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AUTOINFO INC  
Form 10-Q  
May 03, 2006

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

FORM 10-Q

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

For the quarterly period ended: MARCH 31, 2006

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 April 30, 2006: 31,799,000 shares of common stock.

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## AUTOINFO, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

### FINANCIAL STATEMENTS

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

|   | March 31,<br>2006<br>Unaudited | December 31,<br>2005<br>Audited |
|---|--------------------------------|---------------------------------|
|   | -----                          | -----                           |
| <b>ASSETS</b>   |                                |                                 |
| <b>Current assets:</b>  |                                |                                 |
| Cash  | \$ 326,000                     | \$ 419,000                      |
| Accounts receivable, net of allowance for doubtful accounts of \$247,000 and \$201,000 as of March 31, 2006 and December 31, 2005, respectively | 12,428,000                     | 12,735,000                      |
| Deferred income taxes (Note 2)  | 827,000                        | 860,000                         |
| Other current assets  | 379,000                        | 255,000                         |
|   | -----                          | -----                           |
| Total current assets  | 13,960,000                     | 14,269,000                      |

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|   |               |               |
|---|---------------|---------------|
| Fixed assets, net of accumulated depreciation   | 301,000       | 292,000       |
| Deferred income taxes (Note 2)  | 2,654,000     | 2,047,000     |
| Other assets  | 38,000        | 38,000        |
|   | -----         | -----         |
|   | \$ 16,953,000 | \$ 16,646,000 |
|   | =====         | =====         |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |               |               |
| Current liabilities   |               |               |
| Loan payable  | \$ 601,000    | \$ 1,280,000  |
| Accounts payable and accrued liabilities  | 7,009,000     | 7,235,000     |
|   | -----         | -----         |
| Total current liabilities   | 7,610,000     | 8,515,000     |
|   | -----         | -----         |
| Stockholders' Equity  |               |               |
| Preferred stock - authorized 10,000,000 shares<br>\$.001 par value; issued and outstanding - 0 shares<br>as of March 31, 2006 and December 31, 2005                                   | --            | --            |
| Common stock - authorized 100,000,000 shares<br>\$.001 par value; issued and outstanding -<br>31,799,000 shares as of March 31, 2006 and<br>31,624,000 shares as of December 31, 2005 | 32,000        | 32,000        |
| Other capital   | 549,000       | 549,000       |
| Deferred compensation   | (393,000)     | (413,000)     |
| Additional paid-in capital  | 19,084,000    | 19,047,000    |
| Deficit   | (9,929,000)   | (11,084,000)  |
|   | -----         | -----         |
| Total stockholders' equity  | 9,343,000     | 8,131,000     |
|   | -----         | -----         |
|   | \$ 16,953,000 | \$ 16,646,000 |
|   | =====         | =====         |

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

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

|                        | Three Months Ended<br>March 31, |               |
|------------------------|---------------------------------|---------------|
|                        | 2006                            | 2005          |
|                        | -----                           | -----         |
| Gross revenues         | \$ 18,096,000                   | \$ 14,915,000 |
| Cost of transportation | 14,108,000                      | 11,848,000    |
|                        | -----                           | -----         |
| Net revenues           | 3,988,000                       | 3,067,000     |
|                        | -----                           | -----         |

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|  |              |            |
|--|--------------|------------|
| Commissions                              | 2,478,000    | 1,900,000  |
| Operating expenses                       | 888,000      | 780,000    |
|  | -----        | -----      |
|  | 3,366,000    | 2,680,000  |
|  | -----        | -----      |
| Income from operations                   | 622,000      | 387,000    |
| Interest expense                         | 6,000        | 28,000     |
|  | -----        | -----      |
| Income before income taxes               | 616,000      | 359,000    |
| Income taxes (benefit) (Note 2)          | (539,000)    | (34,000)   |
|  | -----        | -----      |
| Net income                               | \$ 1,155,000 | \$ 393,000 |
|  | =====        | =====      |
| Net income per share                     |              |            |
| Basic                                    | \$ .04       | \$ .01     |
|  | -----        | -----      |
| Diluted                                  | \$ .03       | \$ .01     |
|  | -----        | -----      |
| Weighted average number of common shares |              |            |
| Basic                                    | 31,751,000   | 31,338,000 |
|  | -----        | -----      |
| Diluted                                  | 34,506,000   | 34,177,000 |
|  | -----        | -----      |

