

AUTOINFO INC
Form 10-Q
August 14, 2012

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: JUNE 30, 2012

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 13-2867481
(State or other jurisdiction of incorporation (I.R.S. Employer Identification number) or organization)

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

(561) 988-9456
(Registrant's telephone number, including area code)

Edgar Filing: AUTOINFO INC - Form 10-Q

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 number of shares outstanding of the Registrant's common stock as of August 14, 2012: 34,135,123 shares of common stock.

AUTOINFO, INC. AND SUBSIDIARIES

INDEX

Part I. Financial Information:

	Page
Item 1. Consolidated Financial Statements:	
Balance Sheets June 30, 2012 (unaudited) and December 31, 2011 (audited)	3
Statements of Income (unaudited) Three and Six months ended June 30, 2012 and 2011	4
Statements of Cash Flows (unaudited) Six months ended June 30, 2012 and 2011	5
Notes to Unaudited Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	19
Item 4. Controls and Procedures	19
Part II. Other Information	
Item 6. Exhibits	19
Signatures	20

PART I - FINANCIAL INFORMATION**Item 1. CONSOLIDATED FINANCIAL STATEMENTS****AUTOINFO, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30, 2012 Unaudited	December 31, 2011 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 131,000	\$ 136,000
Accounts receivable, net of allowance for doubtful accounts of \$509,000 as of June 30, 2012 and December 31, 2011, respectively	39,238,000	40,658,000
Deferred income taxes	-	42,000
Prepaid expenses	1,524,000	1,415,000
Current portion of advances and other assets	1,352,000	1,589,000
Total current assets	42,245,000	43,840,000
Fixed assets, net of accumulated depreciation	717,000	647,000
Advances and other assets, net of current portion	6,204,000	4,551,000
Goodwill and other intangibles	10,149,000	10,069,000
Total assets	\$59,315,000	\$ 59,107,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$20,651,000	\$ 17,942,000
Loan payable	11,820,000	16,273,000
Commitments and contingencies		
Stockholders' equity:		
	35,000	34,000

Edgar Filing: AUTOINFO INC - Form 10-Q

Common stock - authorized 100,000,000 shares, \$.001 par value; issued and outstanding 34,135,000 and 34,074,000 as of June 30, 2012 and December 31, 2011, respectively

Additional paid-in capital	20,411,000	20,375,000
Retained earnings	6,398,000	4,483,000
Total stockholders' equity	26,844,000	24,892,000
Total liabilities and stockholders' equity	\$59,315,000	\$59,107,000

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

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2012	2011	2012	2011
Gross revenues:				
Transportation services	\$ 130,529,000	\$ 161,381,000	\$ 69,033,000	\$ 86,438,000
Agent support services	467,000	1,063,000	164,000	527,000
Total revenues	130,996,000	162,444,000	69,197,000	86,965,000
Purchased transportation	105,062,000	132,788,000	55,788,000	71,001,000
Purchased equipment for resale	283,000		69,000	
Commissions	16,359,000	21,788,000	8,521,000	11,711,000
Operating expenses	5,961,000	5,036,000	2,924,000	2,661,000
	127,665,000	159,612,000	67,302,000	85,373,000
Income from operations	3,331,000	2,832,000	1,895,000	1,592,000
Interest expense	172,000	283,000	78,000	122,000
Income before income taxes	3,159,000	2,549,000	1,817,000	1,470,000
Income taxes (Note 2)	1,244,000	984,000	732,000	565,000
Net income	\$ 1,915,000	\$ 1,565,000	\$ 1,085,000	\$ 905,000
Net income per share:				
Basic	\$.06	\$.05	\$.03	\$.03
Diluted	\$.05	\$.04	\$.03	\$.03
Weighted average number of common shares:				
Basic	34,133,000	33,760,000	34,135,000	33,916,000
Diluted	35,854,000	35,415,000	35,776,000	35,515,000

