitive. Our competitors range from large organizations, such as the national accounting firms and the large management consulting companies that offer a broad range of consulting services, to small firms and independent contractors that provide one specialized service. Some of our competitors have significantly more financial resources, larger professional staffs and greater brand recognition than we do. We cannot assure you that we will continue to compete successfully for new business opportunities or retain our existing clients. Although, in connection with our acquisition of BRS, we obtained a limited noncompetition arrangement from PwC, we cannot assure that PwC will not compete with us in the future. For information on our noncompetition arrangement with PwC, see Business Our Acquisition of BRS.

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

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

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

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

Much of our business involves large client engagements that we staff with a substantial number of professionals. If our clients unexpectedly cancel engagements with us or curtail the scope of our engagements, we may be unable to replace the lost revenues from those engagements and may also be unable to quickly eliminate costs associated with those engagements. Any decrease in revenues without a corresponding reduction in our costs will likely harm our profitability.

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

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

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

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

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

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

We may be unable to develop profitable new service offerings, and our overall profitability may suffer.

As a key part of our strategy, we have been developing new service offerings in addition to our practice group areas of restructuring, forensic accounting and trial support consulting. Developing new service offerings involves inherent risks, including:

- our inability to estimate demand for the new service offerings;
- competition from more established market participants;
- a lack of market understanding; and
- unanticipated expenses to recruit and hire qualified professionals and to market our new service offerings.

If we cannot manage these risks effectively, we are unlikely to be successful in our efforts to develop new service offerings profitably. This inability could harm our overall business, financial condition and results of operations.

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

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

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

We have experienced rapid growth in recent years. This rapid expansion of our business may strain our management team, human resources and information systems. Despite our recent growth, we plan to continue evaluating opportunities to acquire other businesses and expanding our business rapidly. We cannot assure you, however, that we can successfully manage the integration of any businesses we may acquire or that they will result in the financial, operational and other benefits that we anticipate. To manage our growth successfully, we

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may need to add qualified managers and employees and periodically update our operating, financial and other systems, as well as our internal procedures and controls. We also must effectively motivate, train and manage a larger professional staff. If we fail to manage our growth effectively, our business, results of operations and financial condition may be harmed.

We operate with a substantial amount of debt, with variable interest rates.

Our total debt at September 30, 2002, was approximately \$138.9 million. We expect to repay \$72.0 million of this debt with the proceeds of this offering as described in the section of this prospectus entitled "Use of Proceeds." However, we still will owe about \$66.9 million following this offering. Operating with a high amount of leverage could require us to redirect a substantial portion of our cash flow from operations to make payments on our debt. This would reduce the funds available for operations, future business opportunities, capital expenditures, acquisitions and other purposes. It will also limit our flexibility in planning for, or reacting to, changes in our business and our industry. The terms of our debt also require us to meet specified financial covenants. If we fail either to meet these financial requirements or our lenders do not waive them, we will be required to pay fees and penalties. Our lenders could also accelerate the maturity of our debt if we fail to meet these covenants, which would force us to seek alternative financing. If this were to happen, we cannot assure you that we would be able to obtain the additional financing we may need or that it would be on terms favorable to us.

Our debt accrues interest at a variable rate. We have historically reduced our exposure to rising interest rates by entering into interest rate swaps. Although a few of these historical hedge arrangements will remain in place on our existing debt, we do not intend to enter into new hedge arrangements for the credit facility we put in place to finance our acquisition of BRS. If interest rates increase, we will need to dedicate more of our cash flow from operations to make payments on our debt. For more information on our liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

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

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

If our goodwill and other intangible assets become impaired, we will be required to write down their carrying value and incur a charge against income.

At August 31, 2002, our goodwill and other intangible assets, net of accumulated amortization, was approximately \$344.0 million. We acquired all of our goodwill and other intangible assets in our acquisitions, including the approximately \$250.0 million of goodwill and other intangible assets we have recorded from our purchase of BRS. At least once every year, we review whether these assets have been impaired. If these assets become impaired, we would be required to write down their carrying value and to incur charges against our income equal to the amount of the writedown. In addition, if we sell our applied sciences practice group for less than its carrying value, we would be required to take a charge against our income equal to the difference between the carrying value and the sale price. These charges would decrease our reported net income in the period in which we take them, which could cause the price of our common stock to decline.

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Risks Related to Our Acquisition of BRS

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

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

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

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

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

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

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

BRS benefited from the name recognition and reputation of PwC and received referrals from other practices within PwC. Now that BRS is separate from PwC, BRS only has a limited ability to market its services by referring to the PwC name. Existing and potential clients and industry professionals may not recognize the new brand under which the professionals of BRS now provide their services. Consequently, we may need to incur substantial marketing expenses to strengthen and develop our brand, which could lower our profits below the levels BRS was historically able to generate. In addition, PwC has no incentive to refer clients to us, especially since PwC may continue to provide a limited amount of the sort of restructuring services performed by BRS. For information on our noncompetition arrangement with PwC, see Business Our Acquisition of BRS. The loss of client referrals may harm our expected revenue growth and results of operations and cause the actual profitability of the acquired business to differ materially from our expectations and the expectations of the investing public. A failure to meet these expectations could cause the price our stock to decline.

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

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

Risks Related to the Offering and Ownership of Our Common Stock

If we or our stockholders sell substantial amounts of our common stock after the offering, the market price of our common stock may decline.

Sales of substantial amounts of our common stock in the public market following this offering, or the appearance that a large number of shares are available for sale, may adversely affect the market price of our common stock. After this offering, we will have 25,813,052 shares of common stock outstanding. Of these shares, 22,764,105 shares, including all shares sold in this offering, will be freely tradable under the Securities Act, unless acquired by one of our affiliates, as that term is defined in Rule 144 under the Securities Act. The remaining 3,048,947 shares will be subject to the restrictions of Rule 144. 2,510,045 of these remaining shares may be sold under Rule 144 on or after September 1, 2003, subject to volume and other restrictions, and because of contract restrictions, 235,243 of these shares may not be sold before September 1, 2004 and 235,243 of these shares may not be sold before September 1, 2006. Currently, 1,319,367 shares of our common stock are subject to demand and piggyback registration rights. At September 30, 2002, we had reserved for issuance an additional 3,651,714 shares of common stock issuable upon exercise of outstanding stock options (at exercise prices ranging from \$2.17 to \$42.87 per share). All of the shares of common stock issuable upon the exercise of stock options will be freely tradable upon issuance as such shares are registered under a registration statement filed under the Securities Act. Some of our executive officers and all of our directors have agreed with the underwriters not to sell or otherwise dispose of any of their shares for 90 days after the date of this prospectus without the prior written consent of Lehman Brothers.

We may raise additional capital in the future through equity financings, which will dilute your ownership in us and may cause the market price of our common stock to decline.

We may need to raise funds through additional public or private equity or debt financings in order to:

- fund working capital needs;
- acquire additional businesses;
- expand our business into new regions or countries;
- introduce new service offerings and develop existing service offerings; or
- respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute your percentage ownership in us and may decrease the market price of our common stock. We cannot assure you, however, that we will be able to raise equity or obtain debt financing when we need it, if at all, or on terms acceptable to us. In addition, our agreement with the underwriters of this offering prohibits us generally from offering or selling shares of our common stock, or securities convertible into or exchangeable into our common stock, for 90 days from the date of this prospectus without the prior consent of Lehman Brothers.

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USE OF PROCEEDS

We expect to receive about \$72.0 million of net proceeds from the sale of the 2,100,000 shares of our common stock that we are offering by this prospectus, at an assumed public offering price of \$36.70 per share (after deducting underwriting discounts and commissions and estimated offering expenses). We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

At September 30, 2002, we owed approximately \$138.9 million under our credit facility. We used borrowings from our credit facility, as well as some of our existing cash, to purchase BRS.

Under the provisions of our credit facility, we must apply at least half of the net proceeds that we obtain from a public offering of our equity securities to repay our borrowings under the facility. We intend to use the net proceeds we receive from this offering to repay \$72.0 million of our debt under our credit facility. We intend to use half of these net proceeds to repay a portion of the \$74.0 million term loan under our credit facility and the remainder to repay a portion or all of the revolving credit loan under our credit facility. Bank of America, N.A. and SunTrust Bank, as lenders under our credit facility, will receive their proportionate share of any repayment of debt from the net proceeds we receive from this offering. Each of these lenders is affiliated with an underwriter of this offering. For more information regarding these affiliations, see Underwriting Other.

Debt under our credit facility bears interest at an annual rate equal to LIBOR plus an applicable margin or an alternative base rate defined as the higher of (1) the lender's announced prime rate or (2) the federal funds rate plus the sum of 50 basis points and an applicable margin. At September 30, 2002, the interest rate under the credit facility was 4.95% per annum. If not prepaid, our \$24.9 million term loan under our credit facility will mature on December 1, 2005, and our \$74.0 million term loan under our credit facility will mature on August 30, 2006. We will not have any prepayment penalties for early payment of the debt under the credit facility. We discuss the provisions of our credit facility in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY**

Our common stock has been listed on the New York Stock Exchange under the symbol FCN since August 16, 2001. Prior to that date, our common stock was listed on the American Stock Exchange under the same symbol. The following table shows the high and low closing prices per share for our common stock for the periods shown, as reported by the New York Stock Exchange or the American Stock Exchange, as applicable. These prices have been adjusted to give effect to the three-for-two stock split we paid as a stock dividend to our stockholders of record on January 2, 2002.

	<u>High</u>	<u>Low</u>
2000		
First Quarter	\$ 5.00	\$ 3.42
Second Quarter	7.33	4.58
Third Quarter	7.75	5.13
Fourth Quarter	6.83	4.17
2001		
First Quarter	8.67	5.67
Second Quarter	14.53	8.67
Third Quarter	19.60	12.83
Fourth Quarter	22.73	18.40
2002		
First Quarter	32.26	21.47
Second Quarter	36.30	29.90
Third Quarter	41.95	29.01
Fourth Quarter (through October 7, 2002)	40.83	36.70

At September 30, 2002, there were about 147 holders of record of our common stock.

We have never paid cash dividends on our common stock, and we do not intend to pay dividends in the foreseeable future. Our existing credit facility limits our ability to pay cash dividends. We expect to retain any future profits to repay existing debt and finance our operations for the foreseeable future.

Table of Contents**CAPITALIZATION**

The following table shows our cash and cash equivalents and capitalization at June 30, 2002:

on an actual basis;

on a pro forma basis to give effect to the acquisition of BRS, including the debt financing transactions related to the acquisition; and

on a pro forma as adjusted basis to give effect to the:

acquisition of BRS, including the debt financing transactions related to the acquisition;

receipt of the estimated net proceeds from the sale of 2,100,000 shares of our common stock by us in this offering, after deducting estimated underwriting commissions and offering expenses; and

retirement of \$72.0 million of our debt under our credit facility with the proceeds from this offering.

You should also refer to our historical consolidated financial statements and our unaudited pro forma combined financial statements, which we have included elsewhere in this prospectus.

	At June 30, 2002		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands, except share amounts)		
Cash and cash equivalents	\$ 21,236	\$ 4,000	\$ 4,000
Total debt	26,000	155,214	83,190
Less current portion	4,333	12,167	12,167
Total long-term debt	21,667	143,047	71,023
Stockholders' equity:			
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, no shares issued or outstanding, actual, pro forma and pro forma as adjusted			
Common stock, \$0.01 par value, 45,000,000 shares authorized, 20,540,102 shares issued and outstanding, actual, 23,540,102 shares issued and outstanding, pro forma, and 25,640,102 shares issued and outstanding, pro forma as adjusted	205	235	256
Additional paid-in capital	88,907	190,757	262,760
Unearned compensation	(465)	(465)	(465)
Retained earnings	44,328	44,328	44,328
Accumulated other comprehensive loss	(825)	(825)	(825)
Total stockholders' equity	132,150	234,030	306,054
Total capitalization	\$ 158,150	\$ 389,244	\$ 389,244

The table above excludes 3,165,064 shares of our common stock issuable upon the exercise of stock options outstanding under our stock option plans at June 30, 2002.

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UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

On August 30, 2002, we acquired BRS for \$141.1 million in cash and 3,000,000 shares of our common stock, valued at \$101.9 million. We also incurred acquisition-related expenses of approximately \$1.4 million. In addition, we borrowed \$119.0 million on August 30, 2002 to pay part of the cash consideration for the BRS acquisition.

In addition, in July 2002, we committed to a plan to sell our applied sciences practice group. Our historical financial statements beginning in the third quarter of 2002 will present the operations of the applied sciences practice group as discontinued operations.

The accompanying unaudited pro forma combined statements of income for the year ended December 31, 2001 and the six months ended June 30, 2002 give effect to the acquisition of BRS, including the assumed effects of the debt financing transactions related to the acquisition, as if the acquisition had occurred on January 1, 2001. BRS operated under a fiscal year ending June 30. The accompanying pro forma combined statements of income for both the annual and six-month period presented have been prepared after adjusting BRS' accounting period to conform to our year end of December 31. Our unaudited pro forma combined statements of income also are adjusted to remove the historical operating results of the applied sciences practice group from our historical continuing operations for the periods presented.

The accompanying unaudited pro forma combined balance sheet at June 30, 2002 gives effect to the acquisition of BRS, including the assumed effects of the debt financing transactions related to the acquisition, as if the acquisition occurred on June 30, 2002. We will allocate the cost of the acquisition of BRS to identifiable assets and liabilities based on their estimated relative fair values. We have not completed our allocation process, and therefore the allocation of the purchase price for BRS included in the accompanying pro forma combined financial statements is preliminary. We are performing a valuation of the intangible assets that we acquired from BRS. The estimated valuation of these intangible assets for purposes of preparing the accompanying unaudited pro forma combined financial statements is based on the data that we have developed to date, and we expect to complete our valuation in October 2002. The final purchase price allocation is not expected to vary significantly from the preliminary allocation included in the accompanying unaudited pro forma combined financial statements.

The pro forma adjustments are described in the accompanying notes and are based upon available information and various assumptions that management believes are reasonable. These adjustments give effect to events directly attributable to the transactions and do not reflect any restructuring or integration costs, or any potential cost savings or other synergies that management expects to realize as a result of the transaction. The unaudited pro forma combined financial statements do not purport to represent what our financial position and results of operations would have actually been had the acquisition occurred on the dates indicated. The unaudited pro forma combined financial statements should be read in conjunction with our historical consolidated financial statements and the historical financial statements of BRS, which are included elsewhere in this prospectus and together with Management's Discussion and Analysis of the Financial Condition and Results of Operations.

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Year ended December 31, 2001

	Historical FTI	Discontinued Operations	Pro Forma FTI	BRS(*)	Pro Forma Adjustments	Total
(in thousands, except per share data)						
Revenues	\$ 166,359	\$ 44,042	\$ 122,317	\$ 170,689	\$ (3,445)(b)	\$ 289,561
Direct cost of revenues	83,449	24,375	59,074	80,840	28,895 (c) (1,721)(d) (10,049)(e) (937)(f)	156,102
Selling, general and administrative expenses	45,591	12,506	33,085	30,828	(11,962)(g)	51,951
Amortization expense (a)	5,049	814	4,235		2,000 (h)	6,235
Total costs and expenses	134,089	37,695	96,394	111,668	6,226	214,288
Income from operations	32,270	6,347	25,923	59,021	(9,671)	75,273
Interest expense, net	(4,356)	(536)	(3,820)	(912)	(6,414)(i) 912 (j)	(10,234)
Income from continuing operations before income taxes	27,914	5,811	22,103	58,109	(15,173)	65,039
Income taxes	11,445	2,481	8,964		17,174 (k)	26,138
Income from continuing operations	\$ 16,469	\$ 3,330	\$ 13,139	\$ 58,109	\$ (32,347)	\$ 38,901
Earnings per common share from continuing operations:						
Basic	\$ 0.92					\$ 1.87
Diluted	\$ 0.84					\$ 1.72
Weighted average shares outstanding, basic	17,841				3,000(l)	20,841
Weighted average shares outstanding, diluted	19,631				3,000(l)	22,631

Six months ended June 30, 2002

	Historical FTI	Discontinued Operations	Pro Forma FTI	BRS(*)	Pro Forma Adjustments	Total
(in thousands, except per share data)						
Revenues	\$ 101,755	\$ 24,058	\$ 77,697	\$ 94,438	\$ (2,992)(b)	\$ 169,143
Direct cost of revenues	51,386	13,206	38,180	39,965	15,539 (c) (1,269)(d) (4,921)(e) (553)(f)	86,941
Selling, general and administrative expenses	26,690	6,900	19,790	18,900	(5,553)(g)	33,137
Amortization expense (a)					1,000 (h)	1,000
Total costs and expenses	78,076	20,106	57,970	58,865	4,243	121,078
Income from operations	23,679	3,952	19,727	35,573	(7,235)	48,065
Interest expense, net	(1,340)	(193)	(1,147)	(61)	(3,210)(i) 61 (j)	(4,357)

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Income from continuing operations before income taxes	22,339	3,759	18,580	35,512	(10,384)	43,708
Income taxes	9,047	1,605	7,442		10,051 (k)	17,493
Income from continuing operations	\$ 13,292	\$ 2,154	\$ 11,138	\$ 35,512	\$ (20,435)	\$ 26,215
Earnings per common share from continuing operations:						
Basic	\$ 0.67					\$ 1.14
Diluted	\$ 0.62					\$ 1.07
Weighted average shares outstanding, basic	19,981				3,000(l)	22,981
Weighted average shares outstanding, diluted	21,501				3,000(l)	24,501

(*) Excludes payments for partner distributions and benefits.

Table of Contents**Unaudited Pro Forma Combined Balance Sheet**

At June 30, 2002

	Historical FTI	Historical BRS	Subtotal	Pro Forma Adjustments	Pro Forma Total
			(in thousands)		
Assets:					
Current assets:					
Cash and cash equivalents	\$ 21,236	\$	\$ 21,236	\$ (17,236)(1)	\$ 4,000
Accounts receivable, net of allowance for doubtful accounts	25,213	15,600	40,813		40,813
Unbilled receivables, net of allowance for doubtful accounts	15,875	19,730	35,605		35,605
Income tax receivable	894		894		894
Deferred income taxes	1,325		1,325		1,325
Prepaid expenses and other current assets	2,430	211	2,641		2,641
Total current assets	66,973	35,541	102,514	(17,236)	85,278
Property and equipment, net	14,423		14,423		14,423
Goodwill, net of accumulated amortization	93,969		93,969	252,030(2)	345,999
Other intangibles				4,000(2)	4,000
Other assets	1,298		1,298	4,000(3)	5,298
Total assets	\$ 176,663	\$ 35,541	\$ 212,204	\$ 242,794	\$ 454,998
Liabilities and stockholders equity:					
Current liabilities:					
Accounts payable and accrued expenses	\$ 3,589	\$ 521	\$ 4,110	\$	\$ 4,110
Accrued compensation expense	11,147	6,765	17,912	(5,048)(4)	12,864
Deferred income taxes	130		130		130
Current portion of long-term debt	4,333		4,333	7,834(5)	12,167
Billings in excess of services earned		45,003	45,003		45,003
Amounts due to PwC.		3,184	3,184	(3,184)(4)	
Other liabilities	272		272		272
Total current liabilities	19,471	55,473	74,944	(398)	74,546
Long-term debt, less current portion	21,667		21,667	121,380(5)	143,047
Deferred income taxes	1,748		1,748		1,748
Other long-term liabilities	1,627		1,627		1,627
Stockholders equity:					
Preferred stock					
Common stock	205		205	30(6)	235
Additional paid-in capital	88,907		88,907	101,850(6)	190,757
Unearned compensation	(465)		(465)		(465)
Retained earnings	44,328	(19,932)	24,396	19,932(7)	44,328
Accumulated other comprehensive loss	(825)		(825)		(825)
Total stockholders equity	132,150	(19,932)	112,218	121,812	234,030
Total liabilities and stockholders equity	\$ 176,663	\$ 35,541	\$ 212,204	\$ 242,794	\$ 454,998

Table of Contents**NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS****1. The BRS Acquisition** (*dollar amounts in thousands except per share data*)

On August 30, 2002, we acquired BRS in a purchase business combination. The purchase price includes the cash paid at closing, plus the fair market value of our common stock that we delivered to PwC and estimated acquisition-related costs. The purchase price is summarized as follows:

Cash	\$	141,075
Fair value of common stock		101,880
Estimated transaction costs		1,375
		244,330
	\$	244,330

The 3,000,000 shares of common stock issued for BRS were valued using the average stock price of FTI for the five day period beginning two days before and ending two days after July 24, 2002, which was the date the transaction was announced. This resulted in an average stock price of \$33.96 per share.

