

RADIANT LOGISTICS, INC  
Form 10-Q  
February 14, 2007

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: December 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-50283

**RADIANT LOGISTICS, INC.  
(Exact Name of Registrant as Specified in Its Charter)**

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

04-3625550  
(IRS Employer Identification No.)

1227 120<sup>th</sup> Avenue N.E., Bellevue, WA 98005  
(Address of Principal Executive Offices)

(425) 943-4599  
(Issuer's Telephone Number, including Area Code)

N/A  
(Former Name, Former Address, and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 33,961,639 issued and outstanding shares of the registrant's common stock, par value \$.001 per share, as of February 12, 2007.



**RADIANT LOGISTICS, INC.****(f/k/a Golf Two, Inc.)****TABLE OF CONTENTS****PART I. FINANCIAL INFORMATION**

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**RADIANT LOGISTICS, INC.**  
**(f/k/a Golf Two, Inc.)**  
**Condensed Consolidated Balance Sheets**

|                                                                                                                                                              | December 31, 2006<br>(unaudited) | June 30, 2006<br>(audited) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------|
| <b>ASSETS</b>                                                                                                                                                |                                  |                            |
| Current assets -                                                                                                                                             |                                  |                            |
| Cash and cash equivalents                                                                                                                                    | \$ 192,614                       | \$ 510,970                 |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$201,682 and \$202,830 respectfully                                                       | 9,879,759                        | 8,487,899                  |
| Current portion of employee loan receivable and<br>other receivables                                                                                         | 40,400                           | 40,329                     |
| Prepaid expenses and other current assets                                                                                                                    | 102,417                          | 93,087                     |
| Deferred tax asset                                                                                                                                           | 296,013                          | 277,417                    |
| <b>Total current assets</b>                                                                                                                                  | <b>10,511,203</b>                | <b>9,409,702</b>           |
| Technology, furniture and equipment, net (Note 5)                                                                                                            | 550,757                          | 258,119                    |
| Acquired intangibles, net (Note 4)                                                                                                                           | 2,095,685                        | 2,401,600                  |
| Goodwill                                                                                                                                                     | 4,718,189                        | 4,712,062                  |
| Employee loan receivable                                                                                                                                     | 80,000                           | 120,000                    |
| Investment in real estate                                                                                                                                    | 40,000                           | 40,000                     |
| Deposits and other assets                                                                                                                                    | 109,572                          | 103,376                    |
| <b>Total long term assets</b>                                                                                                                                | <b>7,043,446</b>                 | <b>7,377,038</b>           |
|                                                                                                                                                              | <b>\$ 18,105,406</b>             | <b>\$ 17,044,859</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                  |                                  |                            |
| Current liabilities -                                                                                                                                        |                                  |                            |
| Accounts payable                                                                                                                                             | \$ 5,674,959                     | \$ 4,096,538               |
| Accrued transportation costs                                                                                                                                 | 2,022,556                        | 1,501,374                  |
| Commissions payable                                                                                                                                          | 658,632                          | 429,312                    |
| Other accrued costs                                                                                                                                          | 145,475                          | 303,323                    |
| Income taxes payable                                                                                                                                         | 719,319                          | 1,093,996                  |
| <b>Total current liabilities</b>                                                                                                                             | <b>9,220,941</b>                 | <b>7,424,543</b>           |
| Long term debt (Note 6)                                                                                                                                      | 1,167,143                        | 2,469,936                  |
| Deferred tax liability                                                                                                                                       | 712,533                          | 816,544                    |
| <b>Total long term liabilities</b>                                                                                                                           | <b>1,879,676</b>                 | <b>3,286,480</b>           |
| <b>Total liabilities</b>                                                                                                                                     | <b>11,100,617</b>                | <b>10,711,023</b>          |
| Commitments & contingencies (Note 7)                                                                                                                         | -                                | -                          |
| Stockholders' equity:                                                                                                                                        |                                  |                            |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized;<br>no shares issued or outstanding                                                          | -                                | -                          |
| Common stock, \$0.001 par value, 50,000,000 shares authorized;<br>issued and outstanding: 33,961,639 at December 31, 2006<br>and 33,611,639 at June 30, 2006 | 15,417                           | 15,067                     |
| Additional paid-in capital                                                                                                                                   | 7,036,127                        | 6,590,355                  |
| Accumulated deficit                                                                                                                                          | (46,755)                         | (271,586)                  |

|                            |               |               |
|----------------------------|---------------|---------------|
| Total Stockholders' equity | 7,004,789     | 6,333,836     |
|                            | \$ 18,105,406 | \$ 17,044,859 |

The accompanying notes form an integral part of these condensed consolidated financial statements.

**RADIANT LOGISTICS, INC.**  
**(f/k/a Golf Two, Inc.)**  
**Consolidated Statements of Income (Operations)**  
**(unaudited)**

|                                              | THREE MONTHS ENDED<br>DECEMBER 31, |              | SIX MONTHS ENDED<br>DECEMBER 31, |              |
|----------------------------------------------|------------------------------------|--------------|----------------------------------|--------------|
|                                              | 2006                               | 2005         | 2006                             | 2005         |
| Revenue                                      | \$ 18,343,928                      | \$ -         | \$ 32,761,029                    | \$ -         |
| Cost of transportation                       | 11,655,542                         | -            | 21,078,861                       | -            |
| Net revenues                                 | 6,688,386                          | -            | 11,682,168                       | -            |
| Agent Commissions                            | 5,242,753                          | -            | 8,970,070                        | -            |
| Personnel costs                              | 581,090                            | 54,174       | 1,088,120                        | 54,174       |
| Selling, general and administrative expenses | 612,593                            | 71,837       | 1,018,500                        | 85,912       |
| Depreciation and amortization                | 204,841                            | -            | 390,947                          | -            |
| Total operating expenses                     | 6,641,277                          | 126,011      | 11,467,637                       | 140,086      |
| Income (loss) from operations                | 47,109                             | (126,011)    | 214,531                          | (140,086)    |
| Other income (expense):                      |                                    |              |                                  |              |
| Interest income                              | 2,505                              | 14,433       | 4,311                            | 14,433       |
| Interest expense                             | (2,961)                            | -            | (10,452)                         | (500)        |
| Other                                        | (2,281)                            | -            | (2,681)                          | -            |
| Total other income (expense)                 | (2,737)                            | 14,433       | (8,822)                          | 13,933       |
| Income (loss) before income tax benefit      | 44,372                             | (111,578)    | 205,709                          | (126,153)    |
| Income tax benefit                           | (20,932)                           | -            | (19,122)                         | -            |
| Net income (loss)                            | \$ 65,304                          | \$ (111,578) | \$ 224,831                       | \$ (126,153) |
| Net income (loss) per common share - basic   | \$ -                               | \$ -         | \$ .01                           | \$ -         |
| Net income (loss) per common share - diluted | \$ -                               | \$ -         | \$ .01                           | \$ -         |
| Weighted average shares outstanding:         |                                    |              |                                  |              |
| Basic shares                                 | 33,958,378                         | 28,052,009   | 33,805,389                       | 27,008,094   |
| Diluted share                                | 34,468,711                         | 28,052,009   | 34,464,533                       | 27,008,094   |

The accompanying notes form an integral part of these condensed consolidated financial statements.



**RADIANT LOGISTICS, INC.**  
**(f/k/a Golf Two, Inc.)**  
**Condensed Consolidated Statement of Stockholders' Equity**

|                                                                                                  | COMMON STOCK |           | ADDITIONAL      | ACCUMULATED  | TOTAL                |
|--------------------------------------------------------------------------------------------------|--------------|-----------|-----------------|--------------|----------------------|
|                                                                                                  | SHARES       | AMOUNT    | PAID-IN CAPITAL | DEFICIT      | STOCKHOLDERS' EQUITY |
| Balance at July 1, 2006                                                                          | 33,611,639   | \$ 15,067 | \$ 6,590,355    | \$ (271,586) | \$ 6,333,836         |
| Issuance of common stock for training materials at \$1.01 per share (September 2006) (unaudited) | 250,000      | 250       | 252,250         | -            | 252,500              |
| Issuance of common stock as bonus compensation at \$1.01 per share (October 2006) (unaudited)    | 100,000      | 100       | 100,900         | -            | 101,000              |
| Share based compensation (unaudited)                                                             | -            | -         | 92,622          | -            | 92,622               |
| Net income for the six months ended                                                              |              |           |                 |              |                      |
| December 31, 2006 (unaudited)                                                                    | -            | -         | -               | 224,831      | 224,831              |
| Balance at December 31, 2006                                                                     | 33,961,639   | \$ 15,417 | \$ 7,036,127    | \$ (46,755)  | \$ 7,004,789         |

The accompanying notes form an integral part of these condensed consolidated financial statements.

**RADIANT LOGISTICS, INC.**  
**(f/k/a Golf Two, Inc.)**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

|                                                                                                 | For six months ended December 31, |                     |
|-------------------------------------------------------------------------------------------------|-----------------------------------|---------------------|
|                                                                                                 | 2006                              | 2005                |
| <b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>                                             |                                   |                     |
| Net income (loss)                                                                               | \$ 224,831                        | \$ (126,153)        |
| <b>ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                                   |                     |
| non-cash contribution to capital (rent)                                                         | -                                 | 300                 |
| non-cash compensation expense (stock options)                                                   | 92,622                            | 29,238              |
| non-cash issuance of common stock (services)                                                    | -                                 | 29,500              |
| non-cash issuance of common stock (interest)                                                    | -                                 | 3,500               |
| amortization of intangibles                                                                     | 305,915                           | -                   |
| amortization of deferred tax                                                                    | (104,011)                         | -                   |
| depreciation                                                                                    | 70,726                            | -                   |
| amortization of employee loan receivable                                                        | 40,000                            | -                   |
| amortization of credit facility                                                                 | 14,306                            | -                   |
| change in purchased accounts receivable                                                         | (6,128)                           | -                   |
| <b>CHANGE IN ASSETS AND LIABILITIES -</b>                                                       |                                   |                     |
| accounts receivables                                                                            | (1,391,860)                       | -                   |
| other receivables                                                                               | (71)                              | -                   |
| prepaid expenses and other current assets                                                       | (48,428)                          | (25,055)            |
| accounts payable                                                                                | 1,578,421                         | 145,388             |
| accrued transportation costs                                                                    | 521,182                           | -                   |
| commission payable                                                                              | 229,320                           | -                   |
| other accrued costs                                                                             | (56,847)                          | -                   |
| income taxes payable                                                                            | (374,677)                         | -                   |
| Net cash provided by operating activities                                                       | 1,095,301                         | 56,718              |
| <b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>                                                |                                   |                     |
| Acquisition of Airgroup - see Note 3                                                            | -                                 | (15,907)            |
| Purchase of technology and equipment                                                            | (110,864)                         | -                   |
| Net cash used for investing activities                                                          | (110,864)                         | (15,907)            |
| <b>CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:</b>                                  |                                   |                     |
| Net proceeds from issuance of common stock                                                      | -                                 | 5,202,525           |
| Net payments on long term debt                                                                  | (1,302,793)                       | -                   |
| Proceeds from stockholder's notes payable                                                       | -                                 | -                   |
| Net cash provided by (used for) financing activities                                            | (1,302,793)                       | 5,202,525           |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                                          | <b>(318,356)</b>                  | <b>5,243,336</b>    |
| <b>CASH, BEGINNING OF THE PERIOD</b>                                                            | <b>510,970</b>                    | <b>23,115</b>       |
| <b>CASH, END OF PERIOD</b>                                                                      | <b>\$ 192,614</b>                 | <b>\$ 5,266,451</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                                        |                                   |                     |
| Income taxes paid                                                                               | \$ 409,376                        | \$ -                |

|               |    |        |    |     |
|---------------|----|--------|----|-----|
| Interest paid | \$ | 10,452 | \$ | 800 |
|---------------|----|--------|----|-----|

The accompanying notes form an integral part of these condensed consolidated financial statements.

