

AUTOINFO INC  
Form 10-Q  
May 13, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: MARCH 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

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

Commission File Number: 001-11497

AUTOINFO, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

13-2867481

(I.R.S. Employer Identification number)

6413 Congress Ave., Suite 260, Boca Raton, FL 33487  
(Address of principal executive office)

(561) 988-9456

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

LARGE ACCELERATED FILER  ACCELERATED FILER   
NON-ACCELERATED FILER  SMALLER REPORTING COMPANY

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The Registrant had 33,496,060 shares of common stock outstanding as of May 11, 2010.

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AUTOINFO, INC. AND SUBSIDIARIES

INDEX

Part I. Financial Information:

|                            |  |      |
|----------------------------|--|------|
| Item 1.                    | <u>Consolidated Financial Statements:</u>  | Page |
|                            | <u>Balance Sheets March 31, 2010 (unaudited) and December 31, 2009 (audited)</u>             | 3    |
|                            | <u>Statements of Income (unaudited) Three months ended March 31, 2010 and 2009</u>           | 4    |
|                            | <u>Statements of Cash Flows (unaudited) Three months ended March 31, 2010 and 2009</u>       | 5    |
|                            | <u>Notes to Unaudited Consolidated Financial Statements</u>                                  | 6    |
| Item 2.                    | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 11   |
| Item 3.                    | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 15   |
| Item 4.                    | <u>Controls and Procedures</u>   | 16   |
| Part II. Other Information |  |      |
| Item 6.                    | <u>Exhibits</u>  | 16   |
|                            | <u>Signatures</u>  | 17   |

Index

## PART I - FINANCIAL INFORMATION

## Item 1. CONSOLIDATED FINANCIAL STATEMENTS

AUTOINFO, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|   | March<br>31, 2010<br>Unaudited | December<br>31, 2009<br>Audited |
|---|--------------------------------|---------------------------------|
| <b>ASSETS</b>   |                                |                                 |
| Current assets:   |                                |                                 |
| Cash and cash equivalents   | \$441,000                      | \$67,000                        |
| Accounts receivable, net of allowance for doubtful accounts of \$522,000 and \$420,000 as of March 31, 2010 and December 31, 2009, respectively     | 38,476,000                     | 36,068,000                      |
| Deferred income taxes (Note 2)  | 750,000                        | 985,000                         |
| Prepaid expenses  | 1,486,000                      | 1,182,000                       |
| Current portion of advances and other assets  | 2,786,000                      | 3,183,000                       |
| <b>Total current assets</b>   | <b>43,939,000</b>              | <b>41,485,000</b>               |
| Fixed assets, net of accumulated depreciation   | 515,000                        | 523,000                         |
| Advances and other assets, net of current portion   | 13,008,000                     | 12,197,000                      |
|   | <b>\$57,462,000</b>            | <b>\$54,205,000</b>             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                |                                 |
| Current liabilities   |                                |                                 |
| Accounts payable and accrued liabilities  | \$19,134,000                   | \$17,631,000                    |
| Loan payable  | 19,947,000                     | 18,650,000                      |
| Stockholders' Equity  |                                |                                 |
| Common stock - authorized 100,000,000 shares \$.001 par value; issued and outstanding -32,946,000 shares as of March 31, 2010 and December 31, 2009 | 34,000                         | 34,000                          |
| Additional paid-in capital  | 20,132,000                     | 20,100,000                      |
| Deficit   | (1,785,000 )                   | (2,210,000 )                    |
| <b>Total stockholders' equity</b>   | <b>18,381,000</b>              | <b>17,924,000</b>               |
|   | <b>\$57,462,000</b>            | <b>\$54,205,000</b>             |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Index

