# 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 June 30, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-14875

# FTI CONSULTING, INC.

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

| | |
|---|---|
| **Maryland** | **52-1261113** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **500 East Pratt Street, Suite 1400, Baltimore, Maryland** | **21202** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(410) 951-4800**

**(Registrant s telephone number, including area code)**

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

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

Large Accelerated Filer x Accelerated filer ¨ Non-accelerated filer ¨

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 equity, as of the latest practicable date.

| **Class** | **Outstanding at July 31, 2007** |
|---|---|
| Common stock, par value $0.01 per share | 42,954,168 |

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**FTI CONSULTING, INC. AND SUBSIDIARIES**

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## PART I FINANCIAL INFORMATION

### Item 1. Condensed Consolidated Financial Statements

**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets**

(in thousands, except per share data)

| | June 30, 2007 (unaudited) | December 31, 2006 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 30,255 | $ 91,923 |
| Accounts receivable | | |
| Billed receivables | 156,255 | 135,220 |
| Unbilled receivables | 83,566 | 56,228 |
| Allowance for doubtful accounts and unbilled services | (23,356) | (20,351) |
| | 216,465 | 171,097 |
| Notes receivable | 12,079 | 7,277 |
| Prepaid expenses and other current assets | 17,754 | 16,259 |
| Deferred income taxes | 8,995 | 8,393 |
| Total current assets | 285,548 | 294,949 |
| **Property and equipment, net** | 64,688 | 51,326 |
| **Goodwill** | 902,748 | 885,711 |
| **Other intangible assets, net** | 73,520 | 77,711 |
| **Notes receivable, net of current portion** | 55,849 | 35,303 |
| **Other assets** | 46,946 | 46,156 |
| **Total assets** | $ 1,429,299 | $ 1,391,156 |
| **Liabilities and Stockholders Equity** | | |
| **Current liabilities** | | |
| Accounts payable, accrued expenses and other | $ 50,564 | $ 77,914 |
| Accrued compensation | 62,908 | 76,765 |
| Current portion of long-term debt | 15,015 | 6,917 |
| Billings in excess of services provided | 18,427 | 16,863 |
| Total current liabilities | 146,914 | 178,459 |
| **Long-term debt, net of current portion** | 562,508 | 563,441 |
| **Deferred income taxes** | 58,440 | 57,782 |
| **Other liabilities** | 39,363 | 26,374 |
| **Commitments and contingent liabilities (notes 3, 5, 6 and 7)** | | |
| **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 42,565 (2007) and 41,890 (2006) | 425 | 419 |

| | | |
|---|---|---|
| Additional paid-in capital | 312,012 | 294,350 |
| Retained earnings | 307,281 | 268,937 |
| Accumulated other comprehensive income | 2,356 | 1,394 |
| Total stockholders equity | 622,074 | 565,100 |
| **Total liabilities and stockholders equity** | $ 1,429,299 | $ 1,391,156 |

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

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**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Income**

(in thousands, except per share data)

Unaudited

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| **Revenues** | $ 239,692 | $ 159,760 | $ 467,417 | $ 329,024 |
| **Operating expenses** | | | | |
| Direct cost of revenues | 131,349 | 90,083 | 257,530 | 185,342 |
| Selling, general and administrative expense | 61,910 | 38,610 | 122,268 | 81,836 |
| Amortization of other intangible assets | 2,748 | 2,805 | 5,485 | 5,759 |
| | 196,007 | 131,498 | 385,283 | 272,937 |
| **Operating income** | 43,685 | 28,262 | 82,134 | 56,087 |
| **Other income (expense)** | | | | |
| Interest income | 1,824 | 555 | 2,320 | 1,476 |
| Interest expense and other | (10,737) | (6,006) | (21,701) | (11,889) |
| Litigation settlement losses, net | (167) | (5) | (908) | (269) |
| | (9,080) | (5,456) | (20,289) | (10,682) |
| **Income before income tax provision** | 34,605 | 22,806 | 61,845 | 45,405 |
| **Income tax provision** | 11,523 | 10,139 | 23,501 | 20,451 |
| **Net income** | $ 23,082 | $ 12,667 | $ 38,344 | $ 24,954 |
| **Earnings per common share basic** | $ 0.56 | $ 0.32 | $ 0.92 | $ 0.64 |
| **Earnings per common share diluted** | $ 0.53 | $ 0.32 | $ 0.89 | $ 0.62 |

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

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**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Statement of Stockholders Equity**

(in thousands)

Unaudited

| | Common Stock | | | | Accumulated | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Other Comprehensive Income | Total |
| **Balance, January 1, 2007** | 41,890 | $ 419 | $ 294,350 | $ 268,937 | $ 1,394 | $ 565,100 |
| Comprehensive income: | | | | | | |
| Cumulative translation adjustment | | | | | 962 | 962 |
| Net income | | | | 38,344 | | 38,344 |
| Total comprehensive income | | | | | | 39,306 |
| Issuance of common stock in connection with: | | | | | | |
| Exercise of options, including income tax benefit of $3,213 | 579 | 6 | 14,751 | | | 14,757 |
| Employee stock purchase plan and other | 141 | 1 | 3,206 | | | 3,207 |
| Restricted share grants | 245 | 2 | (2) | | | |
| Business combinations | 210 | 2 | 6,420 | | | 6,422 |
| Purchase and retirement of common stock | (500) | (5) | (18,111) | | | (18,116) |
| Share-based compensation | | | 11,398 | | | 11,398 |
| **Balance, June 30, 2007** | 42,565 | $ 425 | $ 312,012 | $ 307,281 | $ 2,356 | $ 622,074 |

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

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**FTI Consulting, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

(in thousands)

Unaudited

| | Six Months Ended June 30, 2007 | 2006 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 38,344 | $ 24,954 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and other amortization | 8,384 | 6,174 |
| Amortization of other intangible assets | 5,485 | 5,759 |
| Provision for doubtful accounts | 3,804 | 3,647 |
| Non-cash share-based compensation | 11,034 | 6,671 |
| Excess tax benefits from share-based compensation | (2,854) | (805) |
| Non-cash interest expense | 1,632 | 1,200 |
| Other | (284) | (15) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, billed and unbilled | (51,418) | (31,235) |
| Notes receivable | (25,659) | (26,843) |
| Prepaid expenses and other assets | (1,156) | (2,113) |
| Accounts payable, accrued expenses and other | 13,944 | 5,602 |
| Accrued special termination charges | (5,943) | |
| Income taxes | (3,175) | (2,268) |
| Accrued compensation | (11,074) | (21,431) |
| Billings in excess of services provided | 1,424 | 656 |
| Net cash used in operating activities | (17,512) | (30,047) |
| **Investing activities** | | |
| Payments for acquisition of businesses, including contingent payments and acquisition costs, net of cash received | (20,476) | (50,201) |
| Purchases of property and equipment | (22,253) | (8,659) |
| Cash placed in escrow to acquire business | | (9,000) |
| Other | 386 | 345 |
| Net cash used in investing activities | (42,343) | (67,515) |
| **Financing activities** | | |
| Borrowings under revolving line of credit | 25,000 | |
| Payments of revolving line of credit | (25,000) | |
| Purchase and retirement of common stock | (18,116) | (23,376) |
| Issuance of common stock under equity compensation plans | 11,750 | 4,306 |
| Excess tax benefits from share-based compensation | 2,854 | 805 |
| Other | (9) | 26 |
| Net cash used in financing activities | (3,521) | (18,239) |
| Effect of exchange rate changes on cash | 1,708 | |

| | | |
|---|---|---|
| Net decrease in cash and cash equivalents | (61,668) | (115,801) |
| Cash and cash equivalents, beginning of period | 91,923 | 153,383 |
| Cash and cash equivalents, end of period | $ 30,255 | $ 37,582 |

