TRANSPORTATION LOGISTICS INTL INC
Form 10QSB
November 18, 2002

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

FORM 10-QSB

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

For the quarterly period ended September 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, 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 [X] 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:

November 18, 2002
Common Voting Stock: 42,409,205

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

PART 1 - FINANCIAL INFORMATION

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

Assets	
Current Assets	
Cash and equivalents	$ -
Accounts receivable, net of allowance for doubtful accounts of $87,497	1,568,055
Prepaid expenses	23,136
Notes receivable	35,000
Total Current Assets	1,626,191
Property and equipment, at cost, less accumulated depreciation	364,374
Goodwill and customer lists, net of accumulated amortization	541,304
Other Assets	
Notes receivable	386,000
Security deposits	61,500
Other assets	56,911
Total Other Assets	504,411
Total Assets	$ 3,036,280
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts payable and accrued expenses	$ 1,049,936
Convertible debenture	200,000
Notes payable to bank	648,247
Current maturities of long term debt	442,577
Income taxes payable	7,446
Total Current Liabilities	2,348,206
Loan payable	932,891
Minority interest payable	146,208
Total Liabilities	3,427,305
Stockholders' Equity	
Common stock, no par value; 50,000,000 shares authorized, 42,409,205 shares issued and outstanding	3,657,892
Additional paid-in capital - stock options	36,748
Retained earnings	(2,293,288)
Less: treasury stock, 235,652 shares at cost	(522,537)
Consulting services to be provided	(1,269,840)
Total Stockholders' Equity	(391,025)
Total Liabilities and Stockholders' Equity	$ 3,036,280

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

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Operating Revenues	$2,891,642	$4,136,884	$9,071,971	$8,541,441
Direct Operating Expenses	1,807,873	3,351,216	6,014,519	6,682,246
Gross Profit	1,083,769	785,668	3,057,452	1,859,195
Operating Expenses				
Selling, general and administrative	1,016,747	1,034,848	2,596,731	2,459,276
Depreciation and amortization	33,260	65,539	151,800	187,494
Stock issued for consulting services	25,080	-	75,920	-
Total Operating Expenses	1,075,087	1,100,387	2,824,451	2,646,770
Operating Income (Loss)	8,682	(314,719)	233,001	(787,575)
Other Income (Expense)				
Interest expense	(14,009)	-	(38,185)	-
Interest income	-	48,894	-	25,051
Total Other Income (Expense)	(14,009)	48,894	(38,185)	25,051
Income (Loss) Before Income Taxes	(5,327)	(265,825)	194,816	(762,524)
Provision for Income Taxes	-	-	-	-
Income (Loss) Before Minority Interest	(5,327)	(265,825)	194,816	(762,524)
Minority Interest	(68,552)	-	(146,208)	-
Net Income (Loss)	$ (73,879)	$ (265,825)	$ 48,608	$ (762,524)
Earnings Per Share				
Basic and diluted earnings (loss) per share	$ -	$ (.01)	$ -	$ (.04)
Weighted Average Number of Common Shares Outstanding: Basic and Diluted	41,409,205	20,902,500	34,002,686	20,902,500

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Cash Used in Operating Activities	$ 79,471	$ (754,484)
Cash Flows From Investing Activities		
Purchase of property and equipment	(118,041)	(175,730)
Collection of notes receivable	-	508,579
Investments in joint ventures and subsidiaries	-	(35,244)
Net Cash Provided by (Used in) Investing Activities	(118,041)	297,605
Cash Flows From Financing Activities		
Issuance of convertible debentures	-	200,000
Proceeds from bank loans	164,903	274,952
Issuance of common stock and options	-	26,709
Repayments of loans payable to affiliates and capital leases	-	(75,902)
Loans to affiliates and shareholders	-	(78,460)
Repayment of long-term debt	(150,000)	-
Net Cash Provided by Financing Activities	14,903	347,299
Net (Decrease) in Cash and Equivalents	(23,667)	(109,580)
Cash and Equivalents at Beginning of Period	23,667	195,616
Cash and Equivalents at End of Period	$ -	$ 86,036

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 38,185	$ 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 (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 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

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 Nine Months Ended September 30, 2002

	US Logistics Services	Foreign Logistic Services	Student Trans- portation Services	Employee Leasing Services	Financial Services	Total
External Revenue	$1,796,810	$ 858,842	$ 1,873,119	$3,857,071	$ 686,129	$9,071,971
Depreciation and Amortization	$ -	$ -	$ 76,200	$ 28,277	$ 47,323	$ 151,800
Operating Income (Loss)	$ (103,297)	$ 27,148	$ 12,390	$ 298,385	$ (1,625)	$ 233,001
Assets	$ 892,372	$ -	$ 441,181	$ 223,775	$1,478,952	$3,036,280
Capital Expenditures	$ -	$ -	$ 118,041	$ -	$ -	$ 118,041

