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AUTOINFO INC  
Form 10-Q  
August 09, 2007

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, 2007

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 or organization)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

YES  NO

Number of shares outstanding of the Registrant's common stock as of August 8, 2007: 33,001,000 shares of common stock.

AUTOINFO, INC. AND SUBSIDIARIES

INDEX

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Part I. Financial Information:

Item 1.	Consolidated Financial Statements:	Page
	Balance Sheets	
	June 30, 2007 (unaudited) and December 31, 2006 (audited)....	3
	Statements of Income (unaudited)	
	Three and six months ended June 30, 2007 and 2006.....	4
	Statements of Cash Flows (unaudited)	
	Six months ended June 30, 2007 and 2006.....	5
	Notes to Unaudited Consolidated Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	15
Item 4.	Controls and Procedures.....	15
Part II. Other Information		
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....	16
Item 6.	Exhibits.....	16
	Signatures .....	17

### PART I - FINANCIAL INFORMATION

#### AUTOINFO, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	----- Unaudited	----- Audited
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 63,000	\$ 146,000
Accounts receivable, net of allowance for doubtful accounts of \$301,000 and \$249,000 as of June 30, 2007 and December 31, 2006, respectively	18,873,000	16,967,000
Deferred income taxes (Note 2)	1,445,000	1,445,000
Other current assets	642,000	363,000
	-----	-----
Total current assets	21,023,000	18,921,000
Fixed assets, net of accumulated depreciation	437,000	324,000
Deferred income taxes (Note 2)	2,061,000	2,502,000

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Advances and other assets	2,656,000	2,075,000
	-----	-----
	\$ 26,177,000	\$ 23,822,000
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Loan payable	\$ 3,363,000	\$ 3,451,000
Accounts payable and accrued liabilities	9,713,000	8,375,000
	-----	-----
Total current liabilities	13,076,000	11,826,000
	-----	-----

Stockholders' Equity

Preferred stock - authorized 10,000,000 shares \$.001 par value; issued and outstanding - 0 shares as of June 30, 2007 and December 31, 2006	--	--
Common stock - authorized 100,000,000 shares \$.001 par value; issued and outstanding - 33,001,000 shares as of June 30, 2007 and 32,102,000 shares as of December 31, 2006	33,000	32,000
Additional paid-in capital	19,815,000	19,420,000
Deficit	(6,747,000)	(7,456,000)
	-----	-----
Total stockholders' equity	13,101,000	11,996,000
	-----	-----
	\$ 26,177,000	\$ 23,822,000
	=====	=====

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

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Gross revenues	\$48,278,000	\$ 38,954,000	\$26,224,000	\$ 20,858,000
Cost of transportation	38,277,000	30,507,000	21,078,000	16,399,000
	-----	-----	-----	-----
Net revenues	10,001,000	8,447,000	5,146,000	4,459,000
	-----	-----	-----	-----
Commissions	6,385,000	5,207,000	3,260,000	2,729,000
Operating expenses	2,290,000	1,799,000	1,175,000	911,000

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	8,675,000	7,006,000	4,435,000	3,640,000
Income from operations	1,326,000	1,441,000	711,000	819,000
Interest expense	101,000	24,000	55,000	18,000
Income before income taxes	1,225,000	1,417,000	656,000	801,000
Income taxes (benefit) (Note 2)	516,000	(782,000)	273,000	(243,000)
Net income	\$ 709,000	\$ 2,199,000	\$ 383,000	\$ 1,044,000
Net income per share:				
Basic	\$ .02	\$ .07	\$ .01	\$ .01
Diluted	\$ .02	\$ .06	\$ .01	\$ .01
Weighted average number of common shares:				
Basic	32,539,000	31,786,000	32,813,000	31,821,000
Diluted	36,240,000	35,448,000	36,112,000	36,390,000

