

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 March 31, 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 (I.R.S. Employer  
Incorporation or Organization) 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 May 14, 1997
Common Stock, par value \$.01 per share	4,526,912 shares

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
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Forensic Technologies International Corporation and Subsidiary

Consolidated Balance Sheets (Unaudited)

	DECEMBER 31, 1996	MARCH 31, 1997
	-----	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,893,897	\$ 5,713,454
Accounts receivable, less allowance of \$250,877 in 1996 and \$243,790 in 1997	6,296,599	6,708,425
Unbilled receivables, less allowance of \$125,439 in 1996 and \$162,526 in 1997	3,006,953	3,462,336
Inventory	332,828	332,828
Income taxes receivable	111,471	-
Deferred income taxes	185,926	185,926
Prepaid expenses	418,654	487,601
	-----	
Total current assets	16,246,328	16,890,570
Property and equipment:		
Buildings	411,241	411,241
Furniture and equipment	8,455,373	9,150,921
Leasehold improvements	863,821	1,127,302
	-----	
	9,730,435	10,689,464
Accumulated depreciation and amortization	(5,624,060)	(5,926,078)
	-----	
	4,106,375	4,763,386
Other assets	515,722	522,469
	-----	
Total assets	\$ 20,868,425	\$ 22,176,425
	=====	

	DECEMBER 31, 1996	MARCH 31, 1997
-----		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,502,076	\$ 1,465,536
Accrued compensation expense	783,108	1,038,498
Income taxes payable	-	314,306
Current portion of capital lease obligations	52,804	159,783
Advances from clients	585,562	543,265
Other current liabilities	11,063	-
	-----	
Total current liabilities	2,934,613	3,521,388
Long-term debt and capital lease obligations, less current portion	201,296	259,137
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 -		
4,516,912 in 1996, and 4,526,912 in 1997	45,169	45,269
Additional paid-in capital	14,429,703	14,453,402
Retained earnings	3,153,706	3,793,291
	-----	
Total stockholders' equity	17,628,578	18,291,962
	-----	
Total liabilities and stockholders' equity	\$ 20,868,425	\$ 22,176,425
	=====	

See Accompanying Notes.

Forensic Technologies International Corporation and Subsidiary

Consolidated Statements of Operations (Unaudited)

	THREE MONTHS ENDED MARCH 31	
	1996	1997
	-----	
	(Restated Note 1)	
Revenues	\$ 6,965,654	\$ 9,539,549
Direct cost of revenues	3,750,970	5,161,672
Selling, general and administrative expenses	2,626,903	3,349,544
	-----	
Total costs and expenses	6,377,873	8,511,216
	-----	
Income from operations	587,781	1,028,333
Other income (expenses):		
Interest and other income	32,290	75,680
Interest expense	(80,433)	(19,971)
	-----	
	(48,143)	55,709
	-----	
Income before income taxes	539,638	1,084,042
Income taxes	235,212	444,457
	=====	
Net income	\$ 304,426	\$ 639,585
	=====	
Earnings Per Share Data:		
Net income per common and common equivalent share:	\$0.14	\$0.14
	=====	
Net income per common share, assuming full dilution:	\$0.10	\$0.14
	=====	

See Accompanying Notes.

Forensic Technologies International Corporation and Subsidiary

Consolidated Statements of Cash Flows (Unaudited)