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

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

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

Unaudited

**1. Basis of Presentation and Significant Accounting Policies**

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and under the rules and regulations of the Securities and Exchange Commission 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 or regulations. 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. You should not expect the results of operations for interim periods to necessarily be an indication of the results for a full year. You should read these financial statements 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, 2006.

***Earnings per common share.*** Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share adjusts basic earnings per share for the effects of potentially dilutive common shares. Potentially dilutive common shares primarily include the dilutive effects of shares issuable under our equity compensation plans, including restricted shares using the treasury stock method; and shares issuable upon conversion of our convertible notes assuming the conversion premium was converted into common stock based on the average market price of our stock during the period. The average price per share of our common stock for the three and six months ended June 30, 2007 was $36.59 and $33.67; therefore, the conversion feature of the convertible notes had a dilutive effect on our earnings per share. The average price per share of our common stock for the three and six months ended June 30, 2006 was $26.97 and $27.38; therefore, none of the shares underlying the convertible notes were included in diluted weighted average shares outstanding for the three and six months ended June 30, 2006.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Numerator basic and diluted** | | | | |
| Net income | $ 23,082 | $ 12,667 | $ 38,344 | $ 24,954 |
| **Denominator** | | | | |
| Weighted average number of common shares outstanding basic | 41,333 | 39,114 | 41,537 | 39,260 |
| Effect of dilutive stock options | 1,053 | 574 | 912 | 656 |
| Effect of dilutive convertible notes | 700 | | 345 | |
| Effect of dilutive restricted shares | 326 | 197 | 288 | 188 |
| Weighted average number of common shares outstanding diluted | 43,412 | 39,885 | 43,082 | 40,104 |
| **Earnings per common share basic** | $ 0.56 | $ 0.32 | $ 0.92 | $ 0.64 |
| **Earnings per common share diluted** | $ 0.53 | $ 0.32 | $ 0.89 | $ 0.62 |
| **Antidilutive stock options and restricted shares** | 1,666 | 1,638 | 2,231 | 1,352 |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

Unaudited

***Supplemental cash flow information.***

| | Six Months Ended June 30 | |
|---|---|---|
| | **2007** | **2006** |
| **Other non-cash investing and financing activities** | | |
| Issuance of common stock to acquire businesses | $ 6,422 | $ 26,088 |
| Issuance of notes payable as contingent consideration | $ 8,096 | $ |

**2. Share-Based Compensation**

***Share-based incentive compensation plans.*** Our 2004 Long-Term Incentive Plan provides for grants of option rights, stock appreciation rights, restricted or unrestricted shares, performance awards or other share-based awards to our officers, employees, non-employee directors and individual service providers. We are authorized to issue up to 3,000,000 shares of common stock under the 2004 plan, of which no more than 600,000 shares of common stock may be issued in the form of restricted or unrestricted shares, or other share-based awards. As of June 30, 2007, 205,390 shares of common stock are available for grant under our 2004 Long-Term Incentive Plan.

The FTI Consulting, Inc. 2006 Global Long-Term Incentive Plan provides for grants of option rights, stock appreciation rights, restricted or unrestricted shares, performance awards or other share-based or cash-based awards to our officers, employees, non-employee directors and individual service providers. We are authorized to issue up to 3,500,000 shares of common stock under the 2006 plan, of which no more than 1,100,000 shares of common stock may be issued in the form of restricted or unrestricted shares, or other share-based awards. As of June 30, 2007, 1,630,713 shares of common stock are available for grant under our 2006 Global Long-Term Incentive Plan.

The FTI Consulting, Inc. Deferred Compensation Plan for Key Employees and Non-Employee Directors provides for grants of stock unit and restricted stock unit awards to our key employees, other highly-compensated employees and non-employee directors. We are authorized to issue up to 1,500,000 shares of common stock under the deferred compensation plan. As of June 30, 2007, 1,317,673 shares of common stock are available for grant under our Deferred Compensation Plan for Key Employees and Non-Employee Directors.

Options are granted to employees with exercise prices equal to or exceeding the market value of our common stock on the grant date and expire ten years subsequent to award. Vesting provisions for individual awards are established at the grant date at the discretion of the compensation committee of our board of directors. Options granted under our share-based incentive compensation plans generally vest over three to six years, although we have granted options that vest over eight years. Some options vest upon the earlier of the achievement of a service condition, performance condition or the achievement of a market condition. Restricted shares are generally contingent on continued employment and vest over periods of three to ten years. Our share-based incentive compensation plans provide for accelerated vesting if there is a change in control, as defined in the applicable plan. The employment agreements with executive officers and other employees provide for accelerated vesting on other events, including death, disability, termination without cause and termination by the employee with good reason. We issue new shares of our common stock whenever stock options are exercised or share awards are granted.

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

Unaudited

Periodically we issue restricted and unrestricted shares to employees upon employment or in connection with performance evaluations. The fair market value on the date of issue of unrestricted shares is immediately charged to compensation expense. The fair market value on the date of issue of restricted shares is charged to compensation expense ratably over the remaining service period as the restrictions lapse.

***Employee stock purchase plan*.** The FTI Consulting, Inc. 2007 Employee Stock Purchase Plan allows eligible employees to subscribe to purchase shares of common stock through payroll deductions of up to 15% of eligible compensation, subject to limitations. The purchase price is the lower of 85% of the fair market value of our common stock on the first trading day or the last trading day of each semi-annual offering period. The aggregate number of shares purchased by an employee may not exceed $25,000 of fair market value annually, subject to limitations imposed by Section 423 of the Internal Revenue Code. A total of 2,000,000 shares are authorized for purchase under the plan, all of which are available for purchase as of June 30, 2007. On July 2, 2007, employees purchased 304,277 shares of common stock under this plan with contributions made during the semi-annual offering period ending June 30, 2007 at the weighted-average price per share of $23.71.