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

4

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

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 709,000	\$ 2,199,000
Adjustments to reconcile net income to net cash used in operating activities:		
Change in allowance for doubtful accounts	52,000	84,000
Depreciation and amortization	57,000	50,000
Stock-based compensation expense	147,000	60,000
Deferred income taxes (benefit)	441,000	(863,000)
Changes in assets and liabilities:		
Accounts receivable	(1,959,000)	(1,528,000)
Other current assets	(279,000)	(159,000)
Advances and other assets	(581,000)	(281,000)
Accounts payable and accrued liabilities	1,338,000	286,000
Net cash used in operating activities	(75,000)	(152,000)
Cash flows from investing activities:		
Capital expenditures	(170,000)	(37,000)
Net cash used in investing activities	(170,000)	(37,000)

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Cash flows from financing activities:		
Exercise of stock options	250,000	33,000
Decrease in loan payable, net	(88,000)	(118,000)
	-----	-----
Net cash provided by (used in) financing activities	162,000	(85,000)
	-----	-----
Net change in cash and cash equivalents	(83,000)	(274,000)
Cash and cash equivalents, beginning of period	146,000	419,000
	-----	-----
Cash and cash equivalents, end of period	\$ 63,000	\$ 145,000
	=====	=====

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

5

### 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, 2006 as filed with the United States Securities and Exchange Commission ("SEC").

#### Note 1. - Business and Summary of Significant Accounting Policies

##### Business

AutoInfo, Inc (the "Company"), through its wholly-owned subsidiary, Sunteck Transport Co., Inc. ("Sunteck "), is a non-asset based transportation services company. 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,

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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, net revenue and net income of approximately \$84.1 million, \$17.7 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, 2007 and 2006 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

6

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, 2006.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Sunteck and its wholly-owned subsidiary Sunteck Transport Carriers, Inc.. All significant intercompany balances and transactions have been eliminated in consolidation.

#### Revenue Recognition

As a third party transportation logistics provider, the Company acts as the shippers' agent and arranges for a carrier to handle the freight. Gross revenues 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.

Emerging Issues Task Force No. 99-19, "Reporting Revenues Gross as a Principal Versus Net as an Agent" (EITF 99-19), 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 EITF 99-19.

#### Provision For Doubtful Accounts

The Company continuously monitors the creditworthiness of its customers

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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.

### Cash and cash equivalents

Cash and cash equivalents consist of cash in banks. From time to time, the Company has on deposit at financial institutions cash balances which exceed federal deposit insurance limitations. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

### Fixed Assets

Fixed assets as of June 30, 2007 and December 31, 2006, consisting predominantly 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 3,299,000 and 4,569,000, and 3,701,000 and 3,662,000, respectively, for the three and six month periods ended June 30, 2007 and 2006, respectively.

7

### 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.

### 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.

### Stock-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS 123R) utilizing the modified prospective transition method. SFAS 123R requires employee stock options to be

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valued at fair value on the date of grant and charged to expense over the applicable vesting period. Under the modified prospective method, compensation expense is recognized for all share based payments issued on or after January 1, 2006 and for all share payments issued to employees prior to January 1, 2006 that remain unvested. Adoption of SFAS 123R did not change the Company's accounting for share based payments issued to non-employees.

### Note 2- Income Taxes

For the three and six month periods ended June 30, 2007 and 2006, respectively, the provision for income taxes consisted of the following:

	Three Months Ended June 30,			
	2007		2006	
	Current	Deferred	Current	Deferred
Tax expense before application of operating loss carryforwards	\$ 273,000	\$ --	\$ 312,000	\$ --
Tax expense (benefit) of operating loss carryforwards	(233,000)	233,000	(266,000)	266,000
Change in valuation allowance			--	(555,000)
Income tax expense (benefit)	\$ 40,000	\$ 233,000	\$ 46,000	\$(289,000)

