

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 June 30, 1996; 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, 1996
Common Stock, par value \$.01 per share	4,506,912 shares

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
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## Forensic Technologies International Corporation

## Balance Sheets (Unaudited)

	December 31, 1995	September 30, 1996
	-----	
	(Restated - Note 3)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 244,925	\$ 6,936,957
Accounts receivable, less allowance of \$212,262 in 1995 and \$245,581 in 1996	4,633,850	6,838,738
Unbilled receivables, less allowance of \$164,935 in 1995 and \$177,105 in 1996	2,230,674	2,896,332
Deferred income taxes	499,141	499,141
Prepaid expenses	145,805	669,361
	-----	
Total current assets	7,754,395	17,840,529
Property and equipment:		
Buildings	411,241	411,241
Furniture and equipment	6,576,259	7,778,134
Leasehold improvements	677,348	781,161
	-----	
	7,664,848	8,970,536
Accumulated depreciation and amortization	(4,784,174)	(5,368,220)
	-----	
	2,880,674	3,602,316
Deferred income taxes	4,090	4,090
Other assets	196,662	224,274
	=====	
Total assets	\$ 10,835,821	\$ 21,671,209
	=====	

	December 31, 1995	September 30, 1996
	-----	
	(Restated - Note 3)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,171,201	\$ 1,360,864
Borrowings under line of credit	2,110,391	713,075
Accrued compensation expense	933,841	844,621
Income taxes payable	288,127	622,255
Deferred revenue	138,889	-
Current portion of capital lease obligations	63,463	56,443
Accrued loss on disposal of discontinued operations	478,828	-
Other current liabilities	310,554	577,879
	-----	
Total current liabilities	5,495,294	4,175,137
Long-term debt and capital lease obligations, less current portion	206,747	182,931
8% Convertible Subordinated Debentures, due to stockholders	1,800,000	-
Series A Redeemable Convertible Preferred Stock, \$.01 par value, stated at redemption value	1,560,000	-
Common Stock Subject to Repurchase	310,930	-
Commitments and contingent liabilities	-	-
Stockholders' equity:		
Common stock, \$.01 par value:		
Class A:		
Authorized shares - 9,800,000 in 1995 and 16,000,000 in 1996		
Shares issued and outstanding and not subject to repurchase -		
1,989,059 in 1995 4,506,912 in 1996	19,891	45,070
Class B:		
Authorized shares - 6,300,000 in 1995 and 0 in 1996		
Issued and outstanding shares - 1,524,600 in 1995 and 0 in 1996	15,246	-
Additional paid-in capital	850	14,385,600
Retained earnings	1,455,773	2,882,471
Less: Unearned compensation recorded upon issuance of common stock	(28,910)	-
	-----	
Total stockholders' equity	1,462,850	17,313,141
	=====	
Total liabilities and stockholders' equity	\$ 10,835,821	\$ 21,671,209
	=====	

See accompanying notes.

## Forensic Technologies International Corporation

## Statements of Income (Unaudited)

	Three months ended September 30	
	1995	1996
	-----	
	(Restated - Note 3)	
Revenues	\$ 5,944,203	\$ 7,573,326
Direct cost of revenues	2,888,125	4,171,870
Selling, general and administrative expenses	2,528,520	2,665,547
	-----	
Total costs and expenses	5,416,645	6,837,417
	-----	
	527,558	735,909
Other income (expenses):		
Interest and other income	9,790	111,174
Interest expense	(63,000)	(14,596)
	-----	
	(53,210)	96,578
	-----	
Income from continuing operations before income taxes	474,348	832,487
Income taxes	192,900	345,527
	-----	
Income from continuing operations	281,448	486,960
Discontinued operations:		
Loss from operations of discontinued Annaplix division (Net of income tax benefit of \$13,100)	(43,000)	-
	-----	
Net income	\$ 238,448	\$ 486,960
	=====	
Earnings Per Share Data:		
Per common and common equivalent share:		
Income from continuing operations	\$0.12	\$0.10
	=====	
Net income	\$0.11	\$0.10
	=====	
Per common share, assuming full dilution:		
Income from continuing operations	\$0.10	\$0.10
	=====	
Net income	\$0.09	\$0.10
	=====	

See accompanying notes.