During the six months ended June 30, 2007, employees purchased 120,439 shares of common stock under the FTI Consulting, Inc. Employee Stock Purchase Plan at the weighted-average price per share of $22.75. During the six months ended June 30, 2006, employees purchased 144,680 shares of common stock under this plan at the weighted-average price per share of $17.79. The provisions of this plan are substantially the same as the provisions under our 2007 Employee Stock Purchase Plan. Shares are no longer available for purchase under this plan.

***Share-based compensation expense.*** We use the Black-Scholes option-pricing model and a lattice model to value our option and purchase plan grants using the assumptions in the following table. The risk-free interest rate is based on the yield curve of U.S. Treasury strip securities with remaining terms similar to the expected term of the option or purchase plan award. The dividend yield on our common stock is assumed to be zero since we have not paid cash dividends and have no current plans to do so in the future. To estimate the market price volatility of our common stock, we use the historical volatility of our common stock over a time period equal to the expected term of the option or purchase plan award. The expected life of option grants is based on historical observations of the actual time lapsed between the grant date and exercise date. Groups of option holders that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

Unaudited

We use a lattice model to value options that vest upon the earlier of the achievement of a service condition or the achievement of a market condition. Options with these vesting terms have been granted to one of our executives. In addition to these assumptions used under the Black-Scholes model, the lattice model requires inputs for post-vesting turnover rate and suboptimal exercise factor. The post-vesting forfeiture rate is 0% based on the historically low option cancellation rates of our executive officers. The suboptimal exercise factor, which is the ratio by which the stock price must increase before an employee is expected to exercise the option, is 1.7 based on actual historical exercise activity. The expected life of the option is an output of the lattice model and has ranged between 6 and 7 years during 2006 and 2007. Performance-based awards are expensed assuming that the performance criteria will be achieved.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Assumptions** | **2007** | **2006** | **2007** | **2006** |
| Risk-free interest rate option plan grants | 4.72% 4.74% | 4.86% 5.00% | 4.48% 4.89% | 4.29% 5.00% |
| Risk-free interest rate purchase plan grants | | | 5.02% | 4.37% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected life of option grants | 4 7 years | 3 6 years | 3 7 years | 3 10 years |
| Expected life of stock purchase plan grants | | | 0.5 years | 0.5 years |
| Stock price volatility option plan grants | 42.6% 45.7% | 47.0% 51.7% | 32.3% 48.7% | 45.7% 51.7% |
| Stock price volatility purchase plan grants | | | 34.5% | 32.0% |

The table below reflects the total share-based compensation expense recognized in our income statements for the three and six months ended June 30, 2007 and 2006. Our share-based compensation expense is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. We estimate forfeitures at the time an award is granted and make revisions if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be between 0% and 3% based on historical experience.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **Income Statement Classification** | **Option Grants and Stock Purchase Plan Rights** | **Restricted Share Grants** | **Option Grants and Stock Purchase Plan Rights** | **Restricted Share Grants** |
| ***Three Months Ending June 30*** | | | | |
| Direct cost of revenues | $ 1,415 | $ 574 | $ 720 | $ 301 |
| Selling, general and administrative expense | 2,691 | 965 | 1,650 | 287 |
| **Share-based compensation expense before income taxes** | 4,106 | 1,539 | 2,370 | 588 |
| Income tax benefit | 1,069 | 506 | 637 | 251 |
| **Share-based compensation, net of income taxes** | $ 3,037 | $ 1,033 | $ 1,733 | $ 337 |

| | | | | |
|---|---|---|---|---|
| ***Six Months Ending June 30*** | | | | |
| Direct cost of revenues | $ 2,730 | $ 1,024 | $ 1,273 | $ 625 |
| Selling, general and administrative expense | 5,451 | 1,829 | 4,173 | 600 |
| **Share-based compensation expense before income taxes** | 8,181 | 2,853 | 5,446 | 1,225 |
| Income tax benefit | 2,301 | 1,084 | 1,237 | 522 |
| **Share-based compensation, net of income taxes** | $ 5,880 | $ 1,769 | $ 4,209 | $ 703 |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

Unaudited

***General stock option and share-based award information.*** The following table summarizes the option activity under our share-based incentive compensation plans as of and during the six months ended June 30, 2007. The aggregate intrinsic value in the table below represents the total pre-tax intrinsic value (the difference between the closing price of our common stock on the last trading day of the second quarter of 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2007. This amount changes based on changes in the fair market value of our common stock.

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| **Options outstanding, January 1, 2007** | 5,851 | $ 23.25 | | |
| Options granted during the period: | | | | |
| Exercise price = fair market value | 760 | $ 28.21 | | |
| Exercise price > fair market value | 45 | $ 38.78 | | |
| Options exercised | (586) | $ 20.05 | | |
| Options forfeited | (33) | $ 27.30 | | |
| **Options outstanding, June 30, 2007** | 6,037 | $ 24.27 | 7.5 years | $ 83,166 |
| **Options exercisable, June 30, 2007** | 3,164 | $ 22.04 | 6.1 years | $ 50,602 |

As of June 30, 2007, there was $28.6 million of unrecognized compensation cost related to unvested stock options, net of forfeitures. That cost is expected to be recognized ratably over a weighted-average period of 3.9 years as the options vest. There was no share-based compensation cost capitalized as of June 30, 2007 and December 31, 2006.

The intrinsic value of options exercised is the amount by which the market value of our common stock on the exercise date exceeds the exercise price. The total intrinsic value of options exercised was:

- $5.9 million during the three months ended June 30, 2007;
- $1.8 million during the three months ended June 30, 2006;
- $9.0 million during the six months ended June 30, 2007; and
- $2.5 million during the six months ended June 30, 2006.

The table below reflects the weighted-average grant-date fair value of stock options granted, shares purchased under our employee stock purchase plan and restricted shares granted during the six months ended June 30, 2007 and 2006.

| | Six Months Ended June 30, | |
|---|---|---|
| **Weighted-average fair value of grants** | **2007** | **2006** |
| **Stock options**: | | |
| Grant price = fair market value | $ 14.47 | $ 14.86 |
| Grant price > fair market value | $ 13.61 | $ 13.13 |
| **Employee stock purchase plan shares** | $ 7.08 | $ 6.78 |
| **Restricted shares** | $ 32.07 | $ 26.58 |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

Unaudited

Following is a summary of the status of stock options outstanding and exercisable at June 30, 2007.

| | | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|---|
| **Exercise Price Range** | **Shares** | **Weighted-Average Exercise Price** | **Weighted-Average Remaining Contractual Term** | **Shares** | **Weighted-Average Exercise Price** |
| $ 1.90 $ 21.33 | 1,648 | $ 18.19 | 6.0 years | 1,455 | $ 18.09 |
| $ 21.42 $ 25.67 | 1,227 | $ 23.59 | 6.6 years | 950 | $ 23.43 |
| $ 25.73 $ 27.34 | 1,220 | $ 26.40 | 8.9 years | 244 | $ 26.33 |
| $ 27.43 $ 29.09 | 1,594 | $ 27.86 | 8.5 years | 345 | $ 27.65 |
| $ 28.32 $ 41.15 | 348 | $ 31.47 | 8.3 years | 170 | $ 30.53 |
| | 6,037 | | | 3,164 | |

