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CONSOLIDATED DELIVERY & LOGISTICS INC

Form 10-Q

November 20, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15 (d) of the Securities
Exchange Act of 1934
For the quarterly period ended September 30, 2001 or

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: 0-26954

CD&L, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3350958

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

80 Wesley Street
South Hackensack, New Jersey
(Address of principal executive offices)

07606
(Zip Code)

(201) 487-7740
(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

The number of shares of common stock of the Registrant, par value \$.001 per
share, outstanding as of November 9, 2001 was 7,658,660.

CD&L, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2001

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Signature

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CD&L, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

		September 30 2001
		----- (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$	1
Accounts receivable, net		16,5
Prepaid expenses and other current assets		2,0
Net assets of discontinued operations		--

Total current assets		18,7
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net		2,1
INTANGIBLE ASSETS, net		15,8
NOTE RECEIVABLE FROM STOCKHOLDER, net		4
OTHER ASSETS		4,5
NET ASSETS OF DISCONTINUED OPERATIONS		--

Total assets	\$	41,6

LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Short-term borrowings	\$ 3
Current maturities of long-term debt	3,2
Accounts payable and accrued liabilities	10,8
Net liabilities of discontinued operations	-----
Total current liabilities	14,5
LONG-TERM DEBT	17,9
OTHER LONG-TERM LIABILITIES	1,2
Total liabilities	----- 33,7
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, \$.001 par value; 2,000,000 shares authorized; no shares issued and outstanding	---
Common stock, \$.001 par value; 30,000,000 shares authorized; 7,688,027 shares issued at September 30, 2001 and December 31, 2000	---
Additional paid-in capital	12,8
Treasury stock, 29,367 shares at cost	(1
Accumulated deficit	(4,8
Total stockholders' equity	----- 7,9
Total liabilities and stockholders' equity	----- \$ 41,6

See accompanying notes to condensed consolidated financial statements.

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CD&L, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	For the Three Months Ended September 30,		For 20
	2001	2000	
Revenue	\$ 40,566	\$ 43,040	\$
Cost of revenue	32,279	33,865	-----
Gross profit	8,287	9,175	-----

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Selling, general and administrative expenses	6,860	8,333	
Depreciation and amortization	565	741	
	-----	-----	-----
Operating income (loss)	862	101	
Other expense (income):			
Interest expense	709	778	
Other (income) expense, net	(36)	(59)	
	-----	-----	-----
Income (loss) from continuing operations before provision (benefit) for income taxes	189	(618)	
Provision (benefit) for income taxes	75	(218)	
	-----	-----	-----
Income (loss) from continuing operations	114	(400)	
Income from discontinued operations	--	516	
	-----	-----	-----
Net income (loss)	\$ 114	\$ 116	\$
	=====	=====	=====
Basic income (loss) per share:			
Continuing operations	\$.01	\$ (.05)	\$
Discontinued operations	.00	.07	
	-----	-----	-----
Net income (loss) per share	\$.01	\$.02	\$
	=====	=====	=====
Diluted income (loss) per share:			
Continuing operations	\$.01	\$ (.05)	\$
Discontinued operations	.00	.06	
	-----	-----	-----
Net income (loss) per share	\$.01	\$.01	\$
	=====	=====	=====
Basic weighted average common shares outstanding	7,659	7,353	
	=====	=====	=====
Diluted weighted average common shares outstanding	8,164	8,034	
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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	For the Ended
	----- 2001 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (1,9
Adjustments to reconcile net loss to net cash provided by (used in) operating activities of continuing operations -	
Gain on disposal of equipment and leasehold improvements	(
Income from discontinued operations	--
Loss on sale of subsidiary	2,2
Depreciation and amortization	1,9
Changes in operating assets and liabilities	
(Increase) decrease in -	
Accounts receivable, net	(1
Prepaid expenses and other current assets	1,0
Other assets	(
Increase (decrease) in -	
Accounts payable and accrued liabilities	(9
Other long-term liabilities	

Net cash provided by (used in) operating activities of continuing operations	2,2 -----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of equipment and leasehold improvements	2
Proceeds from sale of businesses, net	12,3
Additions to equipment and leasehold improvements	(1

Net cash provided by (used in) investing activities of continuing operations	12,3 -----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Short-term (repayments) borrowings, net	(10,8
Repayments of long-term debt	(2,3

Net cash (used in) provided by financing activities of continuing operations	(13,2 -----
CASH USED IN DISCONTINUED OPERATIONS	(1,4 -----
Net (decrease) increase in cash and cash equivalents	(1
CASH AND CASH EQUIVALENTS, beginning of period	3 -----
CASH AND CASH EQUIVALENTS, end of period	\$ 1 =====

See accompanying notes to condensed consolidated financial statements.