The fair values of BRS assets have been estimated for the purpose of allocating the purchase price of the acquisition and preparing the pro forma financial statements. The allocation of purchase price among the assets acquired and liabilities assumed is based on a preliminary estimate of their relative fair values. These estimates could change based on a final appraisal of some of the intangibles that we acquired. The estimated purchase price of \$244,330 has been assigned to the tangible and intangible assets acquired and liabilities assumed as follows:

Current assets at June 30, 2002	\$	35,541
Fair value adjustments:		
Identified intangible assets		4,000
Goodwill		252,030
		291,571
Less liabilities assumed at June 30, 2002		(47,241)
	\$	244,330

2. Adjustments to Unaudited Pro Forma Combined Statements of Income

Adjustments to the unaudited pro forma combined statements of income for the year ended December 31, 2001 and the six-month period ended June 30, 2002 in connection with the BRS acquisition are presented below:

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

In accordance with Statement 142, we are no longer amortizing the \$94.0 million of goodwill recorded at December 31, 2001. The goodwill amortization expense for the year ended December 31, 2001 was \$5.0 million. All of the pro forma amortization expense recorded for the six-month period ended June 30, 2002 was attributable to the estimated fair value of other intangible assets with finite lives that were recorded in connection with the BRS acquisition.

- (b) Adjustment to eliminate the portion of billable revenues of BRS partners and staff working on non-BRS related engagements. Because BRS was a division of a large, multi-disciplined business, BRS partners and staff could be assigned to non-BRS engagements. The historical financial statements include all revenues generated by BRS partners and staff regardless of the nature of the engagement. This adjustment adjusts

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- revenues to the amounts generated from the business acquired and eliminates revenue generated from assisting other PwC divisions.
- (c) Adjustment to record pro forma compensation expense, including retirement and other benefits, for the former partners of BRS. Historically, the BRS statement of income excluded payments for partner distribution and profits because partners did not receive salaries as compensation for services, but rather received earnings distributions recorded as a reduction of net assets. In connection with the acquisition of BRS, we entered into employment contracts with 49 former partners of BRS that provide for the payment of salaries consistent with the amounts received in BRS fiscal year 2002 as earnings distributions. The pro forma adjustment assumes that earnings distributions to partners for each respective period were expensed as compensation.
 - (d) Adjustment to eliminate the direct costs, such as partner and staff salaries, related to eliminated revenues generated by BRS partners and staff assigned to non-BRS engagements, as discussed above in Note (b).
 - (e) Adjustment to reduce to estimated actual cost the direct costs allocated to BRS for personnel costs associated with non-BRS professionals working on BRS engagements. The revenues associated with non-BRS personnel working on BRS matters was included in the historical BRS financial statements. However, there was no gross margin associated with these revenues. The historical financial statements prepared by BRS assumed that the personnel cost of professionals borrowed from other divisions of PwC to complete BRS engagements was equal to the associated revenue recorded for their billable time. The pro forma adjustment assumes that the estimated actual personnel costs of 52% of revenue for the year ended December 31, 2001 and 47% of revenue for the six months ended June 30, 2002 were incurred for revenues generated by borrowed personnel. These estimates are based on actual personnel costs for BRS professionals assigned to BRS engagements.
 - (f) Adjustment to reduce direct costs for pension expense eliminated in the BRS acquisition. Employee benefit compensation expense under the former PwC defined benefit and contribution plans for the year ended December 31, 2001 and six-month period ended June 30, 2002 was \$1.3 million and \$754,000, respectively. Under the FTI defined contribution plan, employee benefit compensation expense related to BRS personnel for the year ended December 31, 2001 and six months ended June 30, 2002 would have been \$401,000 and \$200,000, respectively.
 - (g) Adjustment to eliminate certain non-recurring selling, general and administrative costs allocated to BRS by PwC. PwC allocated to BRS in the historical financial statements a proportionate share of all overhead costs incurred by PwC. These costs consisted principally of general PwC management and support costs. We have reviewed all overhead cost allocations and have determined the verifiable amount allocated that will not be incurred subsequent to the acquisition.
 - (h) Adjustment to record pro forma amortization expense for the \$4.0 million of estimated other intangible assets recorded upon the acquisition of BRS. These intangible assets consist principally of engagement backlog, intellectual property and non-competition agreements. These assets will be amortized over their estimated useful lives. The weighted-average estimated useful life of these acquired intangible assets is two years.
 - (i) Adjustment to record pro forma interest expense. In connection with the acquisition of BRS, we incurred \$4.0 million of financing costs that are being amortized over the average contractual life of the related debt of four years. In addition, we assumed that we borrowed \$129.2 million to pay the cash portion of the acquisition cost. See Note (1) below under Adjustments to Unaudited Pro Forma Combined Balance Sheet. Based on the LIBOR rate in effect at the closing date, the average interest rate associated with the acquisition related borrowings was 4.3% at the closing date of August 30, 2002.
 - (j) Adjustment to eliminate the interest expense allocated to BRS by PwC. We assumed no debt from PwC in connection with the BRS acquisition but financed a portion of the purchase price. Pro forma interest expense related to the debt we incurred is adjusted as described in Note (i) above.

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- (k) Adjustment to record the pro forma income tax expense for (i) the operations of BRS for which no taxes were provided in the historical financial statements because BRS was a component of a partnership, and (ii) the estimated tax effects of pro forma adjustments, all at the combined federal and state statutory income tax rate of approximately 40%.
- (l) Adjustment to increase the weighted-average shares outstanding for the 3,000,000 shares that we issued upon the acquisition of BRS.

3. Adjustments to Unaudited Pro Forma Combined Balance Sheet

Adjustments to the unaudited pro forma combined balance sheet at June 30, 2002 in connection with the BRS acquisition are presented below:

- (1) Adjustment to record the use of cash to purchase BRS. Upon the closing of the acquisition, we paid PwC \$141.1 million and incurred transaction costs of \$1.4 million. We also borrowed \$119.0 million from our lenders and incurred \$4.0 million in financing fees to arrange for this borrowing on August 30, 2002. This adjustment assumes that we borrowed \$129.2 million, or the amount we would have borrowed at June 30, 2002 to maintain sufficient cash for operations. Our borrowings include a line-of-credit arrangement with additional borrowing capacity to allow us to manage our working capital needs.
- (2) Adjustment to record the allocation of the purchase price to goodwill and other intangible assets acquired in the transaction. The estimated purchase price of \$244,330 has been assigned to the tangible and intangible assets acquired and liabilities assumed as discussed above.
- (3) Adjustment to record the \$4.0 million of deferred financing costs arising from the issuance of debt in connection with the acquisition of BRS.
- (4) Adjustment to eliminate certain accrued expenses and amounts due to PwC not assumed by us in accordance with the purchase agreement with PwC.
- (5) Adjustment to record the assumed incurrence of \$129.2 million of additional debt in order to fund the acquisition of BRS.
- (6) Adjustment to record the assumed issuance of 3,000,000 shares of our common stock at an average stock price of \$33.96 in accordance with the purchase agreement with PwC.
- (7) Adjustment to eliminate the PwC investment balance in BRS.

Table of Contents**4. Unaudited Pro Forma Statement of Income for BRS as a Stand Alone Company**

The following unaudited pro forma statements of income are based on the historical financial statements of BRS for the periods presented, adjusted to present BRS as a company separate from PwC. The pro forma adjustments are described in the notes above and are based upon available information and assumptions that management believes are reasonable.

	Year ended December 31, 2001			Six months ended June 30, 2002		
	BRS(*)	Pro Forma Adjustments	Pro Forma As Adjusted	BRS(*)	Pro Forma Adjustments	Pro Forma As Adjusted
	(in thousands)					
Revenues	\$ 170,689	\$ (3,445)(b)	\$ 167,244	\$ 94,438	\$ (2,992)(b)	\$ 91,446
Direct cost of revenues	80,840	28,895 (c) (1,721)(d) (10,049)(e) (937)(f)	97,028	39,965	15,539 (c) (1,269)(d) (4,921)(e) (553)(f)	48,761
Selling, general and administrative expenses	30,828	(11,962)(g)	18,866	18,900	(5,553)(g)	13,347
Total costs and expenses	111,668	4,226	115,894	58,865	3,243	62,108
Income from operations	59,021	(7,671)	51,350	35,573	(6,235)	29,338
Interest expense, net	(912)	912 (j)		(61)	61 (j)	
Income from operations before income taxes	58,109	(6,759)	51,350	35,512	(6,174)	29,338
Income taxes		20,540 (k)	20,540		11,735 (k)	11,735
Income from continuing operations	\$ 58,109	\$ (27,299)	\$ 30,810	\$ 35,512	\$ (17,909)	\$ 17,603

(*) Excludes payments for partner distributions and benefits.

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The selected historical consolidated financial data for FTI at December 31, 2000 and 2001 and for the three years ended December 31, 2001 have been derived from FTI's audited consolidated financial statements previously filed with the SEC and included elsewhere in this prospectus. The selected historical consolidated balance sheet data of FTI at December 31, 1997, 1998 and 1999 and the selected historical consolidated statement of income data of FTI for the years ended December 31, 1997 and 1998 have been derived from FTI's audited consolidated financial statements previously filed with the SEC but not included in this prospectus. FTI's selected unaudited interim financial data included in this prospectus was derived from its books and records and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of its financial position and results of operations at and for such periods. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

The selected historical financial data for BRS at June 30, 2000, 2001 and 2002 and for the three fiscal years then ended have been derived from BRS' audited financial statements included in this prospectus.

When you read this selected financial data it is important that you read along with it the historical financial statements and related notes included elsewhere in this prospectus as well as Management's Discussion and Analysis of Financial Condition and Results of Operations.

Selected Historical Consolidated Financial Data of FTI

	Year ended December 31,					Six months ended June 30,	
	1997(1)	1998(2)	1999	2000(3)	2001	2001	2002
(in thousands, except percentages and per share data)							
Statement of Income Data:							
Revenues	\$ 44,175	\$ 58,615	\$ 84,607	\$ 134,764	\$ 166,359	\$ 83,629	\$ 101,755
Direct cost of revenues	23,564	31,402	44,149	68,667	83,449	43,483	51,386
Selling, general and administrative expenses	15,159	20,532	28,829	36,732	45,591	21,240	26,690
Amortization of goodwill	82	996	2,313	4,723	5,049	2,507	
Total costs and expenses	38,805	52,930	75,291	110,122	134,089	67,230	78,076
Income from operations	5,370	5,685	9,316	24,642	32,270	16,399	23,679
Interest income (expense), net	173	(1,163)	(4,014)	(10,771)	(4,356)	(2,588)	(1,340)
Income before income taxes and extraordinary item	5,543	4,522	5,302	13,871	27,914	13,811	22,339
Income taxes	2,250	1,954	2,311	5,917	11,445	5,801	9,047
Income before extraordinary item	3,293	2,568	2,991	7,954	16,469	8,010	13,292
Extraordinary loss on early extinguishment of debt, net of income taxes				(5,393)			
Net income	\$ 3,293	\$ 2,568	\$ 2,991	\$ 2,561	\$ 16,469	\$ 8,010	\$ 13,292
Income before extraordinary item per common share:							
Basic	\$ 0.49	\$ 0.36	\$ 0.41	\$ 0.75	\$ 0.92	\$ 0.48	\$ 0.67
Diluted	\$ 0.47	\$ 0.34	\$ 0.39	\$ 0.66	\$ 0.84	\$ 0.43	\$ 0.62
Net Income per common share:							
Basic	\$ 0.49	\$ 0.36	\$ 0.41	\$ 0.24	\$ 0.92	\$ 0.48	\$ 0.67
Diluted	\$ 0.47	\$ 0.34	\$ 0.39	\$ 0.21	\$ 0.84	\$ 0.43	\$ 0.62

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Weighted average shares outstanding, Basic	6,794	7,087	7,308	10,612	17,841	16,584	19,981
Weighted average shares outstanding, Diluted	7,047	7,615	7,543	11,988	19,631	18,612	21,501
Other Data:							
Capital expenditures	\$ 2,800	\$ 3,327	\$ 3,093	\$ 6,640	\$ 4,366	\$ 1,629	\$ 4,154
EBITDA (4)	\$ 7,111	\$ 8,756	\$ 14,012	\$ 32,134	\$ 41,185	\$ 20,761	\$ 25,908
EBITDA margin (5)	16.1%	14.9%	16.6%	23.8%	24.8%	24.8%	25.5%

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	At December 31,					At June 30,	
	1997	1998	1999	2000	2001	2001	2002
	(in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	\$ 2,456	\$ 3,223	\$ 5,046	\$ 3,235	\$ 12,856	\$ 2,473	\$ 21,236
Working capital	10,634	9,071	19,233	20,163	28,766	24,332	47,502
Total assets	29,176	79,747	84,292	146,131	154,353	146,287	176,663
Long-term debt	1,930	46,280	42,727	60,500	28,166	45,333	26,000
Total stockholders' equity	21,019	25,594	30,252	68,624	105,136	84,952	132,150

- (1) In September 1997, we acquired L.W.G., Inc. and subsidiary, and Bodaken & Associates in business combinations accounted for as purchases.
- (2) In June 1998, we acquired Klick, Kent & Allen, Inc. In September 1998, we acquired S.E.A., Inc., Kahn Consulting, Inc. and KCI Management Corp. These business combinations were accounted for as purchases.
- (3) Effective January 31, 2000, we acquired Policano & Manzo, L.L.C. in a business combination accounted for as a purchase.
- (4) EBITDA refers to earnings before taxes, net interest expense and depreciation and amortization. Because all companies do not calculate EBITDA or similarly titled financial measures in the same manner, other companies' disclosures of EBITDA may not be comparable with EBITDA as we calculate it. EBITDA should not be considered as an alternative to net income or loss (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under generally accepted accounting principles. EBITDA is intended to provide additional information for evaluating the ability of an entity to meet its financial obligations.
- (5) EBITDA margin equals EBITDA divided by our total revenues for each period presented, in percentage format.

Table of Contents**Selected Historical Financial Data of BRS**

	Fiscal year ended June 30,		
	2000	2001	2002
	(in thousands, except per share data)		
Statement of Income Data:			
Revenues	\$ 141,093	\$ 156,948	\$ 179,262
Cost of services (1)	60,744	64,943	64,642
Reimbursables and subcontractor costs	9,401	12,844	14,275
Total costs of services (1)	70,145	77,787	78,917
Selling, general and administrative expenses (1)	30,851	28,387	33,542
Operating income (1)	40,097	50,774	66,803
Interest expense and other	422	715	603
Other expense	364	605	584
Income before partner distributions and benefits (1)	\$ 39,311	\$ 49,454	\$ 65,616

(1) Excludes payments for partner distributions and benefits.

	At June 30,		
	2000	2001	2002
	(in thousands)		
Balance Sheet Data:			
Working capital	\$ 2,266	\$ (3,007)	\$ (19,932)
Total assets	21,583	33,556	35,541
Total liabilities and PwC U.S. investment	21,583	33,556	35,541

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in those forward-looking statements as a result of certain factors, including, but not limited to, those described under "Risk Factors" or in other portions of this prospectus.

Overview

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

Historically, we organized the company into three operating segments: financial consulting, litigation consulting and applied sciences. As a result of our acquisition of BRS and our decision to sell our applied sciences practice group, we will no longer have these operating segments. We will manage our operations as one segment. Accordingly, beginning in the third quarter of 2002, our financial statements will present the operations of the applied sciences practice group as discontinued operations, and we will present our financial condition and results of operations without segment information. We will continue to discuss our historical results through the six month period ended June 30, 2002, based on the segments we previously reported in our financial statements.

Historically, our financial consulting segment included a broad range of our consulting services, such as bankruptcy and restructuring analysis, forensic accounting, expert testimony, damage assessment, cost benefit analysis and business valuations. Our financial consulting segment accounted for 58.4% of our revenues in 2001 and 63.6% of our revenues for the six months ended June 30, 2002. Our litigation consulting segment included discovery, jury selection and trial preparation and support services. Our litigation consulting segment accounted for 15.2% of our revenues in 2001 and 12.8% of our revenues for the six months ended June 30, 2002. Our applied sciences segment included forensic engineering and scientific investigation services. Our applied sciences segment accounted for 26.4% of our revenues in 2001 and 23.6% of our revenues for the six months ended June 30, 2002.

We have evaluated segment performance based on each segment's proportion of our operating income before depreciation and amortization, corporate general and administrative expenses and income taxes. In 2001, our financial consulting segment accounted for 78.7% of our segment operating income, while our litigation consulting segment accounted for 6.2% and our applied sciences segment accounted for 15.1%. For the six months ended June 30, 2002, our financial consulting segment accounted for 81.7% of our segment operating income, while our litigation consulting segment accounted for 5.6% and our applied sciences segment accounted for 12.7%.

Our direct cost of revenues consists primarily of employee compensation and related payroll benefits, the cost of outside consultants assigned to revenue-generating activities and other related expenses billable to clients. In 2001, our direct costs were 50.2% of revenues, consistent with our long-term 50.0% target and an improvement from 51.0% in 2000. For the six months ended June 30, 2002, our direct costs were 50.5% of revenues, an improvement from 52.0% for the six months ended June 30, 2001.

Selling, general and administrative expenses consist primarily of salaries and benefits paid to office and corporate staff, as well as rent, marketing, corporate overhead expenses and depreciation and amortization of

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property and equipment. In 2001, selling, general and administrative expenses, including depreciation and amortization, accounted for about 27.4% of our revenues, approximately the same as the 27.3% result in 2000. Our corporate overhead costs, which are included in selling, general and administrative expenses, represented about 6.3% of revenues in 2001 and 5.9% in 2000. For the six months ended June 30, 2002, selling, general and administrative expenses, including depreciation and amortization, accounted for about 26.2% of our revenues, slightly higher than the 25.4% result for the six months ended June 30, 2001. Our corporate overhead costs represented about 6.0% of revenues for the six months ended June 30, 2002 and 5.4% for the same period in 2001.