AUTOINFO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

|  | Three Months Ended<br>March 31, |              |
|--|---------------------------------|--------------|
|  | 2010                            | 2009         |
| Gross revenues                           |                                 |              |
| Transportation services                  | \$56,430,000                    | \$34,993,000 |
| Agent support services                   | 485,000                         | 320,000      |
| Total revenues                           | 56,915,000                      | 35,313,000   |
| Cost of transportation                   | 46,023,000                      | 27,551,000   |
| Gross profit                             | 10,892,000                      | 7,762,000    |
| Commissions                              | 8,053,000                       | 5,349,000    |
| Operating expenses                       | 1,978,000                       | 1,966,000    |
|  | 10,031,000                      | 7,315,000    |
| Income from operations                   | 861,000                         | 447,000      |
| Interest expense                         | 161,000                         | 74,000       |
| Income before income taxes               | 700,000                         | 373,000      |
| Income taxes (Note 2)                    | 275,000                         | 154,000      |
| Net income                               | \$425,000                       | \$219,000    |
| Net income per share                     |                                 |              |
| Basic                                    | \$.01                           | \$.01        |
| Diluted                                  | \$.01                           | \$.01        |
| Weighted average number of common shares |                                 |              |
| Basic                                    | 33,496,000                      | 32,947,000   |
| Diluted                                  | 34,361,000                      | 33,705,000   |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Index

AUTOINFO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2010                            | 2009        |
| Cash flows from operating activities:   |                                 |             |
| Net income  | \$425,000                       | \$219,000   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |             |
| Change in allowance for doubtful accounts   | 102,000                         | 45,000      |
| Depreciation and amortization   | 60,000                          | 54,000      |
| Stock-based compensation expense  | 32,000                          | 37,000      |
| Deferred income taxes   | 235,000                         | 131,000     |
| Changes in operating assets and liabilities:  |                                 |             |
| Accounts receivable   | (2,510,000)                     | 4,456,000   |
| Prepaid expenses  | (304,000 )                      | 64,000      |
| Accounts payable and accrued liabilities  | 1,503,000                       | (953,000 )  |
| Net cash provided by (used in) operating activities   | (457,000 )                      | 4,053,000   |
| Cash flows from investing activities:   |                                 |             |
| Advances and other assets   | (414,000 )                      | (1,237,000) |
| Capital expenditures  | (52,000 )                       | (61,000 )   |
| Net cash used in investing activities   | (466,000 )                      | (1,298,000) |
| Cash flows from financing activities:   |                                 |             |
| Increase in loan payable, net   | 1,297,000                       | 506,000     |
| Net cash provided by financing activities   | 1,297,000                       | 506,000     |
| Net change in cash and cash equivalents   | 374,000                         | 3,261,000   |
| Cash and cash equivalents, beginning of period  | 67,000                          | 390,000     |
| Cash and cash equivalents, end of period  | \$441,000                       | \$3,651,000 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Index

AUTOINFO, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Forward Looking Statements

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein particularly in view of the current state of our operations, the inclusion of such information should not be regarded as a statement by us or any other person that our objectives and plans will be achieved. Factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the factors set forth under the headings “Business,” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the United States Securities and Exchange Commission (“SEC”).

Note 1. - Business and Summary of Significant Accounting Policies

Business

AutoInfo, Inc., through its wholly-owned subsidiaries, Sunteck Transport Co., Inc. and Eleets Logistics, Inc. (collectively, the “Company,” “we,” “us,” or “our”), operates in two business segments, non-asset based transportation services and agent support services. The non-asset based transportation services segment includes our brokerage and contract carrier services which are provided through a network of independent sales agents throughout the United States and Canada. Revenue in this segment is generated from freight transportation transactions. The agent support services segment includes an array of services that we provide to our agent network to support and encourage the expansion of our agents’ businesses, primarily financial support through interest bearing long-term loans and non-interest bearing short-term loans, as well as other services including training, margin analysis, marketing assistance, industry and market segment data, and business analysis tools. Revenue in this segment consists primarily of interest on interest bearing loans made to agents. This segment also includes potential revenues related to profit participations and realization on options to acquire equity that the Company may receive related to a loan or advance extended to an agent.

As a non-asset based provider of brokerage and contract carrier transportation services, the Company does not own any equipment and its services are provided through its strategic alliances with less than truckload, truckload, air, rail, ocean common carriers and independent owner-operators to service customers’ needs. The Company’s brokerage and contract carrier services are provided through a network of independent sales agents throughout the United States and Canada. During its most recently completed fiscal year, the Company generated revenue, gross profit and net income of approximately \$183.9 million, \$37.2 million and \$1.4 million, respectively.