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**RADIANT LOGISTICS, INC.**  
**(f/k/a Golf Two, Inc.)**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

**Supplemental disclosure of non-cash financing activities:**

In September 2006, the Company issued 250,000 shares, of its common stock, at a market value of \$1.01 per share, in exchange for \$252,500, in value, of domestic and international freight training materials for the development of its employees and exclusive agent offices, and was included in the balance sheet as technology, furniture and equipment.

In October 2006, the Company issued 100,000 shares of common stock, at a market value of \$1.01 a share, as incentive compensation to its senior managers which was recorded against other accrued costs.

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**RADIANT LOGISTICS, INC.**  
**(f/k/a Golf Two, Inc.)**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**NOTE 1 - NATURE OF OPERATION AND BASIS OF PRESENTATION**

**General**

Radiant Logistics, Inc. (formerly known as “Golf Two, Inc.”) (the “Company”) was formed under the laws of the state of Delaware on March 15, 2001 and from inception through the third quarter of 2005, the Company's principal business strategy focused on the development of retail golf stores. In October 2005, the Company's new management team, consisting of Bohn H. Crain and Stephen M. Cohen, completed a change of control transaction when they acquired a majority of the Company's outstanding securities from the Company's former officers and directors in privately negotiated transactions. In conjunction with the change of control transaction, management: (i) discontinued the business model; (ii) repositioned the Company as a global transportation and supply chain management company; and (iii) changed the Company's name to “Radiant Logistics, Inc.” to, among other things, better align its name with its new business focus.

By implementing a growth strategy, the Company intends to build a leading global transportation and supply-chain management company offering a full range of domestic and international freight forwarding and other value added supply chain management services, including order fulfillment, inventory management and warehousing.

The Company's growth strategy will focus on organic, as well as acquisitive features. From an organic perspective, the Company will focus on strengthening existing and expanding new customer relationships. One of the drivers of the Company's organic growth will be the retention of existing, and securing of new exclusive agency locations.

The Company's acquisition strategy relies upon two primary factors: first, the Company's ability to identify and acquire target businesses that fit within its general acquisition criteria, and second, the continued availability of capital and financing resources sufficient to complete these acquisitions. The Company's ability to secure additional financing will rely upon the sale of debt or equity securities, and the development of an active trading market for the Company's securities, neither of which can be assured.

The Company's strategy has been designed to take advantage of shifting market dynamics. The third party logistics industry continues to grow as an increasing number of businesses outsource their logistics functions to more cost effectively manage and extract value from their supply chains. Also, the industry is positioned for further consolidation as it remains highly fragmented, and as customers are demanding the types of sophisticated and broad reaching service offerings that can more effectively be handled by larger more diverse organizations.

Successful implementation of the Company's growth strategy will rely on a number of factors, including the ability to efficiently integrate any acquired businesses, generate the anticipated economies of scale from the integration, and maintain the historic sales growth of the acquired businesses in order to generate continued organic growth. There are a variety of risks associated with the Company's ability to achieve its strategic objectives, including the ability to acquire and profitably manage additional businesses and the intense competition in the Company's industry for customers and for the acquisition of additional businesses.

The Company accomplished the first step in its strategy by completing the acquisition of Airgroup effective as of January 1, 2006. Airgroup is a non-asset based logistics company that provides domestic and international freight forwarding services through a network of, originally, 34, and presently 36 active, exclusive agent offices across North America. Airgroup, a Seattle, Washington based company, services a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and over 100 international agents positioned strategically around the world.

### **Interim Disclosure**

The condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company's management believes that the disclosures are adequate to make the information presented not misleading. The Company's management suggests that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K/T for the year ended June 30, 2006.

The interim period information included in this Quarterly Report on Form 10-Q reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of the Company's management, necessary for a fair statement of the results of the respective interim periods. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year.

### **Basis of Consolidation**

These consolidated financial statements include the accounts of Radiant Logistics, Inc. and its wholly-owned subsidiary, Airgroup Corporation. All significant inter-company balances and transactions have been eliminated.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) Use of Estimates**

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include revenue recognition, accruals for the cost of purchased transportation, accounting for the issuance of shares and share based compensation, the assessment of the recoverability of long-lived assets (specifically goodwill and acquired intangibles), the establishment of an allowance for doubtful accounts and the valuation allowance for deferred tax assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results could differ from those estimates.

### **b) Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash equivalents include all highly liquid investments with original maturities of three months or less which are not securing any corporate obligations.

### **c) Concentration**

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

**d) Accounts Receivable**

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The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company evaluates the collectability of accounts receivable on a customer-by-customer basis. The Company records a reserve for bad debts against amounts due to reduce the net recognized receivable to an amount the Company believes will be reasonably collected. The reserve is a discretionary amount determined from the analysis of the aging of the accounts receivables, historical experience, and knowledge of specific customers.

**e) Technology, Furniture and Equipment**

Technology (computer software, hardware, and communications), furniture, and equipment are stated at cost, less accumulated depreciation over the estimated useful lives of the respective assets. Depreciation is computed using five to seven year lives for vehicles, communication, office, furniture, and computer equipment and the double declining balance method. Computer software is depreciated over a three year life using the straight line method of depreciation. For leasehold improvements, the cost is depreciated over the shorter of the lease term or useful life on a straight line basis. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in other income or expense. Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized.

Under the provisions of Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", the Company capitalizes costs associated with internally developed and/or purchased software systems that have reached the application development stage and meet recoverability tests. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software, payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project and capitalized interest, if appropriate. Capitalization of such costs begins when the preliminary project stage is complete and ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

Costs for general and administrative, overhead, maintenance and training, as well as the cost of software that does not add functionality to existing systems, are expensed as incurred.

**f) Goodwill**

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires an annual impairment test for goodwill and intangible assets with indefinite lives. Under the provisions of SFAS No. 142, the first step of the impairment test requires the Company to determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. In the future, the Company will perform its annual impairment test effective as of April 1 of each year, unless events or circumstances indicate an impairment may have occurred before that time. As of December 31, 2006 there are no indications of an impairment.

**g) Long-Lived Assets**

Acquired intangibles consist of customer related intangibles and non-compete agreements arising from the Company's acquisitions. Customer related intangibles are amortized using accelerated methods over approximately 5 years and



non-compete agreements are amortized using the straight line method over a 5 year period.

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The Company follows the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which establishes accounting standards for the impairment of long-lived assets such as property, plant and equipment and intangible assets subject to amortization. The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has performed a review of all long-lived assets and has determined that no impairment of the respective carrying value has occurred as of December 31, 2006.

#### **h) Commitments and Contingencies**

The Company has operating lease commitments some of which are for office and warehouse space and are under non-cancelable operating leases expiring at various dates through December 2010. Annual commitments, 2007 through 2011, respectively, are \$242,929, \$87,122, \$86,498, \$78,008, and \$31,800.

#### **i) Income Taxes**

Taxes on income are provided in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax bases of particular assets and liabilities and the tax effects of net operating loss and capital loss carryforwards. Deferred tax assets and liabilities are measured using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset the net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

#### **j) Revenue Recognition and Purchased Transportation Costs**

The Company recognizes revenue on a gross basis, in accordance with Emerging Issues Task Force ("EITF") 99-19, "Reporting Revenue Gross versus Net," as a result of the following: The Company is the primary obligor responsible for providing the service desired by the customer and is responsible for fulfillment, including the acceptability of the service(s) ordered or purchased by the customer. At the Company's sole discretion, it sets the prices charged to its customers, and is not required to obtain approval or consent from any other party in establishing its prices. The Company has multiple suppliers for the services it sells to its customers, and has the absolute and complete discretion and right to select the supplier that will provide the product(s) or service(s) ordered by a customer, including changing the supplier on a shipment-by-shipment basis. In most cases, the Company determines the nature, type, characteristics, and specifications of the service(s) ordered by the customer. The Company also assumes credit risk for the amount billed to the customer.

As a non-asset based carrier, the Company does not own transportation assets. The Company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. In accordance with EITF 99-19, revenue from freight forwarding and export services is recognized at the time the freight is tendered to the direct carrier at origin, and direct expenses associated with the cost of transportation are accrued concurrently. At the time when revenue is recognized on a transportation shipment, the Company records costs related to that shipment based on the estimate of total purchased transportation costs. The estimates are based upon anticipated margins, contractual arrangements with direct carriers and other known factors. The estimates are routinely monitored and compared to actual invoiced costs. The estimates are adjusted as deemed necessary by the Company to reflect differences between the original accruals and actual costs of purchased transportation.



### **k) Share based Compensation**

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share Based Payment," a revision of FASB Statements No. 123 ("SFAS 123R"). This statement requires that the cost resulting from all share-based payment transactions be recognized in the Company's consolidated financial statements. In addition, in March 2005 the Securities and Exchange Commission ("SEC") released SEC Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"). SAB 107 provides the SEC's staff's position regarding the application of SFAS 123R and certain SEC rules and regulations, and also provides the staff's views regarding the valuation of share-based payment arrangements for public companies. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure of fair value recognition, as prescribed under SFAS 123, is no longer an alternative. The Company adopted Statement 123R in October 2005 using the modified prospective approach.

For the six months ended December 31, 2006, the Company recorded a share based compensation expense of \$92,622, which, net of income taxes, resulted in a \$61,131 net reduction of net income. For the three months ended December 31, 2006 the Company recorded a share based compensation expense of \$47,630, which, net of income taxes, resulted in a \$31,436 net reduction of net income. Prior to October 2005 the Company did not have a stock option plan therefore no expense was recorded. For the three months ended December 31, 2005, the Company recorded a share based compensation expense of \$29,238 which resulted in reduction of net income by \$29,238 as there was no tax benefit due to the ongoing net loss since inception.

### **l) Basic and Diluted Income (Loss) Per Share**

The Company uses SFAS No. 128, Earnings Per Share for calculating the basic and diluted income (loss) per share. Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding. Diluted income per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were outstanding options to purchase 2,570,000 and 2,000,000 shares of common stock for both the three and six months ended December 31, 2006 and 2005, respectively. For three months ended December 31, 2006 and 2005, the outstanding number of potentially dilutive common shares totaled 34,468,711 and 28,052,009 shares of common stock. Options to purchase 1,045,000 shares of common stock were not included in the diluted EPS computation for the three months ended December 31, 2006 as the exercise prices of those options were greater than the market price of the common shares and are thus anti-dilutive. Options to purchase 2,000,000 shares of common stock were not included in the diluted EPS computation for the three months ended December 31, 2005 as there was a loss in this period and thus the shares would be anti-dilutive.

