

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 1997; or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number: _ _ _ _ _

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

MARYLAND

52-1261113

(State or other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

2021 Research Drive, Annapolis, Maryland 21401

(Address of Principal Executive Offices)
(Zip Code)

(410) 224-8770

(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class -----	Outstanding at November 14, 1997 -----
Common Stock, par value \$.01 per share	4,546,912 shares

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION
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Forensic Technologies International Corporation

Balance Sheets
(in thousands of dollars)

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
	----- (audited)	----- (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,894	\$ 2,929
Accounts receivable, less allowance of \$251 in 1996 and \$349 in, 1997	6,296	6,629
Unbilled receivables, less allowance of \$125 in 1996 and \$473 in 1997	3,007	5,970
Inventory	333	333
Income taxes receivable	111	135
Deferred income taxes	186	203
Prepaid expenses	419	672
	-----	-----
Total current assets	16,246	16,871
Property and equipment:		
Buildings	411	411
Furniture and equipment	8,455	11,133
Leasehold improvements	864	1,355
	-----	-----
	9,730	12,899
Accumulated depreciation and amortization		
	(5,624)	(7,114)
	-----	-----
	4,106	5,785
Goodwill, less amortization of \$23 in 1997		
	--	4,984
Other assets	516	542
Total assets		
	\$ 20,868	\$ 28,182
	=====	=====

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
	----- (audited)	----- (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,502	\$ 1,439
Accrued compensation expense	783	1,632
Income taxes payable	-	475
Current portion of capital lease obligations	53	103
Current portion of long term debt	-	2,210
Advances from clients	586	385
Other current liabilities	11	554
	-----	-----
Total current liabilities	2,935	6,798
Long-term debt and capital lease obligations, less current portion		
	201	886
Deferred income taxes	104	524
Stockholders' equity:		
Preferred stock, \$.01 par value; 4,000,000 shares authorized, none outstanding		
Common stock, \$.01 par value:		
Authorized shares - 16,000,000		
Shares issued and outstanding and not subject to repurchase - 4,516,912 in 1996, 4,526,912 in 1997	45	45
Additional paid-in capital	14,429	14,453
Retained earnings	3,154	5,476
	-----	-----
Total stockholders' equity	17,628	19,974
Total liabilities and stockholders' equity		
	\$ 20,868	\$ 28,182
	=====	=====

See accompanying notes.

Forensic Technologies International Corporation

Statements of Income
(in thousands of dollars, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30	
	1996	1997
	(audited)	(unaudited)
Revenues	\$ 7,573	\$ 10,675
Direct cost of revenues	4,172	5,338
Selling, general and administrative expenses	2,659	3,684
Total costs and expenses	6,831	9,022
	742	1,653
Other income (expenses):		
Interest and other income	111	89
Interest expense	(14)	(76)
	97	13
Income before income taxes	839	1,666
Income taxes	352	693
Net income	\$ 487	\$ 973
Earnings Per Share Data:		
Per common and common equivalent share:	\$0.10	\$0.21
Per common share, assuming full dilution:	\$0.10	\$0.20

See accompanying notes.

Forensic Technologies International Corporation

Statements of Income
(in thousands of dollars, except per share data)

	NINE MONTHS ENDED SEPTEMBER 30	
	1996	1997
	(audited)	(unaudited)
Revenues	\$ 22,547	\$ 29,686
Direct cost of revenues	12,338	15,753
Selling, general and administrative expenses	7,758	10,122
Total costs and expenses	20,096	25,875
	2,451	3,811
Other income (expenses):		
Interest and other income	193	261
Interest expense	(155)	(119)
	38	142
Income before income taxes	2,489	3,953
Income taxes	1,047	1,631
Net income	\$ 1,442	\$ 2,322
Earnings Per Share Data:		
Per common and common equivalent share:	\$0.41	\$0.50
Per common share, assuming full dilution:	\$0.37	\$0.49

See accompanying notes.

Forensic Technologies International Corporation

Statements of Cash Flows
(in thousands of dollars)

	NINE MONTHS ENDED SEPT. 30	
	1996	1997
	(audited)	(unaudited)
OPERATING ACTIVITIES		
Net income	\$ 1,442	\$ 2,322
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	526	978
Amortization	78	146
Non-cash compensation	29	-
Provision for doubtful accounts	45	335
Accrued loss on disposal of discontinued Annaplix division	(479)	-
Changes in operating assets and liabilities:		
Accounts receivable	(2,238)	534
Unbilled receivables	(678)	(2,372)
Prepaid expenses	(524)	(144)
Accounts payable	190	(556)
Accrued compensation expense	(89)	651
Income taxes payable	334	452
Deferred revenue	(139)	-
Advances from client	-	(200)
Other current liabilities	267	428
Accounting adjustment due to pooling	72	-
Net cash provided by (used in) operating activities	(1,164)	2,574
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,306)	(1,839)
Cash paid upon acquisitions (1)	-	(3665)
Change in other assets	(46)	(76)
Net cash used in investing activities	(1,352)	(5,580)
FINANCING ACTIVITIES		
Issuance of Class A Common Stock	11,125	-
Repurchase of Class A Common Stock	(130)	-
Repurchase of Class A Common Stock subject to repurchase	(311)	-
Exercise of stock options	15	24
Net borrowings (repayments) under line of credit	(1,397)	-
Payments of capital lease obligations	(32)	(140)
Borrowings on notes payable	-	157
Dividends paid	(62)	-
Net cash provided by financing activities	9,208	41
Net increase in cash and cash equivalents	6,692	(2,965)
Cash and cash equivalents at beginning of period	245	5,894
Cash and cash equivalents at end of period	\$ 6,937	\$ 2,929

See accompanying notes

(1) including direct cost of acquisition, net of cash acquired

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 1997

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 1996.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 1997 are not necessarily indicative of the results that may be expected for the year ended December 31, 1997.