Economic Downturn

During the latter part of the fourth quarter of 2008, the general economic conditions in the United States and globally experienced a significant downturn, impacting the market segments in which the Company operates. This downturn, referred to by many economic experts as a world-wide recession, continued into 2009. As a direct result, transportation revenues were generally down in the range of 20 – 30% in the first nine months of 2009. Gross revenues from transportation services increased during the fourth quarter of 2009 to \$54.8 million as compared to \$ 45.7 in the fourth quarter of 2008 and during the first quarter of 2010 to \$56.4 million as compared to \$35.0 million in the first quarter of 2009. While this trend is a positive sign, there are no assurances that it is indicative of future results.



Index

Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Company have been prepared using the accrual basis of accounting under accounting principles generally accepted in the United States of America (GAAP).

The consolidated financial statements, which are unaudited, have been prepared pursuant to the rules and regulations of the SEC. In management's opinion, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for the three months ended March 31, 2010 and 2009 are not necessarily indicative of results to be expected for the entire year. Pursuant to SEC rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from these statements. The consolidated financial statements and notes thereto contained in this report should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Principles of Consolidation

The consolidated financial statements include the accounts of AutoInfo, Inc. and its wholly-owned subsidiaries, Sunteck Transport Co., Inc. and Eleets Logistics, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of these financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. The Company believes that all such assumptions are reasonable and that all estimates are adequate, however, actual results could differ from those estimates.

Revenue Recognition

Gross revenues from transportation services consist of the total dollar value of services purchased by shippers. Gross profits are gross revenues less the direct costs of transportation. Revenue is recognized upon delivery of freight, at which time the related transportation cost, including commission, is also recognized. At that time, the Company's obligations are completed and collection of receivables is reasonably assured. Gross revenues and profits from agent support services consist primarily of interest on interest bearing loans.

Accounting Standards Codification Topic 605-45 "Revenue Recognition – Principal Agent Considerations" (ASC 605-45), establishes criteria for recognizing revenues on a gross or net basis. The Company is the primary obligor in its transactions, has all credit risk, maintains substantially all risk and rewards, has discretion in selecting the supplier, and has latitude in pricing decisions. Accordingly, the Company records all transactions at the gross amount, consistent with the provisions of ASC 605-45.

## Index

Income on all loans is recognized on the interest method. Accrual of interest is suspended at the earlier of the time at which collection becomes doubtful or the loan becomes delinquent. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

### Cash and cash equivalents

Cash and cash equivalents consist of cash in banks.

### Provision For Doubtful Accounts

The Company continuously monitors the creditworthiness of its customers and has established an allowance for amounts that may become uncollectible in the future based on current economic trends, its historical payment and bad debt write-off experience, and any specific customer related collection issues.

### Fixed Assets

Fixed assets as of March 31, 2010 and December 31, 2009, consisting primarily of furniture, fixtures and equipment and computer system development costs, were carried at cost net of accumulated depreciation. Depreciation of fixed assets was provided on the straight-line method over the estimated useful lives of the related assets which range from three to five years.

### Income Per Share

Basic income per share is based on net income divided by the weighted average number of common shares outstanding. Common stock equivalents outstanding were 865,000 and 758,000, respectively, for the three month periods ended March 31, 2010 and 2009.

### Income Taxes

The Company utilizes the asset and liability method for accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and future benefits to be recognized upon the utilization of certain operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### Segment Information

Through 2008, the Company operated in one business segment. During 2009, the Company determined that it operated in two business segments, non-asset based transportation services and agent support services. The non-asset based transportation services segment includes our brokerage and contract carrier services which are provided through a network of independent sales agents throughout the United States and Canada. Revenue in this segment is generated from freight transportation transactions. The agent support services segment includes an array of services that we provide to our agent network to support and encourage the expansion of our agents' businesses, primarily financial support through interest bearing long-term loans and non-interest bearing short-term loans, as well as other services including training, margin analysis, marketing assistance, industry and market segment data, and business analysis tools. Revenue in this segment consists primarily of interest on interest bearing loans. This segment also includes potential revenues related to profit participations and realization on options to acquire equity that the Company may

receive related to a loan or advance extended to an agent.

