FTI CONSULTING INC
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission file number 001-14875

FTI CONSULTING, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**52-1261113**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
777 South Flagler Drive, Suite 1500 West Tower,	
West Palm Beach, Florida	**33401**
(Address of Principal Executive Offices)	**(Zip Code)**

(561) 515-1900

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

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

Class	Outstanding at November 1, 2013
Common stock, par value $0.01 per share	40,217,667

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FTI CONSULTING, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

Item 1. Financial Statements

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 147,926	$ 156,785
Restricted cash		1,190
Accounts receivable:		
Billed receivables	345,407	314,491
Unbilled receivables	260,211	208,797
Allowance for doubtful accounts and unbilled services	(110,708)	(94,048)
Accounts receivable, net	494,910	429,240
Current portion of notes receivable	32,112	33,194
Prepaid expenses and other current assets	40,334	50,351
Current portion of deferred tax assets	31,628	3,615
Total current assets	746,910	674,375
Property and equipment, net of accumulated depreciation	66,300	68,192
Goodwill	1,194,414	1,260,035
Other intangible assets, net of amortization	92,738	104,181
Notes receivable, net of current portion	112,194	101,623
Other assets	64,986	67,046
Total assets	$ 2,277,542	$ 2,275,452
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable, accrued expenses and other	$ 107,363	$ 98,109
Accrued compensation	164,585	168,392
Current portion of long-term debt	6,000	6,021
Billings in excess of services provided	26,186	31,675
Total current liabilities	304,134	304,197
Long-term debt, net of current portion	711,000	717,024
Deferred income taxes	140,746	105,751
Other liabilities	85,561	80,248
Total liabilities	1,241,441	1,207,220
Commitments and contingent liabilities (notes 8, 10 and 11)		
Stockholders equity		

Preferred stock, $0.01 par value; shares authorized 5,000; none outstanding		
Common stock, $0.01 par value; shares authorized 75,000; shares issued and outstanding 40,089 (2013) and 40,755 (2012)	401	408
Additional paid-in capital	349,417	367,978
Retained earnings	737,760	741,215
Accumulated other comprehensive loss	(51,477)	(41,369)
Total stockholders equity	1,036,101	1,068,232
Total liabilities and stockholders equity	$ 2,277,542	$ 2,275,452

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share data)

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	$ 414,643	$ 386,055	$ 1,236,434	$ 1,177,526
Operating expenses				
Direct cost of revenues	255,152	241,614	773,160	735,452
Selling, general and administrative expense	94,513	88,909	287,485	283,958
Special charges	10,419	2,775	10,846	29,557
Acquisition-related contingent consideration	630	403	(6,091)	(2,581)
Amortization of other intangible assets	5,776	5,766	17,293	16,773
Goodwill impairment charge	83,752		83,752	
	450,242	339,467	1,166,445	1,063,159
Operating income (loss)	(35,599)	46,588	69,989	114,367
Other income (expense)				
Interest income and other	1,152	1,584	1,702	4,503
Interest expense	(12,814)	(13,208)	(38,600)	(43,607)
	(11,662)	(11,624)	(36,898)	(39,104)
Income before income tax provision	(47,261)	34,964	33,091	75,263
Income tax provision	3,360	12,251	36,546	26,372
Net income (loss)	$ (50,621)	$ 22,713	$ (3,455)	$ 48,891
Earnings (loss) per common share basic	$ (1.29)	$ 0.56	$ (0.09)	$ 1.21
Earnings (loss) per common share diluted	$ (1.29)	$ 0.55	$ (0.09)	$ 1.17
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax $0	$ 17,115	$ 12,731	$ (10,108)	$ 14,620
Other comprehensive income (loss), net of tax	17,115	12,731	(10,108)	14,620
Comprehensive income (loss)	$ (33,506)	$ 35,444	$ (13,563)	$ 63,511

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(in thousands)

Unaudited

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2012	40,755	$ 408	$ 367,978	$ 741,215	$ (41,369)	$ 1,068,232
Net income (loss)				(3,455)		(3,455)
Other comprehensive income:						
Cumulative translation adjustment					(10,108)	(10,108)
Issuance of common stock in connection with:						
Exercise of options, net of income tax expense from share-based awards of $489	419	4	11,031			11,035
Restricted share grants, less net settled shares of 147	256	2	(5,080)			(5,078)
Stock units issued under incentive compensation plan			3,005			3,005
Business combinations	81	1	(1,306)			(1,305)
Purchase and retirement of common stock	(1,422)	(14)	(48,755)			(48,769)
Share-based compensation			22,544			22,544
Balance September 30, 2013	40,089	401	349,417	737,760	(51,477)	1,036,101

