

RADIANT LOGISTICS, INC
Form 10-K
September 27, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2010

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 000-50283

RADIANT LOGISTICS, INC.
(Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3625550
(IRS Employer Identification Number)

405 114th Avenue S.E.
Bellevue, WA 98004
(Address of Principal Executive Offices) (Zip
Code)

(425) 943-4599
Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which Registered
Common Stock, \$.001 Par Value	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 Par Value per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

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Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the closing share price of the registrant's common stock on December 31, 2009 as reported on the OTC Bulletin Board was \$3,992,793. Shares of common stock held by each current executive officer and director and by each person who is known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not a conclusive determination for other purposes.

As of September 27, 2010, 29,894,421 shares of the registrant's common stock were outstanding.

Documents Incorporated by Reference: None

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Cautionary Statement for Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future operating performance, events, trends and plans. All statements other than statements of historical fact contained herein, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues and costs, and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," or "believes" or the negative thereof or any variation thereon or similar terminology or expressions. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. While it is impossible to identify all of the factors that may cause our actual operating performance, events, trends or plans to differ materially from those set forth in such forward-looking statements, such factors include the inherent risks associated with our ability to: (i) use our current infrastructure as a "platform" upon which we can build a profitable global transportation and supply chain management company; (ii) retain and build upon the relationships we have with our exclusive agency offices; (iii) continue the development of our back office infrastructure and transportation and accounting systems in a manner sufficient to service our expanding revenues and base of exclusive agency locations; (iv) continue growing our business and maintain historical or increased gross profit margins; (v) locate suitable acquisition opportunities; (vi) secure the financing necessary to complete any acquisition opportunities we locate; (vii) assess and respond to competitive practices in the industries in which we compete; (viii) mitigate, to the best extent possible, our dependence on current management and certain of our larger exclusive agency locations; (ix) assess and respond to the impact of current and future laws and governmental regulations affecting the transportation industry in general and our operations in particular; and (x) assess and respond to such other factors which may be identified from time to time in our Securities and Exchange Commission ("SEC") filings and other public announcements including those set forth below under the caption "Risk Factors" in Part 1 Item 1A of this report. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Readers are cautioned not to place undue reliance on our forward-looking statements, as they speak only as of the date made. Except as required by law, we assume no duty to update or revise our forward-looking statements.

PART I

ITEM 1. BUSINESS

The Company

Radiant Logistics, Inc. (the "Company," "we" or "us") was incorporated in the State of Delaware on March 15, 2001. Currently, we are executing a strategy to build a global transportation and supply chain management company through organic growth and the strategic acquisition of best-of-breed, non-asset based transportation and logistics providers to offer our customers domestic and international freight forwarding and an expanding array of value added supply chain management services, including order fulfillment, inventory management and warehousing.

We completed the first step in our business strategy through the acquisition of Airgroup Corporation ("Airgroup") effective as of January 1, 2006. Airgroup is a Bellevue, Washington based non-asset based logistics company providing domestic and international freight forwarding services through a network which includes a combination of company-owned and exclusive agent offices across North America. Airgroup has a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and international agents positioned strategically around the world.

We continue to identify a number of additional companies as suitable acquisition candidates and have completed two material acquisitions since our acquisition of Airgroup. In November 2007, we acquired Automotive Services Group in Detroit, Michigan to service the automotive industry. In September 2008, we acquired Adcom Express, Inc. d/b/a Adcom Worldwide ("Adcom"), adding an additional 30 locations across North America and augmenting our overall domestic and international freight forwarding capabilities.

In connection with the acquisition of Adcom, we changed the name of Airgroup Corporation to Radiant Global Logistics, Inc. ("RGL") in order to better position our centralized back-office operations to service both the Airgroup and Adcom network brands. RGL, through the Airgroup and Adcom network brands, has a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and international agents positioned strategically around the world.

Our growth strategy will continue to focus on both organic growth and acquisitions. From an organic perspective, we will focus on strengthening existing and expanding new customer relationships. One of the drivers of our organic growth will be retaining existing, and securing new exclusive agency locations. Since our acquisition of Airgroup in January 2006, we have focused our efforts on the build-out of our network of exclusive agency offices, as well as enhancing our back-office infrastructure and transportation and accounting systems. We will continue to search for targets that fit within our acquisition criteria. Our ability to secure additional financing will rely upon the sale of debt or equity securities, and the development of an active trading market for our securities.