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CD&L, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet at December 31, 2000 has been derived from the audited financial statements at that date. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the CD&L, Inc. (the "Company" or "CD&L") Form 10-K for the year ended December 31, 2000.

The Company suffered a loss from operations of (\$6,229,000) for the year ended December 31, 2000 and at December 31, 2000 had a working capital deficit of (\$3,430,000). In March and June 2001, the Company sold its air delivery business and Mid-West Region operations, respectively, and used the proceeds from the sales to pay down a portion of the Company's existing debt. Additionally, management has taken steps to mitigate the factors that led to the net loss in 2000, which arose as a result of increased labor, insurance and vehicle operating costs and increased selling, general and administrative expenses. As a result of such actions, working capital as of September 30, 2001 has improved to \$4,241,000. Management believes that based upon the results to date and the projected results for the remainder of 2001 and 2002 that cash flow from operations and availability under the Company's credit facility with First Union Commercial Corporation will be sufficient to meet its cash requirements in the next twelve months.

As a result of the effects of the events of September 11, 2001 and the other factors discussed herein, CD&L was unable to meet its financial covenants to First Union and the holders of the Senior Notes for the third quarter of 2001, and CD&L will not meet those covenants for the fourth quarter. First Union has waived compliance with those covenants for the third quarter and has modified its covenants for the fourth quarter consistent with CD&L's fourth quarter financial forecast. CD&L is in the process of negotiating revised financial covenants with First Union for 2002 consistent with CD&L's financial projections. First Union also agreed to extend the maturity of the First Union Loan and Security Agreement to September 30, 2002.

The holders of the Senior Notes have waived compliance with the financial covenants for the third and fourth quarters and have agreed to reschedule their \$250,000 principal repayment that was due November 15, 2001 to January 2002. CD&L is in the process of negotiating revised financial covenants with the holders of the Senior Notes for 2002 consistent with CD&L's financial projections. If CD&L and the holders of the Senior Notes are unable to agree on revised covenants and the covenants are not met as of March 31, 2002 or thereafter, the Senior Notes would become callable and CD&L would be required to classify the Senior Notes as current and would need to seek replacement financing to satisfy its obligations to the holders of the Senior Notes. No

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assurances can be given that CD&L would be able to secure replacement financing for the Senior Notes on terms and conditions satisfactory to CD&L and its senior lender. If the covenants are not renegotiated or replacement financing obtained, this would have a material adverse effect on the Company's liquidity and financial position.

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

(2) SHORT-TERM BORROWINGS:

Effective as of September 30, 2001, CD&L and First Union Commercial Corporation ("First Union") modified the Loan and Security Agreement (the "First Union Agreement") entered into on July 14, 1997. As a result of the effects of the events of September 11, 2001 and the other factors discussed herein, CD&L was unable to meet its financial covenants to First Union and the holders of the Senior Notes for the third quarter of 2001, and CD&L will not meet those covenants for the fourth quarter. First Union has waived compliance with those covenants for the third quarter and has modified its covenants for the fourth quarter consistent with CD&L's fourth quarter financial forecast. CD&L is in the process of negotiating revised financial covenants with First Union for 2002 consistent with CD&L's financial projections. First Union also agreed to extend the maturity of the First Union Loan and Security Agreement to September 30, 2002.

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(3) LONG-TERM DEBT:

On January 29, 1999, the Company completed a \$15,000,000 private placement of senior subordinated notes and warrants (the "Senior Notes") with three financial institutions. The Senior Notes bear interest at 12% per annum and are subordinate to all senior debt including the Company's credit facility with First Union. The Senior Notes mature on January 29, 2006 and may be prepaid by the Company under certain circumstances. The warrants expire January 19, 2009 and are exercisable at any time prior to expiration at a price of \$.001 per equivalent share of common stock for an aggregate of 506,250 shares of the Company's stock, subject to additional adjustments. The Company has recorded the fair value of the warrants as a credit to additional paid-in-capital and a debt discount on the Senior Notes. Under the terms of the Senior Notes, the Company is required to maintain certain financial ratios and comply with other financial conditions. Effective as of September 30, 2001, CD&L and the note holders modified the Senior Subordinated Loan Agreement (the "Senior Note Agreement") entered into on January 29, 1999. The Senior Note Agreement, as amended, provided for repayment of \$1,000,000 of the Senior Notes on April 2, 2001 and an additional \$1,000,000 repayment in installments through August 15, 2002 provided that the Company is in compliance with the terms of the First Union Agreement. The holders of the Senior Notes have waived compliance with the financial covenants for the third and fourth quarters and have agreed to reschedule their \$250,000 principal payment that was due November 15, 2001 to January 2002. CD&L is in the process of negotiating revised financial covenants with the holders of the Senior Notes for 2002 consistent with CD&L's financial projections. If CD&L and the holders of the Senior Notes are unable to agree on revised covenants and the covenants are not met as of March 31, 2002 or thereafter, the Senior Notes would become callable and CD&L would be required to classify the Senior Notes as current and would need to seek