Forensic Technologies International Corporation  
Statements of Income (Unaudited)

	Nine months ended September 30	
	1995	1996
	(Restated - Note 3)	
Revenues	\$ 17,401,799	\$ 22,547,184
Direct cost of revenues	8,502,331	12,337,641
Selling, general and administrative expenses	7,122,184	7,758,103
Total costs and expenses	15,624,515	20,095,744
	1,777,284	2,451,440
Other income (expenses):		
Interest and other income	27,996	192,971
Interest expense	(187,000)	(155,982)
	(159,004)	36,989
Income from continuing operations before income taxes	1,618,280	2,488,429
Income taxes	646,900	1,046,136
Income from continuing operations	971,380	1,442,293
Discontinued operations:		
Income from operations of discontinued Annapplix division (less applicable income taxes of \$47,300)	25,000	-
Net income	\$ 996,380	\$ 1,442,293
Earnings Per Share Data:		
Per common and common equivalent share:		
Income from continuing operations	\$0.42	\$0.41
Net income	\$0.43	\$0.41
Per common share, assuming full dilution:		
Income from continuing operations	\$0.30	\$0.37
Net income	\$0.31	\$0.37

See accompanying notes.

## Forensic Technologies International Corporation

## Statements of Cash Flows (Unaudited)

	Nine months ended September 30,	
	1995	1996
	----- (Restated - Note 3)	
Operating activities		
Net income	\$ 993,380	\$ 1,442,293
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	290,691	525,230
Amortization	36,913	77,237
Non-cash compensation	43,374	28,910
Provision for doubtful accounts	85,574	45,489
Accrued loss on disposal of discontinued Annapplix division	-	(478,828)
Changes in operating assets and liabilities:		
Accounts receivable	(637,586)	(2,238,207)
Unbilled receivables	(956,897)	(677,828)
Prepaid expenses	(234,977)	(523,556)
Accounts payable	768,781	189,663
Accrued compensation expense	492,721	(89,220)
Income taxes payable	196,003	334,128
Deferred revenue	(250,000)	(138,889)
Other current liabilities	70,622	267,325
Accounting adjustment due to pooling	-	71,911
Net cash provided by (used in) operating activities	898,599	(1,164,342)
Investing activities		
Purchase of property and equipment	(1,100,233)	(1,305,688)
Acquisition of Applix Software Computer Service	(200,000)	-
Change in other assets	(13,855)	(46,033)
Net cash used in investing activities	(1,314,088)	(1,351,721)
Financing activities		
Issuance of Class A Common Stock	-	11,125,138
Repurchase of Class A Common Stock	(500,980)	(130,260)
Repurchase of Class A Common Stock subject to Repurchase	(103,635)	(310,930)
Repurchase of Class B Common Stock	(254,800)	(300)
Exercise of stock options	-	14,995
Net borrowings (repayments) under line of credit	1,728,005	(1,397,316)
Payments of capital lease obligations	(224,555)	(30,836)
Dividends paid	(62,399)	(62,396)
Net cash provided by financing activities	581,636	9,208,095
Net increase in cash and cash equivalents	166,147	6,692,032
Cash and cash equivalents at beginning of period	245,918	244,925
Cash and cash equivalents at end of period	\$ 412,065	\$ 6,936,957

See accompanying notes.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
SEPTEMBER 30, 1996

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. 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 and nine month periods ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. For further information, refer to the financial statements and notes thereto incorporated by reference in the Company's registration statement on Form 8-A filed on May 8, 1996.

2. DISCONTINUED OPERATIONS

As described in the notes to the 1995 audited financial statements, in March 1996 the Company agreed to sell the Annapplix division to a group including the former owner, who during 1995 managed the division as an officer of the Company, and certain other officers and stockholders of the Company. The Company, effective March 31, 1996, sold the furniture, equipment, and intangible assets of the division in exchange for cash of \$150,000, and retained ownership of billed and unbilled accounts receivable, buildings and accounts payable.

The Company recorded the results of operations and estimated loss on the sale of Annapplix as a discontinued operation in the 1995 annual financial statements. At December 31, 1995, the Company recorded an accrual of \$365,109 for the estimated loss on the sale of the division, which included \$285,000 for the estimated operating losses, net of the related income tax benefit, for the period from January 1, 1996 through March 31, 1996, the effective date of disposal. The actual loss did not differ materially from the Company's estimate.