We had goodwill of about \$94.0 million at June 30, 2002 that we recorded principally from business combinations that we completed in the last five years. This goodwill represented about 53.0% of our total assets at June 30, 2002. As of January 1, 2002, we no longer amortize this goodwill, but rather make annual assessments of impairment. Our acquisition of BRS increased our goodwill and other intangible assets by approximately \$250.0 million to approximately \$354.0 million at August 31, 2002. We anticipate that the sale of the applied sciences practice group will reduce the amount of our goodwill by approximately \$14.0 million when the sale occurs.

Critical Accounting Policies

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

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

Revenue Recognition. We derive substantially all of our revenue from providing professional services to our clients. Most of these services are rendered under arrangements that require the client to pay us a fee for the hours that we incur at agreed-upon rates. We also bill our clients for the cost of the production of our work products and other direct expenses that we incur on behalf of the client, such as travel costs and materials that we purchase to produce presentations for courtroom proceedings. We recognize our revenue from professional services as work is performed and expenses are incurred. The basis for our policy is the fact that we normally obtain engagement letters or other agreements from our clients prior to performing any services. In these letters and other agreements, the clients acknowledge that they will pay us based upon our time spent on the matter and at our agreed-upon hourly rates.

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

Bad Debts. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our clients to pay our fees or for disputes that affect our ability to fully collect our billed accounts receivable as well as potential fee reductions imposed by bankruptcy courts. We estimate this allowance by

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reviewing the status of past-due accounts and recording general reserves based on our experiences in these cases and historical bad debt expense. Our actual experience has not varied significantly from our estimates. However, if the financial condition of our clients were to deteriorate, resulting in their inability to pay our fees, we may need to record additional allowances in future periods. This risk is mitigated by the retainers that we require from some of our clients prior to performing significant services.

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

Goodwill. We have remaining goodwill of about \$94.0 million at June 30, 2002 that we recorded for business combinations that we completed principally in the last five years. This goodwill had been amortizing over 20 to 25 year periods and resulted in amortization expense approximating \$5.0 million in 2001. As of January 1, 2002, we adopted Financial Accounting Standards Board Statement No. 142, *Goodwill and Other Intangible Assets* (Statement 142). Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statement. Accordingly, we no longer amortize this goodwill, but rather make annual assessments of impairment. During the second quarter of 2002, we completed the transitional impairment tests required by Statement 142 for this goodwill as of January 1, 2002. No impairment of goodwill was identified as a result of these tests. In the future, we will be making impairment tests during the fourth quarter of each year. In making these impairment assessments, we must make subjective judgments regarding estimated future cash flows and other factors to determine the fair value of the reporting units of our business that are associated with this goodwill. It is possible that these judgments may change over time as market conditions or our strategies change, and these changes may cause us to record impairment charges to adjust our goodwill to its estimated fair value.

Effect of Recent Accounting Pronouncements

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

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

Table of Contents**Recent Acquisitions**

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

Company	Date Acquired	Purchase Price	Goodwill and Other Intangibles Recorded	Sources of Cash Financing	Services
		(in millions)			
U.S. BRS division of PwC	Aug. 2002	\$244.3, in cash and stock	\$250.0 (est.)	Bank financing and our available cash	Turnaround, restructuring and bankruptcy consulting
Technology & Financial Consulting, Inc.	Jan. 2002	\$4.1, in cash and stock	\$ 3.8	Available cash	Intellectual property consulting
Policano & Manzo, L.L.C.	Feb. 2000	\$54.9, in cash and stock	\$ 52.2	Bank financing and our available cash	Turnaround, restructuring and bankruptcy consulting

Results of Operations**Six Months Ended June 30, 2002 and June 30, 2001**

Revenues. Total revenues for the six months ended June 30, 2002 increased 21.8% to \$101.8 million from \$83.6 million in the same period in 2001. Our financial consulting segment revenues grew by 34.5% to \$64.7 million for the six months ended June 30, 2002 from \$48.1 million in the same period in 2001. We believe revenues for our financial consulting segment grew during the first half of 2002 primarily because we were able to recruit additional seasoned financial professionals to meet the continued strong demand for our financial consulting services in both restructuring and turnaround activities, and the forensic accounting and strategic consulting portions of the business and because we increased our professional rates (by an average of approximately 8% in our financial consulting segment). We anticipate that the market demand for our services in these areas will continue to be strong throughout 2002. We added several new practice areas to the financial consulting segment in early 2002, including crisis management, intellectual property litigation consulting, electronic evidence discovery, and utility regulatory financial consulting. These new practice areas contributed to the revenues and operating income of the financial consulting segment during the six months ended June 30, 2002, but did not have a major impact on the period.

Our litigation consulting segment revenues decreased 10.3% to \$13.0 million for the six months ended June 30, 2002 from \$14.5 million in the same period in 2001, representing the continuation of the decline that initially began in the third quarter of 2000 and resurfaced in the third quarter of 2001. We do not foresee this trend reversing during the remainder of 2002 and will continue to monitor this practice area closely. Our goals are to continue to grow our secure extranet services in support of litigation, improve our overall utilization of employees, cross train employees and contract with skilled outside consultants to staff peak workloads. We are also working on enhancing opportunities through our new electronic evidence and intellectual property consulting businesses.

Our applied sciences segment experienced 14.8% revenue growth during the six months ended June 30, 2002 to \$24.1 million from \$21.0 million in the same period in 2001. This segment grew faster than its historical rate of 6% to 10% due primarily to a significant number of unanticipated assignments. These engagements included restoration assignments near the site of the World Trade Center that were completed in the first quarter of 2002.

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Direct Cost of Revenues. Direct cost of revenues was 50.5% of our total revenues for the six months ended June 30, 2002 and 52.0% in the same period in 2001. The improvement in 2002 resulted primarily from the relative growth of the financial consulting segment, which has a somewhat higher gross margin than our other segments, and is in line with our long-term target of 50.0%.

Selling, General and Administrative Expenses. As a percent of our total revenues, selling, general and administrative expenses, which include depreciation and amortization of property and equipment, were 26.2% for the six months ended June 30, 2002, and 25.4% in the same period in 2001. Selling, general and administrative expenses, excluding depreciation and amortization, were 23.9% of revenues for the six months ended June 30, 2002, and were consistent with our long-term target of 25.0%.

Amortization of Goodwill. As required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we no longer amortize our goodwill beginning at January 1, 2002. Amortization of goodwill during the first half of 2001 was \$2.5 million.

Interest Expense. Interest expense consisted primarily of interest on debt we incurred in order to purchase businesses over the past several years. Interest expense decreased substantially for the six months ended June 30, 2002 compared with the same period in 2001, because interest rates were lower than in the prior year and we were able to retire \$45.0 million of our debt in accordance with its terms with cash flow from operations and the proceeds from the exercise of options.

Income Taxes. Our effective tax rate decreased to 40.5% for the six months ended June 30, 2002, from 41.0% for the same period in 2001, principally because the increase in our income before income taxes and other extraordinary items diluted the effect of non-deductible goodwill amortization.

Years Ended December 31, 2001, 2000, and 1999

Revenues. Total revenues in 2001 increased 23.4% to \$166.4 million from \$134.8 million in 2000. Our financial consulting segment revenues grew by 51.2% to \$97.1 million in 2001 from \$64.2 million in 2000. We believe revenues for our financial consulting segment grew during 2001 primarily as a result of our ability to recruit seasoned financial professionals to meet the continued strong demand for our financial consulting services in both restructuring and turnaround activities and the forensic accounting and strategic consulting portions of the business, coupled with increases in professional rates. We added several new practice areas to the segment in early 2002, including crisis management, intellectual property litigation consulting, electronic evidence discovery, and utility regulatory financial consulting.

Our litigation consulting segment revenues decreased 19.7% to \$25.2 million in 2001 from \$31.4 million in 2000, continuing the decline that began in the third quarter of 2000. We believe revenues for our litigation consulting segment declined during 2001 primarily as a result of an unusual number of trials that were deferred or cancelled due to settlement or settlement discussions.

Our applied sciences segment experienced 12.2% revenue growth in 2001 to \$44.0 million from \$39.2 million in 2000. This segment grew faster than its historical rate of 6% to 10% due primarily to a significant number of unanticipated assignments. These engagements include restoration assignments near the site of the former World Trade Center that were completed early in the first quarter of 2002.

Total revenues for our litigation consulting segment in 2000 increased 59.3% over 1999. Our litigation consulting segment revenues increased 7.9% from 1999 to 2000 as a result of an increased volume of cases. Our applied sciences segment experienced 9.8% growth in 2000 compared to 1999, the high end of its historical growth trend. Our financial consulting segment's revenues grew by 222.6% in 2000 compared to 1999. On a pro forma basis, including the acquisition in February 2000 of P&M described above, the division grew 61.0%, due in part to the faster than anticipated integration of the acquisition and the strong market demand for our financial consulting services.

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Direct Cost of Revenues. Direct cost of revenues was 50.2% of our total revenues in 2001, 50.9% in 2000 and 52.2% in 1999. The improvement in 2001 resulted primarily from the relative growth of the financial consulting segment, which has a higher operating margin than our other segments, and is in line with our long-term target of 50.0%.

Selling, General and Administrative Expenses. As a percent of our total revenues, selling, general, and administrative expenses, which include depreciation and amortization of property and equipment, were 27.4% in 2001, 27.3% in 2000 and 34.1% in 1999. The decrease in 2001 and 2000 compared to 1999 was primarily attributed to the growth of our financial consulting segment that has a lower ratio of selling, general and administrative expenses to revenues than our litigation consulting and applied sciences segments. Selling, general and administrative expenses, excluding depreciation and amortization, was 25.1% of revenues in 2001, and is consistent with our long-term target of 25.0%.

Amortization of Goodwill. Annual amortization of goodwill increased from \$4.7 million in 2000 to \$5.0 million in 2001, primarily as a result of additional contingent consideration related to our acquisitions. Amortization of goodwill increased from \$2.3 million in 1999 primarily as a result of the Policano & Manzo, L.L.C. acquisition.

Interest Income and Expense, Net. Interest expense consisted primarily of interest on debt we incurred to purchase businesses over the past several years. Interest expense decreased substantially in 2001 as compared to 2000 because interest rates were lower and we were able to retire \$32.3 million of our debt. We used cash generated from operations, the proceeds of an equity offering in October 2000 and proceeds from the exercise of options and warrants to pay down debt. We achieved lower interest rates by refinancing our outstanding debt in late 2000 and experienced declining market interest rates on our revolving credit facility.

Income Taxes. Our effective tax rate decreased to 41.0% in 2001 from 42.7% in 2000 and 43.7% in 1999, principally because the increase in our net income diluted the effect of non-deductible goodwill amortization.

See Note 7 of Notes to Consolidated Financial Statements for a reconciliation of the federal statutory rate to our effective tax rates during each of these years, and a summary of the components of our deferred tax assets and liabilities.

Extraordinary Loss on Early Extinguishment of Debt, Net of Income Taxes. As a result of the write-off of unamortized debt discount and deferred financing costs associated with the debt that we refinanced or retired early in 2000, we had a \$5.4 million loss on early extinguishment of debt, net of taxes in 2000.

Liquidity and Capital Resources

During the six months ended June 30, 2002, net cash provided by our operations was about \$13.0 million as compared to about \$10.0 million for the comparable period in 2001. Net cash provided by operating activities was \$27.3 million in 2001, \$15.6 million in 2000, and \$8.4 million in 1999. We continue to finance operations and capital expenditures solely through cash flows from operations. Cash flows from operations have improved year-over-year since 1999 primarily due to increases in net income. During the six months ended June 30, 2002, this increase occurred primarily because our total revenues increased by 21.8%, while our direct cost of revenues as a percentage of revenues declined and our selling, general and administrative expenses increased only slightly as a percentage of revenues. Additionally, we realized a \$7.0 million income tax benefit from stock option exercises that further increased our cash flows from operations during this period.

Our operating assets and liabilities consist primarily of billed and unbilled accounts receivable, accounts payable and accrued expenses and accrued compensation expense. Changes in these balances are affected by the timing of billings and collections of receivables as well as payments for compensation arrangements. During the six months ended June 30, 2002, changes in operating assets and liabilities reduced cash flow from operations by

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\$10.2 million. This was primarily because our billed and unbilled accounts receivables grew by \$8.2 million during the six months ended June 30, 2002. Billed and unbilled accounts receivable, net of allowance for doubtful accounts, increased due to strong demand for our financial consulting services throughout the first half of 2002. Our average collection period did not vary significantly from 2001 to 2002. Our customary collection terms range from 30 to 60 days for all of our clients. We do not expect our collection trends to change significantly as a result of the acquisition of BRS.

During the six months ended June 30, 2002, we spent \$4.2 million for net additions to property and equipment, primarily for expansion of one of our major offices and investments in technology and equipment for our new practice areas. During all of 2002, we expect to spend approximately \$8.0 million for property and equipment additions, including \$2.0 million related to the integration of BRS. This trend in investing activities, after giving effect to the recent acquisition of BRS, is in line with our historical net additions to property and equipment of \$4.4 million in 2001, \$6.6 million in 2000 and \$3.1 million in 1999. In 2003, we expect to spend approximately \$10.0 million for property and equipment additions, including \$4.0 million related to the integration of BRS. We had no outstanding purchase commitments at June 30, 2002.

Our investment activities during the six months ended June 30, 2002 included the acquisition of one business. We paid \$3.2 million in cash as part of the purchase price to acquire Technology & Financial Consulting, Inc., which provides intellectual property consulting services.

Our financing activities in all periods have consisted principally of borrowings and repayments under long-term debt arrangements as well as issuances of common stock and exercises of warrants and stock options. Net borrowings or repayments under debt arrangements consisted of a \$2.2 million repayment for the six months ended June 30, 2002, a \$32.3 million repayment in the same period in 2001, a \$20.7 million borrowing in the same period in 2000 and a \$2.5 million repayment in the same period in 1999. At June 30, 2002, we had \$21.2 million in cash plus availability under our then outstanding revolving credit agreement to borrow \$46.6 million. We did not draw on this credit facility during the first half of 2002.

During the six months ended June 30, 2002, stock options to purchase 822,787 shares of our common stock were exercised and 111,661 shares of our common stock were issued under our employee stock purchase plan. These exercises and issuances generated \$12.5 million in cash (including the \$7.0 million income tax benefit from the stock option exercises).

On August 30, 2002, we completed the acquisition of BRS. The purchase price consisted of \$141.1 million in cash plus 3,000,000 shares of our common stock. We financed the cash portion of the purchase price from our existing cash and a new bank credit facility, which consists of an additional term loan of \$74.0 million and a revolving credit line of \$100.0 million. We acquired BRS related accounts receivable, unbilled receivables and obligations to perform services under retainers but did not acquire BRS related cash. We expect the BRS acquisition to generate immediate positive cash flows from operations.

On August 30, 2002, we terminated our previous credit facility and entered into the new credit facility in connection with our acquisition of BRS. The new credit facility consisted of our then existing term loan for \$26.0 million, a new term loan for \$74.0 million and a new revolving credit facility for \$100.0 million. On September 30, 2002, we repaid \$1.1 million of the \$26.0 million term loan. Our debt under the credit facility bears interest at an annual rate equal to LIBOR plus an applicable margin or an alternative base rate defined as the higher of (1) the lender's announced prime rate or (2) the federal funds rate plus the sum of 50 basis points and an applicable margin. If not prepaid, our \$24.9 million term loan will mature on December 1, 2005, and our \$74.0 million term loan will mature on August 30, 2006. Under the credit facility, we have granted the lenders a security interest in substantially all of our assets. At September 30, 2002, we had outstanding aggregate debt under the credit facility of \$138.9 million, bearing interest at 4.95% per annum. We will not be subject to any penalties for early payment of the debt under the credit facility. Under the provisions of the credit facility, we

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must apply at least half of the net proceeds that we obtain from any public offering of our equity securities to repayment of the debt. Because of our increased debt, we anticipate higher interest expenses for the remainder of 2002 and thereafter.

We intend to sell our applied sciences practice group, and we expect to complete the sale by the end of 2002. Under the credit facility, we are required to apply all of the proceeds from the sale to reduce our outstanding aggregate debt under the facility.

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

Below is a summary of our contractual obligations and commitments at June 30, 2002:

Contractual Obligations	Payments Due by Period					Thereafter
	Total	2002	(in thousands)		2005	
			2003	2004		
Long-term debt	\$ 26,000	\$ 2,167	\$ 6,500	\$ 8,667	\$ 8,666	\$
Operating leases	35,630	2,810	5,603	5,311	4,953	16,953
Total obligations	\$ 61,630	\$ 4,977	\$ 12,103	\$ 13,978	\$ 13,619	\$ 16,953
Pro forma, as adjusted long-term debt (1)	\$ 83,190	\$ 2,167	\$ 6,500	\$ 8,667	\$ 25,237	\$ 40,619
Operating leases	35,630	2,810	5,603	5,311	4,953	16,953
Pro forma, as adjusted total obligations (1)	\$ 118,820	\$ 4,977	\$ 12,103	\$ 13,978	\$ 30,190	\$ 57,572

(1) We calculated the pro forma information assuming the acquisition of BRS, including the assumed effects of the debt transactions related to the acquisition, and our repayment of \$72.0 million of our debt under our credit facility with the estimated net proceeds from the sale of shares by us in this offering. This information does not give effect to our planned sale of the applied sciences practice group (which would lower the amount of our debt and the number of leases) or any additional leases we may enter into as we integrate BRS. We intend to relocate BRS as soon as possible and expect to obtain additional leased facilities on commercially reasonable terms.

Quantitative And Qualitative Disclosures About Market Risk

We are subject to market risk associated with changes in interest rates on our variable rate debt. In the past, we have managed this risk by entering into interest rate swaps. These hedges reduce our exposure to rising interest rates, but also reduce the benefits we would have otherwise received from lower interest rates. We do not anticipate entering into new interest rate swaps in 2002.

Interest rate swaps with notional principal amounts of \$26.0 million at June 30, 2002, were designated as hedges against outstanding debt and were used to convert the interest rate on our variable rate debt to fixed rates for the life of the swap. Without giving effect to our hedge, our interest rate would have been 3.63% at June 30, 2002, but because of the hedge, the rate was 8.39% at that date. Because of the effectiveness of our hedge of variable interest rates associated with our debt, the change in fair value of our interest rate swaps resulting from changes in market interest rates is reported as a component of other comprehensive income (loss).

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BUSINESS

Introduction

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

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

We began operations in 1982 as a consulting firm focused on providing forensic engineering scientific and trial support services. Beginning in 1998, we further expanded into financial consulting services. We achieved this expansion through two acquisitions in 1998 and one acquisition in 2000 and through our internal growth initiatives. Through a combination of organic growth and acquisitions, we have become one of the largest U.S. providers of turnaround, restructuring, bankruptcy and related consulting services. Our revenues have grown from \$44.2 million in 1997 to \$166.4 million in 2001, at a compounded annual growth rate of nearly 40%. For the first six months of 2002, we had \$101.8 million in revenues on an actual basis and \$169.1 million in revenues on a pro forma basis, which includes BRS revenues but excludes revenues from our applied sciences practice group, which we have announced our intention to sell.