8

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Index

## Note 2- Income Taxes

For the three month periods ended March 31, 2010 and 2009, respectively, the provision for income taxes consisted of the following:

|  | Three Months Ended March 31, |            |            |            |
|--|------------------------------|------------|------------|------------|
|  | 2010                         |            | 2009       |            |
|  | Current                      | Deferred   | Current    | Deferred   |
| Tax expense before application of operating loss carryforwards | \$ 275,000                   | \$ -       | \$ 154,000 | \$ -       |
| Tax expense (benefit) of operating loss carryforwards          | (235,000 )                   | 235,000    | (131,000 ) | 131,000    |
| Income tax expense   | \$ 40,000                    | \$ 235,000 | \$ 23,000  | \$ 131,000 |

The deferred tax asset of \$750,000 and \$985,000 at March 31, 2010 and December 31, 2009, respectively, represents expected future tax savings resulting from the Company's utilization of its net operating loss carryforwards. As of December 31, 2009, the Company has net operating loss carryforwards of approximately \$2.9 million for federal income tax purposes which expire through 2014. Utilization of this benefit is primarily subject to the extent of future earning of the Company, and may be limited by, among other things, stockholder changes, including the possible issuance by the Company of additional shares in one or more financing or acquisition transactions.

## Note 3 - Segment Reporting

The Company operates in two business segments, non-asset based transportation services and agent support services. The non-asset based transportation services segment includes the Company's brokerage and contract carrier services which are provided through a network of independent sales agents throughout the United States and Canada. Revenue in this segment is generated from freight transportation transactions. The agent support services segment includes an array of services that the Company provides to its agent network to support and encourage the expansion of agents' businesses, primarily financial support through interest bearing long-term loans and non-interest bearing short-term loans, as well as other services including training, margin analysis, marketing assistance, industry and market segment data, and business analysis tools. Revenue in this segment consists primarily of interest on interest bearing loans. This segment also includes potential revenues related to profit participations and realization on options to acquire equity that the Company may receive related to a loan or advance extended to an agent.

Index

Gross profits, expenses, and total assets by segment as of and for the three months ended March 31, 2010 and 2009 are summarized below:

|                    | Transportation<br>Services | Agent<br>Support<br>Services<br>2010 | Total        | Transportation<br>Services | Agent<br>Support<br>Services<br>2009 | Total        |
|--------------------|----------------------------|--------------------------------------|--------------|----------------------------|--------------------------------------|--------------|
| Gross revenues     | \$56,430,000               | \$485,000                            | \$56,915,000 | \$34,993,000               | \$320,000                            | 35,313,000   |
| Direct freight     | 46,023,000                 | -                                    | 46,023,000   | 27,551,000                 | -                                    | 27,551,000   |
| Gross profit       | 10,407,000                 | 485,000                              | 10,892,000   | 7,442,000                  | 320,000                              | 7,762,000    |
| Commissions        | 8,053,000                  | -                                    | 8,053,000    | 5,349,000                  | -                                    | 5,349,000    |
| Operating expenses | 1,912,000                  | 66,000                               | 1,978,000    | 1,899,000                  | 67,000                               | 1,966,000    |
| Interest expense   | 161,000                    | -                                    | 161,000      | 74,000                     | -                                    | 74,000       |
| Income taxes       | 110,000                    | 165,000                              | 275,000      | 50,000                     | 104,000                              | 154,000      |
| Net income         | \$171,000                  | \$254,000                            | \$425,000    | \$70,000                   | \$149,000                            | \$219,000    |
| Assets             | \$41,668,000               | \$15,794,000                         | \$57,462,000 | \$31,755,000               | \$10,829,000                         | \$42,584,000 |

Index

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary statement identifying important factors that could cause our actual results to differ from those projected in forward looking statements.

Readers of this report are advised that this document contains both statements of historical facts and forward looking statements. Forward looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those indicated by the forward looking statements. We undertake no obligation to revise or update publicly any forward looking statements for any reason. Examples of forward looking statements include, but are not limited to (i) projections of revenues, income or loss, earnings per share, capital expenditures, dividends, capital structure and other financial items, (ii) statements of our plans and objectives with respect to business transactions and enhancement of shareholder value, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements and statements about our business prospects.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and the notes thereto appearing elsewhere in this report.