3. ACQUISITION OF TEKLIICON, INC.

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.

Teklicon is based in Mountain View, California and provides technical consulting and expert witness testimony to attorneys and businesses.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
SEPTEMBER 30, 1996 (CONTINUED)

3. ACQUISITION OF TEKLICON, INC. (CONTINUED)

A summary of the separate amount of revenue and net income of the combined companies for the periods reported herein is as follows:

	Pre-Merger Company	Teklicon	Post-Merger Combined
-----			
THREE MONTHS ENDED SEPTEMBER 30, 1995:			
Revenues	\$5,240,000	\$704,203	\$5,944,203
Net income (loss)	\$267,000	\$(31,552)	\$235,448
NINE MONTHS ENDED SEPTEMBER 30, 1995:			
Revenues	\$15,073,000	\$2,328,799	\$17,401,799
Net income	\$952,000	\$41,380	\$993,380
THREE MONTHS ENDED SEPTEMBER 30, 1996:			
Revenues	\$6,977,983	\$595,343	\$7,573,326
Net income (loss)	\$546,405	\$(59,445)	\$486,960
NINE MONTHS ENDED SEPTEMBER 30, 1996			
Revenues	\$20,338,661	\$2,208,523	\$22,547,184
Net income (loss)	\$1,494,797	\$(52,504)	\$1,442,293

In connection with the merger, the Company entered into an employment agreement with the sole stockholder and executive officer of Teklicon. The future amount of compensation to be paid the officer, who will have substantially the same duties, will be less than the amounts paid in periods prior to the merger. Pro forma net income of the Company, assuming that the officer had received the reduced amount of compensation in the periods presented herein, is as follows:

	Combined Historical Net Income	Pro Forma Adjustments	Combined Pro Forma Net Income
-----			
Three months ended September 30, 1995	\$238,448	\$ 54,533	\$292,981
Nine months ended September 30, 1995	\$996,380	\$163,699	\$1,160,079
Three months ended September 30, 1996	\$486,960	\$ 4,075	\$491,035
Nine months ended September 30, 1996	\$1,442,293	\$ 59,175	\$1,501,468



FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
SEPTEMBER 30, 1996 (CONTINUED)

4. STOCKHOLDER'S EQUITY

On January 12, 1996, the Board of Directors approved the issuance of options to purchase 184,800 shares of Class A Common Stock to key employees. The exercise price of the granted shares is \$6.38 per share, or 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.

On January 26, 1996, the Board of Directors approved a 4.2-for-1 stock split of the Company's Class A Common Stock. The application of anti-dilution provisions effectively resulted in a 4.2-for-1 split of the Class B Common Stock and Series A Redeemable Preferred Stock. The stated par values of the common and preferred stocks were not changed. All share and per share amounts have been restated to retroactively reflect the split of the Class A Common Stock and effective split of the Class B Common Stock and Series A Redeemable Preferred Stock.

The Board of Directors on January 26, 1996 also amended the Company's articles of incorporation to change the authorized number of shares of preferred stock of all classes to 4,000,000 shares upon the closing of the initial public offering. Upon the closing of the initial public offering in May 1996, the Company's outstanding 8% Convertible Subordinated Debentures and all shares of Series A Redeemable Convertible Preferred Stock converted into shares of Common Stock.

In May 1996, upon the closing of its initial public offering and the exercise of the over-allotment option, the Company issued 1,800,000 and 220,000 shares of common stock, respectively, for net proceeds of \$11,110,000.

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
SEPTEMBER 30, 1996 (CONTINUED)

5. EARNINGS PER SHARE

The following tables summarize the computations of earnings per share for the three month and nine month periods ended September 30, 1995 and 1996. These tables should be read in conjunction with Note 2 to the 1995 audited financial statements.