For the six months ended December 31, 2006 and 2005, the outstanding number of potentially dilutive common shares totaled 34,464,533 and 27,008,094 shares of common stock. For the six months ended December 31, 2006, dilutive common shares included options to purchase shares of common stock computed by calculating the weighted average of the number of incremental dilutive shares added to each quarter.

Options to purchase 1,045,000 shares of common stock were not included in the diluted EPS computation for the six months ended December 31, 2006 as the exercise prices of those options were greater than the market price of the common shares and thus are anti-dilutive. Options to purchase 2,000,000 shares of common stock were not included in the diluted EPS computation for the six months ended December 31, 2005 as there was a loss in this period and thus the shares would be anti-dilutive.

### **NOTE 3 - ACQUISITION OF AIRGROUP**



In January of 2006, the Company acquired 100 percent of the outstanding stock of Airgroup Corporation (“Airgroup”). Airgroup is a non-asset based logistics company that provides domestic and international freight forwarding services through a network of, originally, 34, and presently 36 active, exclusive agent offices across North America. Airgroup, a Seattle, Washington based company, services a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and over 100 international agents positioned strategically around the world. See the Company’s Form 8-K filed on January 18, 2006 for additional information.

The transaction was valued at up to \$14.0 million based on meeting all incentive and contingent factors. This consists of: (i) \$9.5 million payable in cash at closing (before giving effect for \$2.8 million in acquired cash); (ii) an additional base payment of \$0.6 million payable in cash on the one-year anniversary of the closing, provided at least 90% of Airgroup’s locations remain operational through the first anniversary of the closing (the “Additional Base Payment”); (iii) a subsequent cash payment of \$0.5 million in cash on the two-year anniversary of the closing; (iv) a base earn-out payment of \$1.9 million payable in Company common stock over a three-year earn-out period based upon Airgroup achieving income from continuing operations of not less than \$2.5 million per year; and (v) as additional incentive to achieve future earnings growth, an opportunity to earn up to an additional \$1.5 million payable in Company common stock at the end of a five-year earn-out period (the “Tier-2 Earn-Out”). Under Airgroup’s Tier-2 Earn-Out, the former shareholders of Airgroup are entitled to receive 50% of the cumulative income from continuing operations in excess of \$15,000,000 generated during the five-year earn-out period up to a maximum of \$1,500,000. With respect to the base earn-out payment of \$1.9 million, in the event there is a shortfall in income from continuing operations, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that income from continuing operations in any other payout year exceeds the \$2.5 million level. The Company has recently agreed with the former shareholders of Airgroup to modify the terms of the \$.6 million payment otherwise contingently due on January 11, 2007. See Note 12 Subsequent Events.

The acquisition, which provided the platform operation for the Company’s consolidation strategy, was accounted for as a purchase and accordingly, the results of operations and cash flows of Airgroup have been included in the Company’s condensed consolidated financial statements prospectively from the date of acquisition. The total purchase price, including acquisition expenses of \$104,779, but excluding the contingent consideration, was \$10,104,779. The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired and liabilities assumed at January 1, 2006:

|                                  |               |
|----------------------------------|---------------|
| Current assets                   | \$ 11,671,691 |
| Furniture and equipment          | 231,726       |
| Other assets                     | 196,634       |
| Goodwill and other intangibles   | 7,460,189     |
| Total acquired assets            | 19,560,240    |
| Current liabilities assumed      | 8,523,181     |
| Long term deferred tax liability | 932,280       |
| Total acquired liabilities       | 9,455,461     |
| Net assets acquired              | \$ 10,104,779 |

For the three and six months ended December 31, 2006, the Company recorded an expense of \$152,956 and \$305,915, respectively, from amortization of intangibles and an income tax benefit of \$104,011 and \$52,006, respectively, from amortization of the long term deferred tax liability; both arising from the acquisition of Airgroup. The Company expects the net reduction in income, from the combination of amortization of intangibles and long term deferred tax liability, will be \$403,806 in fiscal year 2007, \$361,257 in 2008, \$394,079 in 2009, \$318,862 in 2010, and \$107,052 in 2011. Also see Note 4.

The following information for the three and six months ended December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) is presented as if the acquisition of Airgroup had occurred on January 1, 2005 (in thousands, except earnings per share):

|                        | Three Months ended<br>December 31, |           | Six Months Ended<br>December 31, |           |
|------------------------|------------------------------------|-----------|----------------------------------|-----------|
|                        | 2006                               | 2005      | 2006                             | 2005      |
| Total revenue          | \$ 18,344                          | \$ 14,677 | \$ 32,761                        | \$ 28,111 |
| Income from operations | 47                                 | (130)     | 215                              | 172       |
| Net income             | 65                                 | ( 25)     | 225                              | 180       |
| Earnings per share:    |                                    |           |                                  |           |
| Basic                  | \$ 0.00                            | \$ 0.00   | \$ 0.01                          | \$ 0.01   |
| Diluted                | \$ 0.00                            | \$ 0.00   | \$ 0.01                          | \$ 0.01   |

#### NOTE 4 - ACQUIRED INTANGIBLE ASSETS

The table below reflects acquired intangible assets related to the acquisition of Airgroup on January 1, 2006. The information is for the six months ended December 31, 2006 and the year ended June 30, 2006. Prior to the Company's acquisition of Airgroup, there were no intangible assets for prior years as this is the Company's first acquisition.

|                                | Six months ended<br>December 31, 2006 |                             | Year ended June 30, 2006    |                             |
|--------------------------------|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                | Gross<br>carrying<br>amount           | Accumulated<br>Amortization | Gross<br>carrying<br>amount | Accumulated<br>Amortization |
| Amortizable intangible assets: |                                       |                             |                             |                             |
| Customer related               | \$ 2,652,000                          | \$ 628,315                  | \$ 2,652,000                | \$ 331,400                  |
| Covenants not to compete       | 90,000                                | 18,000                      | 90,000                      | 9,000                       |
| <b>Total</b>                   | <b>\$ 2,742,000</b>                   | <b>\$ 646,315</b>           | <b>\$ 2,742,000</b>         | <b>\$ 340,400</b>           |

## Aggregate amortization expense:

For the three months ended

December 31, 2006 \$ 152,956

For the six months ended December  
31, 2005 \$ -For the six months ended December  
31, 2006 \$ 305,915For the six months ended December  
31, 2005 \$ -Aggregate amortization expense for  
the year ended June 30:

2007 - For the remainder of the year \$ 305,912

2008 547,359

2009 597,090

2010 483,124

2011 162,200

\$ 2,095,685

**NOTE 5 - TECHNOLOGY, FURNITURE AND EQUIPMENT**

The Company, prior to acquiring Airgroup, did not carry any fixed assets since its inception. Property and equipment consists of the following:

|                                                 | December 31,<br>2006 | June 30,<br>2006 |
|-------------------------------------------------|----------------------|------------------|
| Vehicles                                        | \$ 3,500             | \$ 3,500         |
| Communication equipment                         | 1,353                | 1,353            |
| Office equipment                                | 258,523              | 6,023            |
| Furniture and fixtures                          | 10,212               | 10,212           |
| Computer equipment                              | 159,068              | 96,653           |
| Computer software                               | 246,888              | 198,438          |
| Leasehold improvements                          | 10,699               | 10,699           |
|                                                 | 690,243              | 326,878          |
| Less: Accumulated depreciation and amortization | (139,486)            | (68,759)         |
| Technology, furniture, and equipment - net      | \$ 550,757           | \$ 258,119       |

Depreciation and amortization expense for the six months ended December 30, 2006 was \$70,726 and for year ended June 30, 2006 was \$68,759.





## **NOTE 6 - LONG TERM DEBT**

To complete the Airgroup acquisition and ensure adequate financial flexibility, the Company secured a \$10,000,000 revolving credit facility (the "Facility") in January 2006. The Facility is collateralized by our accounts receivable and other assets of the Company and its subsidiary. Advances under the Facility are available to fund future acquisitions, capital expenditures or for other corporate purposes. Borrowings under the facility bear interest, at the Company's option, at prime minus 1.00% or LIBOR plus 1.55% and can be adjusted up or down during the term of the Facility based on the Company's performance relative to certain financial covenants. The facility provides for advances of up to 75% of the Company's eligible accounts receivable.

As of December 31, 2006, the Company had no amounts outstanding under the Facility and had eligible accounts receivable sufficient to support approximately \$4.6 million in borrowings. The terms of the Facility are subject to certain financial and operational covenants which may limit the amount otherwise available under the Facility. The first covenant limits funded debt to a multiple of 3.00 times the Company's consolidated EBITDA measured on a rolling four quarter basis (or a multiple of 3.25 at a reduced advance rate of 70.0%). The second financial covenant requires the Company to maintain a basic fixed charge coverage ratio of at least 1.1 to 1.0. The third financial covenant is a minimum profitability standard that requires the Company not to incur a net loss before taxes, amortization of acquired intangibles and extraordinary items in any two consecutive quarterly accounting periods.

Under the terms of the Facility, the Company is permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the Facility include the following: (i) the absence of an event of default under the Facility, (ii) the company to be acquired must be in the transportation and logistics industry, (iii) the purchase price to be paid must be consistent with the Company's historical business and acquisition model, (iv) after giving effect for the funding of the acquisition, the Company must have undrawn availability of at least \$2.0 million under the Facility, (v) the lender must be reasonably satisfied with projected financial statements the Company provides covering a 12 month period following the acquisition, (vi) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender, and (vii) the number of permitted acquisitions is limited to three per calendar year and shall not exceed \$7.5 million in aggregate purchase price financed by funded debt. In the event that the Company is not able to satisfy the conditions of the Facility in connection with a proposed acquisition, it must either forego the acquisition, obtain the lender's consent, or retire the Facility. This may limit or slow the Company's ability to achieve the critical mass it may need to achieve our strategic objectives. At December 31, 2006, the Company was in compliance with all of its covenants.

As of December 31, 2006, the Company had no advances under the Facility but had \$667,143 in outstanding checks which had not yet been presented to the bank for payment. The outstanding checks have been reclassified from our cash accounts, as they will be advanced from, or against, our Facility when presented for payment to the bank. The \$667,143, in addition to a \$500,000 payable to the former shareholders of Airgroup, totals long term debt of \$1,167,143.

At December 31, 2006, based on available collateral and \$305,000 in outstanding letter of credit commitments, there was \$4,563,997 available for borrowing under the Facility.

## **NOTE 7 - COMMITMENTS AND CONTINGENCIES**

In December 2006, the Company entered into finders fee arrangements with third parties to assist the Company in locating logistics businesses that could become additional exclusive agent operations of the Company and/or candidates for acquisition. Any amounts due under these arrangements are payable as a function of the financial performance of any newly acquired operation and contingently payable upon, among other things, the retention of any newly acquired operations for a period of not less than 12 months. Payment of the finders fee may be paid in cash, Company shares, or a combination of cash and shares.