As we continue to build out our network of exclusive agent locations to achieve a level of critical mass and scale, we are executing an acquisition strategy to develop additional growth opportunities. Our acquisition strategy relies upon two primary factors: first, our ability to identify and acquire target businesses that fit within our general acquisition criteria; and second, the continued availability of capital and financing resources sufficient to complete these acquisitions.

Successful implementation of our growth strategy depends upon a number of factors, including our ability to: (i) continue developing new agency locations; (ii) locate acquisition opportunities; (iii) secure adequate funding to finance identified acquisition opportunities; (iv) efficiently integrate the businesses of the companies acquired; (v) generate the anticipated economies of scale from the integration; and (vi) maintain the historic sales growth of the

acquired businesses in order to generate continued organic growth. There are a variety of risks associated with our ability to achieve our strategic objectives, including the ability to acquire and profitably manage additional businesses and the intense competition in the industry for customers and for acquisition candidates. Certain of these business risks are identified or referred to below in Item 1A of this Report.

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We will continue to search for targets that fit within our acquisition criteria. Our ability to secure additional financing will rely upon the sale of debt or equity securities, and the development of an active trading market for our securities. Although we can make no assurance as to our long term access to debt or equity securities or our ability to develop an active trading market, in March of 2010, we were successful in increasing our credit facility from \$15.0 million to \$20.0 million.

Industry Overview

As business requirements for efficient and cost-effective logistics services have increased, so has the importance and complexity of effectively managing freight transportation. Businesses increasingly strive to minimize inventory levels, perform manufacturing and assembly operations in the lowest cost locations, and distribute their products in numerous global markets. As a result, companies are increasingly looking to third-party logistics providers to help them execute their supply chain strategies.

Customers have two principal third-party alternatives: a freight forwarder or a fully-integrated carrier. We operate as a freight forwarder. Freight forwarders procure shipments from customers and arrange the transportation of cargo on a carrier. A freight forwarder may also arrange pick-up from the shipper to the carrier and delivery of the shipment from the carrier to the recipient. Freight forwarders often tailor shipment routing to meet the customer's price and service requirements. Fully-integrated carriers, such as FedEx Corporation, DHL Worldwide Express, Inc. and United Parcel Service ("UPS"), provide pickup and delivery service, primarily through their own captive fleets of trucks and aircraft. Because freight forwarders select from various transportation options in routing customer shipments, they are often able to serve customers less expensively and with greater flexibility than integrated carriers. Freight forwarders generally handle shipments of any size and offer a variety of customized shipping options.

Most freight forwarders, like Radiant Global Logistics, focus on heavier cargo and do not generally compete with integrated shippers of primarily smaller parcels. In addition to the high fixed expenses associated with owning, operating and maintaining fleets of aircraft, trucks and related equipment, integrated carriers often impose significant restrictions on delivery schedules and shipment weight, size and type. On occasion, integrated shippers serve as a source of cargo space to forwarders. Additionally, most freight forwarders do not generally compete with the major commercial airlines, which, to some extent, depend on forwarders to procure shipments and supply freight to fill cargo space on their scheduled flights.

We believe there are several factors that are increasing demand for global logistics solutions. These factors include:

- **Outsourcing of non-core activities.** Companies increasingly outsource freight forwarding, warehousing and other supply chain activities to allow them to focus on their respective core competencies. From managing purchase orders to the timely delivery of products, companies turn to third party logistics providers to manage these functions at a lower cost and greater efficiency.
- **Globalization of trade.** As barriers to international trade are reduced or substantially eliminated, international trade is increasing. In addition, companies increasingly are sourcing their parts, supplies and raw materials from the most cost competitive suppliers throughout the world. Outsourcing of manufacturing functions to, or locating company-owned manufacturing facilities in, low cost areas of the world also results in increased volumes of world trade.
- **Increased need for time-definite delivery.** The need for just-in-time and other time-definite delivery has increased as a result of the globalization of manufacturing, greater implementation of demand-driven supply chains, the shortening of product cycles and the increasing value of individual shipments. Many businesses recognize that increased spending on time-definite supply chain management services can decrease overall manufacturing and distribution costs, reduce capital requirements and allow them to manage their working capital more efficiently by reducing inventory levels and inventory loss.