A summary of our unvested restricted share award activity during the six months ended June 30, 2007 is presented below. The fair value of unvested restricted share awards is determined based on the closing market price of our common stock on the grant date. Pre-vesting forfeitures were estimated to be between 0% and 2% based on historical experience.

| | **Shares** | **Weighted-Average Grant-Date Fair Value** |
|---|---|---|
| **Unvested restricted share-based awards outstanding, January 1** | 869 | $ 23.63 |
| Restricted share-based awards granted | 315 | $ 32.07 |
| Restricted share-based awards vested | (51) | $ 24.97 |
| Restricted share-based awards forfeited | (2) | $ 32.70 |
| **Unvested restricted share-based awards outstanding, June 30** | 1,131 | $ 25.91 |

As of June 30, 2007, there was $22.6 million of unrecognized compensation cost related to unvested restricted share-based compensation arrangements. That cost is expected to be recognized ratably over a weighted-average period of 4.2 years as the awards vest. The total fair value of restricted shares that vested during the three and six months ended June 30, 2007 was $0.6 million and $1.2 million, respectively. The total fair value of restricted shares that vested during the three and six months ended June 30, 2006 was $0.3 million and $0.3 million, respectively.

**3. Acquisitions**

We record assets acquired and liabilities assumed in business combinations on our balance sheet as of the respective acquisition dates based upon their estimated fair values at the acquisition date. We include the results of operations of businesses acquired in our income statement beginning on the acquisition dates. We allocate the acquisition cost to identifiable tangible and intangible assets and liabilities based upon their estimated relative fair values. We allocate the excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed to goodwill. We determine the fair value of intangible assets acquired based upon independent appraisals. The fair value of shares of our common stock issued in connection with a business combination is based on a five-day average of the closing price of our common stock two days before and two days after the date we agree to the terms of the acquisition and publicly announce the transaction. In certain circumstances, the allocations of the excess purchase price are based on preliminary estimates and assumptions. Accordingly, the allocations are subject to revision when we receive final information, including appraisals and

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

Unaudited

other analyses. Revisions to our preliminary estimates of fair value may be significant. With the exception of the acquisition of FD International (Holdings) Limited, or FD, described below, the business combinations consummated in 2006 and 2007, both individually and in the aggregate, did not materially impact our results of operations. Accordingly, pro forma results have not been presented.

During the second quarter of 2007, we completed two other business combinations. The total acquisition cost was $3.2 million, consisting of cash and transaction costs of $2.2 million and 27,591 restricted shares of our common stock valued at $1.0 million. The purchase agreements for these business combinations contain provisions that include additional cash payments based on the achievement of annual financial targets in each of the next three to five years. Any contingent consideration payable in the future will be applied to goodwill.

During the first quarter of 2007, we completed one acquisition for a total acquisition cost of $9.3 million, consisting of $6.3 million of cash and transaction costs and 105,359 restricted shares of our common stock valued at $3.0 million. We granted the seller contractual protection against a decline in the value of the restricted common stock issued as consideration for the acquisition. Upon the lapse of the restrictions on the common stock, if the market price of our common stock is below $28.474, we have agreed to make additional cash payments to the seller equal to the deficiency. The asset purchase agreement contains provisions that include additional cash payments, of which up to 30% may be payable in shares of our common stock at our discretion, based on the achievement of annual financial targets in each of the five years ending December 31, 2011. Any contingent consideration payable in the future will be applied to goodwill.

In October 2006, we completed our acquisition of approximately 97% of the share capital of FD International (Holdings) Limited, a global strategic business and financial communications consulting firm headquartered in London. FD provides consulting services related to financial communications, brand communications, public affairs and issues management and strategy development. The total acquisition cost was $261.6 million, including transaction costs. The total acquisition cost consists of $226.2 million in cash and transaction costs, offset by cash received of $25.5 million, 1.2 million restricted shares of our common stock valued at $28.5 million, notes payable to certain sellers of FD shares in the aggregate principal amount of $6.9 million and deferred purchase obligations. In February 2007, we acquired the remaining 3% of FD s share capital that was outstanding for cash and common stock consideration totaling $7.6 million, which has been included in the acquisition costs disclosed above. For the year ended December 31, 2006 and each year ending December 31, 2007 through December 31, 2010, former shareholders of FD who elected the earnout option will qualify for:

- additional consideration based on earnings before interest, taxes and amortization, or EBITA, of the business unit (as defined in the offer to purchase); and
- conditional contractual protection against a decline in the value of the shares of our common stock issued as purchase price below the issuance price of $22.26 per share.

Based on 2006 financial results, former shareholders of FD qualified for additional contingent consideration totaling $13.5 million. During the first quarter of 2007, we funded the contingent consideration with $5.4 million of cash and issued notes payable to certain sellers of FD in the aggregate principal amount of $8.1 million.

***Purchase price allocation.*** We recorded goodwill from the acquisitions completed in 2007 and 2006 as a result of the value of the assembled workforce we acquired and the ability to earn a higher rate of return from the acquired business than would be expected if those net assets had to be acquired or developed separately. As of June 30, 2007, our remaining amortizable intangible assets are being amortized over a weighted-average useful

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

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life of 10.5 years. Excluding the U.S. and a small European component of the FD acquisition, we believe the goodwill recorded as a result of these acquisitions will be fully deductible for income tax purposes over 15 years. For U.S. tax purposes, the U.S. and a small European component of the FD acquisitions will be treated as stock transactions and as a result, the goodwill associated with these acquisitions is currently not deductible for income tax purposes.

The following table summarizes the estimated fair value of the net assets acquired and liabilities assumed pertaining to the acquisition of FD.

| | |
|---|---|
| **Direct cost of business combination** | |
| Cash paid, including transaction costs, net of cash received | $ 200,721 |
| Common stock issued | 28,546 |
| Notes payable issued | 6,874 |
| **Total** | $ 236,141 |
| **Net assets acquired** | |
| Accounts receivable, billed and unbilled, net | $ 23,555 |
| Other current assets | 6,286 |
| Property and equipment | 5,389 |
| Customer relationships (estimated 15 year weighted average useful life) | 37,490 |
| Tradename (indefinite useful life) | 7,649 |
| Non-competition agreements (estimated 4 year weighted-average useful life) | 1,507 |
| Goodwill | 225,394 |
| Other assets | 1,335 |
| Accounts payable and accrued expenses | (26,306) |
| Billings in excess of services provided | (2,601) |
| Other liabilities | (43,557) |
| **Total net assets acquired** | $ 236,141 |

***Pro forma results.*** Our consolidated financial statements include the operating results of each acquired business from the dates of acquisition. For the three months and six months ended June 30, 2006, the unaudited pro forma financial information below assumes that our material business acquisition of FD occurred on January 1, 2006.

| | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2006 |
|---|---|---|
| **Pro forma financial information including the acquisition of FD** | | |
| Revenues | $ 191,261 | $ 390,245 |
| Income before income tax provision | 25,802 | 49,658 |
| Earnings per common share basic | $ 0.36 | $ 0.67 |

| | | |
|---|---|---|
| Earnings per common share diluted | $ 0.35 | $ 0.66 |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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**4. Goodwill and Other Intangible Assets**

The changes in the carrying amounts of goodwill for the six months ended June 30, 2007, are as follows:

| | Forensic/ Litigation | Corporate Finance/ Restructuring | Economic | Technology | Strategic and Financial Communications | Consolidated |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2007** | $ 141,455 | $ 298,571 | $ 178,169 | $ 34,988 | $ 232,528 | $ 885,711 |
| Goodwill acquired during the period | 7,719 | | | | 10,050 | 17,769 |
| Adjustments to allocation of purchase price | 187 | | (49) | 98 | (968) | (732) |
| **Balance, June 30, 2007** | $ 149,361 | $ 298,571 | $ 178,120 | $ 35,086 | $ 241,610 | $ 902,748 |

Other intangible assets with finite lives are amortized over their estimated useful lives. For intangible assets with finite lives, we recorded amortization expense of $5.5 million for the six months ended June 30, 2007 and $5.8 million for the six months ended June 30, 2006. Based solely on the amortizable intangible assets recorded as of June 30, 2007, we estimate amortization expense to be $4.2 million during the remainder of 2007, $7.4 million in 2008, $7.2 million in 2009, $5.4 million in 2010, $4.7 million in 2011, $4.2 million in 2012 and $25.9 million in years after 2012. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors.

| | | June 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|---|
| | Useful Life in Years | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| **Amortized intangible assets** | | | | | |
| Customer relationships | 3 to 15 | $ 56,755 | $ 8,301 | $ 55,980 | $ 5,766 |
| Contract backlog | 1 to 3 | 4,881 | 4,442 | 4,881 | 2,803 |
| Non-competition agreements | 1 to 10 | 9,785 | 2,264 | 9,266 | 1,465 |
| Software | 5 | 4,400 | 2,053 | 4,400 | 1,613 |
| Tradenames | 1 to 4 | 391 | 110 | 391 | 38 |
| | | 76,212 | 17,170 | 74,918 | 11,685 |
| **Unamortized intangible assets** | | | | | |
| Tradenames | Indefinite | 14,478 | | 14,478 | |
| | | $ 90,690 | $ 17,170 | $ 89,396 | $ 11,685 |

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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

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## 5. Long-Term Debt

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| 7 5/8% senior notes due 2013, including a fair value hedge adjustment of $2,813 2007 and $1,891 2006 | $ 197,187 | $ 198,109 |
| 7 3/4% senior notes due 2016 | 215,000 | 215,000 |
| 3 3/4% convertible senior subordinated notes due 2012 | 150,000 | 150,000 |
| Notes payable to former shareholders of acquired business | 14,971 | 6,875 |
| Other | 365 | 374 |
| **Total long-term debt** | 577,523 | 570,358 |
| Less current portion | 15,015 | 6,917 |
| **Long-term debt, net of current portion** | $ 562,508 | $ 563,441 |

***3 3/4% convertible senior subordinated notes due 2012***. In 2005, we completed the sale of $150.0 million in principal amount of 3 3/4% convertible senior subordinated notes due July 15, 2012. Cash interest is payable semiannually beginning January 15, 2006 at a rate of 3.75% per year. The convertible notes are non-callable. Upon conversion, the principal portion of the convertible notes will be paid in cash and any excess over the conversion rate will be paid in shares of our common stock or cash at an initial conversion rate of 31.998 shares of our common stock per $1,000 principal amount of convertible notes, representing an initial conversion price of $31.25 per share, subject to adjustment upon specified events. Upon normal conversions, for every $1.00 the market price of our common stock exceeds $31.25 per share, we will be required, at our option, either to pay an additional $4.8 million or to issue shares of our common stock with a then market price equivalent to $4.8 million to settle the conversion feature. The convertible notes may be converted at the option of the holder unless earlier repurchased: (1) on or after June 15, 2012; (2) if a specified fundamental change event occurs; (3) if the closing sale price of our common stock for a specified time period exceeds 120% of the conversion price for a specified time period, or (4) if the trading price for a convertible note is less than 95% of the closing sale price of our common stock into which it can be converted for a specified time period. We evaluate the convertible notes each quarter to determine if the notes may be classified as long-term debt. As of June 30, 2007, the convertible notes were not convertible and the holders of the notes had no right to require us to repurchase the notes; therefore the notes are classified as long-term debt.

If a specified fundamental change event occurs, the conversion price of our convertible notes may increase, depending on our common stock price at that time. However, the number of shares issuable upon conversion of a note may not exceed 41.60 per $1,000 principal amount of convertible notes. As of June 30, 2007, the conversion price has not required adjustment. These notes are senior subordinated unsecured indebtedness and will be subordinated to all of our existing and future senior indebtedness. The conversion feature embedded in the convertible notes is classified as an equity instrument under the provisions of Emerging Issues Task Force, or EITF, Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock. Accordingly, the conversion feature is not required to be bifurcated and accounted for separate from the notes. We do not have a stated intent or past practice of settling such instruments in cash, therefore share settlement is assumed for accounting purposes until actual settlement takes place. Until conversion, no amounts are recognized in our financial statements for the ultimate settlement of the conversion feature. Upon conversion, if we elect to settle the conversion feature with shares of our common stock, settlement of the conversion feature will be accounted for as an equity transaction involving the issuance of shares at fair

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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value for settlement of the conversion feature. No gain or loss would be recognized in our financial statements as a result of settling the conversion feature in shares of common stock. If we elect to settle the conversion feature in cash, the full amount of the cash payment will be treated as a loss on the extinguishment of debt in our income statement when settled.

***Guarantees.*** Currently, we do not have any significant debt guarantees related to entities outside of the consolidated group. As of June 30, 2007, substantially all of our domestic subsidiaries are guarantors of borrowings under our senior secured credit facility, our senior notes and our convertible notes in the aggregate amount of $565.0 million.