## **NOTE 8 - PROVISION FOR INCOME TAXES**

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company accumulated a net federal operating loss carryforward of \$342,272 from inception through its transition into the logistics business in January of 2006 which expires in 2025. Utilization of the net operating loss and tax credit carryforwards is subject to significant limitations imposed by the change in control under I.R.C. 382, limiting its annual utilization to the value of the Company at the date of change in control times the federal discount rate. A significant portion of the NOL may expire before it can be utilized. The Company is maintaining a valuation allowance of approximately \$116,000 to off-set the deferred tax asset associated with these net operating losses until when, in the opinion of management, utilization is reasonably assured.

For three and six months ended December 31, 2006, the Company recognized net income tax benefit of \$20,932 and \$19,122 consisting of \$52,005 and \$104,011, respectively, of income tax benefit offset by the amortization of the deferred tax liability attributed to the acquisition of Airgroup, in accordance with FASB 109.

The Company's consolidated effective tax rate during the six month period ended December 31, 2006 was 34.0%. No tax benefit was recorded in December 31, 2005 due to the ongoing losses as discussed above.

## **NOTE 9 - STOCKHOLDERS' EQUITY**

### **Preferred Stock**

The Company is authorized to issue 5,000,000 shares of preferred stock, par value at \$.001 per share. As of December 31, 2006, none of the shares were issued or outstanding (unaudited).

### **Common Stock**

In September 2006, the Company issued 250,000 shares of our common stock, at a market value of \$1.01 per share, in exchange for \$252,500, in value, of domestic and international freight training materials for the development of its employees and exclusive agent offices.

In October 2006, the Company issued of 100,000 shares of common stock, at a market value of \$1.01 a share, as incentive compensation to its senior managers.

## **NOTE 10 - SHARE BASED COMPENSATION**

The Company issued its first employee options in October of 2005 and adopted the fair value recognition provisions of SFAF123R concurrent with this initial grant.

For the three months ended December 31, 2006, no options to purchase shares were issued. During the six months ended December 31, 2006 the Company issued employees options to purchase 100,000 shares of common stock at \$0.74 per share in August 2006 and 45,000 shares of common stock at \$1.01 per share in September 2006. The options vest 20% a year over a five year term.

Share based compensation costs recognized during the six months ended December 31, 2006, includes compensation cost for all share-based payments granted to date, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. No options have been exercised as of September 30, 2006.

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For the six months ended December 31, 2006, the weighted average fair value per share of employee options granted in August 2006 was \$.60 and \$.81 in September 2006. The fair value of options granted were estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions for each issuance of options:

|                         | August<br>2006 | September<br>2006 |
|-------------------------|----------------|-------------------|
| Dividend yield          | None           | None              |
| Volatility              | 112.7%         | 110.0%            |
| Risk free interest rate | 3.73%          | 3.73%             |
|                         | 5.0            | 5.0               |
| Expected lives          | years          | years             |

In accordance with SFAS123R, the Company is required to estimate the number of awards that are ultimately expected to vest. Due to the lack of historical information, the Company has not reduced its share based compensation costs for any estimated forfeitures. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

For the three months ended December 31, 2006 and 2005, the Company recognized stock option compensation costs of \$47,630 and \$29,238, respectively, in accordance with SFAS 123R. For the six months ended December 31, 2006 and 2005, the Company recognized stock option compensation costs of \$92,622 and \$29,238, respectively, in accordance with SFAS 123R.

The following table summarizes activity under the plan for the six months ended December 31, 2006.

|                                  | Number of<br>shares | Weighted<br>Average<br>exercise<br>price per<br>share | Weighted<br>average<br>remaining<br>contractual<br>life | Aggregate<br>intrinsic<br>value |
|----------------------------------|---------------------|-------------------------------------------------------|---------------------------------------------------------|---------------------------------|
| Outstanding at June 30, 2006     | 2,425,000           | \$ 0.593                                              | 9.38 years                                              | \$ 1,109,250                    |
| Options granted                  | 145,000             | 0.824                                                 | -                                                       | -                               |
| Options exercised                | -                   | -                                                     | -                                                       | -                               |
| Options forfeited                | -                   | -                                                     | -                                                       | -                               |
| Options expired                  | -                   | -                                                     | -                                                       | -                               |
| Outstanding at December 31, 2006 | 2,170,000           | \$ 0.602                                              | 8.94 years                                              | \$ 86,750                       |
| Exercisable at December 31, 2006 | 400,000             | \$ 0.625                                              | 8.83 years                                              | 10,000                          |

**NOTE 11 - RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The Company does not expect the adoption of SFAS 158 to have any impact on its financial position, results of operations or cash flows.



In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157 "Fair Value Measurements" which relate to the definition of fair value, the methods used to estimate fair value, and the requirement of expanded disclosures about estimates of fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact this interpretation will have on our consolidated financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes," with respect to FASB Statement No. 109, "Accounting for Income Taxes," regarding accounting for and disclosure of uncertain tax positions. FIN No. 48 is intended to reduce the diversity in practice associated with the recognition and measurement related to accounting for uncertainty in income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 to have any impact on its financial position, results of operations or cash flows.

In February 2006, the FASB has issued FASB Statement No. 155, "Accounting for Certain Hybrid Instruments." This standard amends the guidance in FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities," and No. 140, Accounting for "Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Statement 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. Statement 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS 155 to have any impact on its financial position, results of operations or cash flows.

#### **NOTE 12 - SUBSEQUENT EVENTS**

In February 2007, the Company's \$10,000,000 revolving credit facility (Facility) was extended into 2009 with more favorable terms to the Company. The Facility is collateralized by our accounts receivable and other assets of the Company and its subsidiaries. Advances under the Facility are available to fund future acquisitions, capital expenditures or for other corporate purposes. Borrowings under the facility bear interest, at the Company's option, at the Bank's prime rate minus .15% to 1.00% or LIBOR plus 1.55% to 2.25% and can be adjusted up or down during the term of the Facility based on the Company's performance relative to certain financial covenants. The facility provides for advances of up to 80% of the Company's eligible accounts receivable.

The terms of the Facility are subject to certain financial and operational covenants which may limit the amount otherwise available under the Facility. The first covenant limits funded debt to a multiple of 3.00 times the Company's consolidated EBITDA measured on a rolling four quarter basis (or a multiple of 3.25 at a reduced advance rate of 75.0%). The second financial covenant requires the Company to maintain a funded debt to EBDITA ratio of 3.25 to 1.0. The third financial covenant requires the Company to maintain a basic fixed charge coverage ratio of at least 1.1 to 1.0. The fourth financial covenant is a minimum profitability standard that requires the Company not to incur a net loss before taxes, amortization of acquired intangibles and extraordinary items in any two consecutive quarterly accounting periods.

Under the terms of the Facility, the Company is permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the Facility include the following: (i) the absence of an event of default under the Facility, (ii) the company to be acquired must be in the transportation and logistics industry, (iii) the purchase price to be paid must be consistent with the Company's historical business and acquisition model, (iv) after giving effect for the funding of the acquisition, the Company must have undrawn availability of at least \$1.0 million under the Facility, (v) the lender must be reasonably satisfied with projected financial statements the Company provides covering a 12 month period following the acquisition, (vi) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender, and (vii) the number of permitted acquisitions is limited to three per calendar year and shall not exceed \$7.5 million in aggregate purchase price financed by funded debt. In the event that the Company is not able to satisfy the conditions



of the Facility in connection with a proposed acquisition, it must either forego the acquisition, obtain the lender's consent, or retire the Facility.

In January 2007 the former shareholders of Airgroup agreed with the Company to make the first contingent payment of \$600,000 payable in two installments with \$300,000 payable on June 30, 2008 and \$300,000 on January 1, 2009. The liability was not recorded at December 31, 2006 as the liability was still contingent at that time since an agreement had yet to be reached by the parties.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and result of operations should be read in conjunction with the financial statements and the related notes and other information included elsewhere in this report.*

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future operating performance, events, trends and plans. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objective of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," or "the negative thereof or any variation thereon or similar terminology or expressions. We have based these forward-looking statements on our current expectations, projections and assumptions about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that, if not realized, may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. While it is impossible to identify all of the factors that may cause our actual operating performance, events, trends or plans to differ materially from those set forth in such forward-looking statements, such factors include the inherent risks associated with: (i) our ability to use Airgroup as a "platform" upon which we can build a profitable global transportation and supply chain management company, which itself relies upon expanding our network of exclusive agents and implementation of a successful acquisition strategy neither of which can be assured; (ii) our dependence upon our network of exclusive agents; (iii) our ability to at least maintain historical levels of transportation revenue, net transportation revenue (gross profit margins) and related operating expenses at Airgroup; (iv) competitive practices in the industries in which we compete, (v) our dependence on current management; (vi) the impact of current and future laws and governmental regulations affecting the transportation industry in general and our operations in particular; and (vii) other factors which may be identified from time to time in our Securities and Exchange Commission (SEC) filings and other public announcements. Furthermore, the general business assumptions used for purposes of the forward-looking statements included within this report represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

## Overview

In conjunction with a change of control transaction completed during October 2005, we have recently: (i) discontinued our former business model; (ii) adopted a new business strategy focused on building a global transportation and supply chain management company; (iii) changed our name to “Radiant Logistics, Inc.” to, among other things, better align our name with our new business focus; and (iv) completed our first acquisition within the logistics industry.

We accomplished the first step in our new business strategy by completing the acquisition of Airgroup effective as of January 1, 2006. Airgroup is a non-asset based logistics company providing domestic and international freight forwarding services through a network of, originally, 34, and presently 36 active, exclusive agent offices across North America. Airgroup, a Seattle-Washington based company, services a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and over 100 international agents positioned strategically around the world.

By implementing a growth strategy, we intend to build a leading global transportation and supply-chain management company offering a full range of domestic and international freight forwarding and other value added supply chain management services, including order fulfillment, inventory management and warehousing.

As a non-asset based provider of third-party logistics services, we seek to limit our investment in equipment, facilities and working capital through contracts and preferred provider arrangements with various transportation providers who generally provide us with favorable rates, minimum service levels, capacity assurances and priority handling status. Our non-asset based approach allows us to maintain a high level of operating flexibility and leverage a cost structure that is highly variable in nature while the volume of our flow of freight enables us to negotiate attractive pricing with our transportation providers.

Our principal source of income is derived from freight forwarding services. As a freight forwarder, we arrange for the shipment of our customers' freight from point of origin to point of destination. Generally, we quote our customers a turn key cost for the movement of their freight. Our price quote will often depend upon the customer's time-definite needs (first day through fifth day delivery), special handling needs (heavy equipment, delicate items, environmentally sensitive goods, electronic components, etc.) and the means of transport (truck, air, ocean or rail). In turn, we assume the responsibility for arranging and paying for the underlying means of transportation.

Our transportation revenue represents the total dollar value of services we sell to our customers. Our cost of transportation includes direct costs of transportation, including motor carrier, air, ocean and rail services. We act principally as the service provider to add value in the execution and procurement of these services to our customers. Our net transportation revenue (gross transportation revenue less the direct cost of transportation) is the primary indicator of our ability to source, add value and resell services provided by third parties, and is considered by management to be a key performance measure. In addition, management believes measuring its operating costs as a function of net transportation revenue provides a useful metric, as our ability to control costs as a function of net transportation revenue directly impacts operating earnings.

