

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

(State or other Jurisdiction of
Incorporation or Organization)

52-1261113

(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 August 14, 1996 ----- |
|--|---|
| Common Stock, par value \$.01 per share | 4,087,712 shares |

FORENSIC TECHNOLOGIES INTERNATIONAL CORPORATION
INDEX

| PART I. | | FINANCIAL INFORMATION | Page |
|----------|---|-----------------------|---------|
| | | | ---- |
| Item 1. | Financial Statements..... | | 3 to 10 |
| Item 2. | Management's Discussion and Analysis of Results of Operations and Financial Condition | | 11 |
| PART II. | | OTHER INFORMATION | |
| Item 6. | Exhibits and Reports on Form 8-K | | 13 |

Forensic Technologies International Corporation

Balance Sheets

| | December 31 1995 | June 30 1996 |
|--|----------------------|-----------------|
| | ----- (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,610 | \$ 8,202,042 |
| Accounts receivable, less allowance of \$212,262 in 1995 and \$245,581 in 1996 | 4,063,432 | 4,221,274 |
| Unbilled receivables, less allowance of \$164,935 in 1995 and \$177,105 in 1996 | 2,230,674 | 3,244,527 |
| Deferred income taxes | 499,141 | 499,141 |
| Prepaid expenses | 133,052 | 247,541 |
| | ----- | |
| Total current assets | 6,935,909 | 16,414,525 |
| Property and equipment: | | |
| Buildings | 411,241 | 411,241 |
| Furniture and equipment | 6,335,898 | 7,068,168 |
| Leasehold improvements | 677,348 | 725,197 |
| | ----- | |
| | 7,424,487 | 8,204,606 |
| Accumulated depreciation and amortization | (4,594,318) | (4,961,974) |
| | ----- | |
| | 2,830,169 | 3,242,632 |
| Deferred income taxes | 4,090 | 4,090 |
| Other assets | 123,665 | 92,791 |
| | ----- | |
| | \$9,893,833 | \$ 19,754,038 |
| | ===== | |
| Total assets | | |

| | December 31 1995 | June 30 1996 |
|---|----------------------|-----------------|
| | ----- (Unaudited) | |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 916,742 | \$ 1,022,093 |
| Borrowings under line of credit | 2,110,391 | 616,583 |
| Accrued compensation expense | 820,746 | 704,532 |
| Incomes tax payable | 208,296 | 323,491 |
| Current portion of deferred revenue | 138,889 | - |
| Current portion of capital lease obligations | 63,463 | 52,218 |
| Accrued loss on disposal of discontinued operations | 478,828 | - |
| Other current liabilities | 198,054 | 408,414 |
| | ----- | |
| Total current liabilities | 4,935,409 | 3,127,331 |
| Long-term debt and capital lease obligations, less current portion | 206,747 | 177,979 |
| 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 - 1,574,059 in 1995 4,087,712 in 1996 | 15,741 | 40,878 |
| 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 | - | 14,475,523 |
| Retained earnings | 1,078,670 | 1,939,555 |
| Less: Unearned compensation recorded upon issuance of common stock | (28,910) | (7,228) |
| | ----- | |
| Total stockholders' equity | 1,080,747 | 16,448,728 |
| | ----- | |
| Total liabilities and stockholders' equity | \$ 9,893,833 | \$ 19,754,038 |
| | ===== | |

See accompanying notes.

Forensic Technologies International Corporation

Statements of Income (Unaudited)

| | Three months ended June 30 | |
|---|----------------------------|--------------|
| | 1995 | 1996 |
| Revenues | \$ 5,127,495 | \$ 7,119,790 |
| Direct cost of revenues | 2,311,097 | 3,901,537 |
| Selling, general and administrative expenses | 2,110,409 | 2,216,001 |
| Total costs and expenses | 4,421,506 | 6,117,538 |
| | 705,989 | 1,002,252 |
| Other income (expenses): | | |
| Interest and other income | 4,874 | 50,457 |
| Interest expense | (67,624) | (60,953) |
| | (62,750) | (10,496) |
| Income from continuing operations before income taxes | 643,239 | 991,756 |
| Income taxes | 261,540 | 406,631 |
| Income from continuing operations | 381,699 | 585,125 |
| Discontinued operations: | | |
| Income from operations of discontinued Annaplix division (less applicable income taxes of \$13,100) | 18,900 | - |
| Net income | \$ 400,599 | \$ 585,125 |
| Earnings Per Share Data: | | |
| Per common and common equivalent share: | | |
| Income from continuing operations | \$0.20 | \$0.19 |
| Net income | \$0.21 | \$0.19 |
| Per common share, assuming full dilution: | | |
| Income from continuing operations | \$0.14 | \$0.17 |
| Net income | \$0.14 | \$0.17 |

See accompanying notes.

