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TRANSPORTATION LOGISTICS INTL INC
Form 10QSB
August 20, 2002

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2002

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

For the transition period from _____ to _____

Commission File No. 0-25319

TRANSPORTATION LOGISTICS INT'L, INC.

(Name of Small Business Issuer in its Charter)

COLORADO

84-1191355

(State or Other Jurisdiction of
incorporation or organization)

(I.R.S. Employer I.D. No.)

136 Freeway Drive, East Orange, NJ 07018

(Address of Principal Executive Offices)

Issuer's Telephone Number: (973) 266-7020

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Sections 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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares
outstanding of each of the Registrant's classes of common stock, as of the
latest practicable date:

August 19, 2002

Common Voting Stock: 41,159,205

Transitional Small Business Disclosure Format (check one): Yes No

PART 1 - FINANCIAL INFORMATION

Transportation Logistics Int'l Inc. and Subsidiaries
Consolidated Condensed Interim Balance Sheet
June 30, 2002

Assets

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| | |
|--|--------------|
| Current Assets | |
| Cash and equivalents | \$ - |
| Accounts receivable, net of allowance for doubtful accounts of \$87,497 | 1,360,103 |
| Prepaid expenses | 60,101 |
| Note receivable | 35,000 |
| | ----- |
| Total Current Assets | 1,455,204 |
| | ----- |
| Property and equipment, at cost, less accumulated depreciation | 316,835 |
| Goodwill and customer lists, net of accumulated amortization | 17,221 |
| Other Assets | |
| Note receivable | 386,000 |
| Security deposits | 61,500 |
| Other assets | 141,169 |
| | ----- |
| Total Other Assets | 588,669 |
| | ----- |
| Total Assets | \$ 2,377,929 |
| | ===== |
| Liabilities and Stockholders' Equity | |
| Current Liabilities | |
| Accounts payable and accrued expenses | \$ 1,066,075 |
| Convertible debenture | 200,000 |
| Notes payable to bank | 545,028 |
| Current maturities of long term debt | 85,000 |
| Income taxes payable | 7,446 |
| | ----- |
| Total Current Liabilities | 1,903,549 |
| Loan payable | 789,791 |
| Minority interest payable | 77,656 |
| | ----- |
| Total Liabilities | 2,770,996 |
| Stockholders' Equity | |
| Common stock, no par value; 50,000,000 shares authorized, 41,159,205 shares issued and outstanding | 3,607,892 |
| Additional paid-in capital - stock options | 36,748 |
| Retained earnings | (2,219,410) |
| Accumulated other comprehensive income | - |
| Less: treasury stock, 1,176,519 shares at cost | (522,537) |
| Consulting services to be provided | (1,295,760) |
| | ----- |
| Total Stockholders' Equity | (393,067) |
| | ----- |
| Total Liabilities and Stockholders' Equity | \$ 2,377,929 |
| | ===== |

Transportation Logistics Int'l Inc. and Subsidiaries
Consolidated Condensed Interim Statements of Operations

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------------|--------------|---------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| Operating Revenues | \$2,646,849 | \$2,804,437 | \$6,180,329 | \$4,404,557 |
| Direct Operating Expenses | 1,710,178 | 2,140,773 | 4,206,646 | 3,331,030 |
| Gross Profit | 936,671 | 663,664 | 1,973,683 | 1,073,527 |
| Operating Expenses | | | | |
| Selling, general and administrative | 731,810 | 789,866 | 1,579,984 | 1,424,429 |
| Depreciation and amortization | 60,268 | 62,528 | 118,540 | 121,955 |
| Stock issued for consulting services | 25,920 | - | 50,840 | - |
| Total Operating Expenses | 817,998 | 852,394 | 1,749,364 | 1,546,384 |
| Operating Income (Loss) | 118,673 | (188,730) | 224,319 | (472,857) |
| Other Income (Expense) | | | | |
| Interest expense | (12,191) | (7,216) | (24,176) | (23,843) |
| Total Other Income (Expense) | (12,191) | (7,216) | (24,176) | (23,843) |
| Income (Loss) Before Income Taxes | 106,482 | (195,946) | 200,143 | (496,700) |
| (Provision) Benefit for Income Taxes | - | - | - | - |
| Income (Loss) Before Minority Interest | 106,482 | (195,946) | 200,143 | (496,700) |
| Minority Interest | (42,376) | - | (77,656) | - |
| Net Income (Loss) | \$ 64,106 | \$ (195,946) | \$ 122,487 | \$ (496,700) |
| Earnings Per Share | | | | |
| Income from continuing operations | \$ 0.01 | \$ (0.01) | \$ 0.01 | \$ (0.02) |
| Discontinued operations | - | - | - | - |
| Basic and diluted earnings per share | \$ 0.01 | \$ (0.01) | \$ 0.01 | \$ (0.02) |
| Weighted Average Number of Common Shares Outstanding | | | | |
| Basic | 34,714,761 | 20,902,500 | 30,063,281 | 20,902,500 |
| Diluted | 34,714,761 | 20,902,500 | 30,063,281 | 20,902,500 |