Our operating results will be affected as acquisitions occur. Since all acquisitions are made using the purchase method of accounting for business combinations, our financial statements will only include the results of operations and cash flows of acquired companies for periods subsequent to the date of acquisition.

Our GAAP based net income will be affected by non-cash charges relating to the amortization of customer related intangible assets and other intangible assets arising from completed acquisitions. Under applicable accounting standards, purchasers are required to allocate the total consideration in a business combination to the identified assets acquired and liabilities assumed based on their fair values at the time of acquisition. The excess of the consideration paid over the fair value of the identifiable net assets acquired is to be allocated to goodwill, which is tested at least annually for impairment. Applicable accounting standards require that we separately account for and value certain

identifiable intangible assets based on the unique facts and circumstances of each acquisition. As a result of our acquisition strategy, our net income will include material non-cash charges relating to the amortization of customer related intangible assets and other intangible assets acquired in our acquisitions. Although these charges may increase as we complete more acquisitions, we believe we will be actually growing the value of our intangible assets (e.g., customer relationships). Thus, we believe that earnings before interest, taxes, depreciation and amortization, or EBITDA, is a useful financial measure for investors because it eliminates the effect of these non-cash costs and provides an important metric for our business. Further, the financial covenants of our credit facility adjust EBITDA to exclude costs related to share based compensation and other non-cash charges. Accordingly, we intend to employ EBITDA and adjusted EBITDA as a management tool to measure our historical financial performance and as a benchmark for future financial flexibility.

Our operating results are also subject to seasonal trends when measured on a quarterly basis. The impact of seasonality on our business will depend on numerous factors, including the markets in which we operate, holiday seasons, consumer demand and economic conditions. Since our revenue is largely derived from customers whose shipments are dependent upon consumer demand and just-in-time production schedules, the timing of our revenue is often beyond our control. Factors such as shifting demand for retail goods and/or manufacturing production delays could unexpectedly affect the timing of our revenue. As we increase the scale of our operations, seasonal trends in one area of our business may be offset to an extent by opposite trends in another area. We cannot accurately predict the timing of these factors, nor can we accurately estimate the impact of any particular factor, and thus we can give no assurance that historical seasonal patterns will continue in future periods.

## **Results of Operations**

### *Basis of Presentation*

The results of operations discussion that appears below has been presented utilizing a combination of historical and, where relevant, pro forma information to include the effects on our consolidated financial statements of our: (i) equity offerings completed during 2005 and 2006; and (ii) acquisition of Airgroup Corporation. Historical financial data has been supplemented, where appropriate, with pro forma financial data since historical data which merely reflects the prior period results of the Company on a stand-alone basis, would provide no meaningful data with respect to our ongoing operations since we were in the development stage prior to our acquisition of Airgroup. The pro forma information has been presented for three months and six months ended December 31, 2006 and 2005 as if we had completed our equity offerings and acquired Airgroup as of July 1, 2005. The pro forma results are also adjusted to reflect a consolidation of the historical results of operations of Airgroup and the Company as adjusted to reflect the amortization of acquired intangibles and are also provided in the condensed consolidated financial statements included within this report.

The pro forma financial data are not necessarily indicative of results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented or that might be attained in the future.

### ***For the three months ended December 31, 2006 (actual and unaudited) and December 31, 2005 (actual and unaudited)***

We generated transportation revenue of \$18.3 million and net transportation revenue of \$6.7 million for the three months ended December 31, 2006 reflecting Airgroup's operations. We had no revenues for the comparative prior year period as we remained in the developmental stage prior to the acquisition of Airgroup. Net income was \$65,000 for the three months ended December 31, 2006 compared to a net loss of \$112,000 for the three months ended December 31, 2005.

We had adjusted earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) of \$337,000 and (\$97,000) for three months ended December 31, 2006 and 2005, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the "non-cash" effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

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|                                                                         | Three months ended December 31, |          | Change |         |
|-------------------------------------------------------------------------|---------------------------------|----------|--------|---------|
|                                                                         | 2006                            | 2005     | Amount | Percent |
| Net income (loss)                                                       | \$ 65                           | \$ (112) | \$ 177 | NM      |
| Income tax benefit                                                      | (21)                            | -        | (21)   | NM      |
| Interest expense (income) - net                                         | 1                               | (14)     | 15     | NM      |
| Depreciation and amortization                                           | 205                             | -        | 205    | NM      |
| EBITDA (Earnings before interest, taxes, depreciation and amortization) | \$ 250                          | \$ (126) | \$ 376 | NM      |
| Share based compensation and other non-cash costs                       | 87                              | 29       | 58     | NM      |
| Adjusted EBITDA                                                         | \$ 337                          | \$ (97)  | \$ 434 | NM      |

The following table summarizes December 31, 2006 (actual and unaudited) and December 31, 2005 (actual and unaudited) transportation revenue, cost of transportation and net transportation revenue (in thousands):

|                            | Three months ended December 31, |      | Change    |         |
|----------------------------|---------------------------------|------|-----------|---------|
|                            | 2006                            | 2005 | Amount    | Percent |
| Transportation revenue     | \$ 18,344                       | \$ - | \$ 18,344 | NM      |
| Cost of transportation     | 11,656                          | -    | 11,656    | NM      |
| Net transportation revenue | \$ 6,688                        | \$ - | \$ 6,688  | NM      |
| Net transportation margins | 36.5%                           | -    |           |         |

Transportation revenue was \$18.3 million for three months ended December 31, 2006. Domestic and International transportation revenue was \$11.7 million and \$6.7 million, respectively. There were no revenues for the comparable prior year period.

Cost of transportation was 63.5% of transportation revenue for three months ended December 31, 2006 with no comparable data for the prior year period.

Net transportation margins were 36.5% of transportation revenue for three months ended December 31, 2006 with no comparable data for the prior year period.

The following table compares certain December 31, 2006 (actual and unaudited) and December 31, 2005 (actual and unaudited) condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands):

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|                                           | Three months ended December 31,<br>2006 |         | 2005     |         | Change   |         |
|-------------------------------------------|-----------------------------------------|---------|----------|---------|----------|---------|
|                                           | Amount                                  | Percent | Amount   | Percent | Amount   | Percent |
| Net transportation revenue                | \$ 6,688                                | 100.0%  | \$ -     | -       | \$ 4,994 | NM      |
| Agent commissions                         | 5,243                                   | 78.4%   | -        | -       | 5,243    | NM      |
| Personnel costs                           | 581                                     | 8.7%    | 54       | -       | 527      | NM      |
| Other selling, general and administrative | 612                                     | 9.1%    | 72       | -       | 540      | NM      |
| Depreciation and amortization             | 205                                     | 3.1%    | -        | -       | 205      | NM      |
| Total operating costs                     | 6,641                                   | 99.3%   | 126      | -       | 6,515    | NM      |
| Income (loss) from operations             | 47                                      | 0.7%    | (126)    | -       | 173      | NM      |
| Other income (expense) - net              | (3)                                     | 0.0%    | 14       | -       | (17)     | NM      |
| Income (loss) before income taxes         | 44                                      | 0.7%    | (112)    | -       | 156      | NM      |
| Income tax benefit                        | (21)                                    | (0.3%)  | -        | -       | (21)     | NM      |
| Net income (loss)                         | \$ 65                                   | 1.0%    | \$ (112) | -       | \$ 177   | NM      |

Agent commissions were \$5.2 million for the three months ended December 31, 2006, or 78.4% of net transportation revenue. There were no similar comparable costs for the comparable prior year period.

Personnel costs were \$581,000 for the three months ended December 31, 2006, or 8.7% of net transportation revenue. For the three months ended December 31, 2005, personnel costs were \$54,000.

Other selling, general and administrative costs were \$612,000 and 9.1% of net transportation revenues for the three months ended December 31, 2006 compared to \$72,000 for the three months ended December 31, 2005.

Depreciation and amortization costs were approximately \$205,000 or 3.1% of transportation revenue for the three months ended December 31, 2006. There were no similar comparable costs for the comparable prior year period.

Income from operations was \$47,000 for the three months ended December 31, 2006 compared to a loss from operations of \$126,000 for the three months ended December 31, 2005.

Net income was \$65,000 for three months ended December 31, 2006, compared to a net loss of \$112,000 for the three months ended December 31, 2005.

*For the six months ended December 31, 2006 (actual and unaudited) and December 31, 2005 (actual and unaudited)*

We generated transportation revenue of \$32.8 million and net transportation revenue of \$11.7 million for the six months ended December 31, 2006 reflecting Airgroup's operations. We had no revenues for the comparative prior year period as we remained in the developmental stage prior to the acquisition of Airgroup. Net income was \$225,000 for the six months ended December 31, 2006 compared to a net loss of \$126,000 for the six months ended December 31, 2005.



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We had adjusted earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) of \$735,000 and (\$111,000) for six months ended December 31, 2006 and 2005, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the “non-cash” effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

|                                                                         | Six months ended December 31, |          | Change |         |
|-------------------------------------------------------------------------|-------------------------------|----------|--------|---------|
|                                                                         | 2006                          | 2005     | Amount | Percent |
| Net income (loss)                                                       | \$ 225                        | \$ (126) | \$ 351 | NM      |
| Income tax benefit                                                      | (19)                          | -        | (19)   | NM      |
| Interest expense (income)- net                                          | 6                             | (14)     | 20     | NM      |
| Depreciation and amortization                                           | 391                           | -        | 391    | NM      |
| EBITDA (Earnings before interest, taxes, depreciation and amortization) | \$ 603                        | \$ (140) | \$ 743 | NM      |
| Share based compensation and other non-cash costs                       | 132                           | 29       | 103    | NM      |
| Adjusted EBITDA                                                         | \$ 735                        | \$ (111) | \$ 846 | NM      |

The following table summarizes December 31, 2006 (actual and unaudited) and December 31, 2005 (actual and unaudited) transportation revenue, cost of transportation and net transportation revenue (in thousands):

|                            | Six months ended December 31, |      | Change    |         |
|----------------------------|-------------------------------|------|-----------|---------|
|                            | 2006                          | 2005 | Amount    | Percent |
| Transportation revenue     | \$ 32,761                     | \$ - | \$ 32,761 | NM      |
| Cost of transportation     | 21,079                        | -    | 21,079    | NM      |
| Net transportation revenue | \$ 11,682                     | \$ - | \$ 11,682 | NM      |
| Net transportation margins | 35.7%                         | -    |           |         |

Transportation revenue was \$32.8 million for six months ended December 31, 2006. Domestic and International transportation revenue was \$20.2 million and \$12.6 million, respectively. There were no revenues for the comparable prior year period.

Cost of transportation was 64.3% of transportation revenue for six months ended December 31, 2006 with no comparable data for the prior year period.

Net transportation margins were 35.7% of transportation revenue for six months ended December 31, 2006 with no comparable data for the prior year period.