***Future maturities of long-term debt.*** For periods subsequent to June 30, 2007, scheduled annual maturities of long-term debt outstanding as of June 30, 2007 are as follows.

| | |
|---|---|
| July 1 to December 31, 2007 | $ 21 |
| 2008 | 6,932 |
| 2009 | 8,142 |
| 2010 | 46 |
| 2011 | 47 |
| 2012 | 150,048 |
| Thereafter | 415,100 |
| | 580,336 |
| Less fair value hedge adjustment | 2,813 |
| | $ 577,523 |

**6. Derivative Instruments and Hedging Activities**

We use derivative instruments, consisting primarily of interest rate swap agreements, to manage our exposure to changes in the fair values or future cash flows of some of our long-term debt which are caused by interest rate fluctuations. We do not use derivative instruments for trading or other speculative purposes. The use of derivative instruments exposes us to market risk and credit risk. Market risk is the adverse effect that a change in interest rates has on the value of a financial instrument. While derivative instruments are subject to fluctuations in values, these fluctuations are generally offset by fluctuations in fair values or cash flows of the underlying hedged items. Credit risk is the risk that the counterparty exposes us to loss in the event of non-performance. We enter into derivative financial instruments with high credit quality counterparties and diversify our positions among such counterparties in order to reduce our exposure to credit losses.

From time to time, we hedge the cash flows and fair values of some of our long-term debt using interest rate swaps. We enter into these derivative contracts to manage our exposure to interest rate changes by achieving a desired proportion of fixed-rate versus variable-rate debt. In an interest rate swap, we agree to exchange the difference between a variable interest rate and either a fixed or another variable interest rate multiplied by a notional principal amount. We record all interest rate swaps at their fair market values within other assets or other liabilities on our balance sheet. As of June 30, 2007, the fair value of our interest rate swap agreement was a liability of $2.8 million. As of December 31, 2006, the fair value of our interest rate swap agreement was a liability of $1.9 million.

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**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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In 2005, we entered into two interest rate swap agreements to hedge the risk of changes in the fair value of a portion of our 7 5/8% fixed-rate senior notes. The interest swap agreements mature on June 15, 2013. Under the terms of the interest rate swap agreements, we receive interest on the $60.0 million notional amount at a fixed rate of 7.625% and pay a variable rate of interest, between 8.17% and 8.22% at June 30, 2007, based on the London Interbank Offered Rate, or LIBOR, as the benchmark interest rate. The maturity, payment dates and other critical terms of these swaps exactly match those of the hedged senior notes. In accordance with Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities, the swaps are accounted for as effective hedges. Accordingly, the changes in the fair values of both the swaps and the debt are recorded as equal and offsetting gains and losses in interest expense. No hedge ineffectiveness has been recognized as the critical provisions of the interest rate swap agreements match the applicable provisions of the debt. For the three and six months ended June 30, 2007, the impact of effectively converting the interest rate of $60.0 million of our senior notes from fixed rate to variable rate increased interest expense by $0.1 million and $0.2 million, respectively. For the three and six months ended June 30, 2006, there was no material impact on interest expense of effectively converting the interest rate of $60.0 million of our senior notes from fixed rate to variable rate.

**7. Commitments and Contingencies**

***Loss on subleased facilities.*** In 2004, we consolidated our New York City and Saddle Brook, New Jersey offices and relocated our employees into our new office facility. As a result of this decision, we recorded a loss of $4.7 million within our corporate segment related to the abandoned facilities. This charge included $0.7 million of asset impairments and $4.0 million representing the present value of the future lease payments related to the facilities we vacated net of estimated sublease income of $4.2 million. In 2005, we entered into a 30-month sublease related to some space in our new office facility in New York City resulting in a loss of $0.9 million. Sublease losses are classified as a component of selling, general and administrative expense and primarily represent the present value of the future lease payments related to the space we subleased net of estimated sublease income. As of December 31, 2006, the balance of the liability for losses on abandoned and subleased facilities was $1.9 million. During 2007, we made payments, net of sublease income, of about $0.5 million against the total lease loss liability. As of June 30, 2007, the balance of the liability for losses on abandoned and subleased facilities was $1.4 million.

***Special termination charges.*** During the third quarter of 2006, we recorded special termination charges totaling $22.1 million consisting of severance and other contractual employee related costs associated with reductions in workforce. As of December 31, 2006, the liability balance for the special termination charges was $14.3 million. During 2007, we made payments of about $6.0 million against the total liability. As of June 30, 2007, the balance of the liability for special termination charges was $8.3 million and is included in accounts payable, accrued expenses and other on the consolidated balance sheet.

***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 eventuality of such actions. We do not believe any settlement or judgment would materially affect our financial position or results of operations.

See Item 3. Quantitative and Qualitative Disclosures about Market Risk Equity Price Sensitivity.

**FTI Consulting, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (continued)**

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### 8. Income Taxes

In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation, or FIN, No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in our financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and expanded disclosure with respect to uncertainty in income taxes. We adopted the guidance of FIN No. 48 effective January 1, 2007. The adoption of this accounting pronouncement did not have a material effect on our financial position, results of operations or cash flows. Furthermore, we are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits would significantly decrease or increase within the next twelve months.

We file numerous consolidated and separate income tax returns in the United States (U.S.) federal jurisdiction and in many city, state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations for years prior to 2003 and are no longer subject to state and local or foreign tax examinations by tax authorities for years prior to 1999. In addition, open tax years related to state and foreign jurisdictions remain subject to examination but are not considered material to our financial position, results of operations or cash flows.

Our effective tax rate decreased from 45.0% for the six months ended June 30, 2006 to 38.0% for the six months ended June 30, 2007 and decreased from 44.5% for the three months ended June 30, 2006 to 33.3% for the three months ended June 30, 2007. The decrease is primarily attributable to the development of a tax planning strategy that substantially reduces the amount of foreign earnings that will be subject to U.S. federal income tax and a reduction in state income taxes. We anticipate our effective tax rate will be 40.5% for the remainder of 2007.

As of June 30, 2007, there have been no material changes to the liability for uncertain tax positions. Interest and penalties related to uncertain tax positions are classified as such and excluded from the income tax provision. As of June 30, 2007, our accrual for the payment of tax-related interest and penalties was not material.

### 9. Stockholders Equity

***Common stock repurchase program***. In 2003, our board of directors initially approved a share repurchase program under which we are authorized to purchase shares of our common stock. From time to time since then, our board has increased the amount of authorized share repurchases under the initial program. On February 14, 2007, our board of directors authorized a share repurchase program of up to $50.0 million of stock repurchases through December 31, 2007. The shares of common stock may be purchased through open market or privately negotiated transactions and will be funded with a combination of cash on hand, existing bank credit facilities or new credit facilities. During the six months ended June 30, 2007, we purchased and retired 500,000 shares of our common stock for a total cost of about $18.1 million, leaving approximately $31.9 million available for share repurchases under the program.

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**Notes to Condensed Consolidated Financial Statements (continued)**

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**10. Segment Reporting**

We manage our business in five reportable operating segments. Our reportable operating segments are managed separately and include our forensic/litigation consulting, corporate finance/restructuring consulting, economic consulting, technology and strategic and financial communications consulting practices. Our strategic and financial communications consulting practice was formed as a result of our acquisition of FD in October 2006; therefore no segment results are presented for the three and six months ended June 30, 2006.

Our forensic/litigation consulting practice provides an extensive range of services to assist clients in all phases of investigation and litigation, including pre-filing, discovery, trial preparation, expert testimony and other trial support services. Our graphics and technology services assist clients in preparing for and presenting their cases in court.