On August 30, 2002, we acquired BRS for \$141.1 million in cash and 3,000,000 shares of our common stock valued at \$101.9 million. We incurred expenses of approximately \$1.4 million in connection with this acquisition. For its fiscal year ended June 30, 2002, BRS had revenues of \$179.3 million and operating income of \$66.8 million. On a pro forma basis, as adjusted to present BRS as a company separate from PwC, BRS had revenues of \$167.2 million and operating income of \$51.4 million for the year ended December 31, 2001, and revenues of \$91.4 million and operating income of \$29.3 million for the six-month period ended June 30, 2002.

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

Our clients are typically companies facing adverse circumstances, as well as their creditors or other stakeholders, such as financial institutions and private equity firms, and the law firms that represent them. Unlike demand for traditional consulting services, which depends primarily on companies' internal budgeting decisions,

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demand for our services is driven by non-discretionary engagements for businesses facing critical situations that are often adverse. These companies typically focus on our track record and reputation rather than our prices. In the case of bankruptcy proceedings, bankruptcy courts often mandate the selection of third party advisors, reinforcing the non-discretionary nature of our services.

We regularly provide our turnaround, restructuring, bankruptcy and related consulting services to the largest banks in the U.S., including Bank of America, N.A., Wachovia Bank, N.A, and JP Morgan Chase Bank. We are involved in many of the largest bankruptcy proceedings and out-of-court restructurings in the U.S. For example, we are currently involved in the bankruptcies of Enron Corp., WorldCom, Inc., US Airways, Inc. and Adelphia Communications Corporation. We believe clients retain us because of our recognized expertise and capabilities in highly specialized areas, as well as our reputation for satisfying clients' needs. In 2001 and in the six months ended June 30, 2002, no single client accounted for more than 5% of our revenues.

Our applied sciences practice group offers forensic engineering and scientific investigation services. We intend to sell this practice group, and we expect to complete the sale by the end of 2002. We intend to use the proceeds from the sale to reduce our outstanding debt under our credit facility. However, we cannot assure you that we will be able to sell our applied sciences practice group within the stated timeframe or at what price we will be able to sell it.

Industry Overview

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

high debt default rates and ongoing bankruptcy filings;

continuing use of debt for corporate financings;

escalating competitive and regulatory complexity faced by a wide range of businesses;

the current wave of corporate reform legislation that encourages, and in some cases, requires the use of outside financial consultants; and

the need for objective, independent expertise for critical, business processes.

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

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

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

For the first half of 2002, *Moody's* reported that 89 issuers of corporate bond debt rated by it defaulted on \$76.7 billion of that debt. This represents a 64% increase in the dollar volume of defaulted debt from the first half of 2001. In the second quarter of 2002 alone, 42 issuers of *Moody's*-rated corporate bond debt defaulted on \$42.6 billion in debt, representing approximately twice the defaulted amount as the first quarter of 2001. *Moody's* reported second quarter 2002 global default rates for speculative grade debt at 10.3%, consistent with default levels seen in other periods of economic distress over the past 30 years, including 2001 (10.2%), 1991 (10.5%),

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1990 (9.9%) and 1970 (9.2%). In July 2002, *Moody's* reported that the second quarter of 2002 was one of the most severe periods of credit deterioration since the Great Depression.

We believe that a high correlation exists between default rates and the number of bankruptcy filings. According to the FDIC, a record 257 publicly-traded companies filed for bankruptcy in 2001, representing a 46% increase over the previous record set in 2000. The FDIC also reported that \$258.5 billion of assets were involved in U.S. public company bankruptcy filings in 2001. This represented more than twice the assets involved in all 2000 U.S. public company bankruptcies. While the highly visible and large scale publicly-traded company bankruptcies draw the most attention, *BankruptcyData.com* reported a total of 40,099 total business bankruptcy filings in 2001, less than the 1980 through 2001 annual average of 58,871 business bankruptcy filings. Regardless of prevailing economic conditions, we believe that there will be a substantial number of business bankruptcy filings in any given year.

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

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

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

Increasing Need For Independent Expertise. We believe that businesses, their creditors and other institutional stakeholders are increasingly utilizing consulting firms to provide objective, independent expertise for highly critical business processes. Businesses and financial institutions facing adverse circumstances have a need to access world-class expertise to assist them in implementing tactical operating plans to solve significant business dilemmas. This is particularly true in highly complex and sophisticated areas such as turnarounds, restructurings, bankruptcies and high-stakes legal proceedings.

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Business Strategy

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

Maintain High Utilization Rates Among Our Professionals. We carefully manage our growth in order to maintain high utilization rates among all of our professionals rather than intermittently expanding our staff in anticipation of short-term demand. We take a disciplined approach when recruiting additional professionals. Although we maintain enough professionals to staff large, complex assignments, we focus on hiring qualified individuals who meet our selective criteria. High utilization rates allow us to maintain our profitability and make us less vulnerable to temporary declines in our work load.

Retain a Critical Mass of Highly Qualified Professionals. Our professionals are crucial to delivering our services to clients and generating new business. Through our substantial staff of highly qualified professionals, we can handle a number of large, complex assignments simultaneously. We offer each of our professionals significant compensation opportunities, often based on his or her utilization rate, along with a competitive benefits package and the chance to work on challenging engagements.

Leverage Our Relationships and Expertise. We work hard to maintain our existing client relationships and develop new ones. We believe that our existing client relationships and our reputation among industry professionals, coupled with our recognized expertise, track record and size, are the most critical elements in a company's decision to retain us. We have typically received a significant amount of repeat business from our financial institution clients and referrals from our law firm clients. We have been successful in recent years in expanding the range of consulting services we provide to our clients. Moreover, as a result of the BRS acquisition, we have greater capacity to handle simultaneously a number of complex, high-profile matters. By successfully leveraging our reputation, experience and expanded client base, we believe we will obtain a greater number of engagements from both existing and new clients.

Expand the Range of Our Financial and Litigation Consulting Services. We believe that a number of factors driving demand for our services are non-cyclical in nature. These factors include the adverse effects of increased regulation and competition on various industries, under-performing companies, ineffective business strategies, highly leveraged capital structures, failed acquisitions, corporate fraud and the ever increasing number of high-stakes lawsuits. While we anticipate that during more prosperous economic times, demand for turnaround, restructuring, bankruptcy and related consulting services will continue, we intend to continue to diversify the range of our financial and litigation consulting services. We have recently diversified our service offerings to include lender and transactional support, dispute settlement, intellectual property consulting and mergers and acquisitions advice. We intend to continue to broaden the range of our service offerings. We believe this diversification of our service offerings will better insulate our overall business from changing market conditions.

Selectively Acquire Companies to Obtain New Professionals and Capabilities. We have always followed a disciplined approach to acquisitions. Our selective approach has allowed us to acquire businesses on attractive terms. Over the past five years, we have made three significant acquisitions that have greatly enhanced our position in the turnaround, restructuring and bankruptcy market. We will continue to selectively pursue strategic acquisitions of complementary service businesses. This should enable us to expand the range of consulting services we offer our existing client base, expand our staff of expert professionals and add new clients to which we can sell our existing services.

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Our Services

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

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

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

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

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

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

We prepare and enhance presentations and expert testimony on complex subjects, such as toxic torts, financial disputes and intellectual property resolutions. We have responded to the increasing demand for document management in cases involving thousands or even millions of pages of depositions, testimony and exhibits by developing document management and exhibit and trial preparation solutions that enable our clients to better focus on preparing for and trying cases. Our range of services for complex litigation matters include visual communication consulting services; graphic exhibit design and production; customized database development and distribution; video deposition capture and transcript linking; management of designated trial exhibits; courtroom survey, design and configuration; on-site technical trial support; trial-specific hardware procurement and tracking; and secure extranet storage and distribution of data, documents, transcripts, videos and exhibits.

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

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

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

Our mergers and acquisitions advisory specialists assist clients in negotiating and structuring business combinations, acquisitions and dispositions of assets, business units or entire businesses. Our lender and transactional support practice group assists lenders and other institutional clients in performing financial due diligence for loans, acquisitions and other transactions.

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

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Our Acquisition of BRS

On August 30, 2002, we completed the acquisition of certain assets and liabilities of BRS. The purchase price for BRS consisted of \$141.1 million in cash and 3,000,000 shares of our common stock valued at \$101.9 million at the closing. In addition, we incurred expenses of approximately \$1.4 million in connection with this acquisition.

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

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

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

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

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Intended Sale of Our Applied Sciences Practice Group

Our applied sciences practice group offers a broad range of forensic engineering and scientific investigation services. These services include accident reconstruction, fire investigation, product failure analysis and quality control analysis. In connection with the BRS acquisition, we have decided to sell our applied sciences practice group because the practice is no longer a core part of our business. We expect to complete the sale by the end of 2002. We intend to use the proceeds from the sale to reduce our outstanding debt under our credit facility. However, we cannot assure you that we will be able to sell our applied sciences practice group within the stated timeframe or at what price we will be able to sell it. For the six months ended June 30, 2002, the applied sciences practice group accounted for 23.6% of our total revenues and 12.7% of our segment operating income.

Clients

We have cultivated long-term relationships with many of the premier financial institutions, law firms, private equity firms and other institutions in the U.S. In 2001, our most important ongoing clients and sources of referral were 21 of the 25 largest banks located in the U.S. and 68 of the top 100 law firms (based on revenues as reported by *American Lawyer* magazine).

We believe that a very significant percentage of our revenues came from existing clients or referrals from existing clients. Our largest single client represented less than 10% of our total revenues in each of the past three years and for the six months ended June 30, 2002.

Marketing and Sales

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

We do not rely on sales personnel to market our consulting services, except in our applied science and trial support practice groups. The applied science practice group has about five full-time sales people, and the trial support practice group has about ten full-time sales people.

Competition

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

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

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Human Resources

At June 30, 2002, prior to the BRS acquisition, we had 376 employees, excluding the 288 employees in our applied sciences practice group. We also maintain consulting arrangements with about 2,300 independent consultants. Most of our professionals have many years of experience in their field of practice, and many are well recognized for their expertise and experience. All 49 BRS partners to whom we made offers accepted our offer, along with 322 BRS professionals and 31 support persons.

Properties

We lease our principal corporate facility in Annapolis, Maryland, under a lease that expires in February 2007. This facility contains about 16,000 square feet of space. We also lease 32 other offices across the U.S., in cities such as New York, Chicago, Houston, Dallas, Los Angeles and Washington, D.C. 25 of these offices are used by our applied sciences practice group. PwC has agreed that for up to one year after our BRS acquisition, our BRS people may continue to occupy PwC's offices in New York, Dallas, Los Angeles, Chicago, Atlanta and ten other cities. We are currently negotiating to lease additional facilities to accommodate the addition of the BRS personnel in the cities where they currently work. We intend to relocate them as soon as possible and expect to obtain additional leased facilities on commercially reasonable terms.

Litigation

We are not currently party to any material litigation. When we acquired BRS, we did not assume any liability for any material litigation or claims related to the BRS business while part of PwC.

Table of Contents**MANAGEMENT**

The following are our executive officers and directors:

Name	Age	Positions
Jack B. Dunn, IV	51	Chairman of the Board and Chief Executive Officer
Stewart J. Kahn	58	President, Chief Operating Officer and Director
Theodore I. Pincus	59	Executive Vice President, Chief Financial Officer and Secretary
Barry S. Kaufman	55	Vice President of Operations
Glenn R. Baker	60	President, Applied Sciences Practice Group
Denis J. Callaghan	60	Director
James A. Flick, Jr.	68	Director
Peter F. O Malley	63	Director
Dennis J. Shaughnessy	54	Director
George P. Stamas	51	Director

Jack B. Dunn, IV, became our Chairman of the Board of Directors in December 1998 and has served as our Chief Executive Officer since October 1995. From October 1995 to December 1998, he also served as our President. From May 1994 to October 1995, he served as our Chief Operating Officer. From October 1992 through September 1995, he served as our Chief Financial Officer. Mr. Dunn is a limited partner of the Baltimore Orioles and a director of Aether Systems, Inc. Prior to joining us, he was a member of the Board of Directors and a Managing Director of Legg Mason Wood Walker, Incorporated, a financial services company, and directed its Baltimore corporate finance and investment banking activities.

Stewart J. Kahn has served as our President since December 1998 and as our Chief Operating Officer since September 1999. Since 1989, Mr. Kahn has served as President of Kahn Consulting, Inc., a turnaround, restructuring and bankruptcy and forensic accounting practice, which became one of our subsidiaries in September 1998.

Theodore I. Pincus has been our Executive Vice President and Chief Financial Officer since April 1999. Prior to joining us, Mr. Pincus was Executive Vice President and Chief Financial Officer of Nitinol Medical Technologies from May 1995 to March 1999. Before then, he was President of the Pincus Group, a financial consulting firm, from December 1989 to May 1995.

Barry S. Kaufman has been our Vice President of Operations since July 2002. Prior to joining us, Mr. Kaufman was a director and subsequently a partner with Arthur Andersen's Strategy and Technology practice from February 1998 to June 2002. From August 1997 to February 1998, he was President of his own consulting firm, KTFB. From March 1993 to July 1997 Mr. Kaufman served as a director with Kahn Consulting, Inc., which we acquired in September 1998.

Glenn R. Baker has been President of our applied sciences practice group since September 1998. Prior to joining us, he was Chief Executive Officer and President of S.E.A., Inc., which we acquired in September 1998. Mr. Baker co-founded S.E.A., Inc. in 1970.

Denis J. Callaghan has been a director of FTI since 2000. Mr. Callaghan retired from Deutsche Bank in February 2000, where he was the Director of North American Equity Research. Prior to becoming Director of Equity Research in 1992, Mr. Callaghan was responsible for Alex. Brown's Insurance and Financial Services Research Groups.

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James A. Flick, Jr. has been a director of FTI since 1992. Mr. Flick is President and Chief Executive Officer of Winnow, Inc., a management consulting firm. From 1994 to 2001, Mr. Flick was also Chairman, President and Chief Executive Officer of Dome Corporation, a real estate development and management services company. Mr. Flick is a director of Capital One Financial Corporation.

Peter F. O Malley has been a director of FTI since 1992. Mr. O Malley is President of Aberdeen Creek Corporation, a privately-held company engaged in investment, business consulting and development activities. Mr. O Malley is a founder of, and since 1989 has been Of Counsel to, the law firm of O Malley, Miles, Nysten & Gilmore. Mr. O Malley also is a director of Potomac Electric Power Company and Legg Mason, Inc.

Dennis J. Shaughnessy has been a director of FTI since 1992. Since 1989, Mr. Shaughnessy has been a General Partner of Grotech Capital Group, Inc., a venture capital firm. Prior to becoming a General Partner of Grotech Capital Group in 1989, Mr. Shaughnessy was Chief Executive Officer of CRI International, Inc. Mr. Shaughnessy is also a director of TESSCO Technologies, Inc. and U.S. Vision, Inc.

George P. Stamas has been a director of FTI since 1992. Since January 2002, Mr. Stamas has been a senior partner of the national law firm of Kirkland & Ellis. Mr. Stamas is also a venture partner of New Enterprise Associates, a venture capital firm, and a director of Aether Systems, Inc. From 1999 to January 2002, Mr. Stamas was vice chairman of the Board of Directors of Deutsche Bank. Mr. Stamas is a limited partner of the Baltimore Orioles, the Washington Capitals and the Washington Wizards. From 1996 to 1999, Mr. Stamas was a partner in the law firm of Wilmer, Cutler & Pickering LLP.

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DESCRIPTION OF CAPITAL STOCK

General

As of the date of this prospectus, our authorized capital stock consists of 45,000,000 shares of common stock, \$0.01 par value per share, and 5,000,000 shares of preferred stock, \$0.01 par value per share. At September 30, 2002, we had 23,713,052 shares of our common stock outstanding and no shares of our preferred stock issued and outstanding. The following description of our capital stock is qualified in its entirety by reference to our charter.

Common Stock

Voting Rights. Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders generally. Our stockholders have no right to cumulate their votes in the election of directors.

Dividend Rights. Holders of our common stock are entitled to receive dividends and other distributions pro rata when, as and if declared from time to time by our board of directors out of funds legally available for that purpose, subject to preferences that may be applicable should we issue preferred stock. We have never paid cash dividends on our common stock, and we do not intend to pay dividends in the foreseeable future.

Rights Upon Liquidation. If we voluntarily or involuntarily liquidate, dissolve or wind up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, including all distributions to holders of preferred stock having a liquidation preference over the common stock.

Miscellaneous. Our charter does not grant the holders of our common stock preemptive or other subscription or conversion rights, and no redemption provisions exist with respect to such shares. All issued and outstanding shares of our common stock are, and the shares to be sold in this offering will be, when issued and paid for, fully paid and non-assessable.

Preferred Stock

Our charter authorizes our board of directors to issue preferred stock in one or more series, to fix the number of shares constituting such series and the designation of such series, the voting powers, if any, of the shares of such series, the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. We have not issued any series of preferred stock.

Anti-Takeover Provisions of Our Charter and Bylaws

Classification of Directors. Our charter and bylaws provide that our board of directors is divided into three classes serving staggered three-year terms. The classification of directors could prevent a stockholder, or group of stockholders, having majority voting power, from obtaining control of our board until the second annual stockholders' meeting following the date that the stockholder, or group of stockholders, obtains majority voting power. Thus, this provision may discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of us.

Advance Notice Provisions. Our bylaws provide that stockholders must provide timely notice in writing to bring business before an annual meeting of stockholders or to nominate candidates for election as directors at an annual meeting of stockholders. The bylaws also specify the form and content of a stockholder's notice. These provisions may prevent stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

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Anti-Takeover Provisions of the Maryland General Corporation Law

Business Combinations. The Maryland General Corporation Law prohibits specified business combinations between a Maryland corporation and an interested stockholder. These business combinations include a merger, consolidation, share exchange, an asset transfer or issuance or reclassification of equity securities. Interested stockholders are either:

anyone who beneficially owns 10% or more of the voting power of the outstanding voting shares of the corporation; or

an affiliate or associate of the corporation who was an interested stockholder or an affiliate or an associate of the interested stockholder at any time within the two-year period prior to the date in question.

These business combinations are prohibited for five years after the most recent date on which the stockholder became an interested stockholder. Thereafter, in addition to any other vote required by law or the charter or bylaws, any business combination must be recommended by the board of directors of the corporation and approved by the vote of:

at least 80% of the votes entitled to be cast by all holders of the corporation's voting shares voting as a single group; and

at least 66²/₃% of the votes entitled to be cast by all holders of the corporation's voting shares other than voting shares held by the interested stockholder or an affiliate or associate of the interested stockholder.

An interested stockholder may avoid complying with these special voting requirements if the interested stockholder pays the corporation's stockholders a minimum price for their shares (as specified in the statute) and the consideration is received in cash or in the same form previously paid by the interested stockholder for its shares.

The business combination statute does not apply to business combinations that are approved or exempted by the corporation's board of directors prior to the time that the interested stockholder becomes an interested stockholder. A Maryland corporation may also adopt an amendment to its charter electing not to be subject to these special voting requirements. Any amendment would have to be approved by at least 80% of the votes entitled to be cast by all holders of outstanding shares of voting stock voting as a class and 66²/₃% of the votes entitled to be cast by holders of outstanding shares of voting stock who are not interested stockholders. If passed, the amendment will not become effective until 18 months after the corporation's stockholders voted on it. Any interested stockholders who become an interested stockholder before the adoption of an amendment will not receive relief from the requirements of the statute by the adoption of a charter amendment. We have elected to be generally subject to this statute.