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The following table compares certain December 31, 2006 (actual and unaudited) and December 31, 2005 (actual and unaudited) condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands):

|                                           | Six months ended December 31, |         | 2005     |         | Change    |         |
|-------------------------------------------|-------------------------------|---------|----------|---------|-----------|---------|
|                                           | 2006                          |         | 2005     |         | Amount    | Percent |
|                                           | Amount                        | Percent | Amount   | Percent | Amount    | Percent |
| Net transportation revenue                | \$ 11,682                     | 100.0%  | \$ -     | -       | \$ 11,682 | NM      |
| Agent commissions                         | 8,970                         | 76.8%   | -        | -       | 8,970     | NM      |
| Personnel costs                           | 1,088                         | 9.3%    | 54       | -       | 1,034     | NM      |
| Other selling, general and administrative | 1,018                         | 8.7%    | 86       | -       | 932       | NM      |
| Depreciation and amortization             | 391                           | 3.4%    | -        | -       | 391       | NM      |
| Total operating costs                     | 11,467                        | 98.2%   | 140      | -       | 11,327    | NM      |
| Income (loss) from operations             | 215                           | 1.8%    | (140)    | -       | 355       | NM      |
| Other (expense) income - net              | (9)                           | -0.1%   | 14       | -       | (23)      | NM      |
| Income (loss) before income taxes         | 206                           | 1.7%    | (126)    | -       | 332       | NM      |
| Income tax benefit                        | (19)                          | -0.2%   | -        | -       | (19)      | NM      |
| Net income (loss)                         | \$ 225                        | 1.9%    | \$ (126) | -       | \$ 351    | NM      |

Agent commissions were \$9.0 million for the six months ended December 31, 2006, or 76.8% of net transportation revenue. There were no similar comparable costs for the comparable prior year period.

Personnel costs were \$1.1 million for the six months ended December 31, 2006, or 9.3% of net transportation revenue and \$54,000 for the six months ended December 31, 2005.

Other selling, general and administrative costs were \$1.0 million and 8.7% of net transportation revenues for the six months ended December 31, 2006 compared to \$86,000 for the six months ended December 31, 2005.

Depreciation and amortization costs were approximately \$391,000 for the six months ended December 31, 2006. There were no similar comparable costs for the comparable prior year period.

Income from operations was \$215,000 for the six months ended December 31, 2006 compared to a loss from operations of \$140,000 for the six months ended December 31, 2005.

Net income was \$225,000 for six months ended December 31, 2006, compared to a net loss of \$126,000 for the six months ended December 31, 2005.

**Supplemental pro forma information for the three months ended December 31, 2006 (actual and unaudited) compared to three months ended December 31, 2005 (pro forma and unaudited)**

We generated transportation revenue of \$18.3 million and \$14.7 million and net transportation revenue of \$6.7 million and \$5.1 million for the three months ended December 31, 2006 and 2005 respectively. Net income was \$65,000 for the three months ended December 31, 2006 compared to a net loss of \$25,000 for the three months ended December 31, 2005.

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We had adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of \$337,000 and \$60,000 for three months ended December 31, 2006 and 2005, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the “non-cash” effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

*The following table provides a reconciliation of December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) adjusted EBITDA to net income, the most directly comparable GAAP measure in accordance with SEC Regulation G (in thousands):*

|                                                                         | Three months ended December 31, |         | Change |         |
|-------------------------------------------------------------------------|---------------------------------|---------|--------|---------|
|                                                                         | 2006                            | 2005    | Amount | Percent |
| Net income (loss)                                                       | \$ 65                           | \$ (25) | \$ 90  | 360.0%  |
| Income tax benefit                                                      | (21)                            | (107)   | 86     | 80.4%   |
| Interest expense (income) - net                                         | 1                               | (22)    | 23     | nm      |
| Depreciation and amortization                                           | 205                             | 185     | 20     | 10.8%   |
| EBITDA (Earnings before interest, taxes, depreciation and amortization) | \$ 250                          | \$ 31   | \$ 219 | 706.5%  |
| Share based compensation and other non-cash costs                       | 87                              | 29      | 58     | 200.0%  |
| Adjusted EBITDA                                                         | \$ 337                          | \$ 60   | \$ 277 | 461.7%  |

*The following table summarizes December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) transportation revenue, cost of transportation and net transportation revenue (in thousands):*

|                            | Three months ended December 31, |           | Change   |         |
|----------------------------|---------------------------------|-----------|----------|---------|
|                            | 2006                            | 2005      | Amount   | Percent |
| Transportation revenue     | \$ 18,344                       | \$ 14,677 | \$ 3,667 | 25.0%   |
| Cost of transportation     | 11,656                          | 9,562     | 2,094    | 21.9%   |
| Net transportation revenue | \$ 6,688                        | \$ 5,115  | \$ 1,573 | 30.8%   |
| Net transportation margins | 36.5%                           | 34.9%     |          |         |

Transportation revenue was \$18.3 million for the three months ended December 31, 2006, an increase of 25.0% over total transportation revenue of \$14.7 million for the three months ended December 31, 2005. Domestic transportation revenue increased by 31.5% to \$11.6 million for the three months ended December 31, 2006 from \$8.9 million for the three months ended December 31, 2005. The increase was primarily due to increased volume handled by the Company over 2005. International transportation revenue increased by 15.0% to \$6.7 million for the three months ended December 31, 2006 from \$5.8 million for the comparable prior year period, mainly attributed to increased air

and ocean import freight volume.

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Cost of transportation decreased to 63.5% of transportation revenue for the three months ended December 31, 2006 from 65.1% of transportation revenue for the three months ended December 31, 2005. This reflects increased domestic volume which historically has lower transportation costs as a percentage of revenue.

Net transportation margins increased to 36.5% of transportation revenue for the three months ended December 31, 2006 from 34.9% of transportation revenue for the three months ended December 31, 2005 as a result of factors described above.

*The following table compares certain December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands):*

|                                           | Three months ended December 31,<br>2006 |         | 2005     |         | Change   |         |
|-------------------------------------------|-----------------------------------------|---------|----------|---------|----------|---------|
|                                           | Amount                                  | Percent | Amount   | Percent | Amount   | Percent |
| Net transportation revenue                | \$ 6,688                                | 100.0%  | \$ 5,115 | 100.0%  | \$ 1,573 | 30.8%   |
| Agent commissions                         | 5,243                                   | 78.4%   | 3,837    | 75.0%   | 1,406    | 36.6%   |
| Personnel costs                           | 581                                     | 8.7%    | 777      | 15.2%   | (196)    | -25.2%  |
| Other selling, general and administrative | 612                                     | 9.1%    | 446      | 8.7%    | 166      | 37.2%   |
| Depreciation and amortization             | 205                                     | 3.1%    | 185      | 3.6%    | 20       | 10.8%   |
| Total operating costs                     | 6,641                                   | 99.3%   | 5,245    | 102.5%  | 1,396    | 26.6%   |
| Income (loss) from operations             | 47                                      | .7%     | (130)    | -2.5%   | 177      | 136.2%  |
| Other income - net                        | (3)                                     | 0.0%    | (2)      | 0.0%    | (1)      | -50.0%  |
| Income (loss) before income taxes         | 44                                      | .7%     | (132)    | -2.6%   | 176      | 133.3%  |
| Income tax benefit                        | (21)                                    | -.3%    | (107)    | -2.1%   | 86       | 80.4%   |
| Net income (loss)                         | \$ 65                                   | 1.0%    | \$ (25)  | -.5%    | \$ 90    | 360.0%  |

Agent commissions were \$5.2 million for the three months ended December 31, 2006, an increase of 36.6% from \$3.8 million for the three months ended December 31, 2005. Agent commissions as a percentage of net transportation revenue increased to 78.4% for three months ended December 31, 2006 from 75.0% for the comparable prior year period as a result of the mix of domestic and international transportation.

Personnel costs were \$581,000 for the three months ended December 31, 2006, a decrease of 25.2% from \$777,000 for the three months ended December 31, 2005. Personnel costs as a percentage of net transportation revenue decreased to 8.7% for three months ended December 31, 2006 from 15.2% for the comparable prior year period as a result of lower headcount and compensation.

Other selling, general and administrative costs were \$612,000 for the three months ended December 31, 2006, an increase of 37.2% from \$446,000 for the three months ended December 31, 2005. As a percentage of net transportation revenue, other selling, general and administrative costs increased to 9.1% for three months ended

December 31, 2006 from 8.7% for the comparable prior year period as a result of professional fees incurred by the Company associated with operating as a public company.

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Depreciation and amortization costs were approximately \$205,000 and \$185,000 for the three months ended December 31, 2006 and 2005 respectively. Depreciation and amortization as a percentage of net transportation revenue decreased for three months ended December 31, 2006 to 3.1% from 3.6% for the same period last year.

Income from operations was \$47,000 for the three months ended December 31, 2006 compared to loss from operations of \$130,000 for the three months ended December 31, 2005.

Net income was \$65,000 for the three months ended December 31, 2006, compared to net loss of \$25,000 for the three months ended December 31, 2005.

***Supplemental pro forma information for the six months ended December 31, 2006 (actual and unaudited) compared to six months ended December 31, 2005 (pro forma and unaudited)***

We generated transportation revenue of \$32.8 million and \$28.1 million and net transportation revenue of \$11.7 million and \$9.9 million for the six months ended December 31, 2006 and 2005 respectively. Net income was \$225,000 for the six months ended December 31, 2006 compared to a net income of \$180,000 for the six months ended December 31, 2005.

We had adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of \$735,000 and \$568,000 for six months ended December 31, 2006 and 2005, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the “non-cash” effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

*The following table provides a reconciliation of December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) adjusted EBITDA to net income, the most directly comparable GAAP measure in accordance with SEC Regulation G (in thousands):*

|                                                                         | Six months ended December 31, |        | Change |         |
|-------------------------------------------------------------------------|-------------------------------|--------|--------|---------|
|                                                                         | 2006                          | 2005   | Amount | Percent |
| Net income                                                              | \$ 225                        | \$ 180 | \$ 45  | 25.0%   |
| Income tax expense (benefit)                                            | (19)                          | 6      | (25)   | nm      |
| Interest expense (income) - net                                         | 6                             | (22)   | 28     | 127.3%  |
| Depreciation and amortization                                           | 391                           | 375    | 16     | 4.3%    |
| EBITDA (Earnings before interest, taxes, depreciation and amortization) | \$ 603                        | \$ 539 | \$ 64  | 11.9%   |
| Share based compensation and other non-cash costs                       | 132                           | 29     | 103    | 355.2%  |
| Adjusted EBITDA                                                         | \$ 735                        | \$ 568 | \$ 167 | 29.4%   |



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The following table summarizes December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) transportation revenue, cost of transportation and net transportation revenue (in thousands):

|                            | Six months ended December 31, |           | Change   |         |
|----------------------------|-------------------------------|-----------|----------|---------|
|                            | 2006                          | 2005      | Amount   | Percent |
| Transportation revenue     | \$ 32,761                     | \$ 28,111 | \$ 4,650 | 16.5%   |
| Cost of transportation     | 21,079                        | 18,226    | 2,853    | 15.7%   |
| Net transportation revenue | \$ 11,682                     | \$ 9,885  | \$ 1,797 | 18.2%   |
| Net transportation margins | 35.7%                         | 35.2%     |          |         |

Transportation revenue was \$32.8 million for the six months ended December 31, 2006, an increase of 16.5% over total transportation revenue of \$28.1 million for the six months ended December 31, 2005. Domestic transportation revenue increased by 20.9% to \$20.2 million for the six months ended December 31, 2006 from \$16.7 million for the six months ended December 31, 2005. The increase was primarily due to increased volume handled by the Company over 2005. International transportation revenue increased by 10.2% to \$12.6 million for the six months ended December 31, 2006 from \$11.4 million for the comparable prior year period, mainly attributed to increased air and ocean import freight volume.