Reportable Segments Nine Months Ended September 30, 2002

	US Logistics Services	Foreign Logistic Services	Student Trans- portation Services	Employee Leasing Services	Total
External Revenue	$4,368,473	$1,704,325	$1,955,875	$ 512,768	$8,541,441
Depreciation and Amortization	$ 42,413	$ 12,282	$ 126,746	$ 6,053	$ 187,494
Operating Income (Loss)	$ (556,713)	$ (404,252)	$ 196,347	$ (22,956)	$ (787,574)
Assets	$1,197,644	$1,173,563	$1,022,010	$ 347,348	$3,740,565
Capital Expenditures	$ 13,809	$ 5,387	$ 154,913	$ 1,621	$ 175,730

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 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 establish ment of Transportation Logistics as a provider of domestic logistics services. Subsequent to the end of the year we sold TLI(U.K.), the subsidiary which was devoted to international logistics, thus finalizing the reorientation of our business. To replace that lost revenue stream, in May 2002 we acquired Xcalibur Xpress, Inc., an intermodal trucking company. Then in the third quarter of 2002 we further streamlined our operations by reducing our involve ment in employee leasing and financial services. As a result of all these transformations, in the first nine months of 2002 we have achieved a return to profitability.

During the third quarter of 2002 management re-evaluated our involvement in providing services to the logistics industry - specifically personnel services and financial services. Although these operations had grown during the first half of 2002, they required continuing capital commitments that were not justified by the returns we were experiencing. Particularly in light of our limited capital resources, the decision was made to reduce both of those segments of our operations. The results of those operations remain consolidated with our operating statements for the first nine months of 2002, as we continue to unwind our involvement in those businesses. We expect that at year-end they will be re-categorized as discontinued operations.

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Our acquisition of Xcalibur Xpress contributed $1,707,458 to our revenue for the third quarter of 2002. These operations were based in Charleston, South Carolina when we acquired them, and were capital-intensive. Since the

June 2002 acquisition we have consolidated the management operations of Xcalibur Xpress in our corporate headquarters in New Jersey. We have also disposed of all of the rolling stock previously leased by Xcalibur Xpress, and reoriented its business to an exclusive reliance on agency relationships. The intermodal trucking business of Xcalibur Xpress is now carried out by a five person staff. By pursuing this low-overhead business model, we hope to achieve significant growth and profits despite our lack of capital resources.

Revenue from Pupil Transportation were 39% lower in the third quarter of 2002 than in the third quarter of 2001. The reduction in revenue resulted from our loss of several large contracts to competitive bidding. During the same periods, income from the busing division fell from a gain of $24,243 during the third quarter of 2001 to a net loss of $34,481 during the third quarter of 2002. The reversal was a result, in part, of the reduction in revenue during the same period and a result, in part, of our new policy regarding allocation of corporate overhead among our subsidiaries.

Our operating divisions produced operating income during the first nine months of 2002. That operating income was partially 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 develop ment. During the first nine months of 2002 we recorded $75,920 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 quarter ended September 30, 2002 was 37%, compared to 19% in the quarter ended September 30, 2001. For the nine month periods, the gross margin was 34% in 2002 compared to 22% in 2001. The improvement is attributable to the fact that in the beginning of 2001 our revenues were primarily international 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 2002 have been from domestic logistics-related services, and in the third quarter arose primarily from intermodal trucking. The range within which we can expect the gross margin from current businesses 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 third quarter of this year.

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 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 $79,471 during the first nine months of 2002. An amount in excess of that sum, however, was used to acquire property and equipment. In the meantime, we reduced our long-term debt by $150,000 while increasing our short-term bank debt by $164,903. As a result, our working capital deficit at September 30, 2002 totaled $722,015, a weakening of our capital position by $281,690 compared with the working capital deficit on $440,325 at December 31, 2001. As noted, above, management is seeking to stem this outflow of working capital by adopting a business model that requires only limited capital investments. The situation, however, will continue to restrict our ability to grow our businesses until we achieve growth in 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 September 30, 2002 we had an outstanding balance of $648,247 due to Merchant Financial. The facility expires in March 2003.

Our working capital position is insufficient to fund a significant growth rate. To fund 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.

ITEM 3. CONTROLS AND PROCEDURES

Michael Margolies, our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures within 90 days prior to the filing date of this report. Based on his evaluation, he concluded that the controls and procedures in place are sufficient to assure that material information concerning the Company which could affect the disclosures in the Company's quarterly and annual reports is made known to him by the other officers and employees of the Company, and that the communications occur with promptness sufficient to assure the inclusion of the information in the then-current report.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date on which Mr. Margolies performed his evaluation.

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. None

Exhibits. None

SIGNATURES

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

TRANSPORTATION LOGISTICS INT'L, INC.

Date: November 18, 2002

By: /s/ Michael Margolies

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

CERTIFICATION

I, Michael Margolies, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Transportation Logistics Int'l, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 18, 2002

/s/ Michael Margolies

Michael Margolies, Chief Executive Officer and Chief Financial Officer