Forensic Technologies International Corporation

Statements of Income (Unaudited)

| | Six months ended June 30 | |
|---|--------------------------|---------------|
| | 1995 | 1996 |
| | ----- | |
| Revenues | \$ 9,833,247 | \$ 13,360,768 |
| Direct cost of revenues | 4,681,263 | 7,206,786 |
| Selling, general and administrative expenses | 4,005,353 | 4,471,458 |
| | ----- | |
| Total costs and expenses | 8,686,616 | 11,678,244 |
| | ----- | |
| Other income (expenses): | | |
| Interest and other income | 11,572 | 61,239 |
| Interest expense | (130,715) | (141,386) |
| | ----- | |
| | (119,143) | (80,147) |
| | ----- | |
| Income from continuing operations before income taxes | 1,027,488 | 1,602,287 |
| Income taxes | 417,160 | 653,895 |
| | ----- | |
| Income from continuing operations | 610,328 | 948,392 |
| | ----- | |
| Discontinued operations: | | |
| Income from operations of discontinued Annaplix division (less applicable income taxes of \$47,300) | 68,400 | - |
| | ----- | |
| Net income | \$ 678,728 | \$ 948,392 |
| | ===== | |
| Earnings Per Share Data: | | |
| Per common and common equivalent share: | | |
| Income from continuing operations | \$0.32 | \$0.39 |
| | ===== | |
| Net income | \$0.36 | \$0.39 |
| | ===== | |
| Per common share, assuming full dilution: | | |
| Income from continuing operations | \$0.22 | \$0.30 |
| | ===== | |
| Net income | \$0.25 | \$0.30 |
| | ===== | |

See accompanying notes.

Forensic Technologies International Corporation

Statements of Cash Flows (Unaudited)

| | Six months ended June 30 | |
|--|--------------------------|--------------|
| | 1995 | 1996 |
| | | |
| Operating activities | | |
| Net income | \$ 678,728 | \$ 948,392 |
| Adjustment to reconcile net income to net cash | | |
| Depreciation | 306,880 | 330,649 |
| Amortization | 9,615 | 55,428 |
| Non-cash compensation | 33,395 | 21,682 |
| Provision for doubtful accounts | 69,575 | 45,489 |
| Accrued loss on disposal of discontinued Annaplix division | - | (478,828) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (673,561) | (184,573) |
| Unbilled receivables | (582,451) | (1,032,611) |
| Prepaid expenses | (234,875) | (114,489) |
| Accounts payable | 105,593 | 105,351 |
| Accrued compensation expense | 283,724 | (116,214) |
| Income taxes payable | 199,120 | 115,195 |
| Deferred revenue | (166,666) | (138,889) |
| Other current liabilities | 156,606 | 210,360 |
| | | |
| Net cash provided by (used in) operating activities | 185,683 | (233,058) |
| Investing activities | | |
| Purchase of property and equipment | (862,467) | (780,119) |
| Acquisition of Applix Software Computer Service | (200,000) | - |
| Change in other assets | (146,756) | 210,360 |
| | | |
| Net cash used in investing activities | (1,209,223) | (767,666) |
| Financing activities | | |
| 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 | (103,635) | (310,930) |
| Repurchase of Class B Common Stock | (3,600) | (300) |
| Net borrowings (repayments) under line of credit | 1,362,906 | (1,493,808) |
| Payments of capital lease obligations | (154,430) | (40,013) |
| Dividends paid | (62,399) | (62,396) |
| | | |
| Net cash provided by financing activities | 1,038,842 | 9,193,156 |
| | | |
| Net increase in cash and cash equivalents | 15,302 | 8,192,432 |
| Cash and cash equivalents at beginning of period | 600 | 9,610 |
| | | |
| Cash and cash equivalents at end of period | \$ 15,902 | \$ 8,202,042 |
| | | |

See accompanying notes.

Forensic Technologies International Corporation
Notes to Financial Statements (Unaudited)
June 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 six month periods ended June 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 footnotes thereto included in the Registration Statement on Form SB-2.

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 \$478,828 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. Common Stock Subject To Repurchase

The Company has entered into an agreement with a former employee to repurchase or cause another to purchase 29,018 shares of Class A Common Stock at \$4.76187 per share in January 1996 and 29,022 shares of Class A Common Stock at \$5.95238 per share in January 1997. The former employee retains ownership rights in the Class A Common Stock until repurchase. In January 1996, the Company paid the former employee the installment due of \$138,180 and retired the Common Stock repurchased. In May 1996, the Company paid the former employee \$172,250 to retire the remaining obligation. This commitment is classified as Common Stock subject to repurchase in the accompanying balance sheets.

Forensic Technologies International Corporation
Notes to Financial Statements (Unaudited)
June 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.