Overview

Through our wholly-owned subsidiaries, Sunteck Transport Co., Inc. and Eleets Logistics, Inc. (collectively, "we," "us," or "our"), we operate in two business segments, non-asset based transportation services and agent support services. The non-asset based transportation services segment includes our brokerage and contract carrier services which are provided through a network of independent sales agents throughout the United States and Canada. As a non-asset based provider of brokerage and contract carrier transportation services, we do not own any equipment and our services are provided through strategic alliances with less than truckload, truckload, air, rail, ocean common carriers and independent owner-operators to service customers' needs. Our brokerage and contract carrier services are provided through a network of independent sales agents throughout the United States and Canada. Revenue in this segment is generated from freight transportation transactions.

Our agent support services segment includes an array of services that we provide to our agent network to support and encourage the expansion of their businesses, primarily financial support through interest bearing long-term loans and non-interest bearing short-term loans, as well as other services including training, margin analysis, marketing assistance, industry and market segment data, and business analysis tools. Revenue in this segment consists primarily of interest on interest bearing loans. This segment also includes potential revenues related to profit participations and realization on options to acquire equity that we may receive related to a loan or advance extended to an agent.

In 2009, we modified our contractual arrangements with one of our significant independent agents which adversely impacted our commission rates. The modified arrangement provides for the agent's retention of all of the gross profit earned on the transactions it generates. Under the prior arrangement, the agent retained 70% of the gross profit. Under the modified arrangement, in lieu of a portion of the gross profit, the agent pays us interest on loans and advances we extend to it at rates ranging from 8% to 20% plus a fee equal to 25% of the agent's pre-tax income, as defined in the applicable agreement. In addition, the agent has granted to us an option to convert a portion of outstanding loans into a 25% equity ownership interest in the agent's business.

During the three month periods ended March 31, 2010 and 2009, we received interest payments of \$453,000 and \$257,000, respectively, on loans and advances to this agent but no incremental amounts were earned since the agent did not generate pre-tax income in 2010 or 2009. Future fee revenue is dependent upon several factors including the continuation of the economic recovery and the agent's continued revenue growth and implementation of cost control

measures.

11

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## Index

### Economic Downturn

During the latter part of the fourth quarter of 2008, the general economic conditions in the United States and globally experienced a significant downturn, impacting the market segments in which we operate. This downturn, referred to by many economic experts as a world-wide recession, continued into 2009. During the fourth quarter of 2009, signs of an economic recovery were reflected in our revenues and operating results. Gross revenues from transportation services increased during the fourth quarter of 2009 to \$54.8 million as compared to \$ 45.7 in the fourth quarter of 2008 and increased during the first quarter of 2010 to \$56.4 million as compared to \$35.0 million in the first quarter of 2009. While this trend is a positive sign, there are no assurances that it is indicative of future results.

During the next twelve months, we plan to continue to offer our brokerage and contract carrier transportation services and expand our agent network. We are presently profitable and have adequate available lines of credit to satisfy our working capital requirements during the next twelve months.

### Results of operations

For the three months ended March 31, 2010 and 2009

#### Revenues

Gross revenues totaled \$56,915,000 for the quarter ended March 31, 2010, as compared with \$35,313,000 in the same prior year period, an increase of approximately 61%.

Gross revenues from transportation services, consisting of freight fees and other related services revenue, totaled \$56,430,000 for the quarter ended March 31, 2010, as compared with \$34,993,000 in the same prior year period, an increase of approximately 61%. Gross profits were \$10,407,000 for the quarter ended March 31, 2010, as compared with \$7,442,000 in the prior year period, an increase of approximately 40%. This is the result primarily of the increased cost of purchased transportation based upon an increase in demand for transportation and a decrease in the availability of truck capacity. This decreased capacity is the direct result of the economic downturn during 2008 and 2009 and the impact on asset based providers as well as the number of owner operators.

Gross revenues from agent support services, consisting primarily of interest on loans, totaled \$485,000 for the quarter ended March 31, 2010, as compared with \$320,000 in the same prior year period, an increase of approximately 52%. This increase is the direct result of the increase in interest bearing loans and advances from \$7.3 million at March 31, 2009 to \$10.5 million at March 31, 2010.

#### Costs and expenses

Commissions, all of which were attributable to our transportation services segment, totaled \$8,053,000 for the quarter ended March 31, 2010, as compared with \$5,349,000 in the same prior year period, an increase of 51%. This increase is the result of the increase in gross profits as well as the increased commission rates pursuant to a modified contractual arrangement with a significant agent, as described above. As a percentage of gross profit from transportation services, commissions were 77.4% for the quarter ended March 31, 2010 as compared with 71.9% in the prior year.

