FTI CONSULTING INC
Form DEF 14A
April 07, 2004
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

FTI CONSULTING, INC.

(Name of the Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rule 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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900 Bestgate Road, Suite 100

Annapolis, Maryland 21401

(410) 224-8770

April 7, 2004

Dear Stockholder:

On behalf of the Board of Directors, I cordially invite you to attend the 2004 Annual Meeting of Stockholders of FTI Consulting, Inc. on May 19, 2004, at 9:30 a.m., EDT, at its business office, located at 909 Commerce Road, Annapolis, Maryland 21401.

Enclosed with this letter is a Notice of the Annual Meeting, a Proxy Statement, a proxy card and a return envelope. Both the Notice of the Annual Meeting and the Proxy Statement provide details of the business that we will conduct at the Annual Meeting and other information about FTI Consulting, Inc. Also enclosed with this letter is FTI Consulting, Inc. s Annual Report to Stockholders for 2003.

At the Annual Meeting, we will ask you to:

- Elect three Class II directors;
- Approve and adopt the FTI Consulting, Inc. 2004 Long-Term Incentive Plan;
- Approve and adopt an amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as amended, to increase the number of shares authorized by 250,000 shares of Common Stock;
- Ratify the selection of Ernst & Young LLP to serve as independent auditor for FTI Consulting, Inc. s fiscal year ending December 31, 2004; and
- Transact any other business that is properly presented at the Annual Meeting.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please sign, date and promptly return the proxy card in the enclosed prepaid return envelope, or follow the instructions provided for voting via telephone or the Internet. Your proxy will be voted at the Annual Meeting in accordance with your instructions. If you do not specify a choice on one of the proposals described in this proxy statement,

your proxy will be voted as recommended by the Board of Directors. If you hold your shares through an account with a brokerage firm, bank or other fiduciary or nominee, please follow the instructions you receive from them to vote your shares. Of course, if you attend the Annual Meeting you may vote in person. If you plan to attend the meeting, please mark the appropriate box on the enclosed proxy card.

Sincerely,

Jack B. Dunn, IV

Chairman of the Board of Directors and

Chief Executive Officer

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FTI CONSULTING, INC.

NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS

Date: May 19, 2004

Time: 9:30 a.m., EDT

Place: 909 Commerce Road, Annapolis, Maryland 21401

Dear Stockholder:

At the Annual Meeting, we will ask you to:

- Elect three Class II directors;
- Approve and adopt the FTI Consulting, Inc. 2004 Long-Term Incentive Plan;
- Approve and adopt an amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as amended, to increase the number of shares authorized by 250,000 shares of Common Stock;
- Ratify the selection of Ernst & Young LLP to serve as independent auditor for FTI Consulting, Inc. s fiscal year ending December 31, 2004; and
- Transact any other business that is properly presented at the Annual Meeting.

The Board of Directors recommends a vote **FOR** the election of each of the nominees for Class II director, **FOR** the approval and adoption of the FTI Consulting, Inc. 2004 Long-Term Incentive Plan, **FOR** the approval and adoption of an amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as amended, to increase the number of shares authorized by 250,000 shares of Common Stock, and **FOR** the ratification of the selection of Ernst & Young LLP as independent auditor for FTI Consulting, Inc. s fiscal year ending December 31, 2004.

You will be able to vote your shares of Common Stock at the Annual Meeting if you were a stockholder of record at the close of business on March 15, 2004.

By Order of the Board of Directors

Dianne R. Sagner

Secretary

April 7, 2004

YOUR VOTE AT THE ANNUAL MEETING IS IMPORTANT.

Please indicate your vote on the enclosed proxy card and return it in the enclosed envelope as soon as possible, even if you plan to attend the meeting, or follow the instructions provided for voting via telephone or the Internet.

If you have questions about voting your shares, please contact Dianne R. Sagner, Vice

President, General Counsel and Secretary, FTI Consulting, Inc., 900 Bestgate

Road, Suite 100, Annapolis, Maryland 21401, Telephone No. (410) 224-8770.

If you attend the meeting, you will be able to revoke your proxy and vote in person.

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900 Bestgate Road, Suite 100

Annapolis, Maryland 21401

April 7, 2004

PROXY STATEMENT FOR ANNUAL MEETING

This Proxy Statement provides information that you should read before you vote on the proposals that will be presented to you at the 2004 Annual Meeting of Stockholders of FTI Consulting, Inc. The 2004 Annual Meeting will be held on May 19, 2004, at 9:30 a.m., EDT, at FTI Consulting, Inc. s business office, located at 909 Commerce Road, Annapolis, Maryland 21401.

This Proxy Statement provides information about the Annual Meeting, the proposals on which you will be asked to vote at the Annual Meeting and other relevant information.

On April 7, 2004, we began mailing information to people who, according to our records, owned shares of our Common Stock at the close of business on March 15, 2004. We have mailed with that information a copy of FTI Consulting, Inc. s Annual Report to Stockholders for 2003.

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INFORMATION ABOUT THE 2004 ANNUAL MEETING AND VOTING

The Annual Meeting

The Annual Meeting will be held on May 19, 2004 at 9:30 a.m., EDT, at FTI Consulting, Inc. s business office, located at 909 Commerce Road, Annapolis, Maryland 21401.

This Proxy Solicitation

We are sending you this Proxy Statement because FTI Consulting, Inc. s Board of Directors is seeking a proxy to vote your shares of our Common Stock at the Annual Meeting. This Proxy Statement is intended to assist you in deciding how to vote your shares. On April 7, 2004, we began mailing this Proxy Statement to all people who, according to our stockholder records, owned shares of our Common Stock at the close of business on March 15, 2004.

Cost of Proxy Solicitation

FTI Consulting, Inc., or FTI, will pay the cost of soliciting proxies. Proxies may be solicited on behalf of FTI by our directors, officers or employees, in person or by telephone, facsimile or other electronic means or letter.

In accordance with the regulations of the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, or the NYSE, we also will reimburse brokerage firms, banks and other custodians, nominees and fiduciaries for their expenses incurred in sending proxies and proxy materials to beneficial owners of FTI s Common Stock as of the record date.

Voting Your Shares

You have one vote for each share of our Common Stock that you owned of record at the close of business on March 15, 2004. The number of shares you own (and may vote at the Annual Meeting) is listed on the enclosed proxy card. You may vote your shares of our Common Stock at the Annual Meeting either in person or by proxy.

Voting in Person. To vote in person, you must attend the Annual Meeting and submit a ballot. Ballots for voting in person will be available at the Annual Meeting.

Voting by Proxy. To vote by proxy, you must complete and return the enclosed proxy card. By completing and returning the proxy card, you will be directing the person or persons designated on the proxy card to vote your shares of our Common Stock at the Annual Meeting in accordance with the instructions you give on the proxy card.

IF YOU DECIDE TO VOTE BY PROXY, YOUR PROXY CARD WILL BE VALID ONLY IF YOU SIGN, DATE AND RETURN IT BEFORE THE ANNUAL MEETING.

If you complete the proxy card except for the voting instructions, then your shares will be voted by the proxies **FOR** the election of each of the nominees for Class II director, **FOR** the approval and adoption of the FTI Consulting, Inc. 2004 Long-Term Incentive Plan, **FOR** the approval and adoption of an amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as amended, to increase the number of shares authorized by 250,000 shares of Common Stock, and **FOR** the ratification of the selection of Ernst & Young LLP as independent auditor for FTI s fiscal year ending December 31, 2004.

Voting by Telephone or Internet. If you are a registered stockholder, you may vote via the telephone or electronically through the Internet by following the instructions included with your proxy card. If your shares are

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registered in the name of a broker, bank or other fiduciary or nominee, your nominee may be participating in a program provided through ADP Investor Communication Services that allows you to vote via telephone or the Internet. If so, the voting form your nominee sends you will provide appropriate instructions.

Revoking Your Proxy

If you decide to change your vote, you may revoke your proxy at any time before it is voted. You may revoke your proxy in any one of three ways:

- You may notify the Secretary of FTI in writing that you wish to revoke your proxy.
- You may submit a proxy dated later than your original proxy.
- You may attend the Annual Meeting and vote. Merely attending the Annual Meeting will not by itself revoke a proxy. You must submit a ballot and vote your shares of our Common Stock at the Annual Meeting.

Vote Required for Approval

Proposal 1: Election of Three Class II Directors	The three nominees for election as Class II directors who receive the most votes will be elected. If you do not vote for a particular nominee, or you indicate withhold authority to vote for a particular nominee on your proxy card, your non-votes or withholding of authority and broker non-votes will not count as votes cast either for or against the nominee.
Proposal 2: Approve and Adopt the FTI Consulting, Inc. 2004 Long-Term Incentive Plan	The affirmative vote of a majority of the votes cast at the Annual Meeting is required for approval of Proposal 2, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. Abstentions or broker non-votes will have the effect of votes cast against the proposal unless holders of over 50% in interest of all securities entitled to vote on the proposal cast votes, in which case abstentions or broker non-votes will not count as votes cast either for or against the proposal.
Proposal 3: Approve and Adopt an Amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as Amended, to Increase the Number of Shares Authorized by 250,000 Shares of Common Stock	The affirmative vote of a majority of the votes cast at the Annual Meeting is required for approval of Proposal 3. Abstentions and broker non-votes will not be counted as votes cast either for or against the proposal.
Proposal 4: To Ratify the Selection of Ernst & Young LLP as Independent Auditor for FTI Consulting, Inc s Fiscal Year Ending December 31, 2004.	The affirmative vote of a majority of the votes cast at the Annual Meeting is required for approval of Proposal 4. Abstentions and broker non-votes will not be counted as votes cast either for or against the proposal.

To vote shares held through a broker, bank or other holder of record, stockholders must provide voting instructions to his or her broker, bank or other holder of record. Brokerage firms, banks and other fiduciaries or nominees are required to request voting instructions for shares they hold on behalf of customers and others. We encourage you to provide instructions to your brokerage firm, bank or other fiduciary or nominee to vote your

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shares. Under the rules of the National Association of Securities Dealers and the New York Stock Exchange, brokers holding stock for the accounts of their clients who have not been given specific voting instructions are not allowed to vote client proxies on Proposal 2 relating to the approval of the 2004 Long-Term Incentive Plan and Proposal 3 relating to the amendment to the Employee Stock Purchase Plan but are allowed to vote client proxies on Proposals 1 and 4.