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

AUTOINFO, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,915,000	\$ 1,565,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in allowance for doubtful accounts	-	449,000
Depreciation and amortization	127,000	104,000
Stock-based compensation expense	37,000	65,000
Deferred income taxes	42,000	-
Changes in operating assets and liabilities:		
Accounts receivable	1,421,000	(796,000)
Prepaid expenses	(110,000)	(396,000)
Accounts payable and accrued liabilities	2,710,000	3,039,000
Net cash provided by operating activities	6,142,000	4,030,000
Cash flows from investing activities:		
Advances and other assets	(1,497,000)	(370,000)
Capital expenditures	(198,000)	(215,000)
Net cash (used in) investing activities	(1,695,000)	(585,000)
Cash flows from financing activities:		
Exercise of stock options	-	18,000
Decrease in loan payable, net	(4,452,000)	(3,404,000)
Net cash (used in) financing activities	(4,452,000)	(3,386,000)
Net change in cash and cash equivalents	(5,000)	59,000
Cash and cash equivalents, beginning of period	136,000	316,000
Cash and cash equivalents, end of period	\$ 131,000	\$ 375,000

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

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 sections entitled “Business,” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the United States Securities and Exchange Commission (“SEC”), which discloses all material factors known to us that we believe could cause actual results to differ materially from those expressed or implied by forward-looking statements.

Note 1. - Business and Summary of Significant Accounting Policies

Business

AutoInfo, Inc., through its wholly-owned subsidiaries, Sunteck Transport Group, Inc. and E-Transport Group, 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, sales type leases (which facilitate the acquisition of trucks by owner-operators), 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 and profits and interest earned on sales-type leases.

On July 8, 2011, the Company entered into an Asset Purchase Agreement (the “Acquisition Agreement”) with Eleets Transportation Company, Inc., a Florida corporation (the “Significant Agent”) to acquire substantially all of the operations of the Significant Agent’s truck agent business. This principally consisted of the future revenue stream generated by independent agents, customers and owner-operators already under contract with and operating under the Company’s authorities and licenses, which were managed by the Significant Agent and for which the Significant Agent received 100% of the net revenue earned. The purchase price totaled approximately \$10 million and principally consisted of an unconditional release and discharge of the Significant Agent from approximately \$9.4 million of indebtedness due to the Company, plus the assumption of certain liabilities.

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, income from operations and net income of approximately \$320.0 million, \$6.4 million and \$3.6 million, respectively.

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 and six months ended June 30, 2012 and 2011 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 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, 2011.

Principles of Consolidation

The consolidated financial statements include the accounts of the AutoInfo, Inc., its wholly-owned subsidiaries, Sunteck Transport Group, Inc. and E-Transport Group, 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. 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.

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 June 30, 2012 and December 31, 2011, 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.

Sales-Type Leases

The Company provides lease financing primarily through sales-type leases. The Company records, at the inception of the lease, the aggregate future minimum lease payments, the estimated residual value of the leased equipment and the related unearned income. Unearned income represents the difference between the sum of the future minimum lease payments receivable plus the estimated residual value less the sales price of the underlying equipment. Unearned income is recognized as revenue over the term of the related lease using the interest method. The equipment sale is recognized at the inception of the lease.

Intangible Assets

Goodwill represents the excess between the purchase price and the fair value of the net assets acquired. Goodwill is not amortized, but is tested at least annually for impairment using a fair value approach. Other intangible assets are primarily comprised of non-competition agreements which are being amortized on a straight-line basis of the estimated useful lives of three years.

Employee Benefit Plan

In 2008, the Company established a qualified 401(K) plan covering all employees meeting certain minimum requirements. Employees may contribute up to 5% of eligible compensation, as defined, and may make additional contributions subject to Internal Revenue Code limitations. The plan provided for matching contributions by the Company equal to 100% of the employees' first 3% of elective deferrals and an additional 50% of the next 2% of elective deferrals, subject to a maximum contribution of 4% of an employees' eligible compensation. In May 2009, the plan was modified to eliminate matching contributions by the Company. In July 2011, the plan was modified to reinstate matching contributions by the Company. 401(K) expense charged to operations for the three and six months ended June 30, 2012 was \$4,000 and \$10,000, respectively.

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 1,641,000 and 1,599,000, and 1,721,000 and 1,655,000, respectively, for the three and six month periods ended June 30, 2012 and 2011, respectively.

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. 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

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 the agents' businesses, primarily financial support through interest bearing long-term loans, sales-type leases (which facilitate the acquisition of trucks by owner-operators) 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 earned on interest bearing loans and profits and interest earned on sales-type leases.