Operating expenses totaled \$1,978,000 for the quarter ended March 31, 2010, as compared to \$1,966,000 in the same prior year period, an increase of 0.6%. For the quarter ended March 31, 2010, \$1,912,000 of these expenses were



attributable to our transportation services segment and \$66,000 were attributable to our agent support services segment, as compared with \$1,899,000 attributable to our transportation services segment and \$67,000 attributable to our agent support services segment in the same prior year period. As a percentage of gross profit, the aggregate operating expenses for both segments were 18.2% for the quarter ended March 31, 2010, as compared with 25.3% in the same prior year period. This percentage of gross profit decrease is the direct result of a significant increase in gross revenues, cost containment measures and our ability to leverage administrative overhead with growth. We presently have adequate facilities and management to handle the present and anticipated transaction volume in 2010 without a significant increase in overhead.

Index

Interest expense, all of which was attributable to our transportation services segment, was \$161,000 for the quarter ended March 31, 2010, as compared with \$74,000 in the same prior year period, an increase of approximately 117%. This increase is primarily the result of increased borrowings under our available line of credit to support growth and working capital needs.

Income tax

Income tax expense for the quarter ended March 31, 2010 was \$275,000 consisting of the utilization of the deferred tax benefit of \$235,000 and state income taxes of \$40,000 compared to \$154,000 for the same prior year period consisting of the utilization of the deferred tax benefit of \$131,000 and state income taxes of \$23,000. The increase in income taxes is directly related to higher pre-tax income.

Trends and uncertainties

The transportation industry is highly competitive and highly fragmented. In our brokerage services, our primary competitors are other non-asset based as well as asset based third party logistics companies, freight brokers, carriers offering logistics services and freight forwarders. In our contract carrier services, our competitors are other contract carriers and common carriers. We also compete with customers' and shippers' internal traffic and transportation departments as well as carriers' internal sales and marketing departments directly seeking shippers' freight. We anticipate that competition for our services will continue to increase. Many of our competitors have substantially greater capital resources, sales and marketing resources and experience. We cannot assure you that we will be able to effectively compete with our competitors in effecting our business expansion plans. The most significant trend contributing to our growth during the past two years has been the expansion of our brokerage services agent network and contract carrier agent and owner operator network. Sales agents are independent contractors and, as such, there are no assurances that we can either maintain our existing agent network or continue to expand this network.

For the quarter ended March 31, 2010, our gross revenues increased to \$56.9 million from \$35.3 million in the same prior year period. As of March 31, 2010, we had an accumulated deficit of \$1.8 million. Factors that could adversely affect our operating results include:

- the success of Sunteck in expanding its business operations; and
- general economic conditions.

Depending on our ability to generate revenues, we may require additional funds to expand our business operations and for working capital and general corporate purposes. Any additional equity financing may be dilutive to stockholders, and debt financings may involve restrictive covenants that further limit our ability to make decisions that we believe will be in our best interests. In the event we cannot obtain additional financing on terms acceptable to us when required, our ability to expand our operations may be materially adversely affected.

Advances and other assets

An integral component of our growth strategy is, and has been, the expansion of our independent sales agent network. During the past two years, we have expanded this strategy to include independent sales agents with the experience and opportunity to build the infrastructure required to generate opportunities for significant increases in revenues. As our year-over-year results reflect, this initiative has been successful. In identifying these opportunities, we analyze a prospective sales agent's customer relationships, financial stability, industry experience and past performance. Based upon the results of such analysis we determine our level of interest in affiliating with the target sales agent and

evaluate such sales agent's capital needs to support its integration into our business and to maximize the agent's potential revenue growth, and thus revenue contribution.

Index

Our agent expansion and recruiting program includes several components which are tailored to the specific needs of individual agent groups. Each of these situations has differing characteristics and are addressed and evaluated on a case-by-case basis. The options we consider to support a new sales agent's business expansion include signing bonuses, short-term advances, non-interest bearing loans, long-term advances and interest bearing loans.

Loans have been utilized in a limited number of sales agent opportunities and the loan proceeds are restricted in use. Such funds can be used by independent sales agents only to invest in operating facilities, equipment and personnel, which typically includes both sales and operating staff. These are viewed by us as contributing to future revenue enhancement that we will benefit from.