Quorum. On March 15, 2004, the record date for the Annual Meeting, 42,434,992 shares of our Common Stock were issued and outstanding. A quorum must be present at the Annual Meeting in order to transact business. A quorum will be present if a majority of the shares of Common Stock entitled to vote are represented at the Annual Meeting, either in person or by proxy. If a quorum is not present, a vote cannot occur, except the Annual Meeting may be adjourned until such time as a quorum is present. In deciding whether a quorum is present, abstentions and broker non-votes will be counted as shares of Common Stock that are represented at the Annual Meeting. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

Additional Information

FTI s Annual Report to Stockholders for the fiscal year ended December 31, 2003, including our consolidated financial statements, is being mailed to all stockholders entitled to vote at the Annual Meeting together with this Proxy Statement. The Annual Report does not constitute a part of the proxy solicitation material. The Annual Report provides you with additional information about FTI.

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PROPOSALS TO BE PRESENTED AT THE ANNUAL MEETING

We will present the following four proposals at the Annual Meeting. We have described in this Proxy Statement all the proposals that we expect will be made at the Annual Meeting. If we or a stockholder properly presents any other proposal at the meeting, we will, to the extent permitted by applicable law, use your proxy to vote your shares of Common Stock on the proposal in our best judgment.

PROPOSAL 1. ELECTION OF THREE CLASS II DIRECTORS

FTI s charter provides that its Board of Directors will consist of three classes. The members of each class are elected for three-year terms. We currently have seven directors, of which the three directors constituting the Class II directors are to be elected at the 2004 Annual Meeting. The terms of the Class I and Class III directors will expire at the Annual Meetings of Stockholders to be held in 2006 and 2005, respectively.

On February 17, 2004, the Nominating and Corporate Governance Committee of our Board of Directors unanimously recommended to the Board that the following individuals be nominated for election to our Board of Directors as Class II directors:

Denis J. Callaghan

Dennis J. Shaughnessy

George P. Stamas

Based upon the recommendation of the Nominating and Corporate Governance Committee, on February 18, 2004 our Board of Directors nominated Messrs. Callaghan, Shaughnessy and Stamas for election to our Board of Directors as Class II directors. Each director, if elected, will serve for a three-year term, or thereafter until his replacement is chosen and qualifies. Messrs. Callaghan, Shaughnessy and Stamas are currently members of the Board of Directors, and each has agreed to continue to serve as a director if elected. More detailed information about each of the nominees is provided in the section of this Proxy Statement titled The Board of Directors.

Messrs. Callaghan, Shaughnessy and Stamas qualify as independent directors under the NYSE corporate governance listing standards approved by the SEC on November 4, 2003. The Board has concluded that Messrs. Callaghan, Shaughnessy and Stamas have no material relationships or conflicts of interest with FTI and have not identified any other disqualifying factors. More detailed information about the Board s determination of director independence is provided in the section of this Proxy Statement titled Corporate Governance of FTI Board Independence and Operation.

If any of the nominees cannot serve for any reason (which is not anticipated), the Nominating and Corporate Governance Committee may identify and recommend a candidate or candidates to the Board of Directors as a potential substitute nominee or nominees. If that happens, we will vote all valid proxies for the election of the substitute nominee or nominees designated by the Board of Directors. The Board of Directors may also decide to leave the Board seat or seats open until a suitable candidate or candidates are located, or it may decide to reduce the size of the Board.

The Board of Directors unanimously recommends that you vote FOR the nominees

for election as Class II directors.

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PROPOSAL 2. APPROVE AND ADOPT THE FTI CONSULTING, INC.

2004 LONG-TERM INCENTIVE PLAN

The 1997 Stock Option Plan (the 1997 Plan) provides for awards of stock options to employees, executive officers and non-management directors of FTI and our subsidiaries. The 1997 Plan also permits direct grants of shares of Common Stock to non-officer employees. Our stockholders have approved the 1997 Plan, other than with respect to direct awards of shares of Common Stock. As of March 15, 2004, approximately 315,163 shares of our Common Stock, as adjusted for the three-for-two stock split effected as a stock dividend paid on June 4, 2003 to stockholders of record on May 7, 2003, remained available to be issued under the 1997 Plan, of which only about 4,100 shares remained available to be issued as direct stock grants. In addition, the 1997 Plan will terminate on March 25, 2007. In view of the limited number of shares available for grant under the 1997 Plan, the Board of Directors believes that it is in the best long-term interests of FTI and our stockholders to adopt a new plan, approved by our stockholders, that will allow us to provide performance-based and equity incentives to our employees, officers, directors and individual service providers beyond 2007. If the 2004 Long-Term Incentive Plan (the 2004 Plan) is approved, the 1997 Plan will remain in effect in accordance with its terms, but the automatic grants of options to non-employee directors provided for under the 1997 Plan will cease, and will instead be made out of the 2004 Plan.

On March 11, 2004, the Compensation Committee approved and recommended, and the full Board of Directors approved, the 2004 Plan, subject to stockholder approval, and authorized submission of the 2004 Plan to stockholders for consideration at the 2004 Annual Meeting. The 2004 Plan will allow us to continue to provide incentives, under a stockholder-approved plan, to employees, executive officers, non-employee directors and other individuals who are responsible for the success and growth of FTI, assist us in attracting, rewarding and retaining employees of experience and ability, facilitate the completion of strategic acquisitions, and link incentives with increases in stockholder value. In general, the 2004 Plan empowers FTI to grant stock options and stock appreciation rights, performance award-based and cash-based incentives, as well as a limited number of stock-based awards, to executive officers, employees, non-employee directors and individual service providers of FTI and its subsidiaries. The 2004 Plan will also allow us to grant performance-based compensation awards that meet the requirements of Section 162(m) of the Internal Revenue Code, thereby preserving our ability to receive tax deductions for the awards. We have authorized 3,000,000 shares of our Common Stock for issuance under the 2004 Plan.

The 2004 Plan contains a number of provisions and changes from the 1997 Plan that the Board of Directors believes are consistent with the interests of stockholders and sound corporate governance practices. These include:

- *No Stock Option Reloads or Repricings*. The 2004 Plan does not provide for the automatic reload of stock options once they are exercised. In addition, the repricing of stock options is not permitted under the 2004 Plan, without the approval of stockholders. This provision applies to both direct repricings, lowering the exercise price of a stock option after grant, and indirect repricings, canceling an outstanding stock option and granting a replacement stock option with a lower exercise price.

- *Limitation on Issuance of Stock-Based Awards*. The maximum number of shares that may be issued in respect to awards granted under the 2004 Plan that constitute stock awards, phantom stock, performance awards or other stock-based awards (collectively, Stock-Based Awards, and together with stock options and stock appreciation rights, Awards), as described below under Types of Awards and Grants, will be limited to 20% of the 3,000,000 shares available under the 2004 Plan, or 600,000 shares of our Common Stock. We believe that generally a Stock-Based Award is more valuable to the grantee than a stock option or stock appreciation right for the same number of shares. We anticipate that we would issue fewer shares with respect to Stock-Based Awards, than we would grant with respect to stock options, stock appreciation rights or a combination of Awards.

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- *Limitation on Individual Awards.* Under the 2004 Plan, the Compensation Committee (the Administrator), may not grant Awards, in any combination, for more than 750,000 shares to any individual in any calendar year.

- *No Annual Evergreen Provision*. The 2004 Plan provides for a fixed allocation of shares of Common Stock. The number of shares available under the 2004 Plan, the number of shares subject to options authorized for prospective, automatic non-employee director grants, and the number of outstanding Awards and any corresponding exercise price, will be subject to adjustment in the event of a merger, reorganization, consolidation, recapitalization, share exchange, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants, or other similar events, unless the Board, in its sole discretion, determines that no adjustment will be made with respect to any or all particular Awards.

- *No Loans*. The 2004 Plan will not authorize FTI to make loans to plan participants to finance the acquisition of shares.

- *No Discount Stock Options.* The 2004 Plan prohibits the grant of a stock option with an exercise price of less than the fair market value of our Common Stock on the date of grant.

- *Independent Administrator*. The 2004 Plan will be administered by the Compensation Committee of the Board.

Summary of the Plan

The following is a summary of our 2004 Plan. This summary is qualified in all respects by the full text of the 2004 Plan, a copy of which is attached to this Proxy Statement as Exhibit A.

Plan Administration. The Administrator, is responsible for the general operation and administration of the 2004 Plan. It has the sole authority to interpret the 2004 Plan, and set the terms of all Awards under the 2004 Plan, including determining the performance goals associated with performance-based awards, determining the recipients of Awards, and making policies and procedures relating to administration of the 2004 Plan. The Administrator may accelerate or otherwise change the time in which an Award may be exercised or becomes payable and may waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to such Award, including, but not limited to, any restriction or condition with respect to the vesting or exercisability of an Award following termination of any grantee s employment or other relationship with FTI; *provided, however*, that no such waiver or acceleration of lapse restrictions will be made with respect to a performance-based stock award granted to an executive officer of FTI if such waiver or acceleration is inconsistent with Section 162(m) of the Internal Revenue Code.

Shares Available Under the 2004 Plan. We have authorized 3,000,000 shares of Common Stock for issuance under the 2004 Plan. These shares may be issued pursuant to the exercise of stock options, stock appreciation rights, or any Stock-Based Awards, except that the number of shares available for issuance with respect to Stock-Based Awards will be limited to no more than 20% of the shares authorized pursuant to the 2004 Plan, or 600,000 shares of our Common Stock. This limit will not apply to awards of stock options or stock appreciation rights. The maximum number of shares of our Common Stock as to which Awards may be granted under the 2004 Plan, in the aggregate and with respect to any type of Award, and the maximum number of shares with respect to which Awards may be granted during any one calendar year to any individual, the number of shares subject to prospective, automatic option awards to non-employee directors, and the number of shares covered by and the exercise price and other terms of outstanding Awards may be subject to adjustment in the event of a non-change of control transaction affecting the Common Stock, FTI or its capitalization, by reason of a spin-off, split-up, dividend, recapitalization, merger, consolidation, share exchange or other similar transaction, or a stock dividend, stock split, reverse stock split, issuance of rights or warrants or other similar events, unless at the time the Board approves such transaction or event, the Board of Directors determines that no adjustment will be made with respect to any or all particular Awards. Shares that relate to Awards that have been settled in cash, terminate or expire, or are repurchased, canceled, surrendered or otherwise forfeited will be restored to the 2004

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Plan and thereafter will be available for future Awards under the 2004 Plan, provided, however, that any shares that are surrendered to or repurchased or withheld by FTI in connection with any Award or that are otherwise forfeited after issuance will not be available for purchase pursuant to incentive stock options intended to qualify under Section 422 of the Internal Revenue Code. The shares of Common Stock to be issued under the 2004 Plan will come from authorized but unissued shares of our Common Stock.

