

FORM 10-QSB

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 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.

[ X ] 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 August 14, 1997
----- Common Stock, par value \$.01 per share	----- 4,526,912 shares

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
INDEX

	Page
PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements . . . . . 3 to 9
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition . . . . . 10
PART II	OTHER INFORMATION
Item 4.	Submission of Matters to a Vote of Security Holders 11
Item 6.	Exhibits and Reports on Form 8-K
	Financial Data Schedule . . . . . 12

## Forensic Technologies International Corporation and Subsidiary

## Consolidated Balance Sheets (Unaudited)

	DECEMBER 31, 1996	JUNE 30, 1997
	-----	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,893,897	\$ 5,324,053
Accounts receivable, less allowance of \$250,877 in 1996 and \$262,998 in 1997	6,296,599	6,724,594
Unbilled receivables, less allowance of \$125,439 in 1996 and \$149,441 in 1997	3,006,953	3,821,051
Inventory	332,828	332,828
Income taxes receivable	111,471	-
Deferred income taxes	185,926	185,926
Prepaid expenses	418,654	673,068
	-----	
Total current assets	16,246,328	17,061,520
Property and equipment:		
Buildings	411,241	411,241
Furniture and equipment	8,455,373	9,481,890
Leasehold improvements	863,821	1,248,989
	-----	
	9,730,435	11,142,120
Accumulated depreciation and amortization	(5,624,060)	(6,307,404)
	-----	
	4,106,375	4,834,716
Other assets	515,722	581,263
	=====	
Total assets	\$ 20,868,425	\$ 22,477,499
	=====	

	DECEMBER 31, 1996	JUNE 30, 1997
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,502,076	\$ 1,318,629
Accrued compensation expense	783,108	776,015
Income taxes payable	-	368,922
Current portion of capital lease obligations	52,804	130,642
Advances from clients	585,562	526,390
Other current liabilities	11,063	-
	<hr/>	
Total current liabilities	2,934,613	3,120,598
Long-term debt and capital lease obligations, less current portion	201,296	250,964
Deferred income taxes	103,938	103,938
Commitments and contingent liabilities	-	-
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	45,169	45,269
Additional paid-in capital	14,429,703	14,453,402
Retained earnings	3,153,706	4,503,328
	<hr/>	
Total stockholders' equity	17,628,578	19,001,999
	<hr/>	
Total liabilities and stockholders' equity	\$ 20,868,425	\$ 22,477,499
	<hr/> <hr/>	

See accompanying notes.

Forensic Technologies International Corporation and Subsidiary

Consolidated Statements of Operations (Unaudited)

	THREE MONTHS ENDED JUNE 30	
	1996	1997
	-----	
	(Restated - Note 1)	
Revenues	\$ 8,008,204	\$ 9,471,409
Direct cost of revenues	4,414,802	5,231,786
Selling, general and administrative expenses	2,467,289	3,110,629
	-----	
Total costs and expenses	6,882,091	8,342,415
	-----	
	1,126,113	1,128,994
Other income (expenses):		
Interest and other income	50,546	96,583
Interest expense	(60,953)	(22,124)
	-----	
	(10,407)	74,459
	-----	
Income before income taxes	1,115,706	1,203,453
Income taxes	464,709	493,416
	-----	
Net income	\$ 650,997	\$ 710,037
	=====	
Earnings Per Share Data:		
Per common and common equivalent share:	\$0.19	\$0.15
	=====	
Per common share, assuming full dilution:	\$0.17	\$0.15
	=====	

See accompanying notes.

Forensic Technologies International Corporation and Subsidiary

Consolidated Statements of Operations (Unaudited)

	SIX MONTHS ENDED JUNE 30	
	1996	1997
	-----	
	(Restated - Note 1)	
Revenues	\$ 14,973,858	\$ 19,010,958
Direct cost of revenues	8,165,772	10,393,458
Selling, general and administrative expenses	5,094,192	6,460,173
	-----	
Total costs and expenses	13,259,964	16,853,631
	-----	
	1,713,894	2,157,327
Other income (expenses):		
Interest and other income	82,836	172,263
Interest expense	(141,386)	(42,095)
	-----	
	(58,550)	130,168
	-----	
Income before income taxes	1,655,344	2,287,495
Income taxes	700,011	937,873
	-----	
Net income	\$ 955,333	\$ 1,349,622
	=====	
Earnings Per Share Data:		
Per common and common equivalent share:	\$0.33	\$0.29
	=====	
Per common share, assuming full dilution:	\$0.27	\$0.29
	=====	

See accompanying notes.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

SIX MONTHS ENDED JUNE 30  
1996 1997

	1996	1997
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 955,333	\$ 1,349,622
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	333,398	616,712
Amortization	55,428	77,023
Non-cash compensation	21,682	-
Provision for doubtful accounts	45,489	36,123
Deferred income taxes	17,189	-
Loss on disposal of assets	2,056	3,234
Accrued loss on disposal of discontinued division	(478,828)	-
Changes in operating assets and liabilities:		
Accounts receivable	(407,124)	(439,069)
Unbilled receivables	(1,032,611)	(839,147)
Prepaid expenses	(101,736)	(254,414)
Accounts payable	272,412	(183,447)
Accrued compensation expense	(203,989)	(7,093)
Income taxes payable	140,146	480,393
Deferred revenue	(138,889)	-
Advances from client	133,196	(59,172)
Other current liabilities	79,664	(11,063)
Accounting adjustment due to pooling	71,913	-
Net cash provided by (used in) operating activities	(235,271)	769,702
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(787,118)	(1,202,225)
Proceeds from sale of property and equipment	3,000	-
Change in other assets	3,753	(68,049)
Net cash used in investing activities	(780,365)	(1,270,274)
<b>FINANCING ACTIVITIES</b>		
Issuance of Class A Common Stock	11,230,863	-
Repurchase of Class A Common Stock	(130,260)	-
Repurchase of Class A Common Stock subject to repurchase	(310,930)	-
Repurchase of Class B Common Stock	(300)	-
Exercise of stock options	-	23,799
Net borrowings (repayments) under line of credit	(1,493,808)	-
Payments of capital lease obligations	(40,013)	(93,071)
Dividends paid	(62,396)	-
Net cash provided by (used in) financing activities	9,193,156	(69,272)
Net increase in cash and cash equivalents	8,177,520	(569,844)
Cash and cash equivalents at beginning of period	244,925	5,893,897
Cash and cash equivalents at end of period	\$ 8,422,445	\$ 5,324,053