8

	Six Months Ended June 30,			
	2007		2006	
	Current	Deferred	Current	Deferred
Tax expense before application of operating loss carryforwards	\$ 516,000	\$ --	\$ 556,000	\$ --
Tax expense (benefit) of operating loss carryforwards	(441,000)	441,000	(475,000)	475,000
Change in valuation allowance			--	(1,338,000)
Income tax expense (benefit)	\$ 75,000	\$ 441,000	\$ 81,000	\$ (863,000)

The deferred tax asset, \$3,506,000 and \$3,947,000 at June 30, 2007 and December 31, 2006, respectively, represents expected future tax savings resulting from the Company's utilization of its net operating loss carryforwards. As of December 31, 2006, the Company has net operating loss carryforwards of approximately \$11.6 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, shareholder changes, including the possible issuance by the Company of



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additional shares in one or more financing or acquisition transactions. Based upon available objective evidence, including the Company's post-merger history of profitability, management believes it is more likely than not that forecasted taxable income will be sufficient to utilize all of the net operating loss carryforwards before its expiration in 2014.

9

### 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 subsidiary, Sunteck Transport Co., Inc. ("Sunteck"), 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. We have strategic alliances with less than truckload, truckload, air, rail and ocean common carriers to service our customers' needs. 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. Through this network of agents and capacity providers, Sunteck operates a non-asset based transportation services business with revenue, net revenue and net income of approximately \$84.1 million, \$17.7 million and \$3.6 million, respectively, during our most recently completed fiscal year and approximately \$48.3 million, \$10.0 million and \$709,000, respectively, during the six months ended June 30, 2007.

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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

During the three month period ended June 30, 2007, the increase in gross revenue and net revenue is mainly attributable to the increase in the number of transactions we have processed. The number of transactions processed increased to 19,500 during the three months ended June 30, 2007 from 14,850 during the same period in the prior year, an increase of 31%. This is the direct result of the expansion of our agent network. Gross revenue increased by 26% over the prior year period as compared to an increase of 31% in the number of transactions processed. The decrease in revenue

10

dollars per load (4%) is the result of revenue mix and the competitive environment during the period. Net revenue increased by 15% over the prior year period as compared to a 26% increase in gross revenue. This is the result of revenue mix and increased direct freight costs relating to competition and the availability of equipment.

During the six month period ended June 30, 2007, the increase in gross revenue and net revenue is readily measured by the number of transactions we have processed. The number of transactions processed increased to 37,000 during the six months ended June 30, 2007 from 28,600 during the same period in the prior year, an increase of 29%. This is the direct result of the expansion of our agent network. Gross revenue increased by 24% over the prior year period as compared to an increase of 29% in the number of transactions processed. The decrease in revenue dollars per load (4%) is the result of revenue mix and the competitive environment during the period. Net revenue increased by 18% over the prior year period as compared to a 24% increase in gross revenue. This is the result of revenue mix and increased direct freight costs relating to competition and the availability of equipment. This trend is subject to many factors including seasonal trends, market conditions, competition and agent mix and is, therefore, not necessarily indicative of future results.

For the Three and Six Month Periods Ended June 30, 2007 and 2006

During the three and six month periods ended June 30, 2007, we continued to implement our strategic growth business plan consisting primarily of the expansion of client services, the opening of regional operations centers in key geographical markets, and the addition of independent sales agents providing brokerage and contract carrier services. Our net revenues (gross revenues less cost of transportation) are the primary indicator of our ability to source, add value and resell service that are provided by third parties and are considered to be the primary measurement of growth. Therefore, the discussion of the results of operations below focuses on the changes in our net revenues. The increases in net revenues and all related cost and expense categories are the direct result of our business expansion.