Eligibility. As of March 15, 2004, 971 employees, seven executive officers, and five non-employee directors, a total of 983 persons, and individual service providers of FTI and our subsidiaries would have been eligible to participate in the 2004 Plan if it were then in effect. The Administrator has the authority to select participants and to determine the amount, type and terms of each Award. The Administrator may also grant new Awards to replace outstanding options or other equity-based compensation when we acquire another company and, where appropriate, to mirror the terms of those replaced options or other equity-based compensation awards. For 2003, awards for options and stock under the 1997 Plan were made to one executive officer, 45 non-officer employees and one non-management director. We cannot predict the number of shares or the number of participants under the 2004 Plan or 1997 Plan for the fiscal year ending December 31, 2004.

Types of Awards and Grants. The Administrator may award stock options (including nonstatutory and incentive stock options), stock appreciation rights, restricted and unrestricted stock, phantom stock, performance-based awards, and other incentive and stock-based awards, or any combination thereof as described below:

a. *Stock Options.* A stock option represents the right to purchase a share of Common Stock at a predetermined exercise price. The Administrator, in its discretion, may grant nonstatutory stock options or incentive stock options to qualified participants. The Administrator will set the terms of each stock option, including the number of shares, exercise price, vesting period, and option duration, pursuant to a written award agreement, but in no event will any option term exceed ten years. All options must have an exercise price at least equal to the closing price of our Common Stock on the NYSE on the date of grant. The Administrator, in its sole discretion, in the applicable award agreement may authorize stock options to be exercised, in whole or in part, by payment in full of the exercise price in cash, or by delivery of previously owned shares of Common Stock, or through a broker cashless exercise program.

b. *Stock Appreciation Rights.* The Administrator may from time to time grant to eligible participants awards of stock appreciation rights (SARs). An SAR entitles the recipient to receive, subject to the provisions of the 2004 Plan, a payment having an aggregate value equal to the product of (1) the excess of (A) the fair market value on the exercise date of one share of Common Stock over (B) the base price per share specified in the applicable award agreement, times (2) the number of shares specified by the SAR, or portion thereof, which is exercised. Payment by FTI of the amount payable upon any exercise of an SAR may be made by the delivery of shares of Common Stock or cash, or any combination of shares of Common Stock and cash, as determined in the sole discretion of the Administrator. If upon settlement of the exercise of an SAR the holder is to receive a portion of such payment in shares of Common Stock, the number of shares will be determined by dividing such portion by the fair market value of a share of Common Stock on the exercise date. No fractional shares will be used for such payment and the Administrator will determine whether cash will be given in lieu of such fractional shares or whether such fractional shares will be eliminated. Fair market value, for purposes of the 2004 Plan, means the closing price for a share of Common Stock of FTI on the relevant date. The fair market value of a share of our Common Stock on March 15, 2004, was $16.25, which was the closing price as reported on the NYSE for a share of our Common Stock on such date.

c. *Stock Awards.* Restricted stock is shares of Common Stock that are awarded to a participant and that are subject to forfeiture during a pre-established period if certain conditions are met. Unrestricted stock is shares of Common Stock that are not subject to forfeiture. The amount and terms of a stock award will be set by the Administrator pursuant to a written award agreement.

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Restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered so long as it is subject to forfeiture. A holder of restricted or unrestricted stock will generally have all the rights of a holder of shares of Common Stock, including the right to receive any dividends and to vote, even during the restricted period. Any dividends with respect to shares of restricted stock that are payable in shares of Common Stock will be paid in the form of shares of restricted stock.

d. *Phantom Stock.* Phantom stock awards are full value awards denominated in stock-equivalent units. The amount and terms of a phantom stock award will be set by the Administrator pursuant to a written award agreement. Phantom stock units granted to a participant will be credited to a bookkeeping reserve account solely for accounting purposes and will not require a segregation of any of FTI s assets. An award of phantom stock may be settled in shares of Common Stock, in cash, or in a combination of shares of Common Stock and cash, as determined in the sole discretion of the Administrator. Except as otherwise provided in the applicable award agreement, in the sole discretion of the Administrator, the holder of phantom stock will not have any rights of a stockholder with respect to any shares of Common Stock represented by a phantom stock unit solely as a result of the grant of a phantom stock unit.

e. *Performance Awards*. Performance awards are awards of cash, shares of Common Stock, or a combination of cash and shares of Common Stock, which become vested or payable upon the satisfaction of pre-determined performance goals established by the Administrator, over the pre-determined performance period set by the Administrator. The performance goals will be based on one or more of the following criteria: earnings before interest, taxes, depreciation and amortization, or EBITDA, stock price, earnings per share, net earnings, operating or other earnings, profits, revenues, net cash flow, financial return ratios, return on assets, stockholder return, return on equity, growth in assets, market share or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, geographic business expansion goals or goals relating to acquisitions or strategic partnerships. The performance period may be one year or longer. Upon completion of a performance period, the Administrator will determine whether the performance goals have been met and certify in writing to the extent such goals have been satisfied. The Administrator will set the terms and amounts of other performance or incentive-based awards, if any, pursuant to a written award agreement.

f. *Other Stock Based Awards*. Other Stock-Based Awards are awards, which are denominated or valued in whole or in part by reference to, or otherwise based on or related to, the value of a share of Common Stock. Other Stock-Based Awards may be denominated in cash, in shares of Common Stock or other securities, in stock-equivalent units, in stock appreciation units, in securities or debentures convertible into shares of Common Stock, or in any combination of the foregoing and may be paid in shares of Common Stock or other securities, in cash, or in a combination of shares of Common Stock or other securities and cash, all as determined in the sole discretion of the Administrator. The Administrator will set the terms and amounts of other Stock-Based Awards, if any, pursuant to a written award agreement.

Individual Grant Limits. Under the 2004 Plan, the Administrator may not grant Awards of any kind allowable under the 2004 Plan, in any combination, for more than 750,000 shares to any individual in any calendar year. Such per-individual limit will not be adjusted to effect a restoration of shares of Common Stock with respect to which the related Award has been terminated, surrendered or canceled, or the shares have been surrendered, repurchased or otherwise forfeited.

Incentive Stock Option Limits. Three special limits apply to incentive stock options under the 2004 Plan. The first limitation is that treatment of incentive stock options is limited based on when the options first become exercisable; only the first $100,000 of shares of Common Stock (valued as of the date of grant) that become exercisable under an individual s incentive stock options in a given year will be eligible to receive incentive stock option tax treatment. The second limitation is that the exercise price must at least equal 100% of the fair

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market value of the shares on the date of grant of the option. The third limitation is that the exercise price for stockholders holding more than 10% of our outstanding Common Stock must at least equal 110% of the fair market value of our Common Stock.

Separate Consideration. We will not receive separate consideration for the granting of Awards under the 2004 Plan, other than related to the services the participants provide.

Non-Employee Director Options. The 2004 Plan provides for an automatic grant of a nonstatutory stock option for 135,000 shares of our Common Stock (as adjusted for the three-for-two stock split paid as a stock dividend on June 4, 2003 to stockholders of record on May 7, 2003) when a non-employee director (an Eligible Director) joins the Board and every three years thereafter that he remains on the Board. The option vests and becomes exercisable for one-third of the underlying shares one year after the date of grant, another third two years after the grant, and the final third three years after the grant, so long as the director continues to serve on the Board on the applicable vesting date. Options will also become fully vested and exercisable at the first to occur of the director s death, disability or attainment of age 70. As of the date of the director s resignation or failure to be reelected as a director, the options will be forfeited to the extent they are unvested and will remain exercisable to the extent they are vested, for the remainder of the original ten-year term. The exercise price for options granted to Eligible Directors will be the fair market value of our Common Stock on the date the option is granted and may be paid by the delivery of cash, check, tender of shares of Common Stock or any combination thereof at the discretion of the Administrator.

Change in Control. In the event of any transaction resulting in a change in control (as defined below) of FTI, outstanding Awards that are payable in or convertible into Common Stock under the 2004 Plan will terminate upon the effective time of such change in control unless provision is made in connection with the transaction for the continuation or assumption of such Awards by, or for the substitution of the equivalent awards of, the surviving or successor entity or its parent. In the event of such termination, (A) the outstanding Awards that will terminate upon the effective time of the change in control will become fully vested immediately before the effective time of the change in control, and (B) the holders of Awards under the 2004 Plan will be permitted, immediately before the change in control, to exercise or convert all portions of such Awards under the 2004 Plan that are then exercisable or convertible or which become exercisable or convertible upon or prior to the effective time of the change in control. The treatment upon a change of control of performance or incentive awards that are not payable in or convertible into Common Stock under the 2004 Plan will be determined by the Administrator and will be set forth in the award agreement. For purposes of the 2004 Plan, a change of control means (1) the acquisition (other than from FTI) in one or more transactions by any person of 50% or more of (A) our then outstanding securities, or (B) the combined voting power of our then outstanding securities entitled to vote generally in the election of directors; (2) the closing of a sale or other conveyance of all or substantially all of the assets of FTI; or (3) the effective time of any merger, share exchange, consolidation or other business combination involving FTI if immediately after such transaction persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who, immediately prior to such transaction, held our voting stock.

Amendments and Termination. The Board of Directors may at any time suspend, terminate, modify or amend the 2004 Plan, provided that no suspension, termination, modification or amendment of the 2004 Plan will be made without stockholder approval if such approval is required under applicable law or the rules of the NYSE, or if the amendment would increase the total number of shares of Common Stock that may be distributed under the 2004 Plan. No amendment or termination of the 2004 Plan may adversely affect any outstanding Award under the 2004 Plan, without the award recipient s consent, except as set forth in any award agreement.

Exercisability; Transferability of Awards. A holder of an Award can normally only exercise such Award while employed by us, unless his or her employment or award agreement provides otherwise. If a holder becomes disabled, his or her award will not automatically vest, however, he or she will have up to 12 months to exercise the Award. If a holder dies, his or her Award will automatically vest in full, and his or her estate, heirs or

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personal representative, will have 12 months to exercise the Award. A holder generally cannot transfer his or her Award to someone other than upon death. The Administrator, in its discretion, has the authority to enact any other terms and conditions with respect to the vesting or exercisability of an Award following the end of a holder s employment or other relationship with FTI, including death or disability.