## Liquidity and capital resources

During the past two years, our sources for cash have been the cash flow generated from operations and available borrowings under our line of credit.

At March 31, 2010, we had an outstanding balance of \$19,947,000 under our \$30 million line of credit. In March 2009, we entered into a new credit facility with Regions Bank which increased our line of credit from \$20 million to \$30 million and extended the maturity date from June 2009 to March 2012. The line of credit facility is at an interest rate of LIBOR plus 2.5% with a floor ranging from 3.0 – 3.5%, based upon the maintenance of certain financial covenants, and is secured by accounts receivable and other operating assets. We believe that we have sufficient working capital to meet our short-term operating needs and that we will be able to increase, extend or replace the line of credit on terms acceptable to us.

At March 31, 2010, we had liquid assets of approximately \$441,000. Available cash is used to reduce borrowings on our line of credit.

The total amount of debt outstanding as of March 31, 2010 and 2009 was \$19,947,000 and \$14,670,000, respectively. The following table presents our debt instruments and their weighted average interest rates as of March 31, 2010 and 2009, respectively:

|                | Balance    | Weighted<br>Average<br>Rate | Balance    | Weighted<br>Average<br>Rate |
|----------------|------------|-----------------------------|------------|-----------------------------|
|                | 2010       |                             | 2009       |                             |
| Line of Credit | 19,947,000 | 3.25 %                      | 14,670,000 | 3.00 %                      |

Inflation and changing prices had no material impact on our revenues or the results of operations for the period ended March 31, 2010.

## Index

### Critical accounting policies

Preparation of our financial statements 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 revenues and expenses during the reporting period. Note 1 of the Notes to Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our financial statements. The most significant areas involving our estimates and assumptions are described below. Actual results could differ materially from our estimates under different assumptions or conditions.

### Revenue recognition

Gross revenues from transportation services consist of the total dollar value of services purchased by shippers. Gross profits are gross revenues less the direct costs of transportation. Revenue is recognized upon the delivery of freight, at which time the related transportation cost, including commission, is also recognized. At that time, our obligations are completed and collection of receivables is reasonably assured. Gross revenues and profits from agent support services consist primarily of interest on interest bearing loans.

Accounting Standards Codification Topic 605-45 “Revenue Recognition – Principal Agent Considerations” (ASC 605-45), establishes criteria for recognizing revenues on a gross or net basis. We are the primary obligor in our transactions, have all credit risk, maintain substantially all risk and rewards, have discretion in selecting the supplier, and latitude in pricing decisions. Accordingly, we record all transactions at the gross amount, consistent with the provisions of ASC 605-45.

Income on all loans is recognized on the interest method. Accrual of interest is suspended at the earlier of the time at which collection becomes doubtful or the loan becomes delinquent. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

### Income taxes

The deferred tax asset represents expected future tax savings resulting from our net operating loss carryforward. As of March 31, 2010, we had a net operating loss carryforward of approximately \$2.2 million for federal income tax purposes which expire through 2014. Utilization of this benefit is primarily subject to the extent of our future earnings, and may be limited by, among other things, stockholder changes, including the possible issuance of additional shares in one or more financing or acquisition transactions.

### Allowance for doubtful accounts

We continuously monitor the creditworthiness of our customers and have established an allowance for amounts that may become uncollectible in the future based on current economic trends, our historical payment and bad debt write-off experience, and any specific customer related collection issues.

### Off-balance sheet arrangements

We do not have any off-balance sheet arrangements.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide the information required by this Item.



Index

Item 4.

## CONTROLS AND PROCEDURES

## (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our president and chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”). Based upon that evaluation, the president and chief financial officer concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our president and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

## (b) Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II - OTHER INFORMATION

Item 6.

## EXHIBITS

Exhibit Description

| Exhibit No. | Description   |
|-------------|---|
| <u>31A</u>  | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*  |
| <u>31B</u>  | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*  |
| <u>32A</u>  | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| <u>32B</u>  | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |

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\*Filed as an exhibit hereto.

Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTOINFO, INC.

/s/ Harry Wachtel  
Harry Wachtel  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ William Wunderlich  
William Wunderlich  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 13, 2010