Control Share Acquisitions. The Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights other than those voting rights approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror or by the corporation's officers or directors who are employees of the corporation. Control shares are shares of voting stock which, if aggregated with all other shares of stock previously acquired, would entitle the acquiror to exercise voting power in electing directors within any one of the following ranges of voting power:

10% or more but less than 33¹/₃% of all voting power;

33¹/₃% or more but less than a majority of all voting power; or

a majority or more of all voting power.

Control shares do not include shares of stock an acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition generally means the acquisition of, ownership of or the power to direct the exercise of voting power with respect to, control shares.

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An acquiring person may require the board of directors to call a special stockholders meeting to consider the voting rights of the shares, but only if the acquiring person made or proposes to make a control share acquisition, under specified conditions, including an undertaking to pay expenses. The special stockholders meeting must be held within fifty days of the acquiring person's demand. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as permitted by the statute, the corporation generally may redeem any or all of the control shares, except those control shares for which stockholders have previously approved voting rights. This redemption of shares must be for fair value, determined without regard to voting rights as of the date of the last control share acquisition or of any stockholders meeting at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote at least a majority of all shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the stock determined for purposes of appraisal rights may not be less than the highest price per share paid in the control share acquisition. The limitations and restrictions otherwise applicable to the exercise of dissenters' rights do not apply in the context of a control share acquisition.

The control share acquisition statute does not apply to stock acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or to acquisitions previously approved or exempted by a provision in the charter or bylaws of the corporation. We have elected to be generally subject to this statute.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

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The following table shows the beneficial ownership of our common stock at October 7, 2002:

each stockholder that we know beneficially owns more than 5% of our common stock;

each of our current executive officers and directors; and

all of our current executive officers and directors as a group.

The table also shows the number of shares being sold by each selling stockholder and the number and percentage of our outstanding shares each selling stockholder will own after this offering.

Name of Beneficial Owner (1)(2)	Before Offering		Shares Offered	After Offering	
	Shares	Percent(3)		Shares	Percent(3)
Executive Officers and Directors:					
Jack B. Dunn, IV (4)	380,353	1.58%		380,353	1.46%
Stewart J. Kahn (5)	206,292	*		206,292	*
Theodore I. Pincus (6)	40,500	*		40,500	*
Barry S. Kaufman					
Glenn R. Baker (7)	7,500	*		7,500	*
Denis J. Callaghan (8)	38,550	*		38,550	*
James A. Flick, Jr. (9)	69,347	*		69,347	*
Peter F. O Malley (10)	15,000	*		15,000	*
Dennis J. Shaughnessy (11)	3,750	*		3,750	*
George P. Stamas (12)	6,909	*		6,909	*
All executive officers and directors as a group (10 persons)	768,201	3.17		768,201	2.92
Selling Stockholders:					
Edward Bartko (13)	26,615	*	15,969	10,646	*
Kevin Regan (14)	17,196	*	3,500	13,696	*
Other Stockholders:					
T. Rowe Price Associates, Inc. (15)	1,569,150	6.62		1,569,150	6.08
Wasatch Advisors, Inc. (16)	1,692,439	7.14		1,692,439	6.56

* Less than 1%.

- (1) Unless otherwise specified, the address of these persons is c/o FTI Consulting, Inc., 900 Bestgate Road, Suite 100, Annapolis, Maryland 21401.
- (2) We use the SEC's definition of beneficial ownership. This means that the persons named in this table have sole or shared voting and/or investment power over the shares shown. Beneficial ownership also includes shares underlying options currently exercisable or exercisable within 60 days.
- (3) Percentages based on 23,713,052 shares outstanding as of September 30, 2002 before the offering and 25,813,052 shares outstanding after the offering. In the case of shares issuable upon the exercise of options, this percentage assumes the issuance of shares by the holder, but not the exercise of options held by any other holder.
- (4) Includes 82,316 shares of common stock and 285,737 shares of common stock issuable upon the exercise of options. Includes 12,000 shares of common stock over which Mr. Dunn and his wife share voting and investment power and includes 300 shares over which Mr. Dunn and his son share voting and investment power. Further, Mr. Dunn has additional options exercisable for 195,000 shares of common stock that have not vested. Mr. Dunn has granted the underwriters the right to purchase up to 150,000 shares of common stock to cover any over-allotments.
- (5) Includes 81,292 shares of our common stock and 125,000 shares of our common stock issuable upon exercise of stock options. Further, Mr. Kahn has additional options exercisable for 137,500 shares of common stock that have not vested. Mr. Kahn has granted the underwriters the right to purchase up to 137,920 shares of common stock to cover any over-allotments.

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- (6) Includes 3,000 shares of our common stock and 37,500 shares of our common stock issuable upon exercise of stock options. Further, Mr. Pincus has additional options exercisable for 92,500 shares of common stock that have not vested. Mr. Pincus has granted the underwriters the right to purchase up to 30,000 shares of common stock to cover any over-allotments.
- (7) Represents 7,500 shares of our common stock issuable upon exercise of stock options.
- (8) Includes 8,550 shares of our common stock and 30,000 shares of our common stock issuable upon exercise of stock options.
- (9) Includes 19,097 shares of our common stock and 48,750 shares of our common stock issuable upon exercise of stock options. Includes 1,500 shares of our common stock owned by Mr. Flick's wife.
- (10) Represents 15,000 shares of our common stock.
- (11) Represents 3,750 shares of our common stock.
- (12) Includes 1,909 shares of our common stock over which Mr. Stamas and his wife share voting and investment power and 5,000 shares of our common stock issuable upon exercise of stock options.
- (13) Represents 26,615 shares of our common stock. Mr. Bartko is one of our senior managing directors.
- (14) Represents 17,196 shares of our common stock. Mr. Regan is one of our senior managing directors.
- (15) T. Rowe Price Associates, Inc.'s address is 100 East Pratt Street, Baltimore, Maryland 21202. Information is based on a Schedule 13G filed with the SEC on February 12, 2002.
- (16) Wasatch Advisors, Inc.'s address is Social Hall Avenue, Salt Lake City, Utah 84111. Information is based on a Schedule 13G filed with the SEC on February 14, 2002.

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CERTAIN UNITED STATES TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following summary describes the material U.S. federal income and estate tax consequences of the ownership of common stock by a non-U.S. holder (as defined below) as of the date hereof. This discussion does not address all aspects of U.S. federal income and estate taxes and does not deal with foreign, state and local tax consequences that may be relevant to such non-U.S. holders in light of their personal circumstances. Special rules may apply to certain non-U.S. holders, such as certain U.S. expatriates, controlled foreign corporations, passive foreign investment companies, foreign personal holding companies and corporations that accumulate earnings to avoid U.S. federal income tax, that are subject to special treatment under the Internal Revenue Code of 1986, as amended (the Code). Such entities should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. **Persons considering the purchase, ownership or disposition of common stock should consult their own tax advisors concerning the U.S. federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.**

As used herein, a U.S. holder of common stock means a holder that is:

a citizen or resident of the U.S.;

a corporation or other business entity taxable as a corporation created or organized in or under the laws of the U.S. or any political subdivision thereof;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if it (x) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust or (y) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A non-U.S. holder is a holder that is not a U.S. holder.

If a partnership holds common stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding common stock, you should consult your tax advisor.

Dividends

Dividends paid to you generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by you within the U.S. and, where a tax treaty applies, are attributable to a U.S. permanent establishment, are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates. You must comply with certain certification and disclosure requirements in order for effectively connected income to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you wish to claim the benefit of an applicable treaty rate (and avoid back-up withholding as discussed below) for dividends, you will be required to (a) complete Internal Revenue Service (IRS) Form W-8BEN (or successor form) and certify under penalty of perjury that you are not a U.S. person or (b) if your common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are entities rather than individuals.

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If you are eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Gain on Disposition of Common Stock

You generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of common stock unless (i) the gain is effectively connected with your trade or business in the U.S., and, where a tax treaty applies, is attributable to your U.S. permanent establishment, (ii) if you are an individual who holds the common stock as a capital asset, you are present in the U.S. for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met, or (iii) we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes.

An individual non-U.S. holder described in clause (i) above will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in clause (ii) above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by U.S. source capital losses (even though the individual is not considered a resident of the U.S.). If a non-U.S. holder that is a foreign corporation falls under clause (i) above, it will be subject to tax on its gain under regular graduated U.S. federal income tax rates and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and do not anticipate becoming a United States real property holding corporation for U.S. federal income tax purposes.

Federal Estate Tax

Common stock held by an individual non-U.S. holder at the time of death will be included in such holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

We must report annually to the IRS and to you the amount of dividends paid to you and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty.

You will be subject to backup withholding unless applicable certification requirements are met.

Payment of the proceeds of a sale of common stock within the U.S. or conducted through certain U.S. related financial intermediaries is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge that the beneficial owner is a U.S. person) or the holder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

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UNDERWRITING

Under the terms of an underwriting agreement, that will be filed as an exhibit to the registration statement relating to this prospectus, each of the underwriters named below, for whom Lehman Brothers Inc., Banc of America Securities LLC, Adams, Harkness & Hill, Inc., Janney Montgomery Scott LLC and SunTrust Capital Markets, Inc. are acting as representatives, has agreed to purchase from us and the selling stockholders the respective number of shares of common stock shown opposite its name below. Subject to the terms and conditions of the underwriting agreement, the underwriters are obligated to purchase all of the shares to which they initially committed to purchase (other than those covered by the over-allotment option described below) if they purchase any of the shares.

Underwriters	Number of Shares
Lehman Brothers Inc.	
Banc of America Securities LLC	
Adams, Harkness & Hill, Inc.	
Janney Montgomery Scott LLC	
SunTrust Capital Markets, Inc.	
Total	2,119,469

The underwriting agreement provides that the underwriters' obligations to purchase our common stock depend upon our satisfaction of the conditions contained in the underwriting agreement, which include:

- the representations and warranties made by us to the underwriters in the underwriting agreement being true;
- that no material change occurs in the financial markets; and
- our delivery of customary closing documents to the underwriters.

Commissions and Expenses

The representatives have advised us that the underwriters propose to offer the common stock directly to the public at the public offering price presented on the cover page of this prospectus, and to selected dealers, that may include the underwriters, at the public offering price less a selling concession not in excess of \$ _____ per share. The underwriters may allow, and the selected dealers may reallow, a concession not in excess of \$ _____ per share to brokers and dealers. After the offering, the underwriters may change the offering price and other selling terms.

The following table summarizes the underwriting discounts and commissions we and the selling stockholders will pay. The underwriting discounts and commissions are equal to the public offering price per share, less the amount paid to us per share. The underwriting discounts and commissions equal _____ % of the initial public offering price.

	Total		
	Per Share	Without Over-Allotment	With Over-Allotment
Underwriting discounts and commissions to be paid by us	\$	\$	\$
Underwriting discounts and commissions to be paid by the selling stockholders			

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We estimate that the total expenses of the offering payable by us, including registration, filing and listing fees, printing fees, legal and accounting fees and other fees and expenses, excluding underwriting discounts and commissions, will be approximately \$1.0 million. We have agreed to pay the expenses incurred by the selling stockholders in connection with the offering, other than the underwriting discounts and commissions applicable to the shares they are selling.

Over-Allotment Option

Some of our executive officers have granted to the underwriters an option to purchase up to an aggregate of 317,920 shares of our common stock, exercisable to cover over-allotments, if any, at the public offering price less the underwriting discounts and commissions shown on the cover page of this prospectus. The underwriters may exercise this option at any time until 30 days after the date of the underwriting agreement. To the extent the underwriters exercise this option, each underwriter will be committed, so long as the conditions of the underwriting agreement are satisfied, to purchase a number of additional shares proportionate to that underwriter's initial commitment as indicated in the preceding table.

Lock-up Agreements

We have agreed that, without the prior written consent of Lehman Brothers Inc., we will not, directly or indirectly, offer, sell or dispose of any shares of our common stock or any securities that may be converted into or exchanged for any common stock for a period of 90 days from the date of this prospectus. In addition, some of our executive officers and all of our directors and each selling stockholder have agreed under lock-up agreements not to, without the prior written consent of Lehman Brothers Inc., directly or indirectly, offer, sell or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged or exercised for any common stock for a period of 90 days from the date of this prospectus.

Indemnification

We and the selling stockholders have agreed to indemnify the underwriters against liabilities relating to the offering, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

Stabilization, Short Positions and Penalty Bids

The representatives may engage in over-allotment, stabilizing transactions, syndicate short covering transactions, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934:

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option, in whole or in part, or purchasing shares in the open market.

Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Syndicate short covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the

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source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters create a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Stamp Taxes

Purchasers of the shares of our common stock offered by this prospectus may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover of this prospectus.

Offers and Sales in Canada

This prospectus is not, and under no circumstances is it to be construed as, an advertisement or a public offering of shares in Canada or any province or territory thereof. Any offer or sale of shares in Canada will be made only under an exemption from the requirements to file a prospectus or prospectus supplement with the relevant Canadian securities regulators and only by a registered dealer or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's website and any information contained in any other website maintained by an underwriter or selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

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Listing

Our common stock is listed on the New York Stock Exchange under the symbol FCN.

Other

This offering is being conducted pursuant to NASD Conduct Rule 2710(c)(8).

Some of the underwriters or their affiliates have provided investment banking and financial advisory services for us from time to time, for which they have received customary fees and reimbursements of expenses, and they may in the future provide additional services. In particular, Lehman Brothers Inc., one of the representatives, acted as our financial advisor and rendered a fairness opinion, for which it received customary fees, in connection with our acquisition of BRS from PwC. Banc of America Securities LLC, one of the representatives, acted as the sole lead arranger and sole book manager under both our old and new credit facilities. Bank of America, N.A., an affiliate of Banc of America Securities LLC, acted as the administrative agent and as a lender under our old credit facility and as the administrative agent, swing line lender and letter of credit issuer under our new credit facility. SunTrust Bank, an affiliate of SunTrust Capital Markets, Inc., one of the underwriters of the offering, acted as documentation agent and as a lender under our old credit agreement and as a lender under our new credit agreement. Bank of America, N.A. and SunTrust Bank received customary fees for acting in these capacities. Bank of America, N.A. and SunTrust Bank, as lenders, will receive their proportionate share of any repayment of indebtedness outstanding under our new credit facility from the net proceeds we receive from this offering.

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LEGAL MATTERS

The validity of our common stock offered by this prospectus will be passed upon for us by Piper Rudnick LLP, Baltimore, Maryland. Piper Rudnick LLP provides legal services to us on an ongoing basis. Certain legal matters will be passed upon for the underwriters by Simpson Thacher & Bartlett, Palo Alto, California.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedule at December 31, 2000 and 2001, and for each of the three years in the period ended December 31, 2001, as set forth in their reports. We have included our consolidated financial statements and schedule in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's reports given on their authority as experts in accounting and auditing.

The financial statements of BRS at June 30, 2000, 2001 and 2002, and for each of the three years in the period ended June 30, 2002 included in this prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC under the Securities Act a registration statement on Form S-3 with respect to the common stock offered under this prospectus. This prospectus does not contain all of the information contained in the registration statement, certain portions of which have been omitted under the rules of the SEC. We also file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. The Exchange Act file number for our SEC filings is 001-14875. You may read and copy the registration statement and any other document we file at the following SEC public reference rooms:

Judiciary Plaza
450 Fifth Street, N.W.
Rm. 1024
Washington, D.C. 20549

500 West Madison Street
14th Floor
Chicago, Illinois 60661

You may obtain information on the operation of the public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. We file information electronically with the SEC. Our SEC filings are available from the SEC's Internet site at <http://www.sec.gov>, which contains reports, proxy and information statements and other information regarding issuers that file electronically.

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INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the SEC will automatically update and supersede information in this prospectus. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the completion of the offering contemplated by this prospectus:

Annual Report on Form 10-K for the year ended December 31, 2001, including the information incorporated by reference therein;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002;

Current Reports on Form 8-K filed on July 26, 2002 and September 13, 2002; and

The description of our common stock which is contained in filings we have made under the Securities Exchange Act of 1934, including all amendments or reports we have filed for the purpose of updating this description.

We furnish our stockholders with annual reports that contain audited financial statements and quarterly reports for the first three quarters of each year that contain unaudited interim financial information. You may obtain copies of our filings, at no cost, by writing to us at: FTI Consulting, Inc., 900 Bestgate Road, Suite 100, Annapolis, Maryland 21401, Attention: Investor Relations.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
FTI Consulting, Inc.

We have audited the accompanying consolidated balance sheets of FTI Consulting, Inc. and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FTI Consulting, Inc. and subsidiaries as of December 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland
February 11, 2002

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Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	December 31,		June 30,
	2000	2001	2002
			(unaudited)
	(dollars in thousands)		
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,235	\$ 12,856	\$ 21,236
Accounts receivable, less allowance of \$1,321 in 2000, \$1,508 in 2001 and \$1,477 in 2002	20,380	20,435	25,213
Unbilled receivables, less allowance of \$797 in 2000, \$815 in 2001 and \$999 in 2002	11,952	12,154	15,875
Income taxes recoverable	1,317	1,790	894
Deferred income taxes	1,029	1,325	1,325
Prepaid expenses and other current assets	1,924	2,361	2,430
Total current assets	39,837	50,921	66,973
Property and equipment:			
Furniture, equipment and software	20,977	19,535	22,835
Leasehold improvements	4,560	4,102	4,565
	25,537	23,637	27,400
Accumulated depreciation and amortization	(12,382)	(11,384)	(12,977)
	13,155	12,253	14,423
Deferred income taxes		150	150
Goodwill	91,971	90,156	93,969
Other assets	1,168	873	1,148
Total assets	\$ 146,131	\$ 154,353	\$ 176,663
Liabilities and stockholders equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 4,325	\$ 4,788	\$ 3,589
Accrued compensation expense	10,339	12,536	11,147
Deferred income taxes	500	130	130
Current portion of long-term debt	4,333	4,333	4,333
Other current liabilities	177	368	272
Total current liabilities	19,674	22,155	19,471
Long-term debt, less current portion	56,167	23,833	21,667
Other long-term liabilities	600	1,481	1,627
Deferred income taxes	1,066	1,748	1,748
Commitments and contingent liabilities			
Stockholders equity:			
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none outstanding			
Common stock, \$.01 par value; 45,000,000 shares authorized; 15,851,168, 19,590,938 and 20,540,102 shares issued and outstanding in 2000, 2001 and 2002, respectively	159	196	205
Additional paid-in capital	53,898	75,416	88,907
Unearned compensation		(568)	(465)

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Retained earnings	14,567	31,036	44,328
Accumulated other comprehensive income (loss)		(944)	(825)
	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity	68,624	105,136	132,150
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 146,131	\$ 154,353	\$ 176,663
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes.