- Consolidation of global logistics providers. Companies are decreasing the number of freight forwarders and supply chain management providers with which they interact. We believe companies want to transact business with a limited number of providers that are familiar with their requirements, processes and procedures, and can function as long-term partners. In addition, there is strong pressure on national and regional freight forwarders and supply chain management providers to become aligned with a global network. Larger freight forwarders and supply chain management providers benefit from economies of scale which enable them to negotiate reduced transportation rates and to allocate their overhead over a larger volume of transactions. Globally integrated freight forwarders and supply chain management providers are better situated to provide a full complement of services, including pick-up and delivery, shipment via air, sea and/or road transport, warehousing and distribution, and customs brokerage.
- Increasing influence of e-business and the internet. Technology advances have allowed businesses to connect electronically through the Internet to obtain relevant information and make purchase and sale decisions on a real-time basis, resulting in decreased transaction times and increased business-to-business activity. In response to their customers' expectations, companies have recognized the benefits of being able to transact business electronically. As such, businesses increasingly are seeking the assistance of supply chain service providers with sophisticated information technology systems which can facilitate real-time transaction processing and web-based shipment monitoring.

Our Growth Strategy

Our objective is to provide customers with comprehensive value-added logistics solutions. We plan to achieve this goal through domestic and international freight forwarding services offered by us through our Airgroup and Adcom brands. We expect to grow our business organically and by completing acquisitions of other companies with complementary geographical and logistics service offerings.

Our organic growth strategy involves strengthening existing and expanding new customer relationships. One of the drivers of this strategy is our ability to retain existing, and secure new exclusive agency locations. Since our acquisition of Airgroup, we have focused our efforts on the organic build-out of our network of exclusive agency locations, as well as the enhancement of our back office infrastructure and transportation and accounting systems. Through our most recent acquisition of Adcom we have made further progress in our acquisition strategy and intend to pursue further acquisition opportunities to consolidate and enhance our position in current markets and acquire operations in new markets.

Our growth strategy has been designed to take advantage of shifting market dynamics. The third party logistics industry continues to grow as an increasing number of businesses outsource their logistics functions to more cost effectively manage and extract value from their supply chains. The industry is positioned for further consolidation as it remains highly fragmented, and as customers are demanding the types of sophisticated and broad reaching service offerings that can more effectively be handled by larger more diverse organizations. We believe the highly fragmented composition of the marketplace, the industry participants' need for capital, and their owners' desire for liquidity has and will continue to produce a large number of attractive acquisition candidates. More specifically, we believe that there are a number of participants within the agent-based forwarding community that will be seeking liquidity within the next several years as these owners approach retirement age, which creates a significant growth opportunity by supporting these logistics entrepreneurs in transition. Our target acquisition candidates are generally expected to have earnings of \$1.0 to \$5.0 million per year. Companies in this range of earnings may be receptive to our acquisition program since they are often too small to be identified as acquisition targets by larger public companies or to independently attempt their own public offerings.

On a longer-term basis, we believe we can successfully implement our acquisition strategy due to the following factors:

- the highly fragmented composition of our market;
- our strategy for creating an organization with global reach should enhance an acquired target company's ability to compete in its local and regional markets through an expansion of offered services and lower operating costs;
- the potential for increased profitability as a result of our centralization of certain administrative functions, greater purchasing power and economies of scale;
- our centralized management capabilities should enable us to effectively manage our growth and the integration of acquired companies;
- our status as a public corporation may ultimately provide us with a liquid trading currency for acquisitions; and
 - the ability to utilize our experienced management to identify, acquire and integrate acquisition opportunities.

We will be opportunistic in executing our acquisition strategy with a bias towards completing transactions in key gateway locations such as Los Angeles, New York, Chicago, Seattle, Miami, Dallas, and Houston to expand our international base of operations. We believe that our domestic and expanded international capabilities, when taken together, will provide significant competitive advantage in the marketplace.

Our Operating Strategy

Leverage the People, Process and Technology Available through a Central Platform. A key element of our operating strategy is to maximize our operational efficiencies by integrating general and administrative functions into our back-office operations and reducing or eliminating redundant functions and facilities at acquired companies. This is designed to enable us to quickly realize potential savings and synergies, efficiently control and monitor operations of acquired companies, and allow acquired companies to focus on growing their sales and operations.