Note 2- Income Taxes

For the three and six month periods ended June 30, 2012 and 2011, respectively, the provision for income taxes consisted of the following:

Edgar Filing: AUTOINFO INC - Form 10-Q

Three Months Ended June 30,

	2012		2011	
	Current	Deferred	Current	Deferred

Income tax expense	\$ 732,000	\$ -	\$ 565,000	\$ -
--------------------	------------	------	------------	------

Six Months Ended June 30,

	2012		2011	
	Current	Deferred	Current	Deferred

Income tax expense	\$ 1,202,000	\$ 42,000	\$ 984,000	\$ -
--------------------	--------------	-----------	------------	------

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 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 the agents' businesses, primarily financial support through interest bearing long-term loans, sales-type leases (which facilitate the acquisition of trucks by owner-operators), 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 and profits and interest earned on sales-type leases.

Results of operations by segment for the three and six months ended June 30, 2012 and 2011 as well as total assets as of June 30, 2012 and 2011, are summarized below:

	Three months ended June 30, 2012			Three months ended June 30, 2011		
	Transportation Services	Agent Support Services	Total	Transportation Services	Agent Support Services	Total
Gross revenues	\$69,033,000	\$164,000	\$69,197,000	\$86,438,000	\$527,000	\$86,965,000
Purchased transportation	55,788,000	-	55,788,000	71,001,000	-	71,001,000
Purchased equipment for resale	-	69,000	69,000	-	-	-
Commissions	8,521,000	-	8,521,000	11,711,000	-	11,711,000
Operating expenses	2,856,000	68,000	2,924,000	2,595,000	66,000	2,661,000
Income from operations	1,868,000	27,000	1,895,000	1,131,000	461,000	1,592,000
Interest expense	78,000	-	78,000	122,000	-	122,000
Income taxes	721,000	11,000	732,000	388,000	177,000	565,000
Net income	\$1,069,000	\$16,000	\$1,085,000	\$621,000	\$284,000	\$905,000

	Six months ended June 30, 2012			Six months ended June 30, 2011		
	Transportation Services	Agent Support Services	Total	Transportation Services	Agent Support Services	Total
Gross revenues	\$130,529,000	\$467,000	\$130,996,000	\$161,381,000	\$1,063,000	\$162,444,000
Purchased transportation	105,062,000	-	105,062,000	132,788,000	-	132,788,000
Purchased equipment for resale	-	283,000	283,000	-	-	-
Commissions	16,359,000	-	16,359,000	21,788,000	-	21,788,000

Edgar Filing: AUTOINFO INC - Form 10-Q

Operating expenses	5,825,000	136,000	5,961,000	4,905,000	131,000	5,036,000
Income from operations	3,283,000	48,000	3,331,000	1,900,000	932,000	2,832,000
Interest expense	172,000	-	172,000	283,000	-	283,000
Income taxes	1,225,000	19,000	1,244,000	624,000	360,000	984,000
Net income	\$1,886,000	\$29,000	\$1,915,000	\$993,000	\$572,000	\$1,565,000
Assets	\$51,759,000	\$7,556,000	\$59,315,000	\$52,719,000	\$15,292,000	\$68,011,000

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 Group, Inc. ("Sunteck") and E-Transport Group, Inc., we are a non-asset based transportation services company, providing transportation capacity and related transportation services to shippers throughout the United States, and to a lesser extent, 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 our strategic alliances with less than truckload, truckload, air, rail, ocean common carriers and independent owner-operators to service our customers' needs. Our services include ground transportation coast to coast, local pick-up and delivery, air freight and ocean freight. Our business services emphasize safety, information coordination and customer service and are delivered through a network of independent commissioned sales agents and third party capacity providers coordinated by us. The independent commissioned sales agents typically enter into exclusive contractual arrangements with Sunteck and are responsible for locating freight and coordinating the transportation of the freight with customers and capacity providers. The third party capacity providers consist of independent contractors who provide truck capacity to us, including owner-operators who operate under our contract carrier license, air cargo carriers and railroads.

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. 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, sales-type leases (which facilitate the acquisition of trucks by owner-operators), 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 earned on interest bearing loans and profits and interest earned on sales-type leases.