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replacement financing to satisfy its obligations to the holders of the Senior Notes. No assurances can be given that CD&L would be able to secure replacement financing for the Senior Notes on terms and conditions satisfactory to CD&L and its senior lender. If the covenants are not renegotiated or replacement financing obtained, this would have a material adverse effect on the Company's liquidity and financial position.

A subordinated note in the principal amount of \$1,750,000 issued to Metro Courier Network, Inc. ("Metro") in connection with the Company's purchase of the assets of that business in 1998 was due on July 1, 2001. As of September 30, 2001 the Company was in default with regard to this note. Subsequently, on November 1, 2001 the note was amended to amortize the principal amount over forty-eight months with a balloon payment for the balance due March 2, 2004. As a result of this amendment, the Company has reclassified amounts due after September 30, 2002 to long-term debt in the accompanying financial statements.

(4) DISCONTINUED OPERATIONS:

On December 1, 2000, CD&L made a strategic decision to dispose of its air delivery business. On March 30, 2001, CD&L consummated a transaction providing for the sale of certain assets and liabilities of Sureway, the air delivery business. The selling price for the net assets was approximately \$14,150,000 and is comprised of \$11,650,000 in cash, a subordinated promissory note (the "Note Receivable") for \$2,500,000 and contingent cash payments based upon the ultimate development of certain liabilities retained by CD&L. The Note Receivable bears interest at a rate of 10.0% per annum, with interest only in monthly installments. The entire balance of principal, plus all accrued interest, is due and payable on March 30, 2006. The \$2,500,000 of the Note Receivable recorded upon the consummation of the sale is included in Other Assets in the accompanying financial statements. Accordingly, the financial position and operating results have been segregated from continuing operations and reclassified as a discontinued operation in the accompanying financial statements.

As a result of the sale of its air delivery business, the Company now operates in only one reportable business segment; the time-critical, ground delivery business.

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(5) NOTE RECEIVABLE FROM STOCKHOLDER:

In February 1996, Liberty Mutual Insurance Company ("Liberty Mutual") filed an action against Securities Courier Corporation ("Securities"), a subsidiary of the Company, Mr. Vincent Brana and certain other parties in the United States District Court for the Southern District of New York. Under the terms of its acquisition of Securities, the Company had certain rights to indemnification from Mr. Brana. In connection with the indemnification, Mr. Brana has entered into a Settlement Agreement and executed a Promissory Note in such amount as may be due for any defense costs or award arising out of this suit. Mr. Brana has agreed to repay the Company on December 1, 2002, together with interest calculated at a rate per annum equal to the rate charged the Company by its senior lender. Mr. Brana delivered 357,301 shares of CD&L common stock to the Company as collateral for the note. On September 8, 2000 the parties entered into a settlement agreement in

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which Securities and Mr. Brana agreed to pay Liberty Mutual \$1,300,000. An initial payment of \$650,000 was made by Securities on October 16, 2000, \$325,000 plus interest at a rate of 10.5% per annum was paid in monthly installments ending July 1, 2001 and \$325,000 plus interest at a rate of 12.0% per annum is due in monthly installments ending July 1, 2002.

At September 30, 2001 and December 31, 2000 the Company had a receivable due from Mr. Brana totaling \$2,928,000 and \$2,908,000, respectively. As of December 31, 2000, considering the market value of the collateral and Mr. Brana's failure to update and provide satisfactory evidence to support his ability to pay the promissory note, the Company recorded a \$2,500,000 reserve against the receivable. Based upon the facts and circumstances as of the current time, the reserve remained the same as of September 30, 2001.

(6) LITIGATION:

The Company is, from time to time, a party to litigation arising in the normal course of its business, most of which involves claims for personal injury and property damage incurred in connection with its same-day ground delivery operations. In connection therewith, the Company has recorded reserves of \$225,000 and \$455,000 as of September 30, 2001 and December 31, 2000, respectively. Management believes that none of these actions, including the action described above, will have a material adverse effect on the consolidated financial position or results of operations of the Company.