Transportation Logistics Int'l Inc. and Subsidiaries

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Consolidated Condensed Interim Statements of Cash Flows

| | Six Months Ended June 30, | |
|--|------------------------------|--------------|
| | 2002 | 2001 |
| Cash Provided by (Used in) Operating Activities | \$ 95,558 | \$ (592,914) |
| Cash Flows From Investing Activities | | |
| Purchase of property and equipment | (37,242) | (30,720) |
| Investments in joint ventures and subsidiaries | - | (35,244) |
| Collection of notes receivable | - | 492,329 |
| | (37,242) | 426,365 |
| Cash Flows From Financing Activities | | |
| Repayments of loans payable to affiliates and capital leases | - | (44,609) |
| Proceeds from bank loans | 61,684 | 164,655 |
| Repayment of long-term debt | (120,000) | - |
| Loans to affiliates and shareholders | - | (100,625) |
| Issuance of convertible debentures | - | 200,000 |
| Issuance of common stock and options | - | 26,709 |
| | (58,316) | 246,130 |
| Net Increase (Decrease) in Cash and Equivalents | (23,667) | 79,581 |
| Cash and Equivalents at Beginning of Period | 23,667 | 195,616 |
| Cash and Equivalents at End of Period | \$ - | \$ 275,197 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | \$ 24,196 | \$ 23,843 |
| Income taxes | \$ - | \$ - |

Transportation Logistics Int'l Inc. and Subsidiaries
Notes to the Consolidated Condensed Interim Financial Statements

BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments

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(consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. The unaudited condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

STOCK ISSUED FOR CONSULTING SERVICES

During the first quarter of 2002 the Company issued 7,730,000 shares of common stock in consideration of commitments from the recipients to provide consulting services. The terms of the consulting agreements vary from two to five years. The market value of the common stock on the date of issuance will be recorded as an expense - "stock issued for consulting services" - over the term of each consulting agreement.

SALE OF TLI(U.K.)

On April 19, 2002 the Company sold all of the capital stock of its subsidiary, Transportation Logistics Int'l (UK) Ltd. ("TLI(U.K.)"). TLI(U.K.) was sold to four individuals, including James Thorpe, who had been a member of the Board of Directors and President of the Company. Mr. Thorpe resigned from those positions on April 19, 2002. The purchase price given by the purchasers consisted of (a) \$35,000 to be paid between November 2002 and April 2003 and (b) 940,867 shares of the Company's common stock, which were surrendered by Mr. Thorpe. As part of the transaction, TLI(U.K.) and the purchasers agreed that if within the next two years they participate in the Translogistics Network or in any similar cooperative global network of logistics providers, then 50% of the profits they derive from the network during the next five years will be paid to the Company.

ACQUISITION OF XCALIBUR XPRESS INC.

On May 23, 2002 the Company acquired all of the capital stock of Xcalibur Xpress Inc. Xcalibur Xpress is based in Charleston, South Carolina. It performs intermodal trucking and delivery, warehousing and third party logistics for its clients. The capital stock of Xcalibur Xpress was acquired by the Company in exchange for (1) the Company's undertaking to provide financial services to Xcalibur Xpress and (2) the agreement by the Company to forebear immediate collection of \$200,000 owed by Xcalibur Xpress to the Company.

RESTRICTED STOCK GRANT PROGRAM

On May 28, 2002 the Company granted 10,000,000 shares of its common stock to Michael Margolies, its Chief Executive Officer, pursuant to the Company's Restricted Stock Grant Program (the "Program"). The grant represented the entirety of the 10,000,000 shares included in the Program. The shares issued under the Program are subject to the following restrictions:

1. After this fiscal year and each of the following four fiscal years (2002 through 2006) one-fifth of the shares granted (the "At-Risk Shares") will be forfeited if the Company's revenue during the year does not exceed the following thresholds:

| | | |
|------|------|------------|
| 2002 | - \$ | 4,000,000 |
| 2003 | - \$ | 6,000,000 |
| 2004 | - \$ | 8,000,000 |
| 2005 | - \$ | 10,000,000 |
| 2006 | - \$ | 12,000,000 |

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2. All of the restricted shares shall be forfeited if Mr. Margolies' employment by the Company terminates prior to the date the restrictions lapse.