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

Comparison of the three and six months ended June 30, 2012 and 2011

Through June 30, 2011, our contractual arrangement with one of our significant independent agents (the “Significant Agent”) provided for the Significant Agent’s retention of all of the net revenues earned on the transactions it generated. The Significant Agent paid us interest on loans and advances we extended to it at rates ranging from 8% to 20% plus a fee equal to 25% of the Significant Agent’s pre-tax income, if any, as defined in the applicable agreement. In addition, the Significant Agent granted to us an option to convert a portion of outstanding loans into a 25% equity ownership interest in the Significant Agent’s business.

On July 8, 2011, pursuant to an Asset Purchase Agreement (the “Acquisition Agreement”) we acquired substantially all of the operations of the Significant Agent’s truck agent business. This principally consisted of the future revenue stream generated by independent agents, customers and owner-operators already under contract with and operating under our authorities and licenses, which were managed by the Significant Agent and for which the Significant Agent received 100% of the net revenue earned. The purchase price totaled approximately \$10 million and principally consisted of an unconditional release and discharge of the Significant Agent from approximately \$9.4 million of indebtedness due to us plus the assumption of certain liabilities. Goodwill recognized in this transaction amounted to \$9.8 million and other intangible assets amounted to \$0.2 million. Pursuant to the Acquisition Agreement, all previous contractual arrangements between us and the Significant Agent were terminated, including the option to convert a portion of outstanding loans into a 25% equity ownership interest in the Significant Agent’s business. However, we agreed to continue to provide the Significant Agent with certain support services for its retained businesses through December 31, 2011, and entered into a brokerage agent agreement with the Significant Agent.

In November 2011, the Significant Agent terminated its brokerage agent agreement with us and entered into a new credit facility with an unaffiliated third party. In connection with the termination of the brokerage agent agreement, the Significant Agent purchased approximately \$11 million of our accounts receivable and assumed approximately \$6 million of our related liabilities. The net proceeds of approximately \$5 million were used by us to reduce the outstanding borrowings under our credit facility with Regions Bank.

The following Pro-Forma Consolidated Statement of Income gives effect to the July 2011 acquisition of the Significant Agent’s truck agent business and the November 2011 termination of the Significant Agent’s brokerage agreement on the previously reported results of operations for the three and six months ended June 30, 2011:

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2011

	As previously reported	Pro-Forma adjustments	Pro-Forma
Gross revenues			
Transportation services	\$ 86,438,000	\$ (a) (23,877,000)	\$62,561,000
Agent support services	527,000	(b) (497,000)	30,000
Total revenues	86,965,000	(24,374,000) 62,591,000
Purchased transportation	71,001,000	(a) (20,276,000)	50,725,000
Commissions	11,711,000	(a) (3,491,000)	
		(c) (805,000)	7,415,000
Operating expenses	2,661,000	(a) (110,000)	
		(d) 272,000	2,823,000
	85,373,000	(24,410,000) 60,963,000
Income from operations	1,592,000	36,000	1,628,000
Interest expense	122,000	-	122,000
Income before income taxes	1,470,000	36,000	1,506,000
Income taxes	565,000	13,000	578,000
Net income	\$ 905,000	\$ 23,000	\$928,000

Pro-Forma adjustments represent the impact of the loss of the Significant Agent's business as follows:

(a)

Revenues	23,877,000
Purchased transportation	20,276,000
Commissions	3,491,000
Operating expenses	110,000
Income from operations	-

(b) Interest income on debt component of consideration discharged to acquire Truck Agent Business Unit.

(c) Commissions paid to the Significant Agent pursuant to Truck Agent Agreement relating to the Truck Agent Business Unit acquired.

(d) \$272,000 represents direct operating expenses, primarily payroll and related expenses, of Truck Agent Business Unit acquired.

AUTOINFO, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

	As previously reported	Pro Forma adjustments	Pro Forma
Gross revenues			
Transportation services	\$ 161,381,000	(a) (44,555,000)	\$ 116,826,000
Agent support services	1,063,000	(b) (986,000)	77,000
Total revenues	162,444,000	(45,541,000)	116,903,000
Cost of transportation	132,788,000	(a) (38,247,000)	94,541,000
Commissions	21,788,000	(c) (1,545,000)	
		(a) (6,104,000)	14,139,000
Operating expenses	5,036,000	(c) 532,000	
		(a) (204,000)	5,364,000
	159,612,000	(45,568,000)	114,044,000
Income from operations	2,832,000	27,000	2,859,000
Interest expense	283,000		283,000
Income before income taxes	2,549,000	27,000	2,576,000
Income taxes	984,000	10,000	994,000

Edgar Filing: AUTOINFO INC - Form 10-Q

Net income	\$1,565,000	\$17,000	\$1,582,000
------------	-------------	----------	-------------

Pro-Forma adjustments represent the impact of the loss of the Significant Agent's business as follows:

(a)

Revenues	44,555,000
Purchased transportation	38,247,000
Commissions	6,104,000
Operating expenses	204,000
Income from operations	-

(b) Interest income on debt component of consideration discharged to acquire Truck Agent Business Unit.