Develop and Maintain Strong Customer Relationships. We seek to develop and maintain strong interactive customer relationships by anticipating and focusing on our customers' needs. We emphasize a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach used by many of our competitors. To develop close customer relationships, we and our network of exclusive agents regularly meet with both existing and prospective clients to help design solutions for, and identify the resources needed to execute, their supply chain strategies. We believe that this relationship-oriented approach results in greater customer satisfaction and reduced business development expense.

Operations

Through our Airgroup and Adcom stations, we offer domestic and international air, ocean and ground freight forwarding for shipments that are generally larger than shipments handled by integrated carriers of primarily small parcels such as Federal Express Corporation and United Parcel Service. Our revenues are generated from a number of diverse services, including air freight forwarding, ocean freight forwarding, logistics and other value-added services.

Our primary business operations involve obtaining shipment or material orders from customers, creating and delivering a wide range of logistics solutions to meet customers' specific requirements for transportation and related services, and arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. These logistics solutions include domestic and international freight forwarding and door-to-door delivery services using a wide range of transportation modes, including air, ocean and truck. As a non-asset based provider we do not own the transportation equipment used to transport the freight. We expect to neither own nor operate any aircraft and, consequently, place no restrictions on delivery schedules or shipment size. We arrange for transportation of our customers' shipments via commercial airlines, air cargo carriers, and other assets and non-asset based third-party providers. We select the carrier for a shipment based on route, departure time, available cargo capacity and cost. We charter cargo aircraft from time to time depending upon seasonality, freight volumes and other factors. We make a profit or margin on the difference between what we charge to our customers for the totality of services provided to them, and what we pay to the transportation provider to transport the freight.

Information Services

The regular enhancement of our information systems and ultimate migration of acquired companies and additional exclusive agency locations to a common set of back-office and customer facing applications is a key component of our growth strategy. We believe that the ability to provide accurate real-time information on the status of shipments will become increasingly important and that our efforts in this area will result in competitive service advantages. In addition, we believe that centralizing our transportation management system (rating, routing, tender and financial settlement processes) will drive significant productivity improvement across our network.

We utilize a web-enabled third-party freight forwarding software (Cargowise) which is integrated to our third-party accounting system (SAP) that combine to form the foundation of our supply-chain technologies which we call "Globalvision". Globalvision provides us with a common set of back-office operating, accounting and customer facing applications used across the network. We have and will continue to assess technologies obtained through our acquisition strategy and expect to develop a "best-of-breed" solution set using a combination of owned and licensed technologies. This strategy will require the investment of significant management and financial resources to deliver these enabling technologies.

Our Competitive Advantages

As a non-asset based third-party logistics provider, we believe that we are well-positioned to provide cost-effective and efficient solutions to address the demand in the marketplace for transportation and logistics services. We believe that the most important competitive factors in our industry are quality of service, including reliability, responsiveness, expertise and convenience, scope of operations, geographic coverage, information technology and price. We believe our primary competitive advantages are: (i) our low cost; non-asset based business model; (ii) our intention to develop a global network; (iii) our information technology resources; and (iv) our diverse customer base:

- **Non-asset based business model.** With relatively no dedicated or fixed operating costs, we are able to leverage our network of exclusive agency offices and offer competitive pricing and flexible solutions to our customers. Moreover, our balanced product offering provides us with revenue streams from multiple sources and enables us to retain customers even as they shift from priority to deferred shipments of their products. We believe our model allows us to provide low-cost solutions to our customers while also generating revenues from multiple modes of transportation and logistics services.
- **Intention to develop a global network.** We intend to focus on expanding our network on a global basis. Once accomplished, this will enable us to provide a closed-loop logistics chain to our customers worldwide. Within North America, our capabilities consist of our pickup and delivery network, ground and air networks, and logistics capabilities. Our ground and pickup and delivery networks enable us to service the growing deferred forwarding market while providing the domestic connectivity for international shipments once they reach North America. In addition, our heavyweight air network provides for competitive costs on shipments, as we have no dedicated charters or leases and can capitalize on available capacity in the market to move our customers' goods.
- **Information technology resources.** A primary component of our business strategy is the continued development of advanced information systems to continually provide accurate and timely information to our management and customers. Our customer delivery tools enable connectivity with our customers' and trading partners' systems, which leads to more accurate and up-to-date information on the status of shipments.
- **Diverse customer base.** We have a well-diversified base of customers that includes manufacturers, distributors and retailers. As of the date of this report, no single customer represented more than 5% of our business reducing risks associated with any particular industry or customer concentration. Although we have no customers that account for more than 5% of our revenues, there are two agency locations that each account for more than 5% of our total gross revenues.