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

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

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2006                            | 2005       |
|   | -----                           | -----      |
| Cash flows from operating activities:   |                                 |            |
| Net income  | \$ 1,155,000                    | \$ 393,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Change in allowance for doubtful accounts   | 46,000                          | 45,000     |
| Depreciation and amortization   | 25,000                          | 10,000     |
| Deferred compensation expense   | 33,000                          | 17,000     |
| Deferred income taxes   | (574,000)                       | (56,000)   |
| Changes in assets and liabilities:  |                                 |            |
| Accounts receivable   | 262,000                         | 56,000     |
| Other current assets  | (124,000)                       | 348,000    |
| Other assets  | --                              | (60,000)   |
| Accounts payable and accrued liabilities  | (227,000)                       | (471,000)  |
|   | -----                           | -----      |
| Net cash provided by operating activities   | 596,000                         | 282,000    |
|   | -----                           | -----      |

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|                                       |            |           |
|---------------------------------------|------------|-----------|
| Cash flows from investing activities: |            |           |
| Capital expenditures                  | (34,000)   | (47,000)  |
|                                       | -----      | -----     |
| Net cash used in investing activities | (34,000)   | (47,000)  |
|                                       | -----      | -----     |
| Cash flows from financing activities: |            |           |
| Exercise of stock options             | 24,000     | 23,000    |
| Decrease in loan payable, net         | (679,000)  | (245,000) |
|                                       | -----      | -----     |
| Net cash used in financing activities | (655,000)  | (222,000) |
|                                       | -----      | -----     |
| Net change in cash                    | (93,000)   | 13,000    |
| Cash, beginning of period             | 419,000    | 38,000    |
|                                       | -----      | -----     |
| Cash, end of period                   | \$ 326,000 | \$ 51,000 |
|                                       | =====      | =====     |

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

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### 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, 2005 as filed with the Securities and Exchange Commission. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Note 1. - Business and Summary of Significant Accounting Policies

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### Business

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, 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 \$68.0 million, \$13.6 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 Securities and Exchange Commission (SEC). In management's opinion, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for the three months ended March 31, 2006 and 2005 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 our Annual Report on Form 10-K for the year ended December 31, 2005.

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### Principles of Consolidation

The consolidated financial statements include the accounts of the AutoInfo, Inc. (the Company), its wholly-owned subsidiary Sunteck Transport Co., Inc. and its wholly-owned subsidiary Sunteck Transport & Logistics, Inc., collectively (Sunteck). 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 the pick up 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

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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 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

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 March 31, 2006 and December 31, 2005, 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 2,755,000 and 2,839,000, respectively, for the periods ended March 31, 2006 and 2005.

### 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.

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### 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 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.

The Company's results of operations for the three months ended March 31, 2006 include an additional \$12,000 in operating expense related to the adoption of SFAS 123R. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

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 periods ended March 31, 2006 and 2005, the provision for income taxes consisted of the following:

|  | 2006       |              | 2005       |             |
|--|------------|--------------|------------|-------------|
|  | Current    | Deferred     | Current    | Deferred    |
| Tax expense before application of operating loss carryforwards | \$ 244,000 | \$ --        | \$ 143,000 | \$ --       |
| Tax expense (benefit) of operating loss carryforwards          | (209,000)  | 209,000      | (121,000)  | 121,000     |
| Change in valuation allowance                                  | --         | (783,000)    | --         | (177,000)   |
|  |            |              |            |             |
| Income tax expense (benefit)                                   | \$ 35,000  | \$ (574,000) | \$ 22,000  | \$ (56,000) |

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Deferred taxes are comprised of the following at March 31, 2006 and December 31, 2005:

|                                 | March 31,<br>2006 | December 31,<br>2005 |
|---------------------------------|-------------------|----------------------|
| Deferred tax assets:            |                   |                      |
| Net operating loss carryforward | \$ 4,663,000      | \$ 4,872,000         |
| Gross deferred tax assets       | 4,663,000         | 4,872,000            |
| Less: valuation allowance       | (1,182,000)       | (1,965,000)          |
| Deferred tax asset              | \$ 3,481,000      | \$ 2,907,000         |