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Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	(Unaudited)				
	(dollars in thousands, except per share data)				
Revenues	\$ 84,607	\$ 134,764	\$ 166,359	\$ 83,629	\$ 101,755
Direct cost of revenues	44,149	68,667	83,449	43,483	51,386
Selling, general and administrative expenses	28,829	36,732	45,591	21,240	26,690
Amortization of goodwill	2,313	4,723	5,049	2,507	
Total costs and expenses	75,291	110,122	134,089	67,230	78,076
Income from operations	9,316	24,642	32,270	16,399	23,679
Other income (expenses):					
Interest income	136	253	162	94	82
Interest expense	(4,150)	(11,024)	(4,518)	(2,682)	(1,422)
	(4,014)	(10,771)	(4,356)	(2,588)	(1,340)
Income before income taxes and extraordinary item	5,302	13,871	27,914	13,811	22,339
Income taxes	2,311	5,917	11,445	5,801	9,047
Income before extraordinary item	2,991	7,954	16,469	8,010	13,292
Extraordinary loss on early extinguishment of debt, net of income taxes of \$3,078 in 2000		5,393			
Net income	\$ 2,991	\$ 2,561	\$ 16,469	\$ 8,010	\$ 13,292
Income before extraordinary item per common share, basic	\$ 0.41	\$ 0.75	\$ 0.92	\$ 0.48	\$ 0.67
Earnings per common share, basic	\$ 0.41	\$ 0.24	\$ 0.92	\$ 0.48	\$ 0.67
Income before extraordinary item per common share, diluted	\$ 0.39	\$ 0.66	\$ 0.84	\$ 0.43	\$ 0.62
Earnings per common share, diluted	\$ 0.39	\$ 0.21	\$ 0.84	\$ 0.43	\$ 0.62

See accompanying notes.

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Unearned Compensation</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	(dollars in thousands)					
Balance at January 1, 1999	\$ 73	\$ 16,506		\$ 9,015		\$ 25,594
Issuance of 828,808 warrants to purchase common stock		1,291				1,291
Issuance of 198,015 shares of common stock under Employee Stock Purchase Plan	2	374				376
Net income for 1999				2,991		2,991
Balance at December 31, 1999	75	18,171		12,006		30,252
Issuance of warrants to purchase 1,005,606 shares of common stock in connection with debt refinancing		3,714				3,714
Issuance of 1,222,500 shares of common stock for the acquisition of Policano & Manzo, L.L.C.	12	5,489				5,501
Issuance of 906,756 shares of common stock in exchange for debt to sellers of acquired businesses	9	2,674				2,683
Retirement of 492,001 warrants to purchase common stock in connection with debt refinancing		(1,272)				(1,272)
Issuance of 171,856 shares of common stock under Employee Stock Purchase Plan	2	485				487
Exercise of options and warrants to purchase 111,700 shares of common stock	1	472				473
Issuance of 6,037,500 shares of common stock for cash, net of offering costs of \$2,138	60	24,006				24,066
Issuance of 30,000 shares of restricted stock		159				159
Net income for 2000				2,561		2,561
Balance at December 31, 2000	159	53,898		14,567		68,624
Issuance of 174,906 shares of common stock under Employee Stock Purchase Plan	2	1,014				1,016
Exercise of options to purchase 2,498,672 shares of common stock, including income tax benefit of \$8,100	25	19,919				19,944
Exercise of warrants to purchase 1,347,082 shares of common stock	13	3,445				3,458
Retirement of 311,515 shares of common stock in connection with warrant exercise	(3)	(3,455)				(3,458)
Issuance of 32,100 shares of restricted stock		595	\$ (595)			
Amortization of unearned compensation expense			27			27
Comprehensive Income:						
Cumulative effect on prior years of changing to a different method of accounting for interest rate swaps					\$ (348)	(348)
Other comprehensive loss change in fair value of interest rate swaps					(596)	(596)
Net income for 2001				16,469		16,469
Total comprehensive income						15,526

See accompanying notes.

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FTI CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Comprehensive Other Income (Loss)	Total
(dollars in thousands)						
Balance at December 31, 2001	\$ 196	\$ 75,416	\$ (568)	\$ 31,036	\$ (944)	\$ 105,136
Payment of fractional shares		(16)				(16)
Issuance of 111,661 shares of common stock under Employee Stock Purchase Plan	1	1,770				1,771
Issuance of 46,216 shares of common stock as part of purchase price of TFC		1,010				1,010
Exercise of stock options to purchase 822,787 shares of common stock, including tax benefit of \$7.0 million	8	10,727				10,735
Amortization of unearned compensation expense			103			103
Comprehensive Income:						
Other comprehensive income change in fair value of interest rate swaps, net of income taxes of \$81					119	119
Net income for the six months ended June 30, 2002				13,292		13,292
Total comprehensive income						13,411
Balance at June 30, 2002 (unaudited)	\$ 205	\$ 88,907	\$ (465)	\$ 44,328	\$ (825)	\$ 132,150

See accompanying notes.

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FTI CONSULTING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	(dollars in thousands)				
Operating Activities					
Net income	\$ 2,991	\$ 2,561	\$ 16,469	\$ 8,010	\$ 13,292
Adjustments to reconcile net income to net cash provided by operating activities:					
Extraordinary loss on early extinguishment of debt, before income taxes		8,471			
Depreciation and other amortization	2,621	2,769	3,867	1,854	2,301
Amortization of goodwill	2,313	4,723	5,049	2,507	
Provisions for doubtful account	(197)	(116)	205	(191)	139
Income tax benefit from stock option exercises				2,392	7,027
Non-cash stock compensation expense					103
Other	26	(111)	449	216	295
Changes in operating assets and liabilities:					
Accounts receivable, billed and unbilled	(2,604)	(5,632)	(463)	(3,705)	(8,210)
Deferred income taxes	(313)	(254)	(134)		
Income taxes recoverable/payable	730	(1,253)	(473)	1,043	896
Prepaid expenses and other current assets	(199)	(458)	(437)	(437)	(69)
Accounts payable and accrued expenses	316	700	463	(590)	(1,198)
Accrued compensation expenses	2,608	4,409	2,197	(1,132)	(1,389)
Other current liabilities	109	(247)	120	30	(205)
Net cash provided by operating activities	8,401	15,562	27,312	9,997	12,982
Investing Activities					
Purchase of property and equipment	(3,093)	(6,640)	(4,366)	(1,629)	(4,154)
Proceeds from landlord reimbursements and sales of property and equipment	592	47	1,231		
Contingent payments to former owners of subsidiaries	(807)	(907)	(3,023)	(197)	(121)
Acquisition of subsidiaries		(49,404)	(211)	(516)	(3,241)
Change in other assets	(1,288)	246	67	202	(383)
Net cash used in investing activities	(4,596)	(56,658)	(6,302)	(2,140)	(7,899)
Financing activities					
Issuance of common stock and exercise of warrants and options	376	25,185	20,959	6,564	5,462
Borrowings under long-term debt arrangements	33,000	151,500			
Retirement of detachable stock warrants		(1,272)			
Repayments of long-term debt arrangements	(35,500)	(130,825)	(32,334)	(15,167)	(2,166)
Payment of financing fees		(4,894)	(17)	(16)	1
Changes in other long-term liabilities	142	(409)	3		
Net cash provided by (used in) financing activities	(1,982)	39,285	(11,389)	(8,619)	3,297
Net increase (decrease) in cash and cash equivalents	1,823	(1,811)	9,621	(762)	8,380
Cash and cash equivalents at beginning of year	3,223	5,046	3,235	3,235	12,856

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Cash and cash equivalents at end of period	\$ 5,046	\$ 3,235	\$ 12,856	\$ 2,473	\$ 21,236
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See accompanying notes.

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FTI CONSULTING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in tables expressed in thousands, except per share data)**

1. Description of Business and Significant Accounting Policies

Basis of Presentation of Financial Statements

Description of Business

FTI Consulting, Inc. and subsidiaries (the Company or FTI) is a U.S. provider of turnaround, restructuring, bankruptcy and related consulting services. The Company's highly skilled professionals assist distressed companies in improving their financial position or their creditors or other stakeholders in maximizing recovery of their claims. The Company also provides other consulting services such as corporate recovery, forensic accounting, fraud investigation and asset tracing, regulatory, intellectual property and mergers and acquisitions advisory services. The Company's trial support practice group advises clients in all phases of litigation, including pre-filing, discovery, jury selection, trial preparation, expert testimony and the actual trial. The Company has approximately 650 employees in over 33 locations throughout the United States.

Principles of Consolidation

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

Unaudited Interim Financial Information

The unaudited interim financial information as of June 30, 2002 and for the six months ended June 30, 2001 and 2002 has been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation of such period. The operating results for any interim period are not necessarily indicative of results for any future periods.

Significant Accounting Policies

Use of Estimates

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

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

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

Cash Equivalents

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

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FTI CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method. Furniture and equipment are depreciated over estimated useful lives ranging from three to seven years, and leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the lease term.

Goodwill

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

Impairment of Long-Lived Assets Excluding Goodwill

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

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

Revenue Recognition

The Company derives most of its revenues from professional service activities. The vast majority of these activities are provided under time-and-materials billing arrangements, and revenues, consisting of billed fees and pass-through expenses, are recorded as work is performed and expenses are incurred. Revenues recognized but not yet billed to clients, have been recorded as unbilled receivables in the accompanying consolidated balance sheets. The Company obtains retainers from many of its clients in advance of providing professional service. Retainers of \$7.3 million, \$10.4 million and \$13.7 million were excluded from revenue and offset against accounts receivable at December 31, 2000, December 31, 2001, and June 30, 2002, respectively.

Direct Cost of Revenues

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

Stock Options and Stock Granted to Employees

The Company records compensation expense for all stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). Under APB No. 25, compensation expense is recorded over the vesting period to the extent that the fair value of

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FTI CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Stock Options and Stock Granted to Employees (continued)

the underlying stock on the date of grant exceeds the exercise or acquisition price of the stock or stock-based award. Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 123) encourages companies to recognize expense for stock-based awards based on their estimated value on the date of grant. Statement 123 requires the disclosure of pro forma income and earnings per share data in the notes to the financial statements if the fair value method is not adopted. The Company has supplementally disclosed in Note 6 the required pro forma information as if the fair value method had been adopted.

The Company also periodically issues restricted and unrestricted stock to employees in connection with new hires and performance evaluations. The fair market value on the date of issue of unrestricted stock is immediately charged to compensation expense, and the fair value on the date of issue of restricted stock is charged to compensation expense ratably over the restriction period.

Income Taxes

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

Accounting Change and Interest Rate Swaps

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

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

The Company recorded a cumulative effect adjustment of \$348,000, net of tax, in 2001 in accordance with the transition provisions of Statement 133.

Impact of Adoption of Recent Accounting Pronouncements

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

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****1. Description of Business and Significant Accounting Policies (continued)***Impact of Adoption of Recent Accounting Pronouncements (continued)*

The amortization expense and net income of the Company for the three years ended December 31, 2001 and six months ended June 30, 2002 and 2001 are as follows:

	Year ended December 31			Six months ended June 30	
	2000	2001	2002	2001	2002
Reported net income	\$ 2,991	\$ 2,561	\$ 16,469	\$ 8,010	\$ 13,292
Goodwill amortization, net of income taxes	1,305	2,708	2,979	1,453	
Adjusted net income	\$ 4,296	\$ 5,269	\$ 19,448	\$ 9,463	\$ 13,292
Earnings per common share, basic:					
Reported net income	\$ 0.41	\$ 0.24	\$ 0.92	\$ 0.48	\$ 0.67
Goodwill amortization, net of income taxes	0.18	0.26	0.17	0.09	
Adjusted net income	\$ 0.59	\$ 0.50	\$ 1.09	\$ 0.57	\$ 0.67
Earnings per common share, diluted:					
Reported net income	\$ 0.39	\$ 0.21	\$ 0.84	\$ 0.43	\$ 0.62
Goodwill amortization, net of income taxes	0.17	0.23	0.15	0.08	
Adjusted net income	\$ 0.56	\$ 0.44	\$ 0.99	\$ 0.51	\$ 0.62

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

The changes in the carrying amount of goodwill for the six months ended June 30, 2002, are as follows:

	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Balance as of January 1, 2002	\$ 72,944	\$ 14,423	\$ 2,789	\$ 90,156
Goodwill acquired during the year	3,813			3,813
Balance as of June 30, 2002	\$ 76,757	\$ 14,423	\$ 2,789	\$ 93,969

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

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

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not have any effect on the Company's consolidated financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (Statement 145). Among other changes, Statement 145 rescinds Statement 4, which

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FTI CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Impact of Adoption of Recent Accounting Pronouncements (continued)

required all gains and losses from extinguishment of debt to be aggregated and classified as an extraordinary item, net of the related tax effect. Statement 145 provides that gains and losses from extinguishment of debt should be classified as extraordinary items only if they are unusual or infrequent or they otherwise meet the criteria for classification as an extraordinary item, and observes that debt extinguishment transactions would seldom, if ever, result in extraordinary item classification of the resulting gains and losses. The Company will adopt Statement 145 in January 2003, and upon adoption, will report as other expenses any extraordinary losses incurred upon the extinguishment of debt. In 2000, the Company reported a \$5.4 million loss from the early extinguishment of certain debt.

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

Stock Splits

The Company's board of directors authorized a 3 for 2 stock split in the form of a stock dividend to be distributed to stockholders of record on January 2, 2002. All share and per share data included in the consolidated financial statements have been restated to reflect the stock split.

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Earnings Per Share**

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

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
Numerator used in basic and diluted earnings per common share					
Income before extraordinary item	\$ 2,991	\$ 7,954	\$ 16,469	\$ 8,010	\$ 13,292
Extraordinary item, net of taxes		(5,393)			
Net income	\$ 2,991	\$ 2,561	\$ 16,469	\$ 8,010	\$ 13,292
Denominator					
Denominator for basic earnings per common share weighted average shares outstanding	7,308	10,612	17,841	16,584	19,981
Effect of dilutive securities:					
Warrants	173	789	319	625	
Employee stock options	62	587	1,471	1,403	1,520
	235	1,376	1,790	2,028	1,520
Denominator for diluted earnings per common share weighted average shares outstanding and assumed conversions	7,543	11,988	19,631	18,612	21,501
Income before extraordinary item per common share, basic	\$ 0.41	\$ 0.75	\$ 0.92	\$ 0.48	\$ 0.67
Extraordinary loss per common share, basic		(0.51)			
Earnings per common share, basic	\$ 0.41	\$ 0.24	\$ 0.92	\$ 0.48	\$ 0.67
Income before extraordinary item per common share, diluted	\$ 0.39	\$ 0.66	\$ 0.84	\$ 0.43	\$ 0.62
Extraordinary loss per common share, diluted		(0.45)			
Earnings per common share, diluted	\$ 0.39	\$ 0.21	\$ 0.84	\$ 0.43	\$ 0.62

3. Supplemental Disclosure of Cash Flow Information

In 2000, the Company purchased the membership interests of Policano & Manzo, L.L.C. for total consideration of \$54.9 million. In connection with this acquisition, assets with a fair market value of \$58.1 million were acquired and liabilities of approximately \$3.2 million were assumed. The Company did not make any acquisitions during 2001 or 1999.

The Company paid interest of \$4.1 million, \$10.8 million and \$4.6 million, and income taxes of \$2.0 million, \$4.3 million and \$6.0 million during fiscal years 1999, 2000 and 2001, respectively. The Company paid interest of \$2.5 million and \$1.3 million and income taxes of \$2.4 million and \$1.3 million for the six months ended June 30, 2001 and 2002, respectively.

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Acquisitions***Technology & Financial Consulting, Inc.*

On January 2, 2002, the Company completed the acquisition of all of the outstanding common stock of Technology & Financial Consulting, Inc. (TFC). TFC, based in Houston, Texas, provides intellectual property consulting services. As a result of the acquisition, the Company added a new practice area to its service offerings. The total purchase price was \$4.1 million, including cash payments of \$3.1 million and common stock valued at \$1.0 million. The value of the 46,216 common shares issued was determined based on the closing market price of the Company's common stock on December 31, 2001, pursuant to the agreement. The acquisition was accounted for using the purchase method of accounting. In connection with the acquisition, assets with a fair market value of \$4.3 million including approximately \$3.8 million of goodwill were acquired and liabilities of \$33,000 were assumed. The results of operations of TFC are included in the accompanying consolidated financial statements commencing January 2, 2002.

Policano & Manzo, L.L.C.

Effective January 31, 2000, the Company acquired the membership interests of Policano & Manzo, L.L.C. (P&M). P&M, based in Saddle Brook, New Jersey, is a leader in providing bankruptcy and turnaround consulting services to large corporations, money center banks and secured lenders throughout the U.S. The purchase price totaled approximately \$54.9 million, consisting of \$48.3 million in cash, 1,222,000 shares of common stock valued at \$5.5 million and acquisition related expenses of \$1.1 million. The acquisition was accounted for using the purchase method of accounting and approximately \$52.2 million of goodwill was recorded. The results of operations of P&M are included in the accompanying consolidated statements of income commencing January 31, 2000.

Contingent Payments to Previous Owners

In 2001, the Company paid contingent consideration aggregating approximately \$3.0 million to the former shareholders of Klick, Kent & Allen, Inc., a company acquired in 1998, and the former shareholder of L.W.G., Inc., a company acquired in 1997. The contingent payments were attributed to the achievement of specified pre-tax earnings. Additionally, the Company paid the working capital adjustment balance of \$211,000 to the former equity holders of P&M, which was acquired in 2000. There are no remaining contingent payments for any of the previous acquisitions of the Company.

5. Long-Term Debt

Long-term debt consists of the following:

	December 31,		June 30,
	2000	2001	2002
Amounts due under an \$80.0 million long-term credit facility, consisting of an amortizing term loan of \$32.5 million and a \$47.5 million revolving credit line, (of which zero was drawn at June 30, 2002), bearing interest at LIBOR plus variable percentages (3.63% at June 30, 2002). This facility is secured by substantially all the assets of the Company, and the unpaid principal matures in varying amounts through December 1, 2005.	\$ 60,500	\$ 28,166	\$ 26,000
Less current portion	(4,333)	(4,333)	(4,333)
Total long-term debt	\$ 56,167	\$ 23,833	\$ 21,667

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Long-Term Debt (continued)**

The Company has entered into interest rate swap transactions on the \$26.0 million of outstanding amortizing term loans. The swap transactions resulted in exchanging floating LIBOR rates for a fixed rate of 6.6%, and expire in 2004. The cost is included as a component of interest expense in the accompanying statements of income. The changes in the fair value of the swaps are recognized in the consolidated financial statements as changes in accumulated other comprehensive income (loss).

The Company is required to comply with certain financial and non financial covenants contained in the revolving credit and term loan agreements. The Company was in compliance with all covenants as stipulated in the agreements.

Aggregate maturities of debt at June 30, 2002, are as follows:

July 1 through December 31, 2002	\$ 2,167
Year ended December 31, 2003	6,500
Year ended December 31, 2004	8,667
Year ended December 31, 2005	8,666
	<hr/>
Total	\$26,000
	<hr/>

The terms of the credit facility prohibit the payment of dividends without the consent of the lender.

The fair value of long-term debt approximates its carrying value.

6. Stock Option Plans

Prior to 1997, the Company granted options to key employees under the 1992 Stock Option Plan. This plan was terminated in 1997 upon the adoption of the 1997 Stock Option Plan. The 1997 Plan, provides for the granting to employees and non-employee directors of qualified and non-qualified options to purchase an aggregate of up to 6,225,000 shares of common stock. Options to purchase common stock may be granted at prices not less than 50% of the fair market value of the common stock at the date of grant, for a term of no more than ten years. Vesting provisions for individual awards are at the discretion of the Board of Directors.