Sales and Marketing

We principally market our services through the senior management teams in place at each of our 72 company-owned and exclusive independent agent offices located across North America. Each office is staffed with operational employees to provide support for the sales team, develop frequent contact with the customer's traffic department, and maintain customer service. Our current network is predominantly represented by exclusive agent operations that rely on us for operating authority, technology, sales and marketing support, access to working capital and our carrier network, and collective purchasing power. Through the agency relationship, the agent has the ability to focus on the operational and sales support aspects of the business without diverting costs or expertise to the structural aspect of its operations and provides the agent with the regional, national and global brand recognition that they would not otherwise be able to achieve by serving their local markets.

As we continue to grow, we expect to implement a national accounts program which is intended to increase our emphasis on obtaining high-revenue national accounts with multiple shipping locations. These accounts typically impose numerous requirements on those competing for their freight business, including electronic data interchange and proof of delivery capabilities, the ability to generate customized shipping reports and a nationwide network of terminals. These requirements often limit the competition for these accounts to a very small number of logistics providers. We believe that our anticipated future growth and development will enable us to more effectively compete for and obtain these accounts.

During the past two years, we have not spent any material amount on research and development activities.

Competition and Business Conditions

The logistics business is directly impacted by the volume of domestic and international trade. The volume of such trade is influenced by many factors, including economic and political conditions in the United States and abroad, major work stoppages, exchange controls, currency fluctuations, acts of war, terrorism and other armed conflicts, United States and international laws relating to tariffs, trade restrictions, foreign investments and taxation.

The global logistics services and transportation industries are intensively competitive and are expected to remain so for the foreseeable future. We will compete against other integrated logistics companies, as well as transportation services companies, consultants, information technology vendors and shippers' transportation departments. This competition is based primarily on rates, quality of service (such as damage-free shipments, on-time delivery and consistent transit times), reliable pickup and delivery and scope of operations. Most of our competitors will have substantially greater financial resources than we do.

Principal Customers

Although we have no customers that account for more than 5% of our revenues, there are two agency locations which each account for more than 5% of our total gross revenues.

Regulation

There are numerous transportation related regulations. Failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of operating permits or authorities. We cannot give assurance as to the degree or cost of future regulations on our business. Some of the regulations affecting our current and prospective operations are described below.

Air freight forwarding businesses are subject to regulation, as an indirect air cargo carrier, under the Federal Aviation Act by the U.S. Department of Transportation and by the Department of Homeland Security and the Transportation Security Administration. However, air freight forwarders are exempted from most of the Federal Aviation Act's requirements by the Economic Aviation Regulations. The air freight forwarding industry is subject to regulatory and legislative changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to customers.

Surface freight forwarding operations are subject to various federal statutes and are regulated by the Surface Transportation Board. This federal agency has broad investigatory and regulatory powers, including the power to issue a certificate of authority or license to engage in the business, to approve specified mergers, consolidations and acquisitions, and to regulate the delivery of some types of domestic shipments and operations within particular geographic areas.

The Surface Transportation Board and U.S. Department of Transportation also have the authority to regulate interstate motor carrier operations, including the regulation of certain rates, charges and accounting systems, to require periodic financial reporting, and to regulate insurance, driver qualifications, operation of motor vehicles, parts and accessories for motor vehicle equipment, hours of service of drivers, inspection, repair, maintenance standards and other safety related matters. The federal laws governing interstate motor carriers have both direct and indirect application to the Company. The breadth and scope of the federal regulations may affect our operations and the motor carriers which are used in the provisioning of the transportation services. In certain locations, state or local permits or registrations may also be required to provide or obtain intrastate motor carrier services.

The Federal Maritime Commission, or FMC, regulates and licenses ocean forwarding operations. Indirect ocean carriers (non-vessel operating common carriers) are subject to FMC regulation, under the FMC tariff filing and surety bond requirements, and under the Shipping Act of 1984, particularly those terms proscribing rebating practices.