(c) Commissions paid to the Significant Agent pursuant to Truck Agent Agreement relating to the Truck Agent Business Unit acquired.

(d) \$532,000 represents direct operating expenses, primarily payroll and related expenses, of Truck Agent Business Unit acquired.

The following comparison of the three and six months ended June 31, 2012 and 2011 is based upon the above pro-forma results for the three and six months ended June 30, 2011:

Revenues

For the three months ended June 30, 2012 and 2011:

Gross revenues totaled \$69,197,000 for the three months ended June 30, 2012, as compared with pro-forma gross revenues of \$62,591,000 in the same prior year period, an increase of approximately 11%.

Gross revenues from transportation services, consisting of freight fees and other related services revenue, totaled \$69,033,000 for the three months ended June 30, 2012, as compared with pro-forma gross revenues from transportation services of \$62,561,000 in the same prior year period, an increase of \$6,472,000 or 10%. This increase is the direct result of the expansion and growth of our agent network.

Gross revenues in our agent support services segment of \$164,000 for the three month ended June 30, 2012 consisted primarily of revenues recognized from sales-type leases against which we incurred the direct cost of purchased equipment of \$69,000. Pro-forma gross revenues in our agent support services segment of \$30,000 for the three month ended June 30, 2011 consisted primarily of interest income earned on loans.

For the six months ended June 30, 2012 and 2011:

Gross revenues totaled \$130,996,000 for the six months ended June 30, 2012, as compared with pro-forma gross revenues of \$116,903,000 in the same prior year period, an increase of approximately 12%.

Gross revenues from transportation services, consisting of freight fees and other related services revenue, totaled \$130,529,000 for the six months ended June 30, 2012, as compared with pro-forma gross revenues from transportation services of \$116,826,000 in the same prior year period, an increase of \$13,703,000 or 12%. This increase is the direct result of the expansion and growth of our agent network.

Gross revenues in our agent support services segment of \$467,000 for the six months ended June 30, 2012 consisted primarily of revenues recognized from sales-type leases against which we incurred the direct cost of purchased equipment of \$283,000. Pro-forma gross revenues in our agent support services segment of \$77,000 for the six months ended June 30, 2011 consisted primarily of interest income earned on loans.

Costs and expenses

Purchased transportation

Purchased transportation totaled \$55,788,000 for the three months ended June 30, 2012, as compared with pro-forma purchased transportation of \$50,725,000 in the same prior year period, an increase of 10%. This is the direct result of the 10% increase in gross revenues from transportation services realized.

Purchased transportation totaled \$105,062,000 for the six months ended June 30, 2012, as compared with pro-forma purchased transportation of \$94,541,000 in the same prior year period, an increase of 11%. This is the direct result of the 12% increase in gross revenues from transportation services realized.

Purchased equipment for resale

During the fourth quarter of 2011, through our newly acquired truck agent business, we introduced a sales-type lease program for our owner-operators to facilitate the acquisition of trucks. This resulted in gross revenues for the three and six months ended June 30, 2012 of \$164,000 and \$467,000, respectively, including the gain on the sale and interest income. The cost of this equipment was \$69,000 and \$283,000 for the three and six months ended June 30, 2012, respectively.

Commissions

Commissions totaled \$8,521,000 for three months ended June 30, 2012, as compared with pro-forma commissions of \$7,415,000 in the same prior year period, an increase of 15%. This increase is primarily attributable to the 10% increase in gross revenues from transportation services realized and a higher proportion of the revenue generated by agents with higher commission rates.

Commissions totaled \$16,359,000 for six months ended June 30, 2012, as compared with pro-forma commissions of \$14,139,000 in the same prior year period, an increase of 16%. This increase is primarily attributable to the 12% increase in gross revenues from transportation services realized and a higher proportion of the revenue generated by agents with higher commission rates.