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

Unaudited

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating activities		
Net income (loss)	$ (3,455)	$ 48,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,218	26,475
Amortization of other intangible assets	17,293	16,948
Goodwill impairment charge	83,752	
Acquisition-related contingent consideration	(6,091)	(2,581)
Provision for doubtful accounts	10,404	9,387
Non-cash share-based compensation	22,544	24,465
Non-cash interest expense	2,024	4,505
Other	(286)	10
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, billed and unbilled	(72,266)	(62,466)
Notes receivable	(9,644)	(20,732)
Prepaid expenses and other assets	(2,313)	(3,701)
Accounts payable, accrued expenses and other	16,822	5,608
Income taxes	12,989	(5,595)
Accrued compensation	13,198	(33,734)
Billings in excess of services provided	(5,383)	6,144
Net cash provided by operating activities	103,806	13,624
Investing activities		
Payments for acquisition of businesses, net of cash received	(40,766)	(26,453)
Purchases of property and equipment	(22,994)	(20,534)
Other	24	(1,105)
Net cash used in investing activities	(63,736)	(48,092)
Financing activities		
Borrowings under revolving line of credit		75,000
Payments of long-term debt	(6,000)	(156,487)
Purchase and retirement of common stock	(48,769)	(20,013)
Net issuance of common stock under equity compensation plans	6,208	523
Other	(800)	(1,982)
Net cash used in financing activities	(49,361)	(102,959)
Effect of exchange rate changes on cash and cash equivalents	432	(68)
Net decrease in cash and cash equivalents	(8,859)	(137,495)
Cash and cash equivalents, beginning of period	156,785	264,423

Cash and cash equivalents, end of period	$ 147,926	$ 126,928
Supplemental cash flow disclosures		
Cash paid for interest	$ 25,129	$ 31,343
Cash paid for income taxes, net of refunds	23,557	31,968
Non-cash investing and financing activities:		
Issuance of stock units under incentive compensation plans	3,005	3,079
Issuance of common stock to acquire businesses	2,883	

See accompanying notes to the condensed consolidated financial statements

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FTI Consulting, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

Unaudited

1. Basis of Presentation and Significant Accounting Policies

The unaudited condensed consolidated financial statements of FTI Consulting, Inc., including its consolidated subsidiaries (collectively, the Company, we, our or FTI Consulting) presented herein, have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and under the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Some of the information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. Certain prior period amounts have been reclassified to conform to the current period presentation. See Note 15 Segment Reporting for information on our segment reclassification. In management s opinion, the interim financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All adjustments made were normal recurring accruals. Results of operations for the interim periods presented herein are not necessarily indicative of results of operations for a full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes contained in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 28, 2013 and our Current Report on Form 8-K dated May 21, 2013, in which we reclassified historical segment information on a basis consistent with our current segment reporting structure.

2. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjust basic earnings per common share for the effects of potentially dilutive common shares. Potentially dilutive common shares include the dilutive effects of shares issuable under our equity compensation plans, including stock options and restricted stock, and, for the nine months ended September 30, 2012, shares issuable upon the potential conversion of our $3^3/_4$% senior subordinated convertible notes due on July 15, 2012 (Convertible Notes), each using the treasury stock method. The conversion feature of our Convertible Notes had a dilutive effect on our earnings per share for the nine months ended September 30, 2012, assuming the conversion premium was converted into common stock based on the average closing price per share of our stock during such period, because the average closing price per share of our common stock for such period was above the conversion price of the Convertible Notes of $31.25 per share. Due to a net loss applicable to common stockholders, we excluded 1,150 potentially dilutive securities for the three months ended September 30, 2013 and 1,173 potentially dilutive securities for the nine months ended September 30, 2013, as their effect would be anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Numerator basic and diluted				
Net income (loss)	$ (50,621)	$ 22,713	$ (3,455)	$ 48,891
Denominator				
Weighted average number of common shares outstanding basic	39,094	40,387	39,212	40,446
Effect of dilutive stock options		160		590
Effect of dilutive convertible notes				224
Effect of dilutive restricted shares		555		622
Weighted average number of common shares outstanding diluted	39,094	41,102	39,212	41,882
Earnings (loss) per common share basic	$ (1.29)	$ 0.56	$ (0.09)	$ 1.21
Earnings (loss) per common share diluted	$ (1.29)	$ 0.55	$ (0.09)	$ 1.17

Antidilutive stock options and restricted shares	4,586	5,421	4,677	3,678

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3. New Accounting Standards Not yet Adopted

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830): *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* (ASU 2013-05). ASU 2013-05 updates accounting guidance related to the application of consolidation guidance and foreign currency matters, and resolves the diversity in practice about what guidance applies to the release of the cumulative translation adjustment into net income. ASU 2013-05 requires that the entire amount of a cumulative translation adjustment related to an entity s investment in a foreign entity should be released when there has been a: (i) sale of a subsidiary or group of net assets within a foreign entity and the sale represents a substantially complete liquidation of the investment in the foreign entity, (ii) loss of a controlling financial interest in an investment in a foreign entity, and (iii) step acquisition for a foreign entity. This guidance is effective for interim and annual periods beginning after December 15, 2013. This ASU would impact the Company s consolidated results of operations and financial condition only in the instance of an event or transaction as described above.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. Retrospective application is also permitted. The adoption of this ASU would not have an impact on the Company s consolidated financial position or results of operations.