3. The shares granted under the Program cannot be sold, assigned, pledged, transferred or hypothecated in any manner, by operation of law or otherwise, other than by writ or the laws of descent and distribution, and shall not be subject to execution, attachment or similar process. These restrictions will lapse with respect to any At-Risk Shares that are not forfeited as described above. In addition, the restrictions will lapse with respect to all unforfeited shares if in any year the Company's revenue exceeds \$12,000,000.

4. The restrictions shall also lapse as to all restricted shares on the first to occur of (i) the termination of Mr. Margolies' employment with the Company by reason of his disability, (ii) Mr. Margolies' death, (iii) termination of Mr. Margolies' employment by the Company without good reason, or (iv) a change of control of the Company. The Program defines "Change of Control" as an acquisition by a person or group of more than 50% of the Company's outstanding shares, a transfer of the Company's property to an entity of which the Company does not own at least 50%, or the election of directors constituting a majority of the Board who have not been approved by the existing Board.

OPERATING SEGMENTS

The Company's operations are classified into five principal reportable segments that provide different products or services: U.S. Logistics Services, Foreign Logistics Services, Student Transportation, Employee Leasing Services, and Financial Services. Separate management of each segment is required because each business unit is subject to different marketing and operating strategies and different geographic locations.

Segmental Data

| | Reportable Segments Six Months Ended June 30, 2002 | | | | | |
|-------------------------------|--|------------|----------------|-------------|-------------|-------------|
| | US | Foreign | Student | Employee | Financial | |
| | Logistics | Logistic | transportation | Leasing | Services | Total |
| | Services | Services | Services | Services | Services | |
| External Revenue | \$ 89,352 | \$ 858,842 | \$1,614,057 | \$2,137,333 | \$1,480,745 | \$6,180,329 |
| Depreciation and Amortization | \$ - | \$ - | \$ 50,800 | \$ 20,417 | \$ 47,323 | \$ 118,540 |
| Operating Income (Loss) | \$(17,981) | \$ 27,148 | \$ 46,871 | \$ 158,462 | \$ 9,819 | \$ 224,319 |
| Assets | \$ 3,404 | \$ - | \$ 610,893 | \$ 243,779 | \$1,519,853 | \$2,377,929 |
| Capital Expenditures | \$ - | \$ - | \$ 37,242 | \$ - | \$ - | \$ 37,242 |

Reportable Segments Six Months Ended June 30, 2001

| | US | Foreign | Student | Employee | |
|--|-----------|----------|----------------|----------|-------|
| | Logistics | Logistic | transportation | Leasing | |
| | Services | Services | Services | Services | Total |

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| | | | | | |
|-------------------------------|--------------|--------------|--------------|-------------|--------------|
| External Revenue | \$ 1,146,150 | \$ 1,157,221 | \$ 1,588,418 | \$ 512,768 | \$ 4,404,557 |
| Depreciation and Amortization | \$ 12,537 | \$ 11,909 | \$ 89,874 | \$ 7,635 | \$ 121,955 |
| Operating Income (Loss) | \$ (184,963) | \$ (416,525) | \$ 172,104 | \$ (43,473) | \$ (472,857) |
| Assets | \$ 510,930 | \$10,951,425 | \$ 1,418,693 | \$ 602,781 | \$13,483,829 |
| Capital Expenditures | \$ 7,026 | \$ 7,014 | \$ 13,457 | \$ 3,143 | \$ 30,640 |

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS

Forward-looking Statements: No Assurances Intended

This Report contains certain forward-looking statements regarding Transportation Logistics, its business and financial prospects. These statements represent Management's present intentions and its present belief regarding the company's future. Nevertheless, there are numerous risks and uncertainties that could cause our actual results to differ from the results suggested in this Report. Among the more significant risks are:

- * the fact that Transportation Logistics' growth will be limited by its ability to obtain additional capital;
- * the fact that the industry in which Transportation Logistics operates is dominated by large logistics companies, against whom Transportation Logistics must compete;
- * the fact that the Transportation Logistics has recently begun to integrate a number of new logistics-related services with its established consolidation and delivery operations, and does not know yet how efficient the integration will be or whether this "full service" approach to logistics will be successful; and
- * the fact that Transportation Logistics may not be able to attract the skilled managers it will need in order to expand its operations efficiently.

Because these and other risks may cause the Company's actual results to differ from those anticipated by Management, the reader should not place undue reliance on any forward-looking statements that appear in this Report. Readers should also take note that Transportation Logistics will not necessarily make any public announcement of changes affecting these forward-looking statements, which should be considered accurate on this date only.

Results of Operations

During 2001 we reoriented our business plan, moving away from a dominant focus on international logistics operations and moving towards the establishment of Transportation Logistics as a full-service provider of logistics and logistics-related services. Subsequent to the end of the year we sold TLI(U.K.), the subsidiary which was devoted to international logistics, thus

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finalizing the reorientation of our business. In the first six months of 2002 we experienced the first benefits of that reorientation, as we achieved a return to profitability.