=====

The deferred tax asset represents expected future tax savings resulting from the Company's net operating loss carryforward. As of December 31, 2005, the Company has a net operating loss carryforward of approximately \$14.3 million for federal income tax purposes which expire through 2014. Utilization of this benefit is primarily subject to the extent of future earning of the Company, and may be limited by, among other things, stockholder changes, including the possible issuance by the Company of additional shares in one or more financing or acquisition transactions. The Company has established a valuation allowance for the portion of the possible tax savings not likely to be realized by the end of the carryforward period.

Based upon available objective evidence, including the Company's history of profitability, management believes it is more likely than not that forecasted taxable income will be sufficient to utilize a portion of the net operating loss carryforward before its expiration in 2014. However, there can be no assurance that the Company will meet its expectations of future income.

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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 non-asset based 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

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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 transportation services business with revenue, net revenue and net income of approximately \$68.0 million, \$13.6 million and \$3.6 million, respectively, during our most recently completed fiscal year.

Our brokerage services are provided through a network of independent sales agents throughout the United States and Canada. Our services include arranging for the transport of customers' freight from the shippers location to the designated destination. We do not own any trucking equipment and rely on independent carriers for the movement of customers' freight. We seek to establish long-term relationships with our customers and provide a variety of logistics services and solutions to eliminate inefficiencies in our customers' supply chain management.

Our contract carrier services are also provided through a network of independent sales agents and independent owner-operators throughout the United States. We do not own any trucking equipment; our independent owner-operators lease onto our operating authority and transport freight under the Sunteck name.

During the quarter ended March 31, 2006, the increase in gross revenue, net revenue and operating income was primarily generated in our brokerage division. This growth is readily measured by the number of transactions we have processed, which increased for the respective three month periods from 10,600 in 2005 to 11,200 in 2006, an increase of 6%, and the average revenue dollars per load, which increased by 19% in 2006 as compared to 2005. This is the result of several factors including an increase in truckload business versus less than truckload at higher per load revenues, the addition of sales agents hauling heavy equipment at higher per load revenues and, to a lesser degree, a general increase in prices. The net revenue percentage increased by 10% in 2006 as compared to 2005. This is primarily the result of revenue mix and, to a lesser degree, a general increase in prices.

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### Results of operations

For the three months ended March 31, 2006 and 2005

During the quarter ended March 31, 2006, 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:

2006

2005

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|                        | -----   | -----  |
|------------------------|---------|--------|
| Net revenues           | 100.0%  | 100.0% |
| Commissions            | 62.1%   | 62.0%  |
| Operating expenses     | 22.3%   | 25.4%  |
| Interest expense       | .1%     | .9%    |
| Income taxes (benefit) | (13.5)% | (1.1)% |
| Net income             | 29.0%   | 12.8%  |

Revenues

Gross revenues, consisting of freight fees and other related services revenue, totaled \$18,096,000 for the quarter ended March 31, 2006, as compared with \$14,915,000 in the prior year period, an increase of 21%. Net revenues were \$3,988,000 for the quarter ended March 31, 2006, as compared with \$3,067,000 in the prior year period, an increase of 30%.

Gross revenues from brokerage services increased to \$15,416,000 from \$12,372,000 and net revenues increased to \$3,541,000 from \$2,581,000 in the prior year period. This increase is the direct result of the continued expansion of our agent network and customer base which resulted in a 6% increase in the number of transactions processed and an increase of 18% in the average dollars per load.

Gross revenues from contract carrier services increased to \$2,680,000 from \$2,543,000 as the result of a 14% increase in average revenue dollars per load. Net revenues decreased to \$447,000 from \$486,000 as a result of higher fuel costs and an increase in fuel service and detention charges which are passed directly through to our owner operators, thereby reducing net revenues as a percentage of gross revenues.

Costs and expenses

Commissions totaled \$2,478,000 for the quarter ended March 31, 2006, as compared with \$1,900,000 in the prior year period, an increase of 30%. This increase is the result of the increase in net revenues. As a percentage of net revenues, commissions were 62% for the respective quarters ended March 31, 2006 and 2005.