4. Special Charges

During the year ended December 31, 2012, we recorded special charges totaling $29.6 million, of which $5.0 million was non-cash. The charges reflect actions we took to realign our workforce to address current business demands and global macro-economic conditions impacting our Forensic and Litigation Consulting, Strategic Communications and Technology segments, to address certain targeted practices within our Corporate Finance/Restructuring and Economic Consulting segments, and to reduce excess real estate capacity. These actions included the termination of 116 employees, the consolidation of leased office space within nine office locations and certain other actions.

During the three and nine months ended September 30, 2013, we recorded special charges of $10.4 million and $10.8 million, respectively, of which $3.1 million was non-cash. The charges primarily reflect actions we took to realign our workforce to address current business demands impacting our Corporate Finance/Restructuring and Forensic and Litigation Consulting segments and to reduce certain corporate overhead within our Europe, Middle East and Africa (EMEA) region. The special charges consist of $10.2 million of salary continuance and other contractual employee related costs associated with the reduction in workforce of 45 employees and $0.6 million of costs to consolidate leased office space within one location and to adjust prior year special charges for changes to sublease terms and employee termination costs.

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The following table details the special charges by segment for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Corporate Finance/Restructuring	$ 6,331	$ 771	$ 6,399	$ 11,332
Forensic and Litigation Consulting	1,938	468	2,111	8,276
Economic Consulting	15	173	11	991
Technology	2	148	16	3,114
Strategic Communications	2	201	66	4,712
	8,288	1,761	8,603	28,425
Unallocated Corporate	2,131	1,014	2,243	1,132
Total	$ 10,419	$ 2,775	$ 10,846	$ 29,557

The total cash outflow associated with the special charges is expected to be $31.9 million, of which $18.4 million has been paid as of September 30, 2013. Approximately $3.8 million is expected to be paid during the remainder of 2013, $4.7 million is expected to be paid in 2014, $1.1 million is expected to be paid in 2015, $0.7 million is expected to be paid in 2016, and the remaining balance of $3.2 million related to lease costs will be paid from 2017 to 2025. A liability for the current and noncurrent portions of the amounts to be paid is included in Accounts payable, accrued expenses and other and Other liabilities, respectively, on the Condensed Consolidated Balance Sheets.

Activity related to the liability for these costs for the nine months ended September 30, 2013 is as follows:

	Employee Termination Costs	Lease Costs	Total
Balance at December 31, 2012	$ 6,696	$ 8,517	$ 15,213
Additions	7,009	690	7,699
Payments	(6,566)	(2,655)	(9,221)
Foreign currency translation adjustment and other	(228)		(228)
Balance at September 30, 2013	$ 6,911	$ 6,552	$ 13,463

5. Provision for Doubtful Accounts

The provision for doubtful accounts is recorded after the related work has been billed to the client and we determine that full collectability is not reasonably assured. It is classified in Selling, general and administrative expense on the Condensed Consolidated Statements of Comprehensive Income (Loss). The provision for doubtful accounts totaled $2.9 million and $10.4 million for the three and nine months ended September 30, 2013, respectively, and $2.4 million and $9.4 million for the three and nine months ended September 30, 2012, respectively.

6. Research and Development Costs

Research and development costs related to software development totaled $4.2 million and $11.7 million for the three and nine months ended September 30, 2013, respectively, and $4.2 million and $16.1 million for the three and nine months ended September 30, 2012, respectively. Research and development costs are included in Selling, general and administrative expense on the Condensed Consolidated Statements of Comprehensive Income (Loss).

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7. Financial Instruments

Fair Value of Financial Instruments

We consider the recorded value of certain financial assets and liabilities, which consist primarily of cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at September 30, 2013 and December 31, 2012, based on the short-term nature of the assets and liabilities. The fair value of our long-term debt at September 30, 2013 was $738.5 million compared to a carrying value of $717.0 million. At December 31, 2012, the fair value of our long-term debt was $762.0 million compared to a carrying value of $723.0 million. We determine the fair value of our long-term debt primarily based on quoted market prices for our $6^3/_4$% Senior Notes Due 2020 (2020 Notes) and 6.0% Senior Notes Due 2022 (2022 Notes). The fair value of our long-term debt is classified within Level 2 of the fair value hierarchy, because it is traded in less active markets.