	Three months ended September 30	
	1995	1996
	(Unaudited)	
<b>Primary:</b>		
Weighted average number of shares of common stock outstanding during the period	2,122,074	4,504,913
Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price	61,900	-
Dilutive effect of other options and warrants - based on treasury stock method using average market price	82,955	217,438
	-----	
Total common and common equivalent shares of stock considered outstanding during the year	2,266,929	4,722,351
	-----	
Net income	\$ 238,448	\$ 486,960
	-----	
Per share amount	\$ 0.11	\$ 0.10
	-----	
<b>Fully diluted:</b>		
Weighted average number of shares of common stock outstanding during the period	2,122,074	4,504,913
Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price	61,900	-
Dilutive effect of other options and warrants - based on treasury stock method using market price at the end of the period	88,907	246,237
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 year	3,306,081	4,751,150
	-----	
Net income	\$ 238,448	\$ 486,960
Add 8% Convertible Subordinated Debenture interest, net of income taxes	42,768	10,077
	-----	
	\$ 281,216	\$ 497,037
	-----	
Per share amount	\$ 0.09	\$ 0.10
	-----	

	Nine months ended September 30	
	1995	1996
	----- (Unaudited) -----	
<b>Primary:</b>		
Weighted average number of shares of common stock outstanding during the period	2,188,976	3,282,509
Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price	61,900	20,633
Dilutive effect of other options and warrants - based on treasury stock method using average market price	65,410	186,133
	-----	
Total common and common equivalent shares of stock considered outstanding during the year	2,316,286	3,489,275
	=====	
Net income	\$ 996,380	\$ 1,442,293
	=====	
Per share amount	\$ 0.43	\$ 0.41
	=====	
<b>Fully diluted:</b>		
Weighted average number of shares of common stock outstanding during the period	2,188,976	3,282,509
Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price	61,900	20,633
Dilutive effect of other options and warrants - based on treasury stock method using market price at the end of the period	88,907	213,697
Assumed conversion of Series A Redeemable Convertible Preferred Stock	655,200	320,426
Assumed conversion of 8% Convertible Subordinated Debentures	378,000	184,861
	-----	
Total fully diluted securities considered outstanding during the year	3,372,983	4,022,126
	=====	
Net income	\$ 996,380	\$ 1,442,293
Add 8% Convertible Subordinated Debenture interest, net of income taxes	42,768	31,402
	=====	
	\$ 1,039,148	\$ 1,473,695
	=====	
Per share amount	\$ 0.31	\$ 0.37
	=====	

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, 1996, increased 27.4%, to \$7.6 million and 29.5% to \$22.5 million over the same periods in 1995, respectively. These increases are primarily the result of revenues from trial consulting, growing 135% to \$1.7 million in the quarter and 152% to \$4.8 million for the nine months, and revenues from visual communication services increasing 57% to \$3.5 million during the quarter and 47% to \$9.8 million for the nine months. Such increases were primarily attributable to the increased market penetration by the Chicago and Los Angeles offices. Engineering revenues for the quarter and nine months declined 21% to \$2.2 million and 12% to \$7.5, respectively, due primarily to the lack of activity in any major cases during these periods.

Direct costs, as a percentage of revenue, increased during the quarter and six months, resulting primarily from the redirection of efforts by certain key personnel from selling, general and administrative activities to revenue generating activities. Additionally, the increase was due to the increased percentage of revenue from trial consulting and the recently acquired Teklicon, which carries slightly higher direct costs. Interest expense decreased in both the quarter and six months due to lower usage on the line of credit resulting from funds received from the sale of Common Stock in May, 1996.

Income from continuing operations grew 73% to \$486,900 during the second quarter and 48% to \$1,442,300 for the nine months. This growth is principally the result of the increase in both trial consulting and visual communication services revenues while costs remained approximately constant as a percentage of revenue. Income (loss) from discontinued operations, the company's division providing general data processing consulting services and network administration services sold during the first quarter of 1996, had no impact to date in 1996 compared to \$(43,000) and \$25,000 for the quarter and nine months ended September 30, 1995.

Cash flow during the quarter decreased, principally due to increases in accounts receivable resulting from a general increase in the level of business activity. For the nine months, cash flow increased as a result of the proceeds from the recent sale of the company's stock, providing approximately \$11.1 to be used to repay the company's borrowings under a revolving line of credit, purchase additional video and animation equipment and develop new technology. The balance of the net proceeds, approximately \$7.1 million, will be used for working capital and other general corporate purposes, including possible acquisitions.

1,000  
US DOLLARS

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JAN-01-1996	
SEP-30-1996	
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17,313,141	
	17,268,071
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22,547,184	
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1,442,293	
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