Operating expenses

Operating expenses totaled \$2,924,000 for three months ended June 30, 2012, as compared with pro-forma operating expenses of \$2,823,000 in the same prior year period. This increase is the direct result of the increase in selling, general and administrative expenses in connection with our business expansion as well as the impact of the July 2011 acquisition of the truck agent business.

Operating expenses totaled \$5,961,000 for three months ended June 30, 2012, as compared with pro-forma operating expenses of \$5,364,000 in the same prior year period. This increase is the direct result of the increase in selling, general and administrative expenses in connection with our business expansion as well as the impact of the July 2011 acquisition of the truck agent business.

Interest expense

Interest expense, all of which was attributable to our transportation services segment, was \$78,000 and \$122,000 for the three months ended June 30, 2012 and 2011, respectively. The reduced interest expense in 2012 is the direct result of the reduction of the average outstanding balances under our credit facility to \$11.4 million from \$18.9 million for the three month periods ended June 30, 2012 and 2011, respectively, as well as lower applicable interest rates.

Interest expense, all of which was attributable to our transportation services segment, was \$172,000 and \$283,000 for the six months ended June 30, 2012 and 2011, respectively. The reduced interest expense in 2012 is the direct result of the reduction of the average outstanding balances under our credit facility to \$12.5 million from \$19.7 million for the six month periods ended June 30, 2012 and 2011, respectively, as well as lower applicable interest rates.

Income tax

Income tax expense for the three months ended June 30, 2012 was \$732,000 consisting of federal income taxes of \$632,000 and state income taxes of \$100,000 compared to \$565,000 for the same prior year period consisting of the federal income taxes of \$483,000 and state income taxes of \$82,000. The increase in income taxes is directly related to higher pre-tax income.

Income tax expense for the six months ended June 30, 2012 was \$1,244,000 consisting of federal income taxes of \$1,069,000 and state income taxes of \$175,000 compared to \$984,000 for the same prior year period consisting of the federal income taxes of \$840,000 and state income taxes of \$144,000. 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 six months ended June 30, 2012, our gross revenues increased to \$131.0 million from pro-forma gross revenues of \$116.9 million in the same prior year period. 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.

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 June 30, 2012, we had an outstanding balance of \$11,820,000 under our \$35 million line of credit. In April 2011, we modified our credit facility with Regions Bank to (a) increase our line of credit from \$30 million to \$35 million, (b) extend the maturity date from March 2012 to June 2014 and (c) change the interest rate from LIBOR plus 2.5% with a floor ranging from 3.0 – 3.5% to LIBOR plus 1.75% - 2.25%, with no floor, based upon the maintenance of certain financial covenants. As of June 30, 2012, we were in compliance, and not at risk of breach, with respect to each of these covenants. We believe that we have sufficient working capital to meet our short-term operating needs.

Edgar Filing: AUTOINFO INC - Form 10-Q

At June 30, 2012, we had liquid assets of approximately \$375,000. Available cash is used to reduce borrowings on our line of credit.

The total amount of debt outstanding as of June 30, 2012 and 2011 was \$11,820,000 and \$19,028,000, respectively. The following table presents our debt instruments and their weighted average interest rates as of June 30, 2012 and 2011, respectively:

	Balance	Weighted		Balance	Weighted	
	2012	Average Rate		2011	Average Rate	
Line of Credit	11,820,000	2.00	%	19,028,000	2.21	%

Inflation had no material impact on our revenues or the results of operations for the period ended June 30, 2012.

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.

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.

18

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.

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer 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 chief executive officer 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 chief executive officer 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 quarter 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 No.	Description
31A	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31B	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32A	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.*
32B	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.*
101.INS(1)	XBRL Instance Document

Edgar Filing: AUTOINFO INC - Form 10-Q

101.CAL(1) XBRL Taxonomy Extension Schema Document
101.SCH(1) XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB(1) XBRL Taxonomy Extension Label Linkbase Document
101.PRE(1) XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF(1) XBRL Taxonomy Extension Definition Linkbase Document

*Filed as an exhibit hereto.

(1) Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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
Chief Executive Officer
(Principal Executive Officer)

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

Date: August 14, 2012