Effective Date of 2004 Plan. The Plan is effective as of May 19 2004, subject to approval of our stockholders. No Award will be granted under the 2004 Plan after the close of business on March 10, 2014. Subject to other applicable provisions of the 2004 Plan, all Awards made under the 2004 Plan prior to the termination of the 2004 Plan will remain in effect until the Awards have been satisfied or terminated, expired, surrendered or canceled in accordance with the 2004 Plan or the terms of such Awards under the applicable award agreements.

Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income tax consequences under current law of incentive stock options and nonstatutory stock options, which are authorized for grant under the 2004 Plan. It does not attempt to describe all possible federal or other tax consequences of participation in the 2004 Plan or tax consequences based on particular circumstances. The tax consequences may vary if options are granted outside the United States.

Incentive Stock Options. An optionholder recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Internal Revenue Code Section 422. However, if an optionholder recognizes any gain, he may be subject to the alternative minimum tax if the fair market value of our Common Stock exceeds the exercise price on the date of exercise. Optionholders who neither dispose of their shares within two years following the date the option was granted nor within one year following the exercise of the option will normally recognize a capital gain or loss upon a sale of the shares equal to the difference, if any, between the sale price and the purchase price of the shares. If an optionholder satisfies such holding periods upon a sale of the shares, FTI will not be entitled to any deduction for federal income tax purposes. If an optionholder disposes of shares within two years after the date of grant or within one year after the date of exercise (a disqualifying disposition), the difference between the fair market value of the shares on the exercise date and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the optionholder upon the disqualifying disposition of the shares generally will result in a deduction by FTI for federal income tax purposes.

Nonstatutory Stock Options. Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special tax status. An optionholder generally recognizes no taxable income as the result of the grant of such an option. Upon exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income in the amount of the difference between the option exercise price and the fair market value of the shares on the exercise date. If the optionholder is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the exercise date, will be taxed as a capital gain or loss. No tax deduction is available to FTI with respect to the grant of a nonstatutory stock option or the sale of the stock acquired pursuant to such grant. FTI generally should be entitled to a deduction equal to the amount of ordinary income recognized by the optionholder as a result of the exercise of a nonstatutory stock option.

Other Considerations. The Internal Revenue Code allows publicly held corporations to deduct compensation in excess of $1.0 million paid to the corporation s chief executive officer and its four other most highly compensated executive officers if the compensation payable is payable solely based on the attainment of

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one or more performance goals and certain statutory requirements are satisfied. We intend for compensation arising from grants of awards under the 2004 Plan that are based on performance goals, and compensation arising from grants of stock options and stock appreciation rights granted at fair market value, to be deductible by us as qualified performance-based compensation not subject to the $1.0 million limitation on deductibility.

New Plan Benefits

Other than the automatic grants to Eligible Directors, the Administrator will make grants under the 2004 Plan at its discretion. Consequently, we cannot fully determine at this time the amount or dollar value of benefits to be provided under the 2004 Plan, other than to note that the Administrator has not granted options contingent on approval of the 2004 Plan.

The Board of Directors unanimously recommends that you vote FOR this proposal.

PROPOSAL 3 APPROVE AND ADOPT AN AMENDMENT TO THE FTI CONSULTING, INC. EMPLOYEE STOCK PURCHASE PLAN, AS AMENDED, TO INCREASE THE NUMBER OF SHARES AUTHORIZED BY 250,000 SHARES OF COMMON STOCK

On March 11, 2004, the Compensation Committee approved and recommended, and the full Board of Directors approved, the amendment to the FTI Consulting, Inc. Employee Stock Purchase Plan, as amended (the ESPP), subject to stockholder approval, and authorized submission of the amendment to the ESPP to stockholders for consideration at the 2004 Annual Meeting. We are asking you to approve an amendment to the ESPP to increase by 250,000 shares from 1,800,000 to 2,050,000 the number of shares of Common Stock that are available for sale to participants under the ESPP. The following is a summary of our ESPP as it will be if the stockholders approve the amendment. The share numbers described in the summary have been adjusted to reflect the three-for-two stock split of our Common Stock paid as a stock dividend on June 4, 2003 to stockholders of record on May 7, 2003. This summary is qualified in all respects by the full text of the amended ESPP, a copy of which is attached to this Proxy Statement as Exhibit B.

General

Purpose. The ESPP offers eligible employees the opportunity to purchase shares of our Common Stock through after-tax payroll withholdings. The ESPP permits employees to acquire an equity interest in FTI, thereby creating a stronger incentive to expend maximum effort for our growth and success. Funds received by us under the ESPP may be used for any general corporate purpose.

Eligibility. All of our employees are eligible to participate in the ESPP (unless they hold more than 5% of our Common Stock), as long as they are regularly scheduled to work at least 20 hours per week. At March 15, 2004, about 978 employees were eligible to participate in the ESPP.

Shares Available Under the ESPP. The ESPP authorizes the issuance of up to 2,050,000 shares of our authorized but unissued Common Stock. The number of shares issuable under the ESPP will be adjusted for stock dividends, stock splits, reclassifications and other changes that affect our Common Stock. Because the ESPP permits participants to choose their own level of participation, subject to overall tax and program limits, the specific amounts to be granted to particular persons cannot be determined in advance. As of March 15, 2004, 1,267,479 shares of our Common Stock have been issued under the ESPP.

Administration. The ESPP is administered by our Compensation Committee. The Compensation Committee has the authority and discretion to specify the terms and conditions of employee participation in the ESPP (within the limitations of the ESPP) and to otherwise interpret and construe the terms of the ESPP or set

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the terms and interpret and construe any related agreements. In addition, the Compensation Committee has the authority and discretion to modify the eligibility requirements for participation in the ESPP from time to time, so long as those modifications do not require stockholder approval in order for the ESPP to continue to qualify under Section 423 of the Internal Revenue Code and they do not materially increase our cost of maintaining the ESPP.

Purchases Under the ESPP

General. Offering periods for the ESPP are successive six-month periods beginning on January 1 and July 1 of each calendar year. Participants in the ESPP receive an option at the start of each six-month offering period to purchase shares of Common Stock through payroll deductions from his or her compensation. No right to purchase shares during any offering period or funds accumulated under the ESPP are assignable or transferable, other than by will or in accordance with the laws of descent and distribution.

Election to Participate. Employees must elect before the beginning of a given offering period to participate; however, once an employee has elected to participate, that election carries forward to future offering periods until revoked. The employee may elect to have between 1% and 15% of his or her compensation set aside for use in purchasing shares of our Common Stock. The employee may not change the elected percentage during an offering period but may withdraw entirely, so long as the withdrawal is made at least 30 days before the end of the offering period.

Purchase Price. The purchase price for shares of Common Stock under the ESPP is the lower of 85% of the fair market value on the first day of the offering period or the last day of the offering period.

Purchases. Shares are automatically purchased under the ESPP for the account of the participant as of the last day of the offering period, unless the participant has requested withdrawal of his payroll contributions at least 30 days earlier. The aggregate number of shares to be purchased during all offering periods in any calendar year will be determined as of January 1 of such year, by dividing $25,000 by the fair market value of our Common Stock determined as of December 31 of the preceding year, *provided, however*, if the price of a share of our Common Stock is lower as of the last day of an offering period than it was as of the first day of the offering period, the number of shares that a participant could purchase during that offering period would be determined by dividing (A) the aggregate deductions taken during the applicable offering period, by (B) 85% of the price of a share of our Common Stock as of the first day of the offering period. The actual purchase price paid by a participant for shares of our Common Stock during such offering period would be 85% of the lower price as of the last day of the applicable offering period. In that situation, the aggregate amount paid by a participant for the shares of Common Stock acquired during such offering period will be less than the total deductions taken from such participant for such offering period. In which case, the participant will have the option of receiving a refund of the excess purchase price deducted for that offering period or rolling-over that amount into the next offering period.

The closing price of a share of our Common Stock, as reported on the NYSE on March 15, 2004 was $16.25.

The purchase price is ordinarily paid through payroll deduction, but the Compensation Committee is authorized to accept payment through the tendering of shares of Common Stock under whatever arrangement the Compensation Committee may determine. A participant will not have any of the rights of a stockholder until the shares of Common Stock purchased for his or her account have been issued to him or her.

Termination of Service. Employees who terminate their employment or die during an offering period will be deemed to have elected withdrawal of all payroll deductions and will not purchase shares during that or any subsequent offering period.

Substantial Corporate Changes. If we have a substantial corporate change (examples of which include dissolution or liquidation, merger, consolidation or reorganization with one or more corporations in which FTI is

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not the surviving corporation, the sale of substantially all of our assets, or any transaction (including a merger or reorganization in which FTI survives) approved by the Board that results in any person or entity (other than an affiliate of FTI) owing 100% of the combined voting power of all classes of our outstanding stock), the offering will terminate unless provision is made in connection with such transaction for (A) the assumption or continuation of outstanding elections, or (B) the substitution for equivalent rights with respect to the stock of the successor or its parent. If the offering period would otherwise terminate, we can cause the purchase of shares to take place on behalf of the participants immediately before the substantial corporate change occurs.

Stockholder Approval. In general, stockholder approval will be required to amend the ESPP to (i) materially increase the benefits to participants, (ii) materially increase the number of securities that may be issued under the ESPP, or (iii) materially modify the eligibility requirements for participation in the ESPP. The Compensation Committee has the full authority and discretion to make, administer and interpret such rules and regulations, as it deems necessary to administer the ESPP (including rules and regulations deemed necessary in order to comply with the requirements of Section 423 of the Internal Revenue Code). The Compensation Committee is vested with full authority and discretion to make modifications to the eligibility requirements for participation in the ESPP from time to time that do not require stockholder approval to comply with the requirements of Section 423 of the Code, provided that all such modifications enable the ESPP to continue to satisfy the eligibility requirements of Section 423 of the Code and do not materially increase the cost of the ESPP to the Company.

Amendment or Termination. Our Board of Directors may amend or terminate the ESPP at any time, subject to any requirement for stockholder approval. FTI will refund to each participant the amount of payroll deductions credited to his or her account as of the date of termination of the ESPP as soon as administratively feasible following the effective date of the termination. Unless we extend the ESPP, no offering periods will begin after December 31, 2006.

Tax Consequences

The following summarizes the federal income tax consequences of participation in the ESPP. The summary does not cover employment taxes except as specified and does not cover state, local or foreign tax consequences, if any.