The following table represents certain statement of operation data as a percentage of net revenues:

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2007	2006	2007	2006
-----	-----	-----	-----

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Net revenues	100.0%	100.0%	100.0%	100.0%
	-----	-----	-----	-----
Commissions	63.4%	61.2%	63.8%	61.6%
Operating expenses	22.8%	20.4%	22.9%	21.3%
Interest expense	1.1%	.4%	1.0%	.3%
Income taxes (benefit)	5.3%	(5.4%)	5.2%	(9.2%)
	-----	-----	-----	-----
Net income	7.4%	23.4%	7.1%	26.0%
	-----	-----	-----	-----

### Revenues

Gross revenues, consisting of freight fees and other related services revenue, totaled \$26,224,000 for the three months ended June 30, 2007, as compared with \$20,858,000 in the same period of the prior year, an increase of 26%. Net revenues were \$5,146,000 for the three months ended June 30, 2007, as compared with \$4,459,000 in the same period of the prior year, an increase of 15%. This increase is the direct result of the continued expansion of our agent network and customer base which resulted in a 29% increase in the number of transactions processed. The increase in net revenue of

11

15% as compared to the increase in gross revenue of 26% is the result of revenue mix and increased direct freight costs relating to competition and the availability of equipment.

Gross revenues, consisting of freight fees and other related services revenue, totaled \$48,278,000 for the six months ended June 30, 2007, as compared with \$38,954,000 in the same period of the prior year, an increase of 24%. Net revenues were \$10,001,000 for the six months ended June 30, 2007, as compared with \$8,447,000 in the same period of the prior year, an increase of 18%. This increase is the direct result of the continued expansion of our agent network and customer base which resulted in a 31% increase in the number of transactions processed. The increase in net revenue of 18% as compared to the increase in gross revenue of 24% is the result of revenue mix and increased direct freight costs relating to competition and the availability of equipment.

### Costs and expenses

#### Commissions

For the three months ended June 30, 2007, commissions totaled \$3,260,000 as compared with \$2,729,000 in the same period of the prior year. As a percentage of net revenues, commissions were 63% as compared with 61% in the same period of the prior year.

For the six months ended June 30, 2007, commissions totaled \$6,385,000 as compared with \$5,207,000 in the same period of the prior year. As a percentage of net revenues, commissions were 64% as compared with 62% in the same period of the prior year.

These increases are the result of agent and revenue mix as well as agent rate increases based upon achieving revenue and profitability benchmarks.

#### Operating expenses

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For the three months ended June 30, 2007, operating expenses totaled \$1,175,000 as compared with \$911,000 in the same period of the prior year. As a percentage of net revenues, operating expenses were 23% as compared with 20% in the prior year period.

For the six months ended June 30, 2007, operating expenses totaled \$2,290,000 as compared with \$1,799,000 in the same period of the prior year. As a percentage of net revenues, operating expenses were 23% as compared with 21% in the same period of the prior year.

These increases are the direct result of the increase in selling, general and administrative expenses in connection with our business expansion. We presently have adequate facilities and management to handle the present and anticipated transaction volume in 2007 without a significant increase in overhead.

### Interest Expense

For the three months ended June 30, 2007, interest expense totaled \$55,000 as compared with \$18,000 in the same period of the prior year.

For the six months ended June 30, 2007, interest expense totaled \$101,000 as compared with \$24,000 in the same period of the prior year.

These increases are primarily the result of increased borrowings pursuant to our \$4.0 million line of credit.

12

### Income tax

Income tax expense for the three months ended June 30, 2007 of \$273,000 consisted of the utilization of the deferred tax benefit of \$233,000 and state income taxes of \$40,000 compared to an income tax benefit of \$243,000 for the quarter ended June 30, 2006 which consisted of a benefit of \$555,000 resulting from the anticipated future utilization of available federal tax loss carryforwards, net of the utilization of the deferred tax benefit of \$266,000 and state income taxes of \$46,000.

Income tax expense for the six months ended June 30, 2007 of \$516,000 consisted of the utilization of the deferred tax benefit of \$441,000 and state income taxes of \$75,000 compared to an income tax benefit of \$782,000 for the quarter ended June 30, 2006 which consisted of a benefit of \$1,338,000 resulting from the anticipated future utilization of available federal tax loss carryforwards, net of the utilization of the deferred tax benefit of \$475,000 and state income taxes of \$81,000.