For business combinations consummated on or after January 1, 2009, we estimate the fair value of acquisition-related contingent consideration based on management s probability-weighted present value of the consideration expected to be transferred during the remainder of the earnout period, based on the acquired operations   forecasted earnings. This fair value measure is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Fair value measurements characterized within Level 3 of the fair value hierarchy are measured based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

The significant unobservable inputs used in the fair value measurements of our acquisition-related contingent consideration include our measures of the future profitability and related cash flows of the acquired business or assets, impacted by appropriate discount rates. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumptions used for the discount rates is accompanied by a directionally opposite change in the fair value measurement and a change in the assumptions used for the future cash flows is accompanied by a directionally similar change in the fair value measurement. The fair value of the contingent consideration is reassessed on a quarterly basis by the Company based on a collaborative effort of the Company s operations, finance and accounting groups using additional information as it becomes available.

Any change in the fair value of an acquisition s contingent consideration liability results in a remeasurement gain or loss that is recorded as income or expense, respectively and is included within   Acquisition-related contingent consideration   in the Condensed Consolidated Statements of Comprehensive Income (Loss). During the nine months ended September 30, 2013, management determined that the fair value of the contingent consideration liability for one of its acquisitions had declined and recorded a remeasurement gain of $8.2 million, compared to a gain of $4.1 million for the nine months ended September 30, 2012. There was no remeasurement gain or loss in the three months ended September 30, 2013 or the three months ended September 30, 2012.

Accretion expense for acquisition-related contingent consideration totaled $0.6 million and $2.1 million for the three and nine months ended September 30, 2013 respectively, and $0.4 million and $1.5 million for the three and nine months ended September 30, 2012, respectively.

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The following table represents the changes in the acquisition-related contingent consideration liability during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2013	2012	2013	2012
Beginning balance	$ 13,285	$ 8,237	$ 16,426	$ 14,990
Acquisition[1]	(206)	1,150	4,323	1,150
Adjustments to fair value recorded in earnings[2]	630	403	(6,091)	(2,581)
Payments	(166)		(401)	(1,287)
Elimination of contingency[3]				(2,534)
Unrealized gains (losses) related to currency translation in other comprehensive income	73	60	(641)	112
Ending balance	$ 13,616	$ 9,850	$ 13,616	$ 9,850

(1) Includes adjustments during the purchase price allocation period.

(2) Includes adjustments to fair value related to accretion and remeasurement of contingent consideration which are recorded in Acquisition-related contingent consideration on the Condensed Consolidated Statements of Comprehensive Income (Loss).

(3) During the nine months ended September 30, 2012, we fixed an acquisition-related contingent consideration liability in the amount of $2.5 million. The non-contingent consideration liability is no longer required to be remeasured to fair value and, accordingly, is not classified as a Level 3 measurement.

The following table presents financial liabilities measured at fair value:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of September 30, 2013				
Liabilities:				
Acquisition-related contingent consideration, including current portion	$	$	$ 13,616	$ 13,616
As of December 31, 2012				
Liabilities:				
Acquisition-related contingent consideration, including current portion	$	$	$ 16,426	$ 16,426

8. Acquisitions

Certain acquisition-related restricted stock agreements entered into prior to January 1, 2009 contained common stock price guarantees that would result in cash payments if our closing per share price fell below a specified per share price on the date that the applicable stock restrictions lapsed (the determination date). For those acquisitions, the settlement of the stock price guarantees related to our common stock price was recorded as a reduction to additional paid-in capital as of the determination dates. During the three and nine months ended September 30, 2013, we paid $0.2 million and $4.1 million, respectively, in cash in relation to the stock price guarantees on certain shares of common stock that became unrestricted, which was recorded as a reduction to additional paid-in-capital on the Condensed Consolidated Balance Sheets. As of September 30, 2013, no further acquisition-related stock price guarantees are outstanding.

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2013 Acquisitions

On November 1, 2013, we completed the acquisition of certain insurance management consulting operations of WD Scott Limited, located in Dublin, Ireland and London, England. The acquired operations will be operated as part of the insurance practice of our Forensic and Litigation Consulting segment and will be included in our consolidated results of operations beginning as of the acquisition completion date, and therefore, are not included in our consolidated results of operations for the three and nine months ended September 30, 2013. We are currently evaluating the fair values of the assets acquired, liabilities assumed and acquisition-related contingent consideration.

During the second quarter of 2013, we completed two business combinations. The total purchase price included initial consideration with a value of $26.8 million plus acquisition-related contingent consideration. The contingent consideration is payable through the next five years if the acquired businesses meet certain performance measures.

During the first quarter of 2013, we completed two business combinations. The total purchase price included initial consideration with a value of $9.1 million plus, for one of the business combinations, acquisition-related contingent consideration. The contingent consideration is payable annually through December 31, 2017 if the acquired business meets certain performance measures, and is subject to an $8.0 million aggregate cap.

For acquisitions completed during the nine months ended September 30, 2013, as part of the preliminary purchase price allocations, we recorded $7.4 million in identifiable intangible assets and $28.9 million in goodwill. The estimated fair value of the acquisition-related contingent consideration of $8.0 million is recorded in Other liabilities on the Condensed Consolidated Balance Sheets. Pro forma results of operations were not presented because these acquisitions were not material in relation to our consolidated financial position or results of operations for the periods presented.

9. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill by operating segment for the nine months ended September 30, 2013, are as follows:

	Corporate Finance/ Restructuring	Forensic and Litigation Consulting	Economic Consulting	Technology	Strategic Communications	Total
Balances at December 31, 2012:						
Goodwill	$ 469,050	$ 198,957	$ 247,718	$ 118,035	$ 336,662	$ 1,370,422
Accumulated goodwill impairment					(110,387)	(110,387)
Goodwill, net as of December 31, 2012	469,050	198,957	247,718	118,035	226,275	1,260,035
Acquisitions[(1)]	18,839	1,050	944		4,961	25,794
Foreign currency translation adjustment and other	(4,630)	(349)	(1)	(1)	(2,682)	(7,663)
Intersegment transfers in/(out)[(2)]	(31,471)	31,471				
Goodwill impairment					(83,752)	(83,752)
Balances at September 30, 2013	$ 451,788	$ 231,129	$ 248,661	$ 118,034	$ 144,802	$ 1,194,414

(1) Includes adjustments during the purchase price allocation period.

(2) Includes the reclassification of the Company s Corporate Finance/Restructuring segment s healthcare and life sciences practices into the Forensic and Litigation Consulting segment. See Note 15 Segment Reporting for information on this segment reclassification.

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During the third quarter of 2013, in addition to reduced levels of mergers and acquisitions activity, our Strategic Communications segment has continued to experience pricing pressure for certain discretionary communications services, including initial public offering support services where there is volume but also increasing competition. This has compressed segment margins and contributed to a change in the Company s near-term outlook for this segment. This was considered an interim impairment indicator for the Strategic Communications segment at the Strategic Communications reporting unit level. As a result, we performed an interim impairment analysis with respect to the carrying value of goodwill in our Strategic Communications reporting unit. There were no interim impairment indicators identified for the goodwill in any other of the Company s reporting units.

For the interim impairment test performed as of September 30, 2013, the fair value was estimated using a combination of appropriately weighted income and market approaches. The cash flow projections are based on our most recent forecasts and near term business plans developed in the third quarter, as well as various growth rate assumptions for years beyond the nine-month period. In the income approach, the cash flows were discounted using an estimated weighted average cost of capital (WACC) based on our assessment of the risk inherent in the future revenue streams and cash flows and our WACC. The WACC is comprised of (1) a risk free rate of return, (2) an equity risk premium that is based on the rate of return on equity of publicly traded companies with business characteristics comparable to our reporting units, (3) the current after-tax market rate of return on debt of companies with business characteristics similar to our reporting units, each weighted by the relative market value percentages of our equity and debt, and (4) an appropriate size premium. In the market approach, we utilize market multiples derived from comparable guideline companies and comparable market transactions to the extent available. These valuations are based on estimates and assumptions including projected future cash flows and the determination of appropriate market comparables and determination of whether a premium or discount should be applied to such comparables.

The results of the Step 1 goodwill impairment analysis indicated that the estimated fair value of our Strategic Communications reporting unit was less than its carrying value. Because our Strategic Communications reporting unit s fair value estimate was lower than its carrying value, we applied the second step of the goodwill impairment test. The second step of the goodwill impairment analysis indicated that the carrying values of the goodwill associated with the Strategic Communications reporting unit exceeded its implied fair value, resulting in an $83.8 million non-deductible goodwill impairment charge which was recorded as a separate line item within operating income (loss) within the Condensed Consolidated Statements of Comprehensive Income (Loss). The impairment charge is non-cash in nature and does not affect the Company s current liquidity, nor does it impact the debt covenants under the Company s existing credit facility and the Indentures for the 2020 and 2022 Notes.

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of $5.8 million and $17.3 million for the three and nine months ended September 30, 2013, respectively, and $5.8 million and $16.9 million for the three and nine months ended September 30, 2012, respectively. Based solely on the amortizable intangible assets recorded as of September 30, 2013, we estimate amortization expense to be $5.7 million during the remainder of 2013, $13.5 million in 2014, $11.8 million in 2015, $10.2 million in 2016, $9.5 million in 2017, $7.9 million in 2018, and $28.5 million in years after 2018. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, finalization of asset valuations for newly acquired assets, changes in useful lives, changes in value due to foreign currency translation, and other factors.