The following table summarizes the option activity under the plans for the three-year period ended December 31, 2001:

	1999	1999 Weighted Avg. Exercise Price	2000	2000 Weighted Avg. Exercise Price	2001	2001 Weighted Avg. Exercise Price
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Options outstanding at January 1	2,731,244	\$ 5.24	3,027,044	\$ 4.74	4,896,193	\$ 4.74
Options granted	596,250	2.83	2,013,300	4.65	853,331	17.11
Options exercised			(96,701)	3.71	(2,498,672)	4.69
Options forfeited	(300,450)	5.50	(47,450)	4.69	(79,000)	3.65
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Options outstanding at December 31	3,027,044	\$ 4.74	4,896,193	\$ 4.74	3,171,852	\$ 8.09
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Options exercisable at December 31	1,796,387	\$ 5.25	2,655,200	\$ 4.99	1,024,352	\$ 5.25
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Stock Option Plans (continued)**

All options granted have an exercise price equal to or greater than the fair value of the Company's common stock on the date of grant. Exercise prices for options outstanding as of December 31, 2001, ranged from \$1.92 to \$21.20 as follows:

<u>Range of Exercise Prices</u>	<u>Outstanding Options</u>	<u>Weighted Average Exercise Price of Outstanding Options</u>	<u>Weighted Average Remaining Contractual Life of Outstanding Options</u>	<u>Exercisable Options</u>	<u>Weighted Average Exercise Price of Exercisable Options</u>
\$1.92 \$4.42	1,738,488	\$ 4.15	7.89 years	613,488	\$ 4.15
\$4.46 \$9.00	617,693	\$ 6.40	7.52 years	352,693	\$ 6.11
\$10.72 \$21.20	815,671	\$ 17.76	9.49 years	58,171	\$ 11.72
	<u>3,171,852</u>			<u>1,024,352</u>	

Pro Forma Disclosures Required by Statement 123

For the years ended December 31, 1999, 2000 and 2001, pro forma net income and earnings per share information required by Statement 123 has been determined as if the Company had accounted for its stock options using the fair value method rather than the intrinsic value method followed by the Company. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>Year ended December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Risk free interest rate	5.5%	5.5%	4.5%
Expected dividend yield	0%	0%	0%
Expected option life	4 years	4 years	3.38 years
Expected stock price volatility	0.788 0.808	0.779 0.790	0.758 0.782
Weighted average fair value of granted Options	\$1.77	\$2.09	\$9.40

The Black-Scholes option pricing model and other models were developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Stock Option Plans (continued)**

The following table summarizes pro forma income (loss) and earnings (loss) per share:

	Year ended December 31,		
	1999	2000	2001
Income before extraordinary item, as reported	\$ 2,991	\$ 7,954	\$ 16,469
Pro forma income before extraordinary item	\$ 1,820	\$ 5,196	\$ 14,100
Net income, as reported	\$ 2,991	\$ 2,561	\$ 16,469
Pro forma net income (loss)	\$ 1,820	\$ (197)	\$ 14,100
Income before extraordinary item per common share, basic, as reported	\$ 0.41	\$ 0.75	\$ 0.92
Pro forma income before extraordinary item per common share, basic	\$ 0.25	\$ 0.49	\$ 0.79
Income before extraordinary item per common share, diluted, as reported	\$ 0.39	\$ 0.66	\$ 0.84
Pro forma income before extraordinary item per common share, diluted	\$ 0.24	\$ 0.45	\$ 0.72
Earnings per common share, basic, as reported	\$ 0.41	\$ 0.24	\$ 0.92
Pro forma earnings (loss) per common share, basic	\$ 0.25	\$ (0.02)	\$ 0.79
Earnings per common share, diluted, as reported	\$ 0.39	\$ 0.21	\$ 0.84
Pro forma earnings (loss) per common share, diluted	\$ 0.24	\$ (0.02)	\$ 0.72

7. Income Taxes

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

	December 30,	
	2000	2001
Deferred tax assets:		
Allowance for doubtful accounts	\$ 529	\$ 953
Accrued vacation and bonus	500	372
Other		150
Total deferred tax assets	1,029	1,475
Deferred tax liabilities:		
Use of cash basis for income tax purposes by subsidiary	350	
Goodwill	610	1,407
Capitalized software	447	341
Other	159	130
Total deferred tax liabilities	1,566	1,878
Net deferred tax liability	\$ (537)	\$ (403)

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Income Taxes (continued)**

Income tax expense (benefit), before extraordinary item consisted of the following:

	Year ended December 31,		
	1999	2000	2001
Current:			
Federal	\$ 1,937	\$ 4,766	\$ 9,192
State	687	1,405	2,388
	<u>2,624</u>	<u>6,171</u>	<u>11,580</u>
Deferred (benefit):			
Federal	(190)	(145)	(49)
State	(123)	(109)	(86)
	<u>(313)</u>	<u>(254)</u>	<u>(135)</u>
	<u>\$ 2,311</u>	<u>\$ 5,917</u>	<u>\$ 11,445</u>

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

	Year ended December 31,		
	1999	2000	2001
Expected federal income tax provision at 34%	\$ 1,803	\$ 4,716	\$ 9,491
Expenses not deductible for tax purposes	302	557	359
State income taxes, net of federal benefit	286	732	1,474
Other	(80)	(88)	121
	<u>\$ 2,311</u>	<u>\$ 5,917</u>	<u>\$ 11,445</u>

The income tax provisions for interim periods in 2001 and 2002 are based on the estimated tax rates applicable for the full years. The effective income tax rate in 2002 is expected to approximate 40.5%. This rate is higher than the statutory federal income tax rate of 35% due principally to state and local taxes.

8. Operating Leases

The Company leases office space under non-cancelable operating leases that expire in various years through 2010. The leases for certain office space contain provisions whereby the future rental payments may be adjusted for increases in maintenance and insurance above specified amounts. The Company also leases certain furniture and equipment in its operations under operating leases having initial terms of less than one year.

Future minimum payments under non-cancelable operating leases with initial terms of one year or more consist of the following at December 31, 2001:

2002

\$ 5,470

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2003	5,333
2004	4,982
2005	4,650
2006	3,479
Thereafter	11,928
Total minimum lease payments	<u>\$35,842</u>

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Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Operating Leases (continued)**

Rental expense consists of the following:

	Year ended December 31,		
	1999	2000	2001
Furniture and equipment	\$ 392	\$ 324	\$ 409
Office and storage	2,859	3,556	5,171
	<u>\$ 3,251</u>	<u>\$ 3,880</u>	<u>\$ 5,580</u>

9. Employee Benefit Plans

The Company maintains a qualified defined contribution 401(k) plan, which covers substantially all employees. Under the plan, participants are entitled to make both pre-tax and after-tax contributions. The Company matches a certain percentage of participant contributions pursuant to the terms of the plan, which are limited to a percent of the participant's eligible compensation. The percentage match is at the discretion of the Board of Directors. The Company made contributions of \$344,000, \$685,000 and \$1.1 million during 1999, 2000 and 2001, respectively, related to these plans.

The Company also maintains an Employee Stock Purchase Plan, which covers substantially all employees. Under the Plan, participants are eligible to purchase shares of the Company's common stock at a price that is equal to 85% of the lesser of the fair market value of the stock on the first or the last trading day of the offering period. Offering periods commence the first day of each January and July in any particular year. There are 750,000 shares of the Company's common stock issuable under the Plan, of which 608,350 shares have been issued or subscribed for as of December 31, 2001.

10. Extraordinary Loss

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

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

11. 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 Applied Sciences division offers engineering and scientific consulting services, accident reconstruction, fire investigation, equipment procurement and expert testimony regarding intellectual property rights. The Litigation Consulting division provides advice and services in connection with all phases of the litigation process.

Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Segment Reporting (continued)**

The Company evaluates performance 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 is the same as those used by the Company and described in Note 1 to the consolidated financial statements. There are no significant inter-company sales or transfers.

The Company's reportable segments are business units that offer distinct services. The following tables set forth historical information on the Company's reportable segments:

	Year ended December 31, 1999			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 19,851	\$ 35,693	\$ 29,063	\$ 84,607
Operating expenses	14,489	30,276	20,579	65,344
Segment profit	\$ 5,362	\$ 5,417	\$ 8,484	\$ 19,263

	Year ended December 31, 2000			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 64,175	\$ 39,232	\$ 31,357	\$ 134,764
Operating expenses	38,286	31,963	24,489	94,738
Segment profit	\$ 25,889	\$ 7,269	\$ 6,868	\$ 40,026

	Year ended December 31, 2001			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 97,107	\$ 44,042	\$ 25,210	\$ 166,359
Operating expenses	56,408	36,255	21,959	114,622
Segment profit	\$ 40,699	\$ 7,787	\$ 3,251	\$ 51,737

	Six months ended June 30, 2001			
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 48,085	\$ 21,001	\$ 14,543	\$ 83,629
Operating expenses	28,877	17,404	12,082	58,363

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Segment profit	\$ 19,208	\$ 3,597	\$ 2,461	\$ 25,266
Six months ended June 30, 2002				
	Financial Consulting	Applied Sciences	Litigation Consulting	Total
Revenues	\$ 64,673	\$ 24,058	\$ 13,024	\$ 101,755
Operating expenses	38,414	19,980	11,228	69,622
Segment profit	\$ 26,259	\$ 4,078	\$ 1,796	\$ 32,133

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Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Segment Reporting (continued)**

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

	Year Ended December 31,			Six months ended June 30, 2002	
	1999	2000	2001	2001	2002
Operating Profit:					
Total segment profit	\$ 19,263	\$ 40,026	\$ 51,737	\$ 25,266	\$ 32,133
Corporate general and administrative expenses	(5,251)	(7,892)	(10,551)	(4,506)	(6,153)
Depreciation and amortization	(4,696)	(7,492)	(8,916)	(4,361)	(2,301)
Interest expense, net	(4,014)	(10,771)	(4,356)	(2,588)	(1,340)
Income before income taxes and extraordinary item	\$ 5,302	\$ 13,871	\$ 27,914	\$ 13,811	\$ 22,339

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 has represented ten percent or more of its consolidated revenues for any period presented.

12. Quarterly Financial Data (unaudited)

	Quarter Ended			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Revenues	\$ 31,013	\$ 34,585	\$ 33,395	\$ 35,771
Operating expenses	25,305	27,965	27,630	29,222
Operating income	5,708	6,620	5,765	6,549
Interest, net	(2,352)	(3,142)	(3,143)	(2,134)
Income before income taxes and extraordinary item	3,356	3,478	2,622	4,415
Income taxes	1,476	1,530	1,154	1,757
Income before extraordinary item	1,880	1,948	1,468	2,658
Extraordinary loss on early extinguishment of debt, net of taxes	869			4,524
Net income (loss)	\$ 1,011	\$ 1,948	\$ 1,468	\$ (1,866)
Income before extraordinary item per common share, basic	\$ 0.21	\$ 0.20	\$ 0.15	\$ 0.28
Net income (loss) per common share, basic	\$ 0.11	\$ 0.20	\$ 0.15	\$ (0.20)
Income before extraordinary item per common share, diluted	\$ 0.19	\$ 0.17	\$ 0.13	\$ 0.17
Net income (loss) per common share, diluted	\$ 0.11	\$ 0.17	\$ 0.13	\$ (0.12)

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	_____	_____	_____	_____
Weighted average shares outstanding:				
Basic	8,781	9,635	9,804	14,238
	_____	_____	_____	_____
Diluted	9,600	11,270	11,604	15,411
	_____	_____	_____	_____

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Table of Contents**FTI CONSULTING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Quarterly Financial Data (unaudited) (continued)**

	Quarter Ended					
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
Revenues	\$ 41,475	\$ 42,154	\$ 40,555	\$ 42,175	\$ 50,680	\$ 51,075
Operating expenses	33,365	33,864	33,548	33,312	38,844	39,232
Operating income	8,110	8,290	7,007	8,863	11,836	11,843
Interest, net	(1,443)	(1,147)	(970)	(796)	(738)	(602)
Income before income taxes	6,667	7,143	6,037	8,067	11,098	11,241
Income taxes	2,834	2,967	2,414	3,230	4,494	4,553
Net income	\$ 3,833	\$ 4,176	\$ 3,623	\$ 4,837	\$ 6,604	\$ 6,688
Net income per common share, basic	\$ 0.24	\$ 0.24	\$ 0.19	\$ 0.25	\$ 0.33	\$ 0.33
Net income per common share, diluted	\$ 0.21	\$ 0.22	\$ 0.18	\$ 0.23	\$ 0.31	\$ 0.31
Weighted average shares outstanding:						
Basic	15,933	17,228	18,760	19,397	19,783	20,176
Diluted	18,051	19,202	20,340	20,827	21,353	21,647

13. Contingencies

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

14. Subsequent Events

On August 30, 2002, the Company acquired certain assets and liabilities of the PricewaterhouseCoopers (PWC) U.S. Business Recovery Services Division (BRS). BRS is a leading provider of bankruptcy, turnaround and business restructuring services to corporations in the United States and has more than 350 employees in 15 offices across the U.S., with significant practices in New York, Dallas, Los Angeles, Chicago and Atlanta. The purchase price consists of \$141.1 million of cash plus 3.0 million shares of common stock valued at \$101.9 million. The Company also incurred acquisition-related costs of \$1.4 million. The acquisition was accounted for using the purchase method of accounting. As of the acquisition date, approximately \$250.0 million of goodwill is expected to be recorded.

In connection with the acquisition of BRS, the Company borrowed an additional \$119.0 million to finance the cash portion of the purchase price. To provide for these borrowings, the Company obtained a new credit facility. The new credit facility consists of the current term loan for \$26.0 million, a new term loan for \$74.0 million and a new revolving line of credit for \$100.0 million. The credit facility bears interest at an annual rate equal to LIBOR plus an applicable margin or an alternative base rate defined as the higher of (i) the lender's prime rate or (ii) the federal funds rate plus the sum of 50 basis points and an applicable margin. The \$26.0 million term loan matures on December 1, 2005 and the \$74.0 million term loan is due on August 30, 2006. Under this credit facility, the bank has a security interest in substantially all of the assets of the Company.

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Additionally, on July 31, 2002, the Company announced its plan to sell its Applied Sciences division. The Company has entered into negotiations to sell this division. The sale of the Applied Sciences division will be subject to final negotiation, the completion of a definitive agreement, as well as financing of the transaction by the acquiring group. The Company does not expect to incur any significant losses in connection with the sale of this division.

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INDEPENDENT AUDITORS REPORT

To the Partners of PricewaterhouseCoopers LLP

We have audited the accompanying statements of assets and liabilities of PricewaterhouseCoopers Business Recovery Services Excluding its Broker/Dealer Activities (referred to as the Business), a business of PricewaterhouseCoopers LLP (PwC LLP or PwC U.S.), as of June 30, 2000, 2001 and 2002, and the related statements of income before partner distributions and benefits, cash flows and changes in PwC U.S. Investment for the years then ended. These financial statements are the responsibility of both PwC U.S. and the Business management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material aspects, the financial position of PricewaterhouseCoopers Business Recovery Services Excluding its Broker/Dealer Activities as of June 30, 2000, 2001 and 2002, and its income before partner distributions and benefits and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

New York, New York
August 9, 2002

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

STATEMENTS OF ASSETS AND LIABILITIES

JUNE 30, 2000, 2001 AND 2002

(In Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>
ASSETS			
CURRENT ASSETS:			
Accounts receivable (net of allowances of \$7,068, \$9,074 and \$11,637 at June 30, 2000, 2001 and 2002, respectively)	\$ 9,407	\$ 13,076	\$ 15,600
Unbilled receivables	12,176	20,293	19,730
Prepaid and other current assets		187	211
	<u>21,583</u>	<u>33,556</u>	<u>35,541</u>
Total current assets	21,583	33,556	35,541
TOTAL ASSETS	\$ 21,583	\$ 33,556	\$ 35,541
LIABILITIES AND PwC U.S. INVESTMENT			
CURRENT LIABILITIES:			
Accrued payroll and related benefits (Note 5)	\$ 3,114	\$ 5,501	6,765
Amounts due to PwC U.S. (Note 4)	4,263	4,139	3,184
Accounts payable and accrued liabilities	653	530	521
Billings in excess of services earned	11,287	26,393	45,003
	<u>19,317</u>	<u>36,563</u>	<u>55,473</u>
Total current liabilities	19,317	36,563	55,473
COMMITMENTS AND CONTINGENCIES (Note 6)			
PwC U.S. INVESTMENT	2,266	(3,007)	(19,932)
	<u>21,583</u>	<u>33,556</u>	<u>35,541</u>
TOTAL LIABILITIES AND PwC U.S. INVESTMENT	\$ 21,583	\$ 33,556	\$ 35,541

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

Table of Contents**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES****INCOME STATEMENTS BEFORE PARTNER DISTRIBUTIONS AND BENEFITS
YEAR ENDED JUNE 30, 2000, 2001 AND 2002
(In Thousands)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
REVENUES	\$ 141,093	\$ 156,948	\$ 179,262
Cost of services*	60,744	64,943	64,642
Reimbursables and subcontractor costs	9,401	12,844	14,275
Total costs of services*	<u>70,145</u>	<u>77,787</u>	<u>78,917</u>
Selling, general and administrative expenses*	<u>30,851</u>	<u>28,387</u>	<u>33,542</u>
Operating Income*	40,097	50,774	66,803
Interest expense	422	715	603
Other expense	<u>364</u>	<u>605</u>	<u>584</u>
INCOME BEFORE PARTNER DISTRIBUTIONS AND BENEFITS*	<u>\$ 39,311</u>	<u>\$ 49,454</u>	<u>\$ 65,616</u>

* Excludes payment for partner distributions and benefits.

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

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

**STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2000, 2001 AND 2002
(In Thousands)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before partner distributions and benefits	\$ 39,311	\$ 49,454	\$ 65,616
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Allowance for bad debts	6,156	3,006	3,763
Changes in assets and liabilities:			
Accounts receivable	(8,305)	(6,675)	(6,287)
Unbilled receivables	(2,830)	(8,117)	563
Prepaid and other current assets	109	(187)	(24)
Accrued payroll and related benefits	(518)	2,387	1,264
Accounts payable and accrued liabilities	119	(123)	(9)
Billings in excess of services earned	8,082	15,106	18,610
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by operating activities	42,124	54,851	83,496
	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Amount (due to) from PwC U.S.	721	(124)	(955)
Activity in PwC U.S. investment, net	(42,845)	(54,727)	(82,541)
Net cash used in financing activities	(42,124)	(54,851)	(83,496)
	<u> </u>	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR			
	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>

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

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

**STATEMENTS OF CHANGES IN PwC U.S. INVESTMENT
JUNE 30, 2000, 2001 AND 2002
(In Thousands)**

BALANCE AS OF JUNE 30, 1999	\$ 5,800
Income before partner distributions and benefits	39,311
Activity in PwC U.S. investment, net	(42,845)
	<hr/>
BALANCE AS OF JUNE 30, 2000	2,266
Income before partner distributions and benefits	49,454
Activity in PwC U.S. investment, net	(54,727)
	<hr/>
BALANCE AS OF JUNE 30, 2001	(3,007)
Income before partner distributions and benefits	65,616
Activity in PwC U.S. investment, net	(82,541)
	<hr/>
BALANCE AS OF JUNE 30, 2002	\$ (19,932)
	<hr/>

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

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000, 2001 AND 2002
(In Thousands)**

1. NATURE OF OPERATIONS

The Business Recovery Services business unit excluding the broker/dealer activities (the Business) of PricewaterhouseCoopers LLP (PwC LLP or PwC U.S.) is a provider of financial and strategic services to under-performing and troubled businesses.