The increase in income taxes is because we had fully recognized the anticipated future utilization of available federal tax loss carryforwards as of December 31, 2006, as management believed it was more likely than not that they will be realized by the end of the carryforward periods.

### Trends and uncertainties

The transportation industry is highly competitive and highly fragmented. 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. 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

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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 four years has been the expansion of our brokerage services agent network and expansion of our 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, 2007, our gross revenues increased to \$48.3 million from \$39.0 million in the same period of the prior year. As of June 30, 2007, we had an accumulated deficit of \$6.7 million. Factors that could adversely affect our operating results include:

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

Depending on our ability to generate revenues, we may require additional funds to expand Sunteck's 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 Sunteck's operations may be materially adversely affected.

### 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.

13

At June 30, 2007, we had outstanding \$3,363,000 under our \$4,000,000 line of credit. The line of credit facility, obtained from a bank in May 2003, is at an interest rate of LIBOR plus 2% and is subject to the maintenance of certain financial covenants, is secured by accounts receivable and other operating assets, and matures in June 2008. On August 3, 2007, this facility was increased to \$9,000,000 at an interest rate of LIBOR plus 1.25%. 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 June 30, 2007, we had liquid assets of approximately \$63,000. Available cash is used to reduce borrowings on our line of credit.

The following table presents our debt instruments and their weighted average interest rates as of June 30, 2007 and 2006, respectively:

	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	2007		2006	
Line of Credit	\$3,363,000	7.32%	\$1,162,000	8.78%

Inflation and changing prices had no material impact on our revenues or

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the results of operations for the period ended June 30, 2007. Higher fuel prices have had no material impact on our revenues or the results of operations for the period ended June 30, 2007 because, as a broker, we are able to pass through to our customers any increased costs incurred. The higher cost of fuel passed through as a fuel surcharge has become an industry standard and an acceptable business practice.

### 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 to the notes to the financial statements included elsewhere in this report includes a summary of the significant accounting policies and methods used in the preparation of our financial statements. The most significant areas involving management estimates and assumptions are described below. Actual results could differ materially from management's estimates under different assumptions or conditions.

### Revenue Recognition

As a third party transportation logistics provider, we act as the shippers' agent and arrange for a carrier to handle the freight. Gross revenues consist of the total dollar value of services purchased by shippers. 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.

Emerging Issues Task Force No. 99-19, "Reporting Revenues Gross as a Principal Versus Net as an Agent" (EITF 99-19), 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 have latitude in pricing decisions. Accordingly, we record all transactions at the gross amount, consistent with the provisions of EITF 99-19.

14

### Income Taxes

The deferred tax asset represents expected future tax savings resulting from our net operating loss carryforwards. As of December 31, 2006, we had net operating loss carryforwards of approximately \$11.6 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. As of December 2006, we had fully recognized the anticipated future utilization of available federal tax loss carryforwards as management believes it is more likely than not that they will be realized by the end of the carryforward periods.

### Provision 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

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We do not have any off-balance sheet arrangements.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

### CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and our chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our chief financial officer have concluded that, as of the end of such period, 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 is: (i) recorded, processed, summarized and reported, within the time periods specified in the United States Securities and Exchange Commission's rules and forms; and (ii) accumulated and communicated to management, including our chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

15

## Part II - OTHER INFORMATION

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

During the quarter ended June 30, 2007, we issued 534,747 shares of Common Stock upon the exercise of options by certain of our employees and consultants. The issuance of these shares was pursuant to an exemption from registration provided under section 4(2) of the Securities Act of 1933, as amended (the "Act"). All of the stock certificates issued for the shares were imprinted with a legend restricting transfer unless pursuant to an effective registration statement or an available exemption under the Act.

### Item 6. Exhibits -----

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.*