Cost of transportation decreased to 64.3% of transportation revenue for the six months ended December 31, 2006 from 64.8% of transportation revenue for the six months ended December 31, 2005. This reflects increased domestic volumes over international volumes which historically have higher transportation cost as a percentage of sales.

Net transportation margins decreased to 35.7% of transportation revenue for the six months ended December 31, 2006 from 35.2% of transportation revenue for the six months ended December 31, 2005 as a result of factors described above.

The following table compares certain December 31, 2006 (actual and unaudited) and December 31, 2005 (pro forma and unaudited) condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands):

|                                           | Six months ended December 31, |         |          |         | Change   |         |
|-------------------------------------------|-------------------------------|---------|----------|---------|----------|---------|
|                                           | 2006                          |         | 2005     |         | Amount   | Percent |
|                                           | Amount                        | Percent | Amount   | Percent | Amount   | Percent |
| Net transportation revenue                | \$ 11,682                     | 100.0%  | \$ 9,885 | 100.0%  | \$ 1,797 | 18.2%   |
| Agent commissions                         | 8,970                         | 76.8%   | 7,304    | 73.9%   | 1,666    | 22.8%   |
| Personnel costs                           | 1,088                         | 9.3%    | 1,283    | 13.0%   | (195)    | -15.2%  |
| Other selling, general and administrative | 1,018                         | 8.7%    | 751      | 7.6%    | 267      | 35.6%   |
| Depreciation and amortization             | 391                           | 3.4%    | 375      | 3.8%    | 16       | 4.3%    |
| Total operating costs                     | 11,467                        | 98.2%   | 9,713    | 98.3%   | 1,754    | 18.1%   |
| Income from operations                    | 215                           | 1.8%    | 172      | 1.7%    | 43       | 25.0%   |
|                                           | (9)                           | -0.1%   | 14       | .2%     | (23)     | nm      |

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Other income (expense) -  
net

|                              |    |      |      |        |      |       |       |
|------------------------------|----|------|------|--------|------|-------|-------|
| Income before income taxes   |    | 206  | 1.7% | 186    | 1.9% | 20    | 10.8% |
| Income tax expense (benefit) |    | (19) | -.2% | 6      | .1%  | (25)  | nm    |
| Net income                   | \$ | 225  | 1.9% | \$ 180 | 1.8% | \$ 45 | 25.0% |

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Agent commissions were \$9.0 million for the six months ended December 31, 2006, an increase of 22.8% from \$7.3 million for the six months ended December 31, 2005. Agent commissions as a percentage of net transportation revenue increased to 76.8% for six months ended December 31, 2006 from 73.9% for the comparable prior year period as a result of the mix of domestic revenue and international transportation revenue.

Personnel costs were \$1.1 million for the six months ended December 31, 2006, a decrease of 15.2% from \$1.3 million for the six months ended December 31, 2005. Personnel costs as a percentage of net transportation revenue decreased to 9.3% for six months ended December 31, 2006 from 13.0% for the comparable prior year period as a result of lower headcount and compensation which is partially offset by share based compensation expense.

Other selling, general and administrative costs were \$1.0 million for the six months ended December 31, 2006, an increase of 35.6% from \$751,000 for the six months ended December 31, 2005. As a percentage of net transportation revenue, other selling, general and administrative costs increased to 8.7% for six months ended December 31, 2006 from 7.6% for the comparable prior year period as a result of professional fees incurred by the Company associated with operating as a public company.

Depreciation and amortization costs were approximately \$391,000 and \$375,000 for the six months ended December 31, 2006 and 2005 respectively. Depreciation and amortization as a percentage of net transportation revenue decreased for six months ended December 31, 2006 to 3.4% from 3.8% for the same period last year due to lower amortization of intangibles.

Income from operations was \$215,000 for the six months ended December 31, 2006 compared to income from operations of \$172,000 for the six months ended December 31, 2005.

Net income was \$225,000 for the six months ended December 31, 2006, compared to net income of \$180,000 for the six months ended December 31, 2005.

### **Liquidity and Capital Resources**

Effective January 1, 2006, we acquired 100 percent of the outstanding stock of Airgroup. The transaction was valued at up to \$14.0 million. This consists of: (i) \$9.5 million payable in cash at closing; (ii) a subsequent cash payment of \$0.5 million in cash on the two-year anniversary of the closing; (iii) as recently amended, an additional base payment of \$0.6 million payable in cash with \$300,000 payable on June 30, 2008 and \$300,000 payable on January 1, 2009; (iv) a base earn-out payment of \$1.9 million payable in Company common stock over a three-year earn-out period based upon Airgroup achieving income from continuing operations of not less than \$2.5 million per year; and (v) as additional incentive to achieve future earnings growth, an opportunity to earn up to an additional \$1.5 million payable in Company common stock at the end of a five-year earn-out period (the "Tier-2 Earn-Out"). Under Airgroup's Tier-2 Earn-Out, the former shareholders of Airgroup are entitled to receive 50% of the cumulative income from continuing operations in excess of \$15,000,000 generated during the five-year earn-out period up to a maximum of \$1,500,000. With respect to the base earn-out payment of \$1.9 million, in the event there is a shortfall in income from continuing operations, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that income from continuing operations in any other payout year exceeds the \$2.5 million level.

The following table summarizes our contingent base earn-out payments for the fiscal years indicated based on results of the prior year (in thousands)<sup>(1)</sup>:

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|                                                                                | Fiscal Year Ended June 30, |          |          |       |       |       |
|--------------------------------------------------------------------------------|----------------------------|----------|----------|-------|-------|-------|
|                                                                                | 2008                       | 2009     | 2010     | 2011  | Total |       |
| Earn-out payments:                                                             |                            |          |          |       |       |       |
| Cash                                                                           | \$ --                      | \$ --    | \$ --    | \$ -- | \$ -- | --    |
| Equity                                                                         | 633                        | 633      | 634      |       |       | 1,900 |
| Total earn-out Payments                                                        | \$ 633                     | \$ 633   | \$ 633   | \$ -- | \$ -- | 1,900 |
| Prior year earnings targets (income from continuing operations) <sup>(2)</sup> |                            |          |          |       |       |       |
| Total earnings targets                                                         | \$ 2,500                   | \$ 2,500 | \$ 2,500 | \$ -- | \$ -- | 7,500 |
| Total                                                                          | 25.3%                      | 25.3%    | 25.3%    | --    | --    | 25.3% |

(1) During the fiscal year 2007-2011 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as \$1.5 million if Airgroup generates at least \$18.0 million in income from continuing operations during the period.

(2) Income from continuing operations as presented here identifies the uniquely defined earnings targets of Airgroup and should not be interpreted to be the consolidated income from continuing operations of the Company which would give effect for, among other things, amortization or impairment of intangible assets or various other expenses which may not be charged to Airgroup for purposes of calculating earn-outs.

In preparation for, and in conjunction with, the Airgroup transaction, we secured financing proceeds through several private placements to a limited number of accredited investors as follows:

| <u>Date</u>   | <u>Shares Sold</u> | <u>Gross Proceeds</u> | <u>Price Per Share</u> |
|---------------|--------------------|-----------------------|------------------------|
| October 2005  | 2,272,728          | \$1.0 million         | \$0.44                 |
| December 2005 | 10,098,934         | \$4.4 million         | \$0.44                 |
| January 2006  | 1,009,093          | \$444,000             | \$0.44                 |
| February 2006 | 1,446,697          | \$645,000             | \$0.44                 |

In February 2007, the Company's \$10 million revolving credit facility (Facility) was extended into 2009 with more favorable terms to the Company. The Facility is collateralized by our accounts receivable and other assets of the Company and its subsidiaries. Advances under the Facility are available to fund future acquisitions, capital expenditures or for other corporate purposes. Borrowings under the facility bear interest, at the Company's option, at the Bank's prime minus .15% to 1.00% or LIBOR plus 1.55% to 2.25% and can be adjusted up or down during the term of the Facility based on the Company's performance relative to certain financial covenants. The Facility provides for advances of up to 80% of the Company's eligible accounts receivable.

The terms of the Facility are subject to certain financial and operational covenants which may limit the amount otherwise available under the Facility. The first covenant limits funded debt to a multiple of 3.00 times the Company's consolidated EBITDA measured on a rolling four quarter basis (or a multiple of 3.25 at a reduced advance rate of 75.0%). The second financial covenant requires the Company to maintain a funded debt to EBDITA ratio of 3.25 to 1.0. The third financial covenant requires the Company to maintain a basic fixed charge coverage ratio of at least 1.1 to 1.0. The fourth financial covenant is a minimum profitability standard that requires the Company not to incur a net

loss before taxes, amortization of acquired intangibles and extraordinary items in any two consecutive quarterly accounting periods.

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Under the terms of the Facility, the Company is permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the Facility include the following: (i) the absence of an event of default under the Facility, (ii) the company to be acquired must be in the transportation and logistics industry, (iii) the purchase price to be paid must be consistent with the Company's historical business and acquisition model, (iv) after giving effect for the funding of the acquisition, the Company must have undrawn availability of at least \$1.0 million under the Facility, (v) the lender must be reasonably satisfied with projected financial statements the Company provides covering a 12 month period following the acquisition, (vi) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender, and (vii) the number of permitted acquisitions is limited to three per calendar year and shall not exceed \$7.5 million in aggregate purchase price financed by funded debt. In the event that the Company is not able to satisfy the conditions of the Facility in connection with a proposed acquisition, it must either forego the acquisition, obtain the lender's consent, or retire the Facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

As of December 31, 2006, we had no outstanding advances under the Facility and our eligible accounts receivable were sufficient to support approximately \$4.6 million in borrowings.

Net cash provided by operating activities for the six months ended December 31, 2006 was \$1.1 million compared to net cash used by operating activities of \$.06 million for six months ended December 31, 2005. The change was driven by improved profitability of the business and further enhanced by a greater reduction in accounts receivable and a greater increase in accounts payable.

Cash used for investing for the six months ended December 31, 2006, see Note 5 to our financial statements, was \$.1 million for the purchase of equipment compared to \$.02 million for six months ending December 31, 2005 for initial expenditures of acquiring Airgroup; See Note 3 to our financial statements.

Net cash used by financing activity for the six months ended December 31, 2006 was \$1.3 million compared to \$5.2 million of cash proceeds from issuance of stock for the six months ended December 31, 2005.

Non-cash financing activities for the six months ended December 31, 2006 consisted of the Company issuing 250,000 shares of our common stock, at a market value of 1.01 per share, in exchange for training materials and 100,000 shares of common stock, at a market value of \$1.01 a share, as incentive compensation to its senior managers; See Note 8 to our financial statements.