United States customs brokerage operations are subject to the licensing requirements of the U.S. Treasury and are regulated by the U.S. Customs Service. As we broaden our capabilities to include customs brokerage operations, we will be subject to regulation by the U.S. Customs Service. Likewise, any customs brokerage operations would also be licensed in and subject to the regulations of their respective countries.

In the United States, we are subject to federal, state and local provisions relating to the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many foreign jurisdictions in which we may operate in the future. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and we cannot predict what impact future environmental regulations may have on our business. We do not anticipate making any material capital expenditures for environmental control purposes.

Personnel

As of the date of this report, we have approximately 82 employees, of which 80 are full time. None of these employees are currently covered by a collective bargaining agreement. We have experienced no work stoppages and consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

RISKS PARTICULAR TO OUR BUSINESS

We are largely dependent on the efforts of our exclusive agents to generate our revenue and service our customers.

We currently sell our services through a network predominantly represented by exclusive agent stations located throughout North America. Although we have exclusive and long-term relationships with these agents, our Airgroup agency agreements are generally terminable by either party subject to requisite notice provisions that generally range from 10-30 days. The Adcom agency agreements generally carry a fixed term and can range from 1 to 25 years and generally include a first-right-of refusal to acquire the location. Although we have no customers that account for more than 5% of our revenues, there are two agency locations which each account for more than 5% of our total gross revenues. The loss of one or more of these exclusive agents could negatively impact our ability to retain and service our customers. We will need to expand our existing relationships and enter into new relationships in order to increase our current and future market share and revenue. We cannot be certain that we will be able to maintain and expand our existing relationships or enter into new relationships, or that any new relationships will be available on commercially reasonable terms. If we are unable to maintain and expand our existing relationships or enter into new relationships, we may lose customers, customer introductions and co-marketing benefits and our operating results may suffer.

If we fail to develop and integrate information technology systems or we fail to upgrade or replace our information technology systems to handle increased volumes and levels of complexity, meet the demands of our agents and customers and protect against disruptions of our operations, we may suffer a loss in our business.

Increasingly, we compete for business based upon the flexibility, sophistication and security of the information technology systems supporting our services. The failure of the hardware or software that supports our information technology systems, the loss of data contained in the systems, or the inability to access or interact with our web site or connect electronically, could significantly disrupt our operations, prevent clients from placing orders, or cause us to lose inventory items, orders or clients. If our information technology systems are unable to handle additional volume for our operations as our business and scope of services grow, our service levels, operating efficiency and future transaction volumes will decline. In addition, we expect our agents to continue to demand more sophisticated, fully integrated information technology systems from us as customers demand the same from their supply chain services providers. If we fail to hire qualified persons to implement, maintain and protect our information technology systems or we fail to upgrade or replace our information technology systems to handle increased volumes and levels of complexity, meet the demands of our agents and customers and protect against disruptions of our operations, we may suffer a loss in our business.

Because our freight forwarding and domestic ground transportation operations are dependent on commercial airfreight carriers and air charter operators, ocean freight carriers, major U.S. railroads, other transportation companies, draymen and longshoremen, changes in available cargo capacity and other changes affecting such carriers, as well as interruptions in service or work stoppages, may negatively impact our business.

We rely on commercial airfreight carriers and air charter operators, ocean freight carriers, trucking companies, major U.S. railroads, other transportation companies, draymen and longshoremen for the movement of our clients' cargo. Consequently, our ability to provide services for our clients could be adversely impacted by shortages in available cargo capacity; changes by carriers and transportation companies in policies and practices such as scheduling, pricing, payment terms and frequency of service or increases in the cost of fuel, taxes and labor; and other factors not within our control. Reductions in airfreight or ocean freight capacity could negatively impact our yields. Material interruptions in service or stoppages in transportation, whether caused by strike, work stoppage, lock-out, slowdown or otherwise, could adversely impact our business, results of operations and financial condition.

Our profitability depends on our ability to effectively manage our cost structure as we grow the business.

As we continue to expand our revenues through the expansion of our network of exclusive agency locations, we must maintain an appropriate cost structure to maintain and expand our profitability. While we intend to continue to work on growing revenue by increasing the number of our exclusive agency locations, by strategic acquisitions, and by continuing to work on maintaining and expanding our gross profit margins by reducing transportation costs, our ultimate profitability will be driven by our ability t