See accompanying notes.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
JUNE 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 six month period ended June 30, 1997 are not necessarily indicative of the results that may be expected for the year ended December 31, 1997.

On September 30, 1996 the Company acquired all of the outstanding common stock of Teklicon, Inc. ("Teklicon") in exchange for 415,000 shares of common stock. The acquisition was accounted for as a pooling of interests and, accordingly, the Company's financial statements have been restated for all periods prior to the merger to include the financial position, results of operations, and cash flows of Teklicon. The accompanying consolidated statements of operations, and cash flows for the three and six month periods ending June 30, 1996 have been restated to reflect the acquisition of Teklicon.

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 AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
JUNE 30, 1997

3. EARNINGS PER SHARE

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1996	1997	1996	1997
	----- (UNAUDITED)		----- (UNAUDITED)	
<b>Primary:</b>				
Weighted average number of shares of common stock outstanding during the period	3,291,416	4,526,912	2,653,426	4,523,210
Dilutive effect of other options and warrants - based on treasury stock method using average market price	223,950	168,325	216,346	160,653
	-----		-----	
Total common and common equivalent shares of stock considered outstanding during the year	3,515,366	4,695,237	2,869,772	4,683,863
	=====		=====	
Net income	\$ 650,997	\$ 710,037	\$ 955,333	\$ 1,349,622
	=====		=====	
Per share amount	\$ 0.19	\$ 0.15	\$ 0.33	\$ 0.29
	=====		=====	
<b>Fully diluted:</b>				
Weighted average number of shares of common stock outstanding during the period	3,291,416	4,526,912	2,653,426	4,523,210
Dilutive effect of other options and warrants - based on treasury stock method using market price at the end of the period	226,693	191,350	223,458	191,350
Assumed conversion of Series A Redeemable Convertible Preferred Stock	309,600	-	482,400	-
Assumed conversion of 8% Convertible Subordinated Debentures	178,615	-	278,308	-
	-----		-----	
Total fully diluted securities considered outstanding during the year	4,006,324	4,718,262	3,637,592	4,714,560
	=====		=====	
Net income	\$ 650,997	\$ 710,037	\$ 955,333	\$ 1,349,622
Add 8% Convertible Subordinated Debenture interest, net of income taxes	10,077	-	31,402	-
	-----		-----	
	\$ 661,074	\$ 710,037	\$ 986,735	\$ 1,349,622
	=====		=====	
Per share amount	\$ 0.17	\$ 0.15	\$ 0.27	\$ 0.29
	=====		=====	

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share", which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. The impact of Statement 128 on the calculation of earnings per share is not expected to be material.



FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION

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

Revenues for the second quarter and six months ended June 30, 1997, increased 18.3%, to \$9.5 million and 27.0% to \$19.0 million over the same periods in 1996, respectively. These increases are primarily the result of revenues from visual communication services growing 36.4% to \$4.6 million and 61.0% to \$9.3 million during the quarter and six 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. Trial consulting decreased 15.2% during the quarter and 4.9% during the six months, due to loss of certain revenue generating personnel during the periods. Engineering revenues grew 17.5% and 11.6% during the quarter and six months, respectively, attributable to increased sales by last year's acquisitions of Teklicon and Anamet Laboratories.

Direct costs, as a percentage of revenue, were approximately the same during the second quarter and six months of 1997 and 1996, as a result of managing the mix of internal and external resources to meet the demands for the Company's services. Selling, general and administrative expenses increased as a percent of revenue during the quarter as the growth in fixed and semi-variable costs exceeded the increase in revenues. Interest expense decreased in the quarter and six 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 six 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 possible acquisitions.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders was held on May 21, 1997. The following matters, solicited pursuant to Regulation 14A under the Exchange Act, were considered and voted upon at the Annual Meeting:

- (i) The election of two Class I Directors, each for a three-year term;
- (ii) Adoption of the Employee Stock Purchase Plan of the Company by a vote of 2,718,798 For, 278,840 Against and 9,090 Abstaining;
- (iii) Adoption of the 1997 Stock Option Plan of the Company by a vote of 2,415,259 For, 550,140 Against and 15,640 Abstaining;
- (iv) Ratification of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending 1997 by a vote of 3,899,429 For, 3,500 Against and 1,268 Abstaining.

6-MOS  
 DEC-31-1997  
 JAN-01-1997  
 JUN-30-1997  
 1  
 5,324,053  
 0  
 10,958,084  
 412,439  
 332,828  
 17,061,520  
 11,142,120  
 6,307,404  
 22,477,499  
 3,120,598  
 0  
 0  
 45,269  
 18,956,730  
 22,477,499  
 19,010,958  
 19,010,958  
 10,393,458  
 16,853,631  
 0  
 0  
 42,095  
 2,287,495  
 937,873  
 1,349,622  
 0  
 0  
 0  
 1,349,622  
 0.29  
 0.29