We believe that our current working capital and anticipated cash flow from operations are adequate to fund existing operations and our organic growth strategy. However, our ability to finance further acquisitions is limited by the availability of additional capital. We may, however, finance acquisitions using our common stock as all or some portion of the consideration. In the event that our common stock does not attain or maintain a sufficient market value or potential acquisition candidates are otherwise unwilling to accept our securities as part of the purchase price for the sale of their businesses, we may be required to utilize more of our cash resources, if available, in order to continue our acquisition program. If we do not have sufficient cash resources through either operations or from debt facilities, our growth could be limited unless we are able to obtain such additional capital. In this regard and in the course of executing our acquisition strategy, we expect to pursue an additional equity offering within the next twelve months.

We have used a significant amount of our available capital to finance the acquisition of Airgroup. We expect to structure acquisitions with certain amounts paid at closing, and the balance paid over a number of years in the form of earn-out installments which are payable based upon the future earnings of the acquired businesses payable in cash, stock or some combination thereof. As we execute our acquisition strategy, we will be required to make significant payments in the future if the earn-out installments under our various acquisitions become due. While we believe that a portion of any required cash payments will be generated by the acquired businesses, we may have to secure additional sources of capital to fund the remainder of any cash-based the earn-out payments as they become due. This presents us



with certain business risks relative to the availability of capacity under our Facility, the availability and pricing of future fund raising, as well as the potential dilution to our stockholders to the extent the earn-outs are satisfied directly, or indirectly, from the sale of equity.

The Company's principal source of liquidity is cash generated from operating activities. The business is subject to seasonal fluctuations and the third quarter is typically slower than the remaining quarters. The cash flows reflect the first quarter of Airgroup operating as a wholly owned subsidiary of the Company.

### **Critical Accounting Policies**

Accounting policies, methods and estimates are an integral part of the consolidated financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. While there are a number of accounting policies, methods and estimates that affect our financial statements, the areas that are particularly significant include the assessment of the recoverability of long-lived assets, specifically goodwill, acquired intangibles, and revenue recognition.

We follow the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires an annual impairment test for goodwill and intangible assets with indefinite lives. Under the provisions of SFAS No. 142, the first step of the impairment test requires that we determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. In the future, we will perform our annual impairment test during our fiscal fourth quarter unless events or circumstances indicate an impairment may have occurred before that time.

Acquired intangibles consist of customer related intangibles and non-compete agreements arising from our acquisitions. Customer related intangibles will be amortized using accelerated methods over approximately 5 years and non-compete agreements will be amortized using the straight line method over a 5 year period.

We follow the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes accounting standards for the impairment of long-lived assets such as property, plant and equipment and intangible assets subject to amortization. We review long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, we estimate fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

As a non-asset based carrier, we do not own transportation assets. We generate the major portion of our air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to our customers. In accordance with Emerging Issues Task Force ("EITF") 91-9 "Revenue and Expense Recognition for Freight Services in Process", revenue from freight forwarding and export services is recognized at the time the freight is tendered to the direct carrier at origin, and direct expenses associated with the cost of transportation are accrued concurrently. These accrued purchased transportation costs are estimates based upon anticipated margins, contractual arrangements with direct carriers and other known factors. The estimates are routinely monitored and compared to actual invoiced costs. The estimates are adjusted as deemed necessary to reflect differences between the original accruals and actual costs of purchased transportation.



We recognize revenue on a gross basis, in accordance with EITF 99-19, "Reporting Revenue Gross versus Net", as a result of the following: We are the primary obligor responsible for providing the service desired by the customer and are responsible for fulfillment, including the acceptability of the service(s) ordered or purchased by the customer. We, at our sole discretion, set the prices charged to our customers, and are not required to obtain approval or consent from any other party in establishing our prices. We have multiple suppliers for the services we sell to our customers, and have the absolute and complete discretion and right to select the supplier that will provide the product(s) or service(s) ordered by a customer, including changing the supplier on a shipment-by-shipment basis. In most cases, we determine the nature, type, characteristics, and specifications of the service(s) ordered by the customer. We also assume credit risk for the amount billed to the customer.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's short-term cash investments and its line of credit. The Company is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. The Company invests its excess cash in institutional money market accounts. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. If market interest rates were to change by 10% from the levels at December 31, 2006, the change in interest expense would have had an immaterial impact on the Company's results of operations and cash flows.

### **Item 4. Controls and Procedures.**

#### **Evaluation of disclosure controls and procedure**

Our Chief Executive Officer/Principal Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2006. Based on that evaluation, he concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are designed to and are effective to give reasonable assurance that the information the Company must disclose in reports filed with the Securities and Exchange Commission is properly recorded, processed, summarized, and reported as required.

#### **Changes in internal controls**

There were no changes in the Company's internal control over financial reporting in connection with this evaluation that occurred during the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, our operating subsidiary, Airgroup, is involved in legal matters or named as a defendant in legal actions arising in the normal course of operations. Management believes that these matters will not have a material adverse effect on our financial position or results.

None

### Item 1A. Risk Factors

None

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In September 2006, we issued 250,000 shares of our common stock to an accredited investor at a market value of \$1.01 per share in exchange for us to acquire \$252,500, in value, of domestic and international freight training materials for the development of the Company's employees and exclusive agent offices. The shares were issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on Section 4(2) of the Securities Act and the safe-harbor private offering exemption provided by Rule 506 promulgated under the Securities Act, without the payment of underwriting discounts or commissions to any person.

In October 2006, we issued 100,000 shares of our common stock to senior managers of the Company as a bonus incentive at a market value of \$1.01 per share. The shares were issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on Section 4(2) of the Securities Act and the safe-harbor private offering exemption provided by Rule 506 promulgated under the Securities Act, without the payment of underwriting discounts or commissions to any person.

### Item 3. Defaults Upon Senior Securities.

None

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

None

### Item 5. Other Information.

#### Renewal of Credit Facility

The information set forth below is included herewith for the purpose of providing the disclosure required under "Item 1.01- Entry into a Material Definitive Agreement" of Form 8-K.

The Company entered into a \$10 million two year revolving credit facility with Bank of America, N.A.(the "Facility") effective February 13, 2007. This replaces a January 2006 Facility with Bank of America, N.A The Facility is collateralized by our accounts receivable and other assets of the Company, its subsidiaries and affiliates. Advances under the Facility are available to fund future acquisitions, capital expenditures or for other corporate purposes. Borrowings under the Facility bear interest, at the Company's option, at the Bank's prime minus .15% to 1.00% or LIBOR plus 1.55% to 2.25% and can be adjusted up or down during the term of the Facility based on the Company's

performance relative to certain financial covenants. The facility provides for advances of up to 80% of the Company's eligible accounts receivable.

The terms of the Facility are subject to certain financial and operational covenants which may limit the amount otherwise available under the Facility. The first covenant limits funded debt to a multiple of 3.00 times the Company's consolidated EBITDA measured on a rolling four quarter basis (or a multiple of 3.25 at a reduced advance rate of 75.0%). The second financial covenant requires the Company to maintain a funded debt to EBDITA ratio of 3.25 to 1.0. The third financial covenant requires the Company to maintain a basic fixed charge coverage ratio of at least 1.1 to 1.0. The fourth financial covenant is a minimum profitability standard that requires the Company not to incur a net loss before taxes, amortization of acquired intangibles and extraordinary items in any two consecutive quarterly accounting periods.

Under the terms of the Facility, the Company is permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the Facility include the following: (i) the absence of an event of default under the Facility, (ii) the company to be acquired must be in the transportation and logistics industry, (iii) the purchase price to be paid must be consistent with the Company's historical business and acquisition model, (iv) after giving effect for the funding of the acquisition, the Company must have undrawn availability of at least \$1.0 million under the Facility, (v) the lender must be reasonably satisfied with projected financial statements the Company provides covering a 12 month period following the acquisition, (vi) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender, and (vii) the number of permitted acquisitions is limited to three per calendar year and shall not exceed \$7.5 million in aggregate purchase price financed by funded debt. In the event that the Company is not able to satisfy the conditions of the Facility in connection with a proposed acquisition, it must either forego the acquisition, obtain the lender's consent, or retire the Facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

The co-borrowers of the Facility include Radiant Logistics, Inc., Airgroup Corporation, Radiant Logistics Global Services Inc. ("RLGS") and Radiant Logistics Partners, LLC ("RLP"). RLGS is a newly formed, wholly owned subsidiary of the Company, that intends to focus on the Company's agenda for international expansion. RLP is owned 40% by Airgroup and 60% by an affiliate of Bohn Crain, the Chief Executive Officer of the Company. RLP has been certified as a minority business enterprise, and intends to focus on corporate and government accounts with diversity initiatives. Both RLGS and RLP remained inactive during the quarter covered by this report, however, we expect them to commence operations during the quarter ending March 31, 2007. As a co-borrower under the Facility, the accounts receivable of RLP and RLGS will become eligible for inclusion within the overall borrowing base of the Company and all borrowers will be responsible for repayment of the debt associated with advances under the Facility, including those advanced to RLP.

#### Commencement of Operations of Radiant Logistics Partners, LLC ("RLP")

RLP is owned 40% by Airgroup and 60% by an affiliate of Bohn Crain, the Chief Executive Officer of the Company. RLP is a certified minority business enterprise which was formed for the purpose of providing the Company with a national accounts strategy to pursue corporate and government accounts with diversity initiatives. As currently structured, Mr. Crain's ownership interest entitles him to a majority of the profits and distributable cash, if any, generated by RLP. The operations of RLP are intended to provide certain benefits to the Company, including expanding the scope of services offered by the Company and participating in supplier diversity programs not otherwise available to the Company. RLP commenced work in February of 2007, however, as of the date of this report, has not conducted any business that would be considered material to the Company's operations. As the RLP operations mature, the Company will evaluate and approve all related service agreements between the Company and RLP, including the scope of the services to be provided by the Company to RLP and the fees payable to the Company by RLP, in accordance with the Company's corporate governance principles and applicable Delaware corporation law. This process may include seeking the opinion of a qualified third party concerning the fairness of any such agreement or the approval of the Company's shareholders.

**Item 6. Exhibits**

| <b>Exhibit No.</b> | <b>Exhibit</b>                                                                                                                                                                                              | <b>Method of Filing</b> |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 10.1               | Loan Agreement by and among Radiant Logistics, Inc., Airgroup Corporation, Radiant Logistics Global Services, Inc., Radiant Logistics Partners, LLC and Bank of America, N.A. dated as of February 13, 2007 | Filed herewith          |
| 31.1               | Certification by Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                      | Filed herewith          |
| 32.1               | Certification by the Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                   | Filed herewith          |
| 99.1               | Press Release dated February 14, 2007                                                                                                                                                                       | Filed herewith          |

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADIANT LOGISTICS, INC.

Date: February 14, 2007

/s/ Bohn H. Crain  
Bohn H. Crain  
Chief Executive Officer

Date: February 14, 2007

/s/ Rodney Eaton  
Rodney Eaton  
Vice President, Chief Accounting Officer and  
Controller



**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Exhibit</b>                                                                                                                                                                                              |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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| 31.1                   | Certification by Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                      |
| 32.1                   | Certification by Principal Executive Officer/Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                          |
| 99.1                   | Press Release dated February 14 , 2007                                                                                                                                                                      |