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		September 30, 2013		December 31, 2012	
	Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite lived intangible assets					
Customer relationships	1 to 15	$ 153,063	$ 70,106	$ 151,990	$ 64,095
Non-competition agreements	1 to 10	11,020	8,890	15,184	11,158
Software	3 to 10	33,953	32,075	33,979	27,424
Tradenames	1 to 2	450	277	180	75
		198,486	111,348	201,333	102,752
Indefinite-lived intangible assets					
Tradenames	Indefinite	5,600		5,600	
		$ 204,086	$ 111,348	$ 206,933	$ 102,752

10. Long-term Debt and Capital Lease Obligations

The components of long-term debt and capital lease obligations are presented in the table below:

	September 30, 2013	December 31, 2012
6 $^3/_4$% senior notes due 2020	$ 400,000	$ 400,000
6.0% senior notes due 2022	300,000	300,000
Notes payable to former shareholders of acquired businesses	17,000	23,000
Total debt	717,000	723,000
Less current portion	6,000	6,000
Long-term debt, net of current portion	711,000	717,000
Total capital lease obligations		45
Less current portion		21
Capital lease obligations, net of current portion		24
Long-term debt and capital lease obligations, net of current portion	$ 711,000	$ 717,024

6.0% Senior Notes Due 2022

On November 27, 2012, we completed the private offering of $300.0 million aggregate principal amount of our 2022 Notes. The 2022 Notes were issued at a price of 100% of their principal amount. The 2022 Notes and related guarantees were offered only to qualified institutional buyers in reliance on the exemption from registration set forth in Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and outside the United States (U.S.) to non-U.S. persons in reliance on the exemption from registration set forth in Regulation S under the Securities Act. On May 22, 2013, the Company filed a Registration Statement on Form S-4 with the SEC to register the exchange offer of the 2022 Notes for publicly registered senior notes with identical terms, which was declared effective on June 27, 2013. The Company completed the exchange offer of all outstanding 2022 Notes for publically registered notes on July 26, 2013.

11. Commitments and Contingencies

Contingencies

We are subject to legal actions arising in the ordinary course of business. In management s opinion, we believe we have adequate legal defenses and/or insurance coverage with respect to the resolutions of such actions. We do not believe any potential settlement or judgment would materially affect our financial position or results of operations.

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12. Share-Based Compensation

Share-based Awards and Share-based Compensation Expense

Our officers, employees, non-employee directors and certain individual service providers are eligible to participate in the Company s equity compensation plans, subject to the discretion of the administrator of the plans. During the nine months ended September 30, 2013, we granted an aggregate of 994,401 share-based awards, consisting primarily of restricted stock awards, restricted stock units and stock options.

Total share-based compensation expense for the three and nine months ended September 30, 2013 and 2012 is detailed in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Comprehensive Income Statement Classification	**2013**	**2012**	**2013**	**2012**
Direct cost of revenues	$ 2,532	$ 3,475	$ 13,231	$ 12,883
Selling, general and administrative expense	2,680	3,179	9,180	10,338
Special charges	209		209	814
Total share-based compensation expense	$ 5,421	$ 6,654	$ 22,620	$ 24,035

13. Income Taxes

During the second quarter of 2013, we determined that certain deferred tax assets associated with U.S. future foreign tax credits no longer met the more-likely-than-not test regarding the realization of those assets, primarily due to lower forecasted foreign earnings. Accordingly, the Company increased the valuation allowance against its U.S. future foreign tax credit assets, resulting in a discrete adjustment to the income tax provision in the amount of $6.9 million. As of September 30, 2013 and December 31, 2012, valuation allowances of $9.5 million and $1.9 million, respectively, were recorded against the Company s net deferred tax assets. We have not established a valuation allowance for any of our other deferred tax assets as we expect that future taxable income as well as the reversal of temporary differences will enable us to fully utilize our deferred tax assets.

As of September 30, 2013, all of the Company s undistributed non-U.S. subsidiary earnings are considered permanently invested. Accordingly, as of September 30, 2013, we have not provided for deferred taxes on $15.7 million of the undistributed non-U.S. subsidiary earnings. A deferred tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest undistributed earnings. If these earnings were repatriated, the Company would be subject to U.S. income taxes. The amount of the unrecognized deferred U.S. income tax liability associated with the indefinitely reinvested undistributed earnings is estimated to be approximately $5.5 million as of September 30, 2013.

Our liability for uncertain tax positions was $2.9 million and $3.8 million at September 30, 2013 and December 31, 2012, respectively. During the first quarter of 2013, the Company effectively settled certain prior year tax matters. As a result, the Company reversed approximately $2.2 million of its liability for uncertain tax positions.

The Company has estimated its annual effective tax rate for the full fiscal year 2013 and applied that rate to its income before income taxes in determining its provision for income taxes for the three and nine months ended September 30, 2013. The Company also records discrete items in each respective period as appropriate. Our effective tax rate for the three and nine months ended September 30, 2013 was not meaningful due to the impact of the non-deductible goodwill impairment charge of $83.8 million.

The effective tax rate for the three months ended September 30, 2013 excluding the impact of the goodwill impairment charge would have been 38.8% as compared to 35.0% for the same prior year period. For the three months ended September 30, 2012, the effective tax rate was favorably impacted by a discrete item related to the

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recognition of foreign deferred tax assets. Excluding the impact of this discrete item, the effective tax rate for the three months ended September 30, 2012 would have been 38.5%.