	THREE MONTHS ENDED MARCH 31	
	1996	1997
	-----	
	(Restated Note 1)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 304,426	\$ 639,585
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
provided by (used in) operating activities:		
Depreciation	165,850	278,317
Amortization	15,394	32,838
Non-cash compensation	10,841	-
Provision for doubtful accounts	45,489	30,000
Loss on disposal of discontinued Annaplix division	(471,869)	-
Changes in operating assets and liabilities:		
Accounts receivable	(12,058)	(404,739)
Unbilled receivables	(764,866)	(492,470)
Prepaid expenses	(9,638)	(68,947)
Accounts payable	113,842	(36,540)
Accrued compensation expense	328,328	255,390
Income taxes payable	202,888	425,777
Deferred revenue	(83,333)	-
Advances from clients	-	(42,297)
Other current liabilities	122,715	(11,063)
	-----	-----
Net cash provided by (used in) operating activities	(31,991)	605,851
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(364,482)	(751,404)
Change in other assets	(4,057)	(8,001)
	-----	-----
Net cash used in investing activities	(368,539)	(759,405)
<b>FINANCING ACTIVITIES</b>		
Issuance of Class A Common Stock	(300)	-
Repurchase of Class A Common Stock	(25,000)	-
Repurchase of Class A Common Stock subject to repurchase	(138,180)	-
Exercise of stock options	-	23,799
Net borrowings under line of credit	406,837	-
Payments of capital lease obligations	(26,667)	(50,688)
	-----	-----
Net cash provided by (used in) financing activities	216,690	(26,889)
	-----	-----
Net decrease in cash and cash equivalents	(183,840)	(180,443)
Cash and cash equivalents at beginning of period	420,072	5,893,897
	-----	-----
Cash and cash equivalents at end of period	\$ 236,232	\$ 5,713,454
	=====	=====

See Accompanying Notes.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
MARCH 31, 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 three month period ended March 31, 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 month period ending March 31, 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.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
MARCH 31, 1997 (CONTINUED)

3. EARNINGS PER SHARE

The following table summarizes the computations of earnings per share for the three month period ended March 31, 1997. This table should be read in conjunction with Note 2 to the 1996 audited financial statements.

	THREE MONTHS ENDED MARCH 31	
	1996	1997
	(UNAUDITED)	
Primary:		
Weighted average number of shares of common stock outstanding during the period	2,011,131	4,519,478
Dilutive effect of other options and warrants - based on treasury stock method using average market price	199,417	139,442
Total common and common equivalent shares of stock considered outstanding during the period	2,210,548	4,658,920
Net income	\$ 304,426	\$ 639,585
Per share amount	\$ 0.14	\$ 0.14
Fully diluted:		
Weighted average number of shares of common stock outstanding during the period	2,011,131	4,519,478
Dilutive effect of other options and warrants - based on treasury stock method using market price at the end of the period	199,417	139,442
Assumed conversion of Series A Redeemable Convertible Preferred Stock	655,200	-
Assumed conversion of 8% Convertible Subordinated Debentures	378,000	-
Total fully diluted securities considered outstanding during the period	3,243,748	4,658,920
Net income	\$ 304,426	\$ 639,585
Add 8% Convertible Subordinated Debenture interest, net of income taxes	21,420	-
	\$ 325,846	\$ 639,585
Per share amount	\$ 0.10	\$ 0.14

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 first quarter ended March 31, 1997, increased 37.0%, to \$9.5 million compared to the same period in 1996. This increase is primarily the result of revenues from visual communication services growing 96.6% to \$4.7 million during the quarter, attributable to three factors: a resumption of casework following the December 1996, holiday hiatus; a historically high level of active trials during the period; and, the particular success of an integrated approach to the marketing of the Company's services. Trial consulting increased 5.1% during the quarter, due to continued demand for these services during the period; engineering revenues grew 5.6%, attributable to increased sales by Teklicon, while other engineering services were generally flat compared to 1996.

Direct costs, as a percentage of revenue, were approximately the same during the first quarter 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 decreased as a percent of revenue as the fixed and semi-variable costs continued to benefit from larger increases in revenues. Interest expense decreased in the quarter 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 quarter, 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 \$5.7 million, will be used for working capital and other general corporate purposes, including possible acquisitions.



1000  
US DOLLARS

3-MOS

	DEC-31-1997	
	JAN-01-1997	
	MAR-31-1997	
	1	
	5,713,454	
	0	
	10,577,077	
	406,316	
	332,828	
	16,890,570	
	10,689,464	
	5,926,078	
	22,176,425	
3,521,388		0
	0	
	0	
	45,269	
	18,246,693	
22,176,425		
	9,539,549	
	9,539,549	
	5,161,672	
	8,511,216	
	0	
	0	
	19,971	
	1,084,042	
	444,457	
639,585		
	0	
	0	
		0
	639,585	
	0.14	
	0.14	