Our corporate finance/restructuring consulting practice provides turnaround, performance improvement, lending solutions, financial and operational restructuring, restructuring advisory, mergers and acquisitions, transaction advisory and interim management services. We analyze, recommend and implement strategic alternatives for our corporate finance/restructuring clients, offering services such as interim management in turnaround situations, rightsizing infrastructure, assessing long-term enterprise viability and business strategy consulting.

Our economic consulting practice delivers sophisticated economic analysis and modeling of issues arising in mergers and acquisitions, antitrust and anticompetition, and other complex commercial and securities litigation. Our services include providing advice and testimony related to:

- antitrust and competition issues that arise in the context of potential mergers and acquisitions;
- other antitrust issues, including alleged price fixing, cartels and other forms of exclusionary behavior;
- the application of modern finance theory to issues arising in securities litigation; and
- public policy studies on behalf of companies, trade associations and governmental agencies.

Our statistical and economic experts help companies evaluate issues such as the economic impact of deregulation on a particular industry or the amount of commercial damages suffered by a business. Our professionals regularly provide expert testimony on damages, rates and prices, valuations, merger effects, intellectual property disputes in antitrust and anticompetition cases, regulatory proceedings and business valuations.

Our technology practice provides software solutions, services and consulting to law firms, corporations and government agencies worldwide. Our principal business focuses on the identification, collection, preservation, review and production of electronically stored information, or ESI. ESI can include e-mail, computer files, transaction or financial information, and instant messaging stored on a computer. Our technology professionals combine industry leading software tools and domain expertise to help our clients manage this information for a variety of litigation, investigation and arbitration related activities. Our repository services team provides a highly scalable, online litigation and document review environment using our Ringtail product suite. Our Ringtail products are also directly licensed to clients and are additionally made available through channel partnerships for purchase.

Our strategic and financial communications consulting practice provides advice and consulting services related to financial communications, brand communications, public affairs and issues management and business consulting. Our financial communications service offerings include strategic boardroom advice, mergers and acquisitions, investor relations, financial and business media relations, capital market intelligence, initial public offerings, debt markets, corporate restructuring, proxy solicitation, corporate governance, corporate social responsibility advice and regulatory communications. Our brand communications offerings provide creative services to build consumer and business-to-business brands. Our public affairs and issues management service

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offerings help to shape messages to policymakers and respond to crisis situations. Our business consulting services offered include corporate strategy, growth strategy, cost management, mergers and acquisitions, organization, performance improvement, private equity and revenue enhancement.

We evaluate the performance of our operating segments based on income before income taxes, net interest expense, depreciation, amortization and corporate general and administrative expenses. In general, our total assets, including long-lived assets such as property and equipment, and our capital expenditures are not specifically allocated to any particular segment. Accordingly, capital expenditure and total asset information by reportable segment is not presented. The reportable segments use the same accounting policies as those used by the company. There are no significant intercompany revenues or transfers.

For the three and six months ended June 30, 2007, our revenues attributable to the United States were $203.7 million and $397.4 million, respectively, and our revenues generated in foreign countries were $36.0 million and $70.0 million, respectively, representing 15% of total revenues in each period. For the three and six months ended June 30, 2006, substantially all of our revenues and assets were attributed to or were located in the United States. We do not have a single customer that represents ten percent or more of our consolidated revenues. As of June 30, 2007, our fixed assets located in the United States have a net book value of $57.2 million and the net book value of our fixed assets located in foreign countries is $7.5 million. As of December 31, 2006, our fixed assets located in the United States had a net book of $45.4 million and the net book value of our fixed assets located in foreign countries was $5.9 million.

As of June 30, 2007, we reclassified $1.4 million of interest forgiven related to loans made to employees under our senior managing director incentive compensation program from interest income to compensation expense in the quarter ended June 30, 2007. This reclassification had no impact on our pre-tax income, net income or earnings per share, however, it did result in a $1.4 million increase in direct costs of revenues and interest income for the three and six months ended June 30, 2007. Prior period direct costs and interest income have not been restated. The impact on segment profits for the three and six months ended June 30, 2007 is detailed below:

Forensic and Litigation Consulting Practice decreased segment profits by $0.4 million.

Corporate Finance/Restructuring Consulting Practice decreased segment profits by $0.8 million.

Economic Consulting Practice decreased segment profits by $0.1 million.

Technology Practice decreased segment profits by $0.1 million.

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**Notes to Condensed Consolidated Financial Statements (continued)**

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The table below presents revenues, gross margin and segment profits for our current reportable segments for the three and six months ended June 30, 2007 and 2006.

| | Forensic/ Litigation | Corporate Finance/ Restructuring | Economic | Technology | Strategic and Financial Communications | Corporate | Total |
|---|---|---|---|---|---|---|---|
| ***Three Months Ended*** | | | | | | | |
| **June 30, 2007** | | | | | | | |
| Revenues | $ 53,259 | $ 63,005 | $ 43,983 | $ 37,432 | $ 42,013 | $ | $ 239,692 |
| Gross margin | 23,075 | 26,040 | 17,851 | 19,461 | 21,916 | | 108,343 |
| Segment profit (loss) | 13,264 | 16,661 | 13,059 | 14,178 | 10,955 | (17,425) | 50,692 |
| **June 30, 2006** | | | | | | | |
| Revenues | $ 45,112 | $ 49,914 | $ 35,627 | $ 29,107 | $ | $ | $ 159,760 |
| Gross margin | 21,290 | 18,198 | 13,988 | 16,201 | | | 69,677 |
| Segment profit (loss) | 13,337 | 10,126 | 9,541 | 11,970 | | (10,787) | 34,187 |
| ***Six Months Ended*** | | | | | | | |
| **June 30, 2007** | | | | | | | |
| Revenues | $ 107,622 | $ 125,107 | $ 83,980 | $ 70,482 | $ 80,226 | $ | $ 467,417 |
| Gross margin | 46,964 | 52,113 | 33,518 | 35,713 | 41,579 | | 209,887 |
| Segment profit (loss) | 27,369 | 31,589 | 24,167 | 24,785 | 20,926 | (33,741) | 95,095 |
| **June 30, 2006** | | | | | | | |
| Revenues | $ 95,225 | $ 104,004 | $ 73,703 | $ 56,092 | $ | $ | $ 329,024 |
| Gross margin | 43,066 | 41,275 | 27,287 | 32,054 | | | 143,682 |
| Segment profit (loss) | 26,350 | 24,386 | 18,246 | 22,924 | | (24,155) | 67,751 |

The following table presents a reconciliation of segment profit to income before income tax provision.