The services we provide to the logistics industry - our personnel services and our financial services - continued to grow during the first half of 2002. Revenue from these businesses totaled \$3,618,078. The personnel services division generated operating income of \$158,462 during the first six months of 2002, and the financial services division generated operating income of \$9,819 during the same period. In the second half of 2002 we expect both of these divisions to expand substantially, particularly the financial services division, which was initiated late in 2001. The expansion of these operations should enable them to make a more significant contribution to our overall profitability, as they gain the benefits of economies of scale.

Revenue from Pupil Transportation were 2% greater in the first half of 2002 than in the first half of 2001, reflecting the increased number of contracts being serviced. At the same time, operating income at Pupil Transportation decreased by 8%. The reduction reflects primarily our new policy regarding allocation of corporate overhead among our subsidiaries.

All of our operating divisions, therefore, produced operating income during the first six months of 2002. That operating income was offset, however, by expenses attributable to the operations of the corporate parent. These expenses primarily relate to corporate management, including the professional fees that are attendant to being a public company. In addition, one of the ways in which we established the network of significant relationships that facilitate our business operations was by issuing common stock to consultants and other individuals and enterprises which committed to assist our development. During the first half of 2002 we recorded \$50,840 in expenses attributable to the market value of that stock. Our expectation is that these non-cash expenses will be offset by future cash benefits arising from the relationships we are developing.

Our overall gross profit margin for the first six months of 2002 was 32% (29% in the first quarter of 2002 and 35% in the second quarter). This represents an improvement from the 24% margin realized in the first half of 2001. The improvement is attributable to the fact that in the beginning of 2001 our revenues were primarily transportation revenues, and our gross margins were dictated by the shipping industry: 12%-18% for ocean freight and 25% for air freight. Our revenues in the first half of 2002 were primarily from our logistics-related services (personnel and finance). The range within which we can expect the gross margin from our new logistics-related services has not yet been determined, as those divisions do not have sufficient operating history to be predictive. Our goal, however, is to continue to achieve the margin reported for the second quarter of this year.

Selling, general and administrative expenses of \$1,630,824 (including stock issued for consulting services) during the first six months of 2002 represented 26% of revenue, compared to a ratio of 32% in the first six months of 2001. This improvement occurred primarily because we have made a concerted effort to increase the efficiency of our overall operations. In addition, S,G&A expenses in 2001 included costs attributable to our efforts to acquire and develop the several subsidiaries which comprise our personnel and financial services divisions.

Liquidity and Capital Resources

The primary roadblock facing our plans for growth is our need for capital. We are actively seeking additional capital resources, through sale of equity or debt, and hope to increase our available resources. With

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additional capital resources, we expect to be able to expand all of our service offerings to achieve the economies of scale that will facilitate profitability and growth.

Our operations produced positive cash of \$95,558 during the first six months of 2002. The majority of that sum was used to satisfy outstanding debts. As a result, our working capital deficit at June 30, 2002 totaled \$448,345, a decline of \$8,020 compared with the working capital deficit on \$440,325 at December 31, 2001. While the existence of a working capital deficit remains an impediment to our growth, our ability to stabilize it in this manner is evidence of our ability to sustain operations until we achieve positive working capital.

At the present time the only significant credit available to us is a facility of up to \$2,000,000, based on eligible receivables, which was issued by Merchant Financial Corp. At June 30, 2002 we had an outstanding balance of \$545,028 due to Merchant Financial. The facility expires in March 2003.

Our working capital position is sufficient to sustain our present operations and to fuel a modest growth rate. Our business plan, however, calls for dramatic growth. To fund that growth, we will require additional capital resources. Management, therefore, is actively engaged in exploring opportunities for equity or debt financing, to obtain the funds needed for this planned expansion.

PART II - OTHER INFORMATION

Items 1/3. Legal Proceedings/Defaults in Senior Securities

Michael Seeley, the holder of a Convertible Debenture issued by the Company in the principal amount of \$200,000, has commenced action in the District Court for the City and County of Denver, State of Colorado, against the Company. The action alleges that the Company has defaulted in payment of the principal and \$40,000 in interest accrued on the debenture.

Item 6. Exhibits and reports on Form 8-K.

Reports on Form 8-K.

Report dated April 19, 2002 concerning the sale of TLI (UK).

Report dated May 23, 2002 concerning the acquisition of Xcalibur Xpress Inc.

Exhibits. None

SIGNATURES AND CERTIFICATION

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.

The undersigned officer certifies that this Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

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TRANSPORTATION LOGISTICS INT'L, INC.

Date: August 19, 2002

By: /s/ Michael Margolies

Michael Margolies, Chief Executive Officer,
Chief Financial Officer,
Chief Accounting Officer