Forensic Technologies International Corporation
Notes to Financial Statements (Unaudited)
June 30, 1996 (continued)

5. Earnings Per Share

The following table summarizes the computations of earnings per share for the three month and six month periods ended June 30, 1995 and 1996. This table should be read in conjunction with Note 2 to the 1995 audited financial statements.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|------------|-----------------------------|------------|
| | 1995 | 1996 | 1995 | 1996 |
| | ----- (Unaudited) | | ----- (Unaudited) | |
| Primary: | | | | |
| Weighted average number of shares of common stock outstanding during the period | 1,803,668 | 2,883,580 | 1,807,818 | 2,249,596 |
| Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price | 61,900 | - | 61,900 | 30,950 |
| Dilutive effect of other options and warrants - based on treasury stock method using average market price | 41,686 | 216,785 | 41,686 | 174,226 |
| | ----- | | ----- | |
| Total common and common equivalent shares of stock considered outstanding during the year | 1,907,254 | 3,100,365 | 1,911,404 | 2,454,772 |
| | ===== | | ===== | |
| Net income | \$ 400,599 | \$ 585,125 | \$ 679,028 | \$ 948,392 |
| | ===== | | ===== | |
| Per share amount | \$ 0.21 | \$ 0.19 | \$ 0.36 | \$ 0.39 |
| | ===== | | ===== | |
| Fully diluted: | | | | |
| Weighted average number of shares of common stock outstanding during the period | 1,803,668 | 2,883,580 | 1,807,818 | 2,249,596 |
| Options to purchase common stock issued within one year of registration statement - based on treasury stock method using estimated offering price | 61,900 | - | 61,900 | 30,950 |
| Dilutive effect of other options and warrants - based on treasury stock method using market price at the end of the period | 41,686 | 219,528 | 41,686 | 181,338 |
| Assumed conversion of Series A Redeemable Convertible Preferred Stock | 655,200 | 309,600 | 655,200 | 482,400 |
| Assumed conversion of 8% Convertible Subordinated Debentures | 378,000 | 178,615 | 378,000 | 278,308 |
| | ----- | | ----- | |
| Total fully diluted securities considered outstanding during the year | 2,940,454 | 3,591,323 | 2,944,604 | 3,222,592 |
| | ===== | | ===== | |
| Net income | \$ 400,599 | \$ 585,125 | \$ 678,728 | \$ 948,392 |
| Add 8% Convertible Subordinated Debenture interest, net of income taxes | 21,348 | 10,077 | 42,768 | 31,402 |
| | ===== | | ===== | |
| | \$ 421,947 | \$ 595,202 | \$ 721,497 | \$ 979,794 |
| | ===== | | ===== | |
| Per share amount | \$ 0.14 | \$ 0.17 | \$ 0.25 | \$ 0.30 |
| | ===== | | ===== | |

Forensic Technologies International Corporation

Management's Discussion and Analysis of
Results of Operations and Financial Condition

Results of Operations

Revenues for the second quarter and six months ended June 30, 1996, increased 38.8%, to \$7.1 million and 36% to \$13.4 million over the same periods in 1995, respectively. These increases are primarily the result of revenues from trial consulting, growing 130% to \$1.5 million in the quarter and 162% to \$3.2 million for the six months, and visual communication services increasing 66% to \$3.5 million during the quarter and 40% to \$5.9 million for the six months. Such increases were primarily attributable to the seasoning of the Chicago and Los Angeles offices. Engineering revenues for the quarter and six months declined 18% to \$1.8 million and 9% to \$3.7, 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 which carries slightly higher direct costs. Interest expense increased in both the quarter and six months due to a significantly higher average outstanding balance on the line of credit.

Income from continuing operations grew 53% to \$585,100 during the second quarter and 55% to \$948,400 for the six 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 from discontinued operations, the company's division providing general data processing consulting services and network administration services sold during the first quarter of 1996, amounted to \$18,900 and \$68,400 for the quarter and six months ended June 30, 1995.

Liquidity and Sources of Capital

Cash flow during the quarter increased as a result of the proceeds from the recent sale of the company's stock, providing approximately \$11.4 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 general corporate purposes, including possible acquisitions.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended June 30, 1996.

1000
US DOLLARS

6-MOS
DEC-31-1996
JUN-30-1996
1
\$8,202,042
\$0
\$7,888,487
\$422,686
\$0
\$746,682
\$8,204,606
\$4,961,974
\$19,754,038
\$3,127,331
\$0
\$0
\$40,878
\$16,407,850
\$19,754,038
\$13,360,768
\$13,360,768
\$7,206,786
\$11,678,244
(61,239)
\$0
\$141,386
\$1,602,287
\$653,895
\$948,392
\$0
\$0
\$0
\$948,392
\$0.39
\$0.30