The effective tax rate for the nine months ended September 30, 2013 excluding the impact of the goodwill impairment charge would have been 40.5% as compared to 35.0% for the same period in 2012. During the nine months ended September 30, 2013, we recorded a deferred tax valuation reserve related to foreign tax credits, primarily due to lower forecasted foreign earnings, resulting in a discrete increase to the income tax provision in the amount of $6.9 million. We also recognized the impact of a discrete benefit related to the favorable resolution of an income tax contingency in the amount of $2.2 million. For the nine months ended September 30, 2012, the effective tax rate was favorably impacted by a discrete item related to the recognition of foreign deferred tax assets. Excluding the impact of these discrete items on both periods, the effective tax rate for the nine months ended September 30, 2013 would have been 36.4% as compared to 36.6% in the same prior year period.

14. Stockholders Equity

On June 6, 2012, our Board of Directors authorized a two-year stock repurchase program of up to $250.0 million (the 2012 Repurchase Program). During the three months ended September 30, 2013, we repurchased and retired 595,225 shares of our common stock for an average price of $33.62, with a value equivalent to approximately $20.0 million. During the nine months ended September 30, 2013, we repurchased and retired 1,422,025 shares of our common stock for an average price per share of $34.30, with a value equivalent to approximately $48.8 million. During the year ended December 31, 2012 we repurchased and retired 1,681,029 shares of our common stock for an average price per share of $29.76 with a value equivalent to approximately $50.0 million. As of September 30, 2013, a balance of approximately $151.2 million remained available under the 2012 Repurchase Program.

15. Segment Reporting

We manage our business in five reportable segments: Corporate Finance/Restructuring, Forensic and Litigation Consulting, Economic Consulting, Technology and Strategic Communications.

Our Corporate Finance/Restructuring segment focuses on strategic, operational, financial and capital needs of businesses around the world and provides consulting and advisory services on a wide range of areas, such as restructuring (including bankruptcy), interim management, financings, mergers and acquisitions, post-acquisition integration, valuations, tax issues and performance improvement.

Our Forensic and Litigation Consulting segment provides law firms, companies, government clients and other interested parties with dispute advisory, investigations, forensic accounting, business intelligence assessments, data analytics, risk mitigation services as well as interim management and performance improvement services for our health solutions practice clients.

Our Economic Consulting segment provides law firms, companies, government entities and other interested parties with analysis of complex economic issues for use in legal, regulatory and international arbitration proceedings, strategic decision making and public policy debates in the U.S. and around the world.

Our Technology segment provides electronic discovery and information management consulting, software and services to its clients. It provides products, services and consulting to companies, law firms, courts and government agencies worldwide. Its comprehensive suite of software and services help clients locate, review and produce electronically stored information, including e-mail, computer files, voicemail, instant messaging, and financial and transactional data.

Our Strategic Communications segment provides advice and consulting services relating to financial and corporate communications and investor relations, reputation management and brand communications, public affairs, business consulting and digital design and marketing.

Effective in the first quarter of 2013, we modified our reportable segments to reflect changes in how we operate our business and the related internal management reporting. The Company s healthcare and life sciences practices from both our Corporate Finance/Restructuring segment and our Forensic and Litigation Consulting segment have been combined under a single organizational structure. This single integrated practice, our health solutions practice, is now aggregated in its entirety within the Forensic and Litigation Consulting reportable segment. Prior period Corporate Finance/Restructuring and Forensic and Litigation Consulting segment information has been reclassified to conform to the current period presentation.

We evaluate the performance of our operating segments based on Adjusted Segment EBITDA. We define Adjusted Segment EBITDA as a segment s share of consolidated operating income (loss) before depreciation, amortization of intangible assets, special charges and goodwill impairment charges. We define Total Adjusted Segment EBITDA as the total of Adjusted Segment EBITDA for all segments, which excludes unallocated corporate expenses. Although Adjusted Segment EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, we use Adjusted Segment EBITDA to internally evaluate the financial performance of our segments because we believe it is a useful supplemental measure which reflects current core operating performance and provides an indicator of the segment s ability to generate cash.

The table below presents revenues and Adjusted Segment EBITDA for our reportable segments for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Corporate Finance/Restructuring	$ 93,981	$ 93,123	$ 289,775	$ 286,184
Forensic and Litigation Consulting	113,068	100,460	318,912	310,351
Economic Consulting	113,069	96,375	339,277	295,882
Technology	51,201	50,286	149,101	147,643
Strategic Communications	43,324	45,811	139,369	137,466
Revenues	$ 414,643	$ 386,055	$ 1,236,434	$ 1,177,526
Adjusted Segment EBITDA				
Corporate Finance/Restructuring	$ 19,402	$ 21,951	$ 62,610	$ 73,419
Forensic and Litigation Consulting	25,362	16,289	58,866	50,500
Economic Consulting	23,225	19,087	70,222	56,002
Technology	15,381	15,675	45,985	41,739
Strategic Communications	4,036	6,778	12,809	16,277
Total Adjusted Segment EBITDA[1]	$ 87,406	$ 79,780	$ 250,492	$ 237,937

[1] Total Adjusted Segment EBITDA is the total of Adjusted Segment EBITDA for all segments.