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| **Operating profit** | | | | |
| Total segment profit | $ 50,692 | $ 34,187 | $ 95,095 | $ 67,751 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | – | 318,795 | – | 318,795 |
| Stocks | – | 157,252 | – | 157,252 |
| | – | 142,512 | – | 142,512 |

| | | | | |
|---|---|---|---|---|
| Corporate bonds | | | | |
| Registered investment companies | 1,170 | – | – | 1,170 |
| Interest bearing cash | 35,277 | – | – | 35,277 |
| Other investments, net | 16,319 | 9,838 | – | 26,157 |
| Total assets and liabilities | $ 5,072,069 | $ 1,777,842 | $ – | $ 6,849,911 |

| | Fair Value Measurements as of December 31, 2009 | | | |
|---|---|---|---|---|
| (in thousands of dollars) | Level 1 | Level 2 | Level 3 | Total |
| Stocks: | | | | |
| U.S. | $ 3,167,393 | $ – | $ – | $3,167,393 |
| Non-U.S. | 373,641 | 1,091 | – | 374,732 |
| Corporate bonds and notes: | | | | |
| U.S. | – | 86,393 | – | 86,393 |
| Non-U.S. | – | 6,649 | – | 6,649 |
| U.S. government securities: | | | | |
| Agency mortgage-backed securities | – | 77,041 | – | 77,041 |
| Bonds | – | 46,328 | – | 46,328 |
| Fully benefit-responsive synthetic guaranteed investment contracts | – | 818,331 | – | 818,331 |
| Common collective trusts: | | | | |
| Cash and cash equivalents | – | 169,144 | – | 169,144 |
| Stocks | – | 117,381 | – | 117,381 |
| Corporate bonds | – | 109,588 | – | 109,588 |
| Caterpillar Investment Trust Custom Collateral Fund | – | 78,809 | – | 78,809 |
| Interest bearing cash | 20,626 | – | – | 20,626 |
| Other investments, net | 14,002 | 2,918 | – | 16,920 |
| Total assets and liabilities | $ 3,575,662 | $ 1,513,673 | $ – | $ 5,089,335 |

Plan assets not included in the Master Trust that are measured at fair value as of December 31, 2010 and 2009 are summarized below:



| | Fair Value Measurements as of December 31, 2010 | | | |
|---|---|---|---|---|
| (in thousands of dollars) | Level 1 | Level 2 | Level 3 | Total |
| Participant directed brokerage account | $ 4,474 | $ 685 | $ – | $ 5,159 |

| (in thousands of dollars) | Fair Value Measurements as of December 31, 2009 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Participant directed brokerage account | $ 4,431 | $ 605 | $ – | $ 5,036 |

Securities Lending
The Master Trust participated in a securities lending program offered by the Trustee until November 2010. As a participating lender, the Master Trust received cash, U.S. government securities or letters of credit as collateral for loans of securities to approved borrowers. The Trustee pooled the cash and non-cash collateral in the Caterpillar Investment Trust Custom Collateral Fund, which invested primarily in short term investment vehicles. Initial collateral levels were not less than 102 percent of the fair value of the borrowed securities, or not less than 105 percent if the borrowed securities and the collateral were denominated in different currencies. The fair value of securities on loan was approximately $76 million at December 31, 2009. The collateral received in 2009 for these loaned securities was approximately $78 million, of which approximately $78 million represented cash or other highly liquid investments. Net realized investment income from securities lending was approximately $1.0 million and $6.7 million in 2010 and 2009, respectively, and is included in the Net Master Trust investment income.

5. Parties-in-Interest
The Trustee is authorized, under contract provisions and by exemption under 29 CFR 408(b) of ERISA regulations, to invest in securities under its control and in securities of the Company.

The investment options available to the participants as summarized in Note 3 include the Caterpillar Stock Fund. The Master Trust also invests in the U.S. Equity Broad Index Fund, which is sponsored and managed by The Northern Trust Company, the Trustee for the Master Trust. The Northern Trust Company also manages the cash equitization portion of each of the investment options for liquidity purposes. These transactions, as well as participant loans, qualify as exempt party-in-interest transactions.

6. Reconciliation of Financial Statements to Form 5500
The following table reconciles the net assets available for benefits per the audited financial statements to the Form 5500 Annual Report:

| (in thousands of dollars) | 2010 | 2009 |
|---|---|---|
| Net assets available for benefits per financial statements | $ 449,358 | $ 365,175 |
| Certain deemed distributions of participant loans | (1,348) | (1,164) |
| Net assets per Form 5500 | $ 448,010 | $ 364,011 |

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7. Subsequent Event
On February 28, 2011, the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") and the Company reached a new six-year labor agreement that will expire on March 1, 2017. On January 1, 2016, or as soon

as administratively practicable, account balances in the Plan for participants covered by the new labor agreement will be transferred to the Company's Tax Deferred Retirement Plan ("TDRP"). At the same time, active UAW employees that were eligible for the Non-Contributory Pension Plan ("NCP") and the Plan shall become eligible for various provisions of TDRP including employee salary deferrals, employer matching contributions and an annual employer non-elective contribution. In addition, the Company has agreed to make a one-time contribution of $8 million to TDRP in 2016. The contribution will be allocated equally between former Plan participants covered by the new labor agreement that are actively employed and are not eligible to retire under the terms of NCP on January 1, 2016. Plan participants covered by other labor agreements were not impacted by the new UAW agreement.

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Supplemental Schedule

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Caterpillar Inc.
Tax Deferred Savings Plan
EIN 37-0602744
Schedule H, Line 4i - Schedule of Assets (Held at End of Year)
December 31, 2010

| (a) | (b) Identity of issuer, borrower, lessor or similar party | (c) Description of investment, including maturity date, rate of interest, collateral, par or maturity value | (d) Cost | | (e) Current value |
|---|---|---|---|---|---|
| * | Caterpillar Inc. | Master Trust – at fair value | ** | $ | 436,492,101 |
| * | Caterpillar Inc. | Master Trust – adjustment from fair value to contract value for fully benefit-responsive synthetic guaranteed investment contracts | ** | | 1,354,475 |
| | Hewitt Financial Services | Participant directed brokerage account | ** | | 5,158,990 |
| * | Participant notes receivable | Participant loans (various maturity dates through March 8, 2019, various interest rates ranging from 4.25% to 11.00%) | – | | 6,352,140 |
| | | Total Investments | | $ | 449,357,706 |

* Denotes party in interest.

** Cost information is not applicable for participant directed investments.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

CATERPILLAR INC.
TAX DEFERRED SAVINGS PLAN

June 24, 2011

| | | |
|---|---|---|
| By: | /s/Jonathan D. Ginzel | |
| | Name: | Jonathan D. Ginzel |
| | Title: | Plan Administrator |



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Exhibit 23

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-8003, 333-133266, as amended, and 333-170405) of Caterpillar Inc. of our report dated June 24, 2011 relating to the financial statements of the Caterpillar Inc. Tax Deferred Savings Plan, which appears in this Form 11-K.

/s/ PricewaterhouseCoopers LLP

Peoria, Illinois
June 24, 2011