Purchases of shares under the ESPP are intended to qualify for the favorable federal income tax treatment provided by an employee stock purchase plan that qualifies under Section 423 of the Internal Revenue Code. Deductions from an employee s compensation will be made on a post-tax basis. In other words, the employee will be taxed on amounts deducted for the purchase of shares of our Common Stock as if he or she had instead received his or her full salary or wages. Other than this, no income will be taxable to an employee until the disposition of the shares acquired, and the method of taxation will depend on how long he or she held the shares before disposition.

If the purchased shares of Common Stock are disposed of more than two years after the beginning of the applicable offering period (July 1 or January 1) and more than one year after the exercise date or if the employee dies at any time while holding the stock, then the lesser of (a) the excess of the fair market value of the stock at the time of such disposition or death over the purchase price or (b) 15% of the fair market value of the stock as of the beginning of the applicable offering period will be treated as ordinary income. Any further gain or any loss will be taxed as a long-term capital gain or loss. Net long-term capital gains for individuals are currently subject to a maximum marginal federal income tax rate that is less than the maximum marginal rate for ordinary income.

If the employee sells or disposes of the stock before expiration of either of the holding periods described above (a disqualifying disposition), the excess of the fair market value of the stock on the exercise date over the purchase price will be treated as ordinary income at the time of such disposition. The balance of any gain on a sale will be treated as capital gain. Even if the stock is sold for less than its fair market value on the

purchase date, the same amount of ordinary income is attributed to the employee, and a capital loss is recognized equal to

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the difference between the sales price and the fair market value of the stock on the purchase date. Any capital gain or loss will be long- or short-term depending on whether the stock has been held for more than one year.

There are no federal income tax consequences to us by reason of the purchase of shares by participants under the ESPP. We are generally entitled to a deduction to the extent amounts are taxed as ordinary income to an employee by reason of a disqualifying disposition of the purchased shares of stock, but we are not entitled to a deduction in respect of any ordinary income realized by an employee upon a later disposition or upon death. Our deduction may be limited under Internal Revenue Code Section 162(m) and may be subject to disallowance for failure to report the participant s income (which could arise if the participant does not notify us of the sale of stock in a disqualifying disposition).

New ESPP Benefits

Benefits to be awarded under the ESPP will be based on future participation in the ESPP by our employees. As a result, purchases under the ESPP cannot be determined at this time.

The Board of Directors unanimously recommends that you vote FOR this proposal.

PROPOSAL 4. RATIFY THE SELECTION OF ERNST & YOUNG LLP AS FTI

CONSULTING, INC. S INDEPENDENT AUDITOR

FOR THE FISCAL YEAR ENDING DECEMBER 31, 2004

The Audit Committee of the Bo% Expected life (years) 4.0 4.5 Expected dividend yield 0.00% 0.00%

The Company recorded $1.5 million and $0.8 million of share-based compensation expense for the three-month periods ended September 30, 2017 and 2016, respectively, for equity compensation awards. The Company recorded $3.9 million and $2.3 million of share-based compensation expense for the nine-month periods ended September 30, 2017 and 2016, respectively, for equity compensation awards. The Company presents the expenses related to share-based compensation awards in the same expense line items as cash compensation paid to each of its employees as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of product revenue	$ 107	$ 40	$ 306	$ 66
Research and development	177	156	340	300
Selling, general and administrative	1,190	601	3,294	1,910
Total stock-based compensation expense	$ 1,474	$ 797	$ 3,940	$ 2,276

On June 13, 2017, the Company's shareholders approved the Anika Therapeutics, Inc. 2017 Omnibus Incentive Plan (the "2017 Plan"). The 2017 Plan replaced the Anika Therapeutics, Inc. Second Amended and Restated 2003 Stock Option and Incentive Plan, as amended, (the "2003 Plan"), as the plan under which future grants to employees, directors, officers, and consultants will be made. The 2017 Plan was originally approved by the Company's Board of Directors on March 31, 2017. The terms of the 2017 Plan provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, and performance awards that may be settled in cash, stock, or other property. Subject to adjustment for specified types of changes in our capitalization, no more than 1.2 million shares of common stock may be issued under the 2017 Plan.

During the three-month period ended September 30, 2017, a total of 60,609 stock options and 14,506 RSAs were granted under the 2017 Plan. During the nine-month period ended September 30, 2017, a total of 63,109 stock options and 14,506 RSAs were granted under the 2017 Plan and a total of 407,635 stock options were granted under the 2003 Plan. The stock options granted to employees become exercisable or vest ratably over a three-year period. In addition, the Company executed its annual grant of 9,970 RSUs to non-employee directors, and these RSUs vest over a one-year period.

A portion of the stock options granted during the nine-month period ended September 30, 2017 contained certain performance criteria in addition to time-based vesting conditions. For performance-based awards with financial achievement targets, the Company recognizes expense using the graded vesting methodology based on the number of shares expected to vest. Compensation cost associated with performance grants is estimated using the Black-Scholes valuation method multiplied by the expected number of shares to be issued, which is adjusted based on the estimated probabilities of achieving the performance goals. Changes to the probability assessment and the estimated shares expected to vest will result in adjustments to the related share-based compensation expense that will be recorded in the period of the change. If the performance targets are not achieved, no compensation cost is recognized and any previously recognized compensation cost is reversed.

In connection with the adoption of ASU 2016-09, as of January 1, 2017, the Company elected to recognize forfeitures as they occur rather than estimate forfeitures each period, which was applied on a modified retrospective basis. Accordingly, the Company recognized a cumulative adjustment to retained earnings at the beginning of the nine-month period ended September 30, 2017, resulting in a reduction of $0.5 million.

7. Earnings Per Share (“EPS”)

Basic EPS is calculated by dividing net income by the weighted average number of shares outstanding during the period. Unvested restricted shares, although legally issued and outstanding, are not considered outstanding for purposes of calculating basic earnings per share. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding plus the dilutive effect, if any, of outstanding stock options, SARs, RSAs, and RSUs using the treasury stock method.

The following table provides share information used in the calculation of the Company's basic and diluted earnings per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Shares used in the calculation of basic earnings per share	14,579	14,625	14,572	14,726
Effect of dilutive securities:				
Stock options, SARs, and RSAs	536	452	493	437
Diluted shares used in the calculation of earnings per share	15,115	15,077	15,065	15,163

Equity awards of 0.5 and 0.6 million shares were outstanding for the three- and nine-month periods ended September 30, 2017, respectively, and were not included in the computation of diluted EPS because the awards' impact on EPS would have been anti-dilutive. Equity awards of 0.3 and 0.4 million shares were outstanding for the three- and nine-month periods ended September 30, 2016, respectively, and were not included in the computation of diluted EPS because the awards' impact on EPS would have been anti-dilutive.

On February 26, 2016, the Company entered into an accelerated stock repurchase agreement with Morgan Stanley & Co. LLC ("Morgan Stanley") pursuant to a Fixed Dollar Accelerated Share Repurchase Transaction ("ASR Agreement") to purchase $25.0 million of shares of its common stock. Pursuant to the terms of the ASR Agreement, the Company paid Morgan Stanley $25.0 million in cash and received delivery of 0.4 million shares of the Company's common stock on February 29, 2016 based on a closing market price of $46.40 per share and the applicable contractual discount.

On August 26, 2016, the Company settled the approximately $7.5 million remaining under the ASR Agreement, which was recorded as an equity forward sale contract and was included in additional paid-in capital in stockholders' equity in the condensed consolidated balance sheets as it met the criteria for equity accounting. Pursuant to the terms of the ASR Agreement, the final number of shares and the average purchase price was determined at the end of the applicable purchase period, which was August 26, 2016. Based on the volume-weighted average price since the effective date of the ASR Agreement less the applicable contractual discount, Morgan Stanley delivered 0.1 million additional shares to the Company on August 31, 2016. In total, 0.5 million shares were repurchased under the ASR Agreement at an average repurchase price of $47.08 per share. These shares are held by the Company as authorized but unissued shares pursuant to Massachusetts law. The initial and final delivery of shares resulted in immediate reductions of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share.

8. Inventories

Inventories consist of the following:

	September 30, 2017	December 31, 2016
Raw materials	$ 7,867	$ 5,884
Work-in-process	6,564	5,559
Finished goods	5,821	4,540
Total	$ 20,252	$ 15,983

9. Intangible Assets

Intangible assets as of September 30, 2017 and December 31, 2016 consist of the following:

			September 30, 2017			December 31, 2016
	Gross Value	Useful Life	Accumulated Currency Translation Adjustment	Accumulated Amortization	Net Book Value	Net Book Value
Developed technology	$ 17,100	15	$(2,644)	$ (7,487)	$6,969	$ 6,842
In-process research & development	4,406	Indefinite	(1,061)	-	3,345	2,973
Distributor relationships	4,700	5	(415)	(4,285)	-	-
Patents	1,000	16	(158)	(418)	424	412
Elevess trade name	1,000	9	-	(1,000)	-	-
Total	$ 28,206		$(4,278)	$ (13,190)	$10,738	$ 10,227

The aggregate amortization expense related to intangible assets was $0.2 million and $0.3 million for the three-month periods ended September 30, 2017 and 2016, respectively. The aggregate amortization expense related to intangible assets was $0.7 million and $0.8 million for the nine-month periods ended September 30, 2017 and 2016, respectively.

10. Goodwill

Through September 30, 2017, there have not been any events or changes in circumstances that indicate that the carrying value of goodwill may not be recoverable. Changes in the carrying value of goodwill were as follows:

	Nine Months Ended September 30, 2017	Twelve Months Ended December 31, 2016
Balance, beginning	$ 7,214	$ 7,482
Effect of foreign currency adjustments	890	(268)
Balance, ending	$ 8,104	$ 7,214

11. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2017	December 31, 2016
Compensation and related expenses	$ 2,985	$ 3,089
Facility construction costs	-	804
Research grants	413	463
Professional fees	897	802
Clinical trial costs	2,136	227
Deferred rent	-	231
Other	85	880
Total	$ 6,516	$ 6,496

12. Commitments and Contingencies

In certain of its contracts, the Company warrants to its customers that the products it manufactures conform to the product specifications as in effect at the time of delivery of the specific product. The Company may also warrant that the products it manufactures do not infringe, violate, or breach any U.S. or international patent or intellectual property right, trade secret, or other proprietary information of any third party. On occasion, the Company contractually indemnifies its customers against any and all losses arising out of, or in any way connected with, any claim or claims of breach of its warranties or any actual or alleged defect in any product caused by the negligent acts or omissions of the Company. The Company maintains a products liability insurance policy that limits its exposure to these risks. Based on the Company’s historical activity, in combination with its liability insurance coverage, the Company believes the estimated fair value of these indemnification agreements is immaterial. The Company had no accrued warranties at

September 30, 2017 or December 31, 2016 and has no history of claims paid.