Operating expenses totaled \$888,000 for the quarter ended March 31, 2006, as compared with \$780,000 in the prior year period, an increase of 14%. As a percentage of net revenues, operating expenses were 22% for the quarter ended March 31, 2006, as compared with 25% in the prior year period. This decrease is the direct result of our ability to leverage selling, general and administrative expenses in connection with business expansion. During 2005, we moved our

headquarters to a larger 5,300 square foot facility. We have increased administrative staff commensurate with the increase in transaction volume. We presently have adequate facilities and management to handle the present and anticipated transaction volume in 2006 without a significant increase in overhead.

Interest expense was \$6,000 for the quarter ended March 31, 2006, as compared with \$28,000 in the prior year period. This decrease is primarily the result of decreased borrowings pursuant to our \$2.5 million line of credit at an interest rate of prime + 1/2%.

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### Income tax

The income tax benefit of \$539,000 for the quarter ended March 31, 2006 consisted of a benefit of \$783,000 resulting from the anticipated future utilization of an available federal tax loss carryforward, net of the utilization of the deferred tax benefit of \$209,000 and state income taxes of \$35,000. The income tax benefit of \$34,000 for the quarter ended March 31, 2005 consisted of \$177,000 resulting from the anticipated future utilization of an available federal tax loss carryforward, net of the utilization of the deferred tax benefit of \$121,000 and state income taxes of \$22,000. Based upon available objective evidence, including our profitability, we believe that it is more likely than not that forecasted taxable income will be sufficient to utilize a portion of the net operating loss carryforward before its expiration in 2014. Accordingly, as of March 31, 2006, the valuation allowance was reduced by an additional \$783,000.

### 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 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 quarter ended March 31, 2006, we increased gross revenues from \$14.9 million to \$18.1 million and had net income of \$1,155,000 as compared with \$393,000 in the prior year. As of March 31, 2006, we had an accumulated deficit of \$9.9 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.

At March 31, 2006, we had an outstanding balance of \$601,000 under our \$2,500,000 line of credit. The line of credit, obtained from a bank in May 2003,

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is subject to the maintenance of certain financial covenants, is secured by accounts receivable and other operating assets, and matures in June 2006. We believe that we have sufficient working

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capital to meet our short-term operating needs and that we will be able to increase, extend or replace the line of credit on terms acceptable to us.

At March 31, 2006, we had liquid assets of approximately \$326,000. Available cash is used to reduce borrowings on our line of credit.

The total amount of debt outstanding as of March 31, 2006 and 2005 was \$601,000 and \$1,753,000, respectively. The following table presents our debt instruments and their weighted average interest rates as of March 31, 2006 and 2005, respectively:

|                | Balance    | Weighted<br>Average Rate | Balance      | Weighted<br>Average Rate |
|----------------|------------|--------------------------|--------------|--------------------------|
|                | 2006       |                          | 2005         |                          |
| Line of Credit | \$ 601,000 | 8.25%                    | \$ 1,753,000 | 6.0%                     |

Inflation and changing prices had no material impact on our revenues or the results of operations for the period ended March 31, 2006.

### 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 the Company's 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.

### Income Taxes

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The deferred tax asset represents expected future tax savings resulting from our net operating loss carryforward. As of December 31, 2005, we had a net operating loss carryforward of approximately \$14.3 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, shareholder changes, including the possible issuance of additional shares in one or more financing or acquisition transactions. We have established a valuation allowance for the portion of possible tax savings not likely to be realized by the end of the carryforward period.

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### 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

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 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 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 it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Information required to be disclosed by us in the reports it files or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal 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 we reasonably likely to materially affect, our internal control over financial reporting.

### PART II. OTHER INFORMATION

#### 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.* |

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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.\*

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\*Filed as an exhibit hereto.

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SIGNATURES

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

AUTOINFO, INC.

By: /s/ Harry Wachtel

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Harry Wachtel  
President and Chief Executive Officer

By: /s/ William Wunderlich

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William Wunderlich  
Executive Vice President and  
Principal Financial Officer

Date: May 2, 2006

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