The table below reconciles Total Adjusted Segment EBITDA to income before income tax provision:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total Adjusted Segment EBITDA[1]	$ 87,406	$ 79,780	$ 250,492	$ 237,937
Segment depreciation expense	(7,112)	(6,038)	(20,932)	(18,646)
Amortization of other intangible assets	(5,776)	(5,766)	(17,293)	(16,773)
Special Charges	(10,419)	(2,775)	(10,846)	(29,557)
Goodwill impairment charge	(83,752)		(83,752)	

Unallocated corporate expenses, excluding special charges	(15,946)	(18,613)	(47,680)	(58,594)
Interest income and other	1,152	1,584	1,702	4,503
Interest expense	(12,814)	(13,208)	(38,600)	(43,607)
Income (loss) before income tax provision	$ (47,261)	$ 34,964	$ 33,091	$ 75,263

(1) Total Adjusted Segment EBITDA is the total of Adjusted Segment EBITDA for all segments.

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16. Supplemental Condensed Consolidating Guarantor and Non-Guarantor Financial Information

Substantially all of our domestic subsidiaries are guarantors of borrowings under our senior bank credit facility and 2020 Notes and 2022 Notes (collectively, the Senior Notes). The guarantees are full and unconditional and joint and several. All of the guarantors are 100%-owned, direct or indirect, subsidiaries. The following financial information presents condensed consolidating balance sheets, statements of comprehensive income (loss) and statements of cash flows for FTI Consulting, all the guarantor subsidiaries, all the non-guarantor subsidiaries and the eliminations necessary to arrive at the consolidated information for FTI Consulting and its subsidiaries. For purposes of this presentation, we have accounted for our investments in our subsidiaries using the equity method of accounting. The principal eliminating entries eliminate investment in subsidiary and intercompany balances and transactions.

Condensed Consolidating Balance Sheet Information as of September 30, 2013

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 64,452	$ 359	$ 83,115	$	$ 147,926
Accounts receivable, net	164,158	175,254	155,498		$ 494,910
Intercompany receivables		789,858	19,307	(809,165)	$
Other current assets	62,097	18,151	23,826		$ 104,074
Total current assets	290,707	983,622	281,746	(809,165)	746,910
Property and equipment, net	31,627	20,221	14,452		$ 66,300
Goodwill	559,519	394,304	240,591		$ 1,194,414
Other intangible assets, net	34,665	22,108	65,161	(29,196)	$ 92,738
Investments in subsidiaries	1,736,165	496,840		(2,233,005)	$
Other assets	83,343	62,128	31,709		$ 177,180
Total assets	$ 2,736,026	$ 1,979,223	$ 633,659	$ (3,071,366)	$ 2,277,542
Liabilities					
Intercompany payables	$ 687,749	$ 94,330	$ 27,086	$ (809,165)	$
Other current liabilities	110,038	93,931	100,165		$ 304,134
Total current liabilities	797,787	188,261	127,251	(809,165)	304,134
Long-term debt, net	700,000	11,000			$ 711,000
Other liabilities	202,138	23,126	1,043		$ 226,307
Total liabilities	1,699,925	222,387	128,294	(809,165)	1,241,441
Stockholders equity	1,036,101	1,756,836	505,365	(2,262,201)	$ 1,036,101
Total liabilities and stockholders equity	$ 2,736,026	$ 1,979,223	$ 633,659	$ (3,071,366)	$ 2,277,542

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Condensed Consolidating Balance Sheet Information as of December 31, 2012

	FTI Consulting, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 66,663	$ 610	$ 89,512	$	$ 156,785
Restricted cash			1,190		1,190
Accounts receivable, net	140,254	149,253	139,733		429,240
Intercompany receivables	7,053	674,136	23,185	(704,374)	
Other current assets	46,978	20,469	19,713		87,160
Total current assets	260,948	844,468	273,333	(704,374)	674,375
Property and equipment, net	37,411	16,477	14,304		68,192
Goodwill	558,473	418,789	282,773		1,260,035
Other intangible assets, net	36,826	23,975	74,967	(31,587)	104,181
Investments in subsidiaries	1,631,243	502,954		(2,134,197)	
Other assets	85,109	66,170	28,318	(10,928)	168,669
Total assets	$ 2,610,010	$ 1,872,833	$ 673,695	$ (2,881,086)	$ 2,275,452
Liabilities					
Intercompany payables	$ 549,339	$ 112,137	$ 42,898	$ (704,374)	$
Other current liabilities	118,865	79,533	105,799		304,197
Total current liabilities	668,204	191,670	148,697	(704,374)	304,197
Long-term debt, net	700,024	17,000			717,024
Other liabilities	173,550	10,479	12,898	(10,928)	185,999