The Company is also involved in various legal proceedings arising in the ordinary course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, the Company does not expect the resolution of these legal proceedings to have a material adverse effect on its financial position, results of operations, or cash flow.

13. Leases

On October 9, 2015, our Italian subsidiary, Anika Therapeutics S.r.l. (“Anika S.r.l.”) entered into a build-to-suit lease agreement with Consorzio Zona Industriale E Porto Fluviale di Padova (“ZIP”), as landlord, pursuant to which Anika S.r.l. leases a new European headquarters facility, consisting of approximately 33,000 square feet of general office, research and development, training, and warehousing space located in Padova, Italy. The lease has an initial term of fifteen years, which commenced on March 1, 2017. The lease will automatically renew for up to three additional six-year terms, subject to certain terms and conditions. The Company has the ability to withdraw from this lease subject to certain financial penalties after six years and with no penalties after the ninth year. Beginning on the commencement date, the lease provides for an initial yearly rent of approximately $0.3 million.

Construction of the new facility commenced during the first quarter of 2016. During the period of construction, the Company was the deemed owner of the facility. Accordingly, the landlord's costs of constructing the facility were capitalized, as a non-cash transaction, offset by a corresponding facility lease obligation in the Company’s consolidated balance sheet. When the construction concluded on March 1, 2017, the Company removed the construction-in-process asset of $3.1 million and related liability from its condensed consolidated balance sheet. The Company commissioned ZIP for additional tenant improvements of $0.8 million, which are recorded within Other long-term assets on the condensed consolidated balance sheet and which will be amortized over the life of the lease. The lease is accounted for as an operating lease based on the Company’s assessment of the applicable accounting principles.

14. Income Taxes

Provisions for income taxes were $3.6 million and $12.6 million for the three- and nine-month periods ended September 30, 2017, based on an effective tax rate of 34.6% for both periods. Provisions for income taxes were $4.8 million and $13.6 million for the three- and nine-month periods ended September 30, 2016, based on effective tax rates of 35.0% and 35.8%, respectively. The decrease in income taxes for the three- and nine-month periods ended September 30, 2017 resulted from decreased income before income taxes in addition to a net decrease in the effective tax rate as compared to the same period in the prior year. The net decrease in the effective tax rate for the three- and nine-month periods ended September 30, 2017, as compared to the same periods in 2016, was primarily due to the increase in the expected research and development and state investment tax credits. In addition, the Company realized windfall tax benefits related to share-based payments in connection with the adoption of ASU 2016-09 during the period. The amount of excess tax benefits recognized as a discrete period income tax benefit was $0.0 and $0.3 million for the three- and nine-month periods ended September 30, 2017, respectively, which decreased the effective tax rate for the interim periods by 0.0% and 0.9%, respectively. Prior to the adoption of ASU 2016-09 excess tax benefits and deficiencies were recorded in equity. The amount of excess tax benefits recognized through additional paid-in-capital was $0.0 million and $0.4 million for the three- and nine-month periods ended September 30, 2016, respectively.

The Company files income tax returns in the United States on a federal basis, in certain U.S. states, and in Italy. The associated tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate.

In connection with the preparation of the financial statements, the Company performed an analysis to ascertain if it was more likely than not that it would be able to utilize, in future periods, the net deferred tax assets associated with its net operating loss carry-forward. The Company has concluded that the positive evidence outweighs the negative evidence and, thus, that the deferred tax assets not otherwise subject to a valuation allowance are realizable on a “more likely than not” basis. As such, the Company did not record a valuation allowance at September 30, 2017 or December 31, 2016.

15. DePuy Synthes Mitek Sports Medicine Agreements

In December 2011, the Company entered into a fifteen-year licensing agreement with DePuy Synthes Mitek Sports Medicine, a division of DePuy Orthopaedics, Inc. (“Mitek”), to exclusively market MONOVISC in the U.S. The Company fully recognized revenue for a milestone payment of $5.0 million as a result of MONOVISC achieving $100.0 million in U.S. end-user sales within a consecutive 12-month period ending in June 2017.

ORTHOVISC became available for sale in the United States on March 1, 2004, and it is marketed exclusively by Mitek under the terms of an initial ten-year licensing, distribution, supply, and marketing agreement entered into in December 2003. The agreement was extended by Mitek for additional five-year terms in 2012 and in 2017, with the

current agreement to expire on December 20, 2023.

16. Segment and Geographic Information

The Company has one reportable operating segment for the purposes of assessing performance and determining the allocation of resources.

Product revenue by product group is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Orthobiologics	$ 23,990	$ 22,428	$ 68,686	$ 65,319
Surgical	1,765	1,173	4,395	3,924
Dermal	358	594	1,235	1,558
Other	1,065	1,588	4,583	3,835
Product Revenue	$ 27,178	$ 25,783	$ 78,899	$ 74,636

Total revenue by geographic location and as a percentage of overall total revenue for the three- and nine-month periods ended September 30, 2017 and 2016 are as follows:

	Three Months Ended September 30,					
	2017			2016		
	Total Revenue	Percentage of Revenue		Total Revenue	Percentage of Revenue	
Geographic Location:						
United States	$22,227	82	%	$21,126	82	%
Europe	2,832	10	%	2,703	10	%
Other	2,125	8	%	1,960	8	%
Total Revenue	$27,184	100	%	$25,789	100	%

	Nine Months Ended September 30,					
	2017			2016		
	Total Revenue	Percentage of Revenue		Total Revenue	Percentage of Revenue	
Geographic Location:						
United States	$68,624	82	%	$61,032	82	%
Europe	9,743	11	%	8,240	11	%
Other	5,665	7	%	5,381	7	%
Total Revenue	$84,032	100	%	$74,653	100	%

17. Subsequent Event

On October 24, 2017, the Company, as borrower, entered into a new five-year agreement with Bank of America, N.A., as administrative agent, swingline lender and issuer of letters of credit, for a $50.0 million senior revolving line of credit (the “Credit Agreement”). Subject to certain conditions, the Company may request up to an additional $50.0 million in commitments for a maximum aggregate commitment of $100.0 million, which requests must be approved by the Revolving Lenders (as defined in the Credit Agreement). Loans under the Credit Agreement generally bear interest equal to, at the Company’s option, either: (i) LIBOR plus the Applicable Margin, as defined below, or the (ii) Base Rate, defined as the highest of: (a) the Federal Funds Rate plus 0.50%, (b) Bank of America, N.A.’s prime rate and (c) the one month LIBOR adjusted daily plus 1.0%, plus the Applicable Margin. The Applicable Margin ranges from 0.25% to 1.75% based on the Company’s consolidated leverage ratios at the time of the borrowings under the Credit Agreement. The Company has agreed to pay a commitment fee in an amount that is equal to 0.25% per annum on the actual daily unused amount of the credit facility and that is due and payable quarterly in arrears. Loan origination costs will be amortized over the five-year term of the Credit Agreement.

The Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including financial covenants, events of default and indemnification provisions in favor of the Lenders (as defined in the Credit

Agreement). The covenants include restrictions governing the Company's leverage ratio and interest coverage ratio, its incurrence of liens and indebtedness, and its entry into certain merger and acquisition transactions or dispositions and other matters, all subject to certain exceptions. The financial covenants require us not to exceed certain maximum leverage and interest coverage ratios. The Lenders have been granted a first priority lien and security interest in substantially all of the Company's assets, except for certain intangible assets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our financial statements and related notes appearing elsewhere in this report. In addition to historical information, this report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 concerning our business, consolidated financial condition, and results of operations. The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking statements so that investors can better understand a company's future prospects and make informed investment decisions. Forward-looking statements are subject to risks and uncertainties, many of which are outside our control, which could cause actual results to differ materially from these statements. Therefore, you should not rely on any of these forward-looking statements. Forward-looking statements can be identified by such words as "will," "likely," "may," "believe," "expect," "anticipate," "intend," "seek," "designed," "develop," "would," "future," "can," "could," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans, and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements regarding expected future operating results, expectations regarding the timing and receipt of regulatory results, anticipated levels of capital expenditures, and expectations of the effect on our financial condition of claims, litigation, and governmental and regulatory proceedings.

Please also refer to those factors described in Part II, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016 for important factors that we believe could cause actual results to differ materially from those in our forward-looking statements. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, or otherwise.

Management Overview

We are a global, integrated orthopedic medicines company committed to improving the lives of patients with degenerative orthopedic diseases and traumatic conditions with clinically meaningful therapies along the continuum of care, from palliative pain management to regenerative cartilage repair. We have over two decades of global expertise developing, manufacturing, and commercializing our products based on our proprietary hyaluronic acid ("HA") technology. Our orthopedic medicine portfolio includes ORTHOVISC, MONOVISC, and CINGAL, which alleviate pain and restore joint function by replenishing depleted HA, and HYALOFAST, a solid HA-based scaffold to aid cartilage repair and regeneration.

Our therapeutic offerings consist of products in the following areas: Orthobiologics, Dermal, Surgical, and Other, which includes our ophthalmic and veterinary products. All of our products are based on HA, a naturally occurring, biocompatible polymer found throughout the body. Due to its unique biophysical and biochemical properties, HA

plays an important role in a number of physiological functions such as the protection and lubrication of soft tissues and joints, the maintenance of the structural integrity of tissues, and the transport of molecules to and within cells.

Our proprietary technologies for modifying the HA molecule allow product properties to be tailored specifically to therapeutic use. Our patented technology chemically modifies HA to allow for longer residence time in the body. We also offer products made from HA based on two other technologies: HYAFF, which is a solid form of HA, and ACP gel, an autocross-linked polymer of HA. Our technologies are protected by an extensive portfolio of owned and licensed patents.

Since our inception in 1992, we have utilized a commercial partnership model for the distribution of our products to end-users. Our strong, worldwide network of distributors has historically provided, and continues to provide, a solid foundation for our revenue growth and territorial expansion. In 2015, we made the strategic decision to commercialize our next generation viscosupplementation product, CINGAL, in the United States ourselves, initially through the engagement of a contract sales organization. Ultimately, we intend to transition the direct sales function into our company as part of a broader buildout of our commercial capabilities. We believe that the combination of the direct and distribution commercial models will maximize the revenue potential from our current and future product portfolio.