2. OPTION GRANTS

On March 25, 1997, the Board of Directors approved the issuance of options to purchase 300,000 shares of Class A Common Stock to key employees. The exercise prices of the shares granted range from \$6.00 to \$9.50 per share, at or above the estimated fair market value of a share of Class A Common Stock at the date of grant, and the options vest ratably over a three year period.

In addition, options to purchase 4,200 shares of Class A Common Stock were issued on May 21, 1997 to each of the non employee directors of the Company under the Formula Option of the 1997 Stock Option Plan. An aggregate of 16,800 options were granted at an exercise price of \$7.63 per share.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 1997 (CONTINUED)
(dollars in thousands)

3. ACQUISITIONS

Effective September 1, 1997 the Company acquired all of the outstanding common stock of LWG, Inc. and subsidiary (LWG). LWG, based in Northbrook, IL, provides claims management consulting and restoration services to the insurance industry. The purchase price was an initial cash payment of \$1,800 plus fifty percent of the pre-tax profits of LWG for the four years ended September 30, 2001 (the earn-out).

Additionally, effective September 1, 1997, the Company acquired certain assets of Bodaken & Associates, a trial research and consulting firm serving law firms and corporations throughout the US. The purchase price of \$3,550 provided for an initial cash payment of \$1,700 and additional payments of \$1,200 and \$650 on the first and second anniversaries of the closing, respectively. The portions of the purchase price represented by the installment payments have been recorded as current and long-term debt at September 30, 1997. Interest of 7% per annum will be paid on the unpaid balance.

These acquisitions were accounted for using the purchase method of accounting and accordingly, the accompanying 1997 consolidated financial statements include the financial position, results of operations and cash flows of the acquired businesses beginning September 1, 1997. The excess of the cost of the acquisition over the fair value of the assets acquired of \$1,333 and \$3,565, for LWG and Bodaken, respectively, was recorded as goodwill. Future payments under the LWG earn-out will increase the amount of goodwill when such amounts are determinable. The goodwill is being amortized over twenty years as to LWG and twenty five years as to Bodaken.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 1997 (CONTINUED)
(Dollars in thousands except per share amounts)

4. EARNINGS PER SHARE

The following table summarizes the computations of earnings per share for the three month and nine month periods ended September 30, 1996 and 1997. This table should be read in conjunction with Note 2 to the 1996 audited financial statements.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	1996	1997	1996	1997
	----- (UNAUDITED)		----- (UNAUDITED)	
Primary: (Shares in thousands)				
Weighted average number of shares of common stock outstanding during the period	4,505	4,527	3,282	4,525
Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price	-	-	21	-
Dilutive effect of other options and warrants - based on treasury stock method using average market price	217	174	186	166
Total common and common equivalent shares of stock considered outstanding during the year	4,722	4,701	3,489	4,691
Net income	\$ 487	\$ 973	\$ 1,442	\$ 2,322
Per share amount	\$ 0.10	\$ 0.21	\$ 0.41	\$ 0.50
Fully diluted:				
Weighted average number of shares of common stock outstanding during the period	4,505	4,527	3,282	4,525
Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price	-	-	21	-
Dilutive effect of other options and warrants - based on treasury stock method using market price at the end of the period	246	243	214	243
Assumed conversion of Series A Redeemable Convertible Preferred Stock	-	-	320	-
Assumed conversion of 8% Convertible Subordinated Debentures	-	-	185	-
Total fully diluted securities considered outstanding during the year	4,751	4,770	4,022	4,768
Net income	\$ 487	\$ 973	\$ 1,442	\$ 2,322
Add 8% Convertible Subordinated Debenture interest, net of income taxes	10	-	31	-
	\$ 497	\$ 973	\$ 1,474	\$ 2,322
Per share amount	\$ 0.10	\$ 0.20	\$ 0.37	\$ 0.49

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Revenues for the third quarter and nine months ended September 30, 1997, increased 41.0% to \$10.7 million and 31.7% to \$29.7 million over the same periods in 1996, respectively. These increases are the result of revenues from visual communication services growing 22.0% to \$4.3 million and 38.7% to \$13.6 million during the quarter and nine months, respectively, attributable to higher levels of active trials during the periods and the success of an integrated approach to the marketing of the Company's services. Additionally, acquisitions, as described in Note 3 to the Financial Statements, added approximately \$1.7

million during the quarter; the increase in revenues before acquisition was 20%. Engineering and insurance services revenues grew 41.7% and 35.0% during the quarter and nine months, respectively, attributable to the inclusion of LWG and increased sales by last year's acquisitions of Teklicon and Anamet Laboratories.

Direct costs, as a percentage of revenue, decreased to 50% and 53% during the third quarter and nine months of 1997, as a result of improved management of costs passed on directly to clients; additionally, this percentage benefited from a large transaction in the LWG operation which accounted for approximately \$.02 per share. Selling, general and administrative expenses were approximately the same during the quarter and nine months of 1997 and 1996. Interest expense decreased in the quarter and nine months due to no usage on the line of credit during 1997; borrowings under the line of credit during 1996 were repaid from funds received from the sale of Common Stock in May, 1996. Unused funds from such sale have been invested to increase interest income subsequent to May, 1996.

Cash flow provided by operations during the nine months, were offset by additional investments in office facilities and computer equipment. These investments assist the Company in providing enhanced services to its clients. The net decrease in cash was funded by the remaining balance of the net proceeds from the sale of the Company's stock in May, 1996. Such balance, approximately \$5.3 million, will be used for working capital and other general corporate purposes, including the acquisitions completed in September, 1997.

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