The Business focuses on solutions to help troubled businesses through bankruptcy advisory services, crisis management and consulting, as well as trustee and receiver services. The Business works with under-performing companies to help rebuild shareholder value.

On July 24, 2002, PricewaterhouseCoopers LLP and FTI Consulting, Inc. entered into an agreement for the purchase and sale of assets of the Business.

2. BASIS OF PRESENTATION

The financial statements of the Business are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All material inter-firm balances and transactions have been eliminated.

These financial statements have been derived from the books and records of PwC U.S. Accordingly, assumptions and allocations have been made which are estimates (Notes 3 and 4). Management believes that the assumptions and allocations underlying these financial statements are reasonable. Management does not believe, however, that it is practical to estimate what these expenses would have been had the Business operated as an independent entity, including any expenses associated with obtaining any of these services from unaffiliated entities. In addition, the Business receives referrals from other business units of PwC U.S. that may not continue.

PwC U.S. is a partnership where earnings are allocable to its partners and principals. Partnership distributions are not considered executive compensation in the customary sense of that term because partnership distributions are comprised of distributions of current earnings. Therefore, it is not practical to differentiate the ownership components of distributions to partners from the compensation components of such distributions. As a result, the financial statements do not reflect the assets and liabilities or income before partner distributions and benefits had the Business operated as a stand-alone entity.

The Merger of Coopers & Lybrand and Price Waterhouse Global Networks. Effective July 1, 1998, substantially all of the various professional services firms comprising the global networks of Coopers & Lybrand and Price Waterhouse combined on a country-by-country or regional basis and established a new global network of combined firms that comprise PricewaterhouseCoopers (PwC). The PwC network of firms adopted a coordinated strategy, branding and standards of operations on a global basis under a common global management team.

The combination of partners' book capital interests have been accounted for as a combination at predecessor basis as of the date of combination. In the combination of the partnerships, neither predecessor partner group received a partnership interest that represents a fair value residual equity interest in the combined partnerships. Partners' rights are limited to the amount of their book capital contributed and any allocated but undistributed profits. Partners continued to maintain their same book capital account in the combined partnership and agreed to share profits in the combined firm on the same basis as prior to the combination.

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents Cash and cash equivalents are managed centrally within PwC U.S. The Business does not maintain any cash and cash equivalent balances of its own.

Fair Value of Financial Instruments All financial instruments, principally accounts receivable and unbilled receivables, are stated at historical cost, which approximates fair value due generally to their short-term nature.

Property and Equipment The Business does not individually own property and equipment. These types of assets are not included in the statements of assets and liabilities. PwC U.S. allocates to the Business its applicable portion of facilities costs incurred by PwC U.S. See Note 4 for a discussion of allocated costs.

Provision for Taxes No income tax provision is recorded in the historical financial statements of the Business, since PwC U.S. is a partnership and the tax effects accrue directly to its partners.

Revenue Recognition Revenues include all amounts billable to clients, including professional services provided by partners and employees of the Business, as well as subcontractors working for the Business. Revenues are recognized in the period in which services are rendered at net realizable value. Reimbursements, including those related to travel and other out-of-pocket expenses, as well as subcontractor fees and expenses are also included in revenues. Revisions to engagement revenues recognized to date, resulting from changes in circumstances, are recorded in the period in which such changes become known.

Losses on contracts are recognized during the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated service costs of the contract exceed the estimated total revenues that will be generated by the contract.

Unbilled receivables represent revenues for services rendered and expenses incurred that have not yet been billed to clients.

Billings in excess of services earned represents amounts billed to clients in advance of work being performed (i.e. retainers, and holdbacks). Retainers are paid by clients before work has begun, and are held on deposit until completion of work. Such amounts are either applied to final billings or refunded to clients upon completion of work. Holdbacks are portions of client fees deferred by the Business or required to be held by courts of law to be realized upon completion of work. Holdbacks are recorded as reserves in billings in excess of services earned until amounts are actually collected, as collection is not certain.

Cost of Services Cost of services includes employee compensation and related benefits for client service staff, outside consultants used on client engagements, the costs of their recruitment and continuing training, and an allocation of information technology costs attributable to these staff. Costs related to research and development activities are expensed as incurred.

Selling, General and Administrative Expenses Selling, general and administrative expenses include general and administrative costs incurred by PwC U.S. and allocated to the Business, as well as costs incurred directly by the Business. Selling, general and administrative costs include compensation and benefits for non-client service and practice support personnel, infrastructure expenses including: rent, legal and professional indemnity insurance costs, new business development activities, information technology not attributable to client service staff, marketing, advertising and other firmwide costs.

Allocated Costs and Partnership Distributions PwC U.S. provides various services and infrastructure to the Business. The costs of these services are allocated to the Business on bases that PwC U.S. management believes to be reasonable. See Note 4 for a discussion of allocated costs. PwC U.S. is a partnership and its

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

NOTES TO FINANCIAL STATEMENTS (Continued)

earnings are allocable to its partners. Partnership distributions are not considered executive compensation in the customary sense of that term because partnership distributions are comprised of distributions of current earnings. Therefore, it is not practical to differentiate the ownership components of distributions to partners from the compensation components of such distributions. Accordingly, distributions and benefits for services rendered by partners have not been reflected in the income statements before partner distributions and benefits.

Earnings Per Share The Business has no single capital structure upon which to calculate earnings per share information. Accordingly, earnings per share information is not presented.

Credit Risk The Business provides professional services to a diversified client base. The majority of client engagements are with major corporations and financial institutions. The Business also serves a range of troubled companies varying in size from large conglomerates to mid-cap companies that retain the Business services through bankruptcy trustees. The Business performs ongoing credit evaluations of its clients and may require advances or retainers prior to engagement. Accounts receivable are reviewed on a periodic basis and an allowance for bad debts is recorded where such amounts are determined to be uncollectible. Due to the large number of client accounts and the diversified client base, across many industries, management does not believe that a significant concentration of credit risk loss exists.

Use of Estimates The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, or the disclosure of contingent assets and liabilities at the date of the financial statements and reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. TRANSACTIONS WITH PwC

In the normal course of business, the Business uses the professional services of other PwC U.S. business units on the Business engagements. Related party revenues include billings for professional services provided by the Business to other PwC U.S. business units. For the years ended June 30, 2000, 2001 and 2002, revenues include approximately \$14,000, \$11,600 and \$5,900, respectively, related to professional services provided to other PwC U.S. business units. Additionally, cost of services includes \$32,600, \$24,800 and \$18,700, respectively, related to professional services received from other PwC U.S. business units. These related party transactions are settled within PwC U.S. Investment.

Settlement of Internal Costs and Expenses within PwC U.S. PwC U.S. provides various services and infrastructure on a centralized basis to the Business including occupancy, technology services, finance and planning, human resources, marketing and business development, risk management and practice protection, firm-wide management, and new product development. The methods of allocating these centralized costs to the Business include relative revenues, headcount, square footage, or other basis. These service and infra-structure costs are paid or settled with PwC U.S. using cash provided by operations of the Business. Accordingly, these costs are credited directly to the PwC U.S. Investment account, on the basis that cash generated by the Business is distributed to PwC U.S. for the settlement of commonly incurred liabilities, acquisitions of common assets and distributions to PwC U.S. partners.

Total allocated costs approximated \$22,723, \$22,523 and \$26,615 for the years ended June 30, 2000, 2001 and 2002, respectively, and are included in the accompanying statements of income before partner distributions and benefits, as follows: costs of services of \$3,621, \$2,239 and \$2,111; selling, general and administrative expenses of \$18,455, \$19,349 and \$23,889; interest expense of \$422, \$715 and \$603; and other expense of \$225, \$220 and \$12.

Cash receipts, which the Business generates, are collected by PwC U.S. Such cash is generally managed via common pools for all lines of service within PwC U.S. Cash generated by the Business that is managed by PwC U.S. has not been reflected in these financial statements.

Table of Contents**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES****NOTES TO FINANCIAL STATEMENTS (Continued)**

Settlement of Costs and Expenses with Employees and Allocated Debt The Business funds its operations from internally generated cash flows, funds provided by PwC U.S., bank borrowings, loans, or other debt of PwC U.S. PwC U.S. incurs and settles payroll and accounts payable on a centralized basis and allocates a portion of its short-term and long-term funding to support the operations of the Business. Accordingly, prepaid and other current assets and payroll taxes and deductions are allocated based on the ratio of the Business employee expenses to total PwC U.S. employee expenses. Certain accounts payable and accrued liabilities are allocated based on the Business ratio of non-employee expense to total PwC U.S. non-employee expense. Short-term and long-term debt are allocated to the Business based on the ratio of the Business accounts receivable and unbilled receivables to total accounts receivable and unbilled receivables of PwC U.S. Interest is allocated to debt but is not allocated to other allocated liabilities, such as accounts payable, accrued liabilities, accrued payroll and related benefits. Interest related to allocated debt is allocated on a monthly basis using the ratio of the Business revenues to total revenues of PwC U.S.

These allocated amounts have been included in Amounts due to PwC U.S. in the accompanying statements of assets and liabilities and are comprised of:

	June 30,		
	2000	2001	2002
Prepaid and other current assets	\$ (150)	\$ (60)	\$ (453)
Payroll taxes and deductions	547	932	1,473
Accounts payable	615	331	1,835
Accrued and other liabilities	726	941	329
Debt	2,525	1,995	0
	—————	—————	—————
Amounts due to PwC U.S.	\$ 4,263	\$ 4,139	\$ 3,184
	—————	—————	—————

5. ACCRUED PAYROLL AND RELATED BENEFITS

Accrued payroll and related benefits consisted of the following:

	June 30,		
	2000	2001	2002
Accrued bonus	\$ 2,037	\$ 4,169	\$ 5,048
Accrued vacation	1,077	1,332	1,717
	—————	—————	—————
Total accrued payroll and related benefits	\$ 3,114	\$ 5,501	\$ 6,765
	—————	—————	—————

The Business has various performance-driven bonus plans under which employees are awarded cash bonuses generally based upon the performance of their unit, as well as their own individual performance against predefined goals. Bonuses are generally earned and recognized within a given fiscal year and paid in the following fiscal year. Distributions and related benefits for partners have not been reflected in the income statements before partner distributions and benefits.

6. COMMITMENTS AND CONTINGENCIES

Litigation The PwC global network, as well as the Business, is involved in litigation arising in the ordinary course of business, some of which may be related to the Business operations. Some of the actions and proceedings have been brought on behalf of various claimants and certain of these claimants seek damages of unspecified amounts. The member firms within the PwC global network have established a series of captive

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insurance companies to self-insure themselves against troublesome practice matters. The insurance provided by these captive insurance companies covers, on a PwC U.S. basis, liability relating to professional services

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

NOTES TO FINANCIAL STATEMENTS (Continued)

performed by the Business as well as professional services performed by all other business units within PwC U.S. Management believes that any potential losses will not exceed the designated amounts covered by the captive insurance companies. While the ultimate outcome of any outstanding litigation cannot be predicted with certainty, it is the opinion of management that the resolution of such litigation will not have a material adverse effect on the statements of assets and liabilities, income before partner distributions and benefits or cash flow of the business.

In December 2000, the Trustee of Keller Financial Services of Florida, Inc. filed an action in the United States of District Court for the Middle District of Florida, alleging that PwC U.S. work as the financial advisor of this former client, which subsequently went into bankruptcy, was negligent and that PwC U.S. breached its fiduciary duty by not placing the client into bankruptcy soon after PwC U.S.'s engagement began in June 1997. PwC U.S. believes it has meritorious legal defenses regarding this matter, and further, other parties may have liability to the plaintiff, which would also reduce the liability, if any, of PwC U.S. Nevertheless, it is reasonably possible that this case could result in an outcome unfavorable to PwC U.S. Because this case is still in its preliminary stages, PwC U.S. is unable to estimate the loss, or range of loss, if any, that might ultimately be incurred. PwC U.S. will retain this liability in connection with the sale to FTI.

In one matter, General Cinemas, the creditors have filed an objection to the firm's final fee application in total. If successful, the firm could not collect any of the outstanding fees and would have to disgorge any fees PwC U.S. has collected to date. The total fees collected and billed but not collected are approximately \$2.1 million. The matter is still in discovery. PwC U.S. is unable to estimate the loss, or range of loss, if any, that might ultimately be incurred.

In another matter, Aural, the Court objected to PwC U.S.'s final fee application and ordered disgorgement of the entire fees of approximately \$350,000, on various grounds. PwC U.S. is moving for reconsideration of that ruling.

In RSR, PwC U.S. provided advisory services to this distressed company. PwC U.S. declined thereafter to provide RSR with an affidavit for use against another PwC U.S. client in litigation and further revised to provide a tolling agreement to RSR. PwC U.S. does not believe that the former client has a viable claim should it ever be brought.

Leases PwC U.S. has obligations under long-term, noncancelable, operating lease agreements, principally for office space and data processing equipment, including personal computers, some of which relate to the Business' operations. Certain agreements are subject to periodic escalation charges for increases in real estate taxes and other charges. Renewal options are available on the majority of the office leases. No leases are held by PwC U.S. exclusively for the benefit of the Business. PwC U.S. allocates shared occupancy costs to its business units and sub-business units based on headcount and space-utilized factors.

Rent expense, including allocated amounts, approximated \$4,352, \$3,966 and \$6,029 for the years ended June 30, 2000, 2001 and 2002, respectively.

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**PRICEWATERHOUSECOOPERS BUSINESS RECOVERY SERVICES
EXCLUDING ITS BROKER/DEALER ACTIVITIES**

NOTES TO FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE BENEFIT PLANS

Defined Benefit Retirement and Post-retirement Benefit Plans Historically, all employees of PwC U.S., including those of the Business, have participated in various benefit and retirement plans sponsored by PwC U.S. The costs with respect to these plans are allocated among all of the lines of service within PwC U.S. The cost allocated to the Business for defined benefit plans included within cost of services was \$691, \$859 and \$1,032 for the years ended June 30, 2000, 2001 and 2002, respectively.

Additionally, PwC U.S. has unfunded post-retirement benefit plans that provide medical and life insurance for eligible retirees, employees, and dependents, as well as post-employment benefits that include severance benefits upon involuntary separation from PwC U.S. PwC U.S. has retained these plans, and therefore, for purposes of these financial statements, the assets and liabilities of these plans are not allocated to the Business. For the years ended June 30, 2000, 2001 and 2002, the Business recognized expense related to post-retirement benefit plans of \$284, \$308 and \$481, respectively.

Defined Contribution Plans PwC U.S. sponsors the Savings Plan for Employees and Partners of PricewaterhouseCoopers LLP and the Savings Plan for Employees of PricewaterhouseCoopers LLP (collectively, the Savings Plans), defined contribution savings plans, available to all PwC U.S. employees and partners who meet certain eligibility requirements. The Savings Plans are 401(k) based plans that allow employees to contribute up to the maximum limit established by law (\$10.0, \$10.5, \$10.5 and \$11.0 for calendar years 1999, 2000, 2001 and 2002, respectively). PwC U.S. provides a matching contribution for employees under the terms of the Savings Plans.

The costs allocated to the Business for defined contribution plans included in cost of services was \$154, \$253 and \$381, for the years ended June 30, 2000, 2001 and 2002, respectively.

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2,119,469 Shares

FTI Consulting, Inc.

Common Stock

PROSPECTUS

, 2002

LEHMAN BROTHERS

BANC OF AMERICA SECURITIES LLC

ADAMS, HARKNESS & HILL, INC.
JANNEY MONTGOMERY SCOTT LLC
SUNTRUST ROBINSON HUMPHREY

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****14. Other Expenses of Issuance and Distribution**

The following table sets forth the various expenses payable by the Registrant in connection with the sale and distribution of the securities offered hereby. All of the amounts shown are estimated except the SEC registration fee, the National Association of Securities Dealers filing fee and the New York Stock Exchange listing fee.

Securities and Exchange Commission registration fee	\$	8,230
New York Stock Exchange listing fee		7,350
National Association of Securities Dealers filing fee		9,446
Printing expenses		100,000
Legal fees and expenses		250,000
Accounting fees and expenses		500,000
Miscellaneous expenses		124,974
		<hr/>
Total	\$	1,000,000
		<hr/> <hr/>

15. Indemnification of Officers and Directors

Section 2-418 of the Maryland General Corporation Law permits indemnification of directors, officers, agents and controlling persons of a corporation under certain conditions and subject to certain limitations. Registrant's Charter and Bylaws include provisions requiring that the Registrant indemnify its directors and officers to the fullest extent permitted by Maryland General Corporation Law, including circumstances in which indemnification is otherwise discretionary.

The Underwriting Agreement between the Registrant and the underwriters provides for the indemnification of officers and directors of the Registrant by the underwriters against some types of liabilities arising under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

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16. Exhibits

- 1.1 Form of Underwriting Agreement**
- 2.1 Agreement for the Purchase and Sale of Assets dated as of July 24, 2002, by and between PricewaterhouseCoopers LLP and Registrant (previously filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed with the SEC on July 26, 2002, and incorporated herein by reference)
- 4.1 Charter of Registrant (previously filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-8 filed with the SEC on June 28, 2001 (File No. 333-64050) and incorporated herein by reference)
- 4.2 By-Laws of Registrant, as amended and restated (previously filed as Exhibit 3.2 to Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2000, and incorporated herein by reference)
- 4.3 Registration Rights Agreement dated as of August 30, 2002, by and between Registrant, PricewaterhouseCoopers LLP and the other signatories thereto (previously filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K filed with the SEC on September 13, 2002, and incorporated herein by reference)
- 5.1 Opinion of Piper Rudnick LLP**
- 23.1 Consent of Ernst & Young LLP, Independent Auditors*
- 23.2 Consent of Deloitte & Touche LLP, Independent Auditors*
- 23.3 Consent of Piper Rudnick LLP (included in Exhibit 5.1)**
- 24.1 Power of Attorney (included on signature page)*

* Filed herewith.

** To be filed by amendment.

17. Undertakings

(a) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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Dennis J. Shaughnessy

/s/ GEORGE P. STAMAS

George P. Stamas

Director

October 8, 2002

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Exhibit Index

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** To be filed by amendment.

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FINANCIAL STATEMENT SCHEDULES

**REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENT SCHEDULE**

The Board of Directors and Stockholders
FTI Consulting, Inc.

We have audited the consolidated financial statements of FTI Consulting, Inc. as of December 31, 2000 and 2001, and for each of the three years in the period ended December 31, 2001, and have issued our report thereon dated February 11, 2002 (included elsewhere in this Registration Statement). Our audit also included the financial statement schedule listed in Item 14 of this Registration Statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 11, 2002

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

FTI Consulting, Inc. and Subsidiaries
(in thousands)

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>		<u>COLUMN D</u>	<u>COLUMN E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
YEAR ENDED DECEMBER 31, 2001:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	\$ 2,118	\$ 2,383	\$	\$ 2,178(1)	\$ 2,323
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
YEAR ENDED DECEMBER 31, 2000:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	\$ 2,225	\$ 1,740	\$ 9(2)	\$ 1,856(1)	\$ 2,118
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
YEAR ENDED DECEMBER 31, 1999:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	\$ 902	\$ 527	\$ 1,048(2)	\$ 55(1)	\$ 2,422
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

(2) Allowance recorded for acquisitions.