We began a strategic project in 2015 to move the manufacturing of our HYAFF-based products, which were previously manufactured under an existing contract manufacturing agreement with a third party in Italy, to our Bedford, Massachusetts facility. Our main purposes behind this strategic move are to enhance our research and development capabilities with the aim of accelerating future product development and to improve the efficiency of our manufacturing process. We expect to expend approximately $25.0 million on this project. Since project inception through September 30, 2017, we have expended approximately $22.7 million on the project, and we have completed key planned project milestones to date. We expect the HYAFF manufacturing to be fully operational before the end of 2017.

Please see the section captioned “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Management Overview” in our Annual Report on Form 10-K for the year ended December 31, 2016, for a description of each of the above therapeutic areas, including the individual products.

Research and Development

Our research and development efforts primarily consist of the development of new medical applications for our HA-based technology, the management of clinical trials for certain product candidates, the preparation and processing of applications for regulatory approvals or clearances at all relevant stages of product development, and process development and scale-up manufacturing activities for our existing and new products. Our development focus includes products for tissue protection, repair, and regeneration. We anticipate that we will continue to commit significant resources to research and development, including clinical trials in the future.

Our second single-injection osteoarthritis product under development in the United States is CINGAL, which is composed of our proprietary cross-linked HA material combined with an approved steroid and is designed to provide both short- and long-term pain relief to patients. We completed an initial CINGAL phase III clinical trial, including the associated statistical analysis for 368 enrolled patients, during the fourth quarter of 2014 with data indicating that the product met all primary and secondary endpoints relative to placebo set forth for the trial. During the first half of 2015, we completed a CINGAL retreatment study with 242 patients who had participated in the phase III clinical trial and reported safety data related to the retreatment study. This initial phase III clinical trial and the associated retreatment study supported the Health Canada and CE Mark approval of the product, and the commercial launch of the product in both Canada and the European Union occurred in the second quarter of 2016. In the United States, after discussions with the U.S. Food and Drug Administration (“FDA”) related to the regulatory pathway for CINGAL, we conducted a formal meeting with the FDA’s Office of Combination Products (“OCP”) to present and discuss our data in September 2015, and we submitted a formal request for designation with OCP a month later. In its response to our formal request for designation, OCP assigned the product to the FDA’s Center for Drug Evaluation and Research (“CDER”) as the lead agency center for premarket review and regulation. Since then, we have been in ongoing discussions with CDER to understand the requirements for submitting a New Drug Application (“NDA”) for CINGAL. We held a meeting with CDER in September 2016 to align on an approval framework and on submission requirements for this NDA for CINGAL, including the execution of an additional Phase III clinical trial to supplement our existing CINGAL pivotal study data. We submitted an Investigational New Drug Application (“IND”) in late 2016, and discussions with CDER indicated no objections to our clinical protocol design. As a result, we commenced work on this second Phase III clinical trial in the first quarter of 2017, and the first patient was treated in the second quarter of 2017. Enrollment in this second Phase III clinical trial was completed during October 2017. We have also initiated a nine-month extended follow-up study in conjunction with the second Phase III clinical trial to investigate the efficacy of CINGAL over this longer period. This extended follow-up study will not impact the timeline for submission of the NDA for CINGAL following the completion of the second Phase III clinical trial.

We have several research and development programs underway for new products, including for HYALOFAST (in the United States), an innovative product for cartilage tissue repair and other early stage regenerative medicine development programs. HYALOFAST received CE Mark approval in September 2009, and it is commercially

available in Europe and certain international countries. During the first quarter of 2015, we submitted an Investigational Device Exemption ("IDE") for HYALOFAST to the FDA, which was approved in July 2015. We commenced patient enrollment in a clinical trial in December 2015, and we are advancing site initiations and patient enrollment activities. In the second quarter of 2016, a supplement to the HYALOFAST IDE was approved to expand the inclusion criteria for the clinical study. The purpose of this supplement is to allow us to increase enrollment rates with the ultimate goal of decreasing the time needed to complete the clinical trial. In addition, we are currently proceeding with other research and development programs, one of which utilizes our proprietary HA technology to treat pain associated with common repetitive overuse injuries, such as lateral epicondylitis, also known as tennis elbow. We submitted a CE Mark application for this treatment during the first quarter of 2016 and received a CE Mark for the treatment of pain associated with tennis elbow in December 2016. Outside of the United States, this product will be marketed under the trade name ORTHOVISC-T. In the second quarter of 2016, we submitted an IDE to the FDA to conduct a phase III clinical trial for this treatment, which was approved by the FDA in June 2016. We also have other research and development programs underway focused on expanding the indications of our current products, including one program being conducted and funded by our U.S. MONOVISC distribution partner, DePuy Synthes Mitek Sports Medicine, a division of DePuy Orthopaedics, Inc. ("Mitek"), seeking to expand MONOVISC's indication to include the treatment of pain associated with osteoarthritis of the hip. In third quarter of 2017, we also submitted an application to the FDA for 510(k) clearance of an injectable HA-based bone repair treatment, which derived from previous research and development activities related to HYALOBONE.

In June 2015, we entered into an agreement with the Institute for Applied Life Sciences at the University of Massachusetts Amherst to collaborate on research to develop a therapy for rheumatoid arthritis. The purpose of this research is to develop a novel modality for the treatment of rheumatoid arthritis and, if successful, it is expected to yield a potential product candidate that we could begin to move towards commercialization through additional pre-clinical studies.

Results of Operations

Three- and Nine-Months Ended September 30, 2017 Compared to Three- and Nine-Months Ended September 30, 2016

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	$ Inc/(Dec)	% Inc/(Dec)	2017	2016	$ Inc/(Dec)	% Inc/(D
	(in thousands, except percentages)				(in thousands, except percentages)			
Product revenue	$27,178	$25,783	$1,395	5 %	$78,899	$74,636	$4,263	6 %
Licensing, milestone and contract revenue	6	6	-	0 %	5,133	17	5,116	*
Total revenue	27,184	25,789	1,395	5 %	84,032	74,653	9,379	13%
Operating expenses:								
Cost of product revenue	6,250	4,998	1,252	25 %	18,648	16,488	2,160	13%
Research and development	5,842	2,822	3,020	107%	14,521	7,773	6,748	87%
Selling, general and administrative	4,823	4,280	543	13 %	14,862	12,525	2,337	19%
Total operating expenses	16,915	12,100	4,815	40 %	48,031	36,786	11,245	31%
Income from operations	10,269	13,689	(3,420)	(25 %)	36,001	37,867	(1,866)	(5 %)
Interest income, net	261	93	168	181%	335	214	121	57%
Income before income taxes	10,530	13,782	(3,252)	(24 %)	36,336	38,081	(1,745)	(5 %)
Provision for income taxes	3,643	4,830	(1,187)	(25 %)	12,587	13,619	(1,032)	(8 %)
Net income	$6,887	$8,952	$(2,065)	(23 %)	$23,749	$24,462	$(713)	(3 %)
Product gross profit	$20,928	$20,785	$143	1 %	$60,251	$58,148	$2,103	4 %
Product gross margin	77 %	81 %			76 %	78 %		

* Percentage increase has been omitted due to magnitude.

Product Revenue

Product revenue for the three-month period ended September 30, 2017 was $27.2 million, an increase of 5% as compared to $25.8 million for the three-month period ended September 30, 2016. Product revenue for the nine-month period ended September 30, 2017 was $78.9 million, an increase of 6% as compared to $74.6 million for the nine-month period ended September 30, 2016. For the three-month period ended September 30, 2017, the increase in product revenue was mainly driven by the growth of our orthobiologics and surgical franchises. For the nine-month period ended September 30, 2017, the increase in product revenue was mainly driven by the growth of our orthobiologics and surgical franchises and the growth of our veterinary product in the other franchise category, with such increase being partially offset by a decrease in revenue from our dermal franchise.

The following tables present product revenue by product group for the three- and nine-month periods ended September 30, 2017 and 2016:

	Three Months Ended September 30,			
	2017	2016	$ Inc/(Dec)	% Inc/(Dec)
	(in thousands, except percentages)			
Orthobiologics	$23,990	$22,428	$ 1,562	7 %
Surgical	1,765	1,173	592	50 %
Dermal	358	594	(236)	(40 %)
Other	1,065	1,588	(523)	(33 %)
Total	$27,178	$25,783	$ 1,395	5 %

	Nine Months Ended September 30,			
	2017	2016	$ Inc/(Dec)	% Inc/(Dec)
	(in thousands, except percentages)			
Orthobiologics	$68,686	$65,319	$ 3,367	5 %
Surgical	4,395	3,924	471	12 %
Dermal	1,235	1,558	(323)	(21 %)
Other	4,583	3,835	748	20 %
Total	$78,899	$74,636	$ 4,263	6 %

Orthobiologics

Our orthobiologics franchise consists of our joint health and orthopedic products. Overall, sales increased 7% and 5% for the three- and nine-month periods ended September 30, 2017, respectively, as compared to the same periods in 2016. The growth in the three- and nine-month periods ended September 30, 2017 was primarily due to an increase in worldwide MONOVISC revenue. MONOVISC worldwide revenue increased during the three- and nine-month periods ended September 30, 2017 as a result of robust and growing end-user demand for the product. MONOVISC's strong growth is further augmented as end-user demand in the market for viscosupplementation products more generally continues to shift from multi-injection products, including ORTHOVISC, to single-injection products, such as MONOVISC, both domestically and internationally. CINGAL and ORTHOVISC-T, both of which launched internationally during the second half of 2016, also contributed to the growth of orthobiologics revenue during the period. We expect orthobiologics revenue to continue to grow for the remainder of 2017, led by increased MONOVISC revenue in domestic and international markets, including in India, Australia, New Zealand, and Taiwan, where regulatory approvals were achieved in the second quarter and third quarters of 2017, the commercial availability of CINGAL in Canada and Europe, as well as overall revenue growth from our viscosupplementation products both domestically and internationally.

Surgical

Our surgical franchise consists of products used to prevent surgical adhesions and to treat ear, nose, and throat ("ENT") disorders. Sales of our surgical products increased 50% and 12% for the three- and nine-month periods ended September 30, 2017 to $1.8 million and $4.4 million, respectively, as compared to the same periods in 2016. The increase in surgical product revenue for the three- and nine-month periods was primarily due to an increase in sales to our worldwide ENT commercial partner. We expect surgical product revenue to increase modestly in 2017, as compared to 2016, primarily due to increased worldwide sales of our ENT products.

Dermal

Our dermal franchise consists of advanced wound care products, which are based on our HYAFF technology, and aesthetic dermal fillers. Our advanced wound care products treat complex skin wounds ranging from burns to diabetic ulcers, with HYALOMATRIX and HYALOFILL as the lead products. For the three- and nine-month periods ended September 30, 2017, dermal product sales decreased 40% and 21%, respectively, as compared to the same periods in 2016. This year-to-date decrease reflects order timing by our distribution partners. We expect dermal revenue to increase in 2017 as compared to 2016 primarily due to increased end-user demand and geographic expansion related to our advanced would care products in the U.S. and European markets.

Other

Other product revenue includes revenues from our ophthalmic and veterinary franchises. Product revenue from these franchises decreased for the three-month and increased for the nine-month periods ended September 30, 2017 as compared to the same periods in 2016. We expect other revenue to increase in 2017 as compared to 2016, driven primarily by our veterinary product.

Licensing, milestone and contract revenue

Licensing, milestone and contract revenue for the three- and nine-month periods ended September 30, 2017 was $6 thousand and $5.1 million, as compared to $6 thousand and $17 thousand for the same periods in 2016. Revenue for the nine-month period ended September 30, 2017 included a $5.0 million milestone payment associated with our U.S. license agreement with Mitek for MONOVISC that was received and fully recognized as a result of U.S. MONOVISC 12-month end-user sales exceeding $100.0 million.

Product gross profit and margin

Product gross profit for the three- and nine-month periods ended September 30, 2017 increased $143 thousand and $2.1 million to $20.9 and $60.3 million, respectively, representing 77% and 76% of product revenue. Product gross profit for the three- and nine- months ended September 30, 2016 was $20.8 million and $58.1 million, representing 81% and 78% of product revenue. The decrease in product gross margin for the three and nine-month periods ended September 30, 2017, as compared to the same periods in 2016, was primarily attributable to higher production volume in the prior year periods and inventory write-offs in 2017. This current product gross margin may not be indicative of the rest of the year due to dynamics such as future revenue mix and production volume variability.

Research and development

Research and development expenses for the three- and nine-month periods ended September 30, 2017 were $5.8 million and $14.5 million, representing 21.5% and 17.3% of total revenue for the respective periods, an increase of $3.0 million and $6.7 million, respectively, as compared to the same periods in 2016. The increase in research and development expenses was primarily due to a higher level of clinical and regulatory activities, including our HYALOFAST and CINGAL phase III clinical studies. Furthermore, we also increased our pre-clinical product development activities with respect to certain product candidates in our research and development pipeline. Research and development spending is expected to increase in 2017 and thereafter, as compared to 2016, as we further develop new products and line extensions and initiate new clinical trials based on our existing technology assets, including CINGAL and HYALOFAST, as well as increase development activities for other products and line extensions in the pipeline.

Selling, general and administrative

Selling, general and administrative ("SG&A") expenses for the three- and nine-month periods ended September 30, 2017 were $4.8 million and $14.9 million, or 17.7% of total revenue for both periods, an increase of $0.5 million and $2.3 million, respectively, as compared to the same periods in 2016. SG&A expenses increased for the three- and nine-month periods ended September 30, 2017 primarily as a result of increases in personnel related costs, external professional fees, and marketing initiatives to support the CINGAL and ORTHOVISC-T international launches. We expect SG&A expenses for 2017 will increase to reflect the support, including the implementation of improved operational and financial technology platforms, required to grow our business both domestically and internationally.

Income taxes

Provisions for income taxes were $3.6 million and $12.6 million for the three- and nine-month periods ended September 30, 2017, based on an effective tax rate of 34.6% for both periods. Provisions for income taxes were $4.8 million and $13.6 million for the three- and nine-month periods ended September 30, 2016, based on effective tax rates of 35.0% and 35.8%, respectively. The decrease in income taxes for the three- and nine-month periods ended September 30, 2017 resulted from decreased income before income taxes and a net decrease in the effective tax rate as compared to the same periods in the prior year. The net decrease in the effective tax rate for the three- and nine-month periods ended September 30, 2017, as compared to the same periods in 2016, was primarily due to the increase in the expected research and development and state investment tax credits.

In addition, we realized windfall tax benefits related to share-based payments in connection with the adoption of ASU 2016-09 as of January 1, 2017. The amount of excess tax benefits recognized as a discrete period income tax benefit was $0.0 and $0.3 million for the three- and nine-month periods ended September 30, 2017, respectively, which

decreased the effective tax rate for the interim periods by 0.0% and 0.9%, respectively. Prior to the adoption of ASU 2016-09 excess tax benefits and deficiencies were recorded in equity. The amount of excess tax benefits recognized through additional paid-in-capital was $0.0 million and $0.4 million for the three- and nine-month periods ended September 30, 2016, respectively.

Liquidity and Capital Resources

On October 24, 2017, we entered into a five-year agreement for a $50.0 million senior revolving line of credit, and as of October 24, 2017, $50.0 million was available for borrowing under the line of credit. See Note 17 to the condensed consolidated financial statements for additional information regarding the line of credit.

We expect that our requirements for cash to fund operations and capital expenditures will increase as the scope of our operations expands. Historically, we have generated positive cash flow from operations, which together with our available cash and investments have met our cash requirements. Cash, cash equivalents, and investments totaled approximately $152.7 million and $124.8 million at September 30, 2017 and December 31, 2016, respectively. Working capital totaled approximately $187.3 million at September 30, 2017 and $161.6 million at December 31, 2016. We believe that we have adequate financial resources, including amounts available under the line of credit, to support our business for at least the next twelve months beyond the release of the financial statements.

Cash provided by operating activities was $33.8 million for the nine-month period ended September 30, 2017, as compared to cash provided by operating activities of $18.4 million for the same period in 2016. This increase in cash was primarily related to a decrease in accounts receivable, an increase in accounts payable, and an increase in income taxes payable, due to the timing of payments, offset, in part, by an increase in inventories.

Cash used in investing activities was $11.8 million for the nine-month period ended September 30, 2017, as compared to cash used in investing activities of $7.1 million for the same period in 2016. The increase in cash used in investing activities was primarily the result of the purchase of investments offset by maturities of investments during the first half of 2017. Furthermore, expenditures for the buildout of our Bedford, Massachusetts facility are declining and we expect to complete validation by the end of 2017.

Cash provided by financing activities was $0.3 million for the nine-month period ended September 30, 2017, as compared to cash used by financing activities totaling $24.0 million for the same period in 2016. The decrease in cash used in financing activities for the nine-month period ended September 30, 2017 was primarily attributable to the Fixed Dollar Accelerated Share Repurchase Transaction to repurchase $25.0 million of shares of our common stock in February 2016.

Critical Accounting Estimates

There were no other significant changes in our critical accounting estimates during the nine months ended September 30, 2017 to augment the critical accounting estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Recent Accounting Pronouncements

A discussion of Recent Accounting Pronouncements is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and is updated in Note 3 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Contractual Obligations and Other Commercial Commitments

Our contractual obligations and other commercial commitments are summarized in the section captioned "Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations and Other Commercial Commitments" in our Annual Report on Form 10-K for the year ended December 31, 2016. We had no material changes outside the ordinary course of business to our contractual obligations reported in our 2016 Annual Report on Form 10-K during the first nine months of 2017.

To the extent that funds generated from our operations, together with our existing capital resources, are insufficient to meet future requirements, we will be required to obtain additional funds through equity or debt financings, including through the previously discussed $50.0 million senior revolving line of credit, strategic alliances with corporate partners and others, or through other sources. No assurance can be given that any additional financing will be made available to us or will be available on acceptable terms should such a need arise.

Off-balance Sheet Arrangements

We do not use special purpose entities or other off-balance sheet financing techniques, except for operating leases, that we believe have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks, and the ways we manage them, are summarized in the section captioned "Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes in the first nine months of 2017 to our market risks or to our management of such risks.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports it files or submits under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. On an on-going basis, we review and document our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls over financial reporting.

There were no changes in our internal control over financial reporting during the three-month period ended September 30, 2017 that have materially affected, or that are reasonably likely to materially affect, our internal controls over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings arising in the ordinary course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, we do not expect the resolution of these legal proceedings to have a material adverse effect on our financial position, results of operations, or cash flow. There have been no material changes to the information provided in the section captioned “Part I, Item 3, Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors described in the section captioned “Part I, Item 1A, Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the section captioned “Part I, Item 1A, Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition, and/or operating results.

ITEM 6. EXHIBITS

Exhibit No.	Description
(10)	
*10.1	Credit Agreement, dated as of October 24, 2017, among Anika Therapeutics, Inc., certain subsidiaries of Anika Therapeutics, Inc. as are or may from time to time become parties to the Credit Agreement, Bank of America, N.A., as administrative agent, swingline lender and issuer of letters of credit, and the lenders party thereto.
*10.2	Security and Pledge Agreement, dated as of October 24, 2017, among Anika Therapeutics, Inc., certain subsidiaries of Anika Therapeutics, Inc. listed on the signature pages thereto, and Bank of America, N.A., as administrative agent.
10.3	Negotiated Settlement Agreement and General Release, dated July 13, 2017, by and between Stephen Mascioli, M.D., MPH and Anika Therapeutics, Inc., incorporated herein by reference to Exhibit 10.1 to Form 8-K, filed with the SEC on July 14, 2017.
10.4	Employment Agreement, dated July 27, 2017, by and between Anika Therapeutics, Inc. and Joseph Darling, incorporated herein by reference to Exhibit 10.1 to Form 8-K, filed with the SEC on July 27, 2017.
(31)	Rule 13a-14(a)/15d-14(a) Certifications.
*31.1	Certification of Charles H. Sherwood, Ph.D., pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Sylvia Cheung pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Section 1350 Certifications.
**32.1	Certification of Charles H. Sherwood, Ph.D., and Sylvia Cheung, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101)	XBRL
*101	The following materials from Anika Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, as filed with the SEC on October 27, 2017, formatted in XBRL (eXtensible Business Reporting Language), as follows:

i. Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016 (unaudited)

ii. Condensed Consolidated Statements of Operations and Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and September 30, 2016 (unaudited)

iii.

Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and September 30, 2016 (unaudited)

iv. Notes to Condensed Consolidated Financial Statements (unaudited)

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANIKA THERAPEUTICS, INC.

Date: October 27, 2017 By: /s/ SYLVIA CHEUNG
Sylvia Cheung
Chief Financial Officer
(Authorized Officer and Principal Financial Officer)