(7) INCOME (LOSS) PER SHARE:

Basic income (loss) per share includes no dilution and is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution if certain securities are converted and also includes certain shares that are contingently issuable. Because of the Company's net loss for the nine months ended September 30, 2001, equivalent shares represented by 3,942 Stock Options and 505,449 Warrants would be anti-dilutive and therefore are not included in the loss per share calculation for the nine months ended September 30, 2001. Because of the Company's net loss for the nine months ended September 30, 2000, equivalent shares represented by 48,010 Stock Options, 506,010 Warrants and 202,850 Employee Stock Purchase Plan shares would be anti-dilutive and therefore are not included in the loss per share calculation for the nine months ended September 30, 2000.

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A reconciliation of weighted average common shares outstanding to weighted average common shares outstanding assuming dilution follows:

	Three Months Ended September 30,	
(000s)	2001	2000
	-----	-----
	-----	-----

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Basic weighted average common shares outstanding	7,659	7,353
Effect of dilutive securities:		
Stock options	--	--
Warrants	505	506
ESPP	--	175
	-----	-----
Diluted weighted average common shares outstanding	8,164	8,034
	=====	=====

The following common stock equivalents were excluded from the computation of diluted earnings per share because the exercise or conversion price was greater than the average market price of common shares:

(000s)	Three Months Ended September 30,	
	2001	2000
	-----	-----
Stock options	1,877	2,459
Subordinated		
convertible debentures	7	113
Seller financed		
convertible notes	553	593

(8) SALE OF MID-WEST OPERATIONS:

On June 14, 2001, the Company consummated a transaction providing for the sale of all the outstanding stock in National Express, Inc. The selling price was approximately \$2,500,000 and is comprised of \$900,000 in cash and a subordinated promissory note (the "Note Receivable") for \$1,600,000. The Note Receivable bears interest at the rate of 7.0% per annum. The note is payable in seventeen equal quarterly installments through March 14, 2006 and a final balloon payment of approximately \$1,100,000 on June 14, 2006. As a result of the transaction, the Company recorded a \$2,300,000 loss on the sale with no related tax benefit pending review and analysis by our tax advisors.

(9) NEW ACCOUNTING PRONOUNCEMENTS:

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separate or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 is

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effective for fiscal years beginning after December 15, 2001.

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SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives shall be tested for impairment. Goodwill recognized on or before June 30, 2001, will be tested for impairment as of the beginning of the fiscal year in which SFAS No. 142 is initially applied in its entirety.

The Company is currently assessing the impact of the adoption of these statements. Amortization of goodwill and other intangibles was \$1,113,000 for the year ended December 31, 2000, and \$745,000 for the nine months ended September 30, 2001.

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Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion of the Company's results of operations and of its liquidity and capital resources should be read in conjunction with the condensed consolidated financial statements of the Company and the related notes thereto which appear elsewhere in this report. Percentages and dollar amounts have been rounded to aid presentation.

Disclosure Regarding Forward-Looking Statements

The Company is provided a "safe harbor" for forward-looking statements contained in this report by the Private Securities Litigation Reform Act of 1995. The Company may discuss forward-looking information in this report such as its expectations for future business development, cost reduction programs, revenue growth and fuel, insurance and labor cost controls, as well as its liquidity and capital needs and its future prospects. These forward-looking statements involve certain risks and uncertainties that may cause the actual events or results to differ materially from those indicated by such forward-looking statements. Potential risks and uncertainties include without limitation the risk that the Company will be unable to continue growing revenue internally, or that the Company will be unable to price its services so as to increase its profit margins, or that the Company's cost reduction programs will fail to prevent further erosion of its profit margins, or that the Company will be unable to reduce its fuel, insurance and labor costs, or that the Company will be unable to achieve the other cost savings or additional profits for forward quarters contemplated by the Company's business management strategy, or that the Company will be unable to continue to meet its financial covenants under existing credit lines or otherwise have adequate cash

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flow from operations or credit facilities to support its operations and revenue growth, or that the slowing economy will reduce demand for the Company's services or other risks specified in the Company's 2000 Report on Form 10-K and other SEC filings.

RESULTS OF OPERATIONS

Income and Expense as a Percentage of Revenue

	For the Three Months Ended September 30,	
	2001	2000
Revenue	100.0%	100.0%
Gross profit	20.4%	21.3%
Selling, general and administrative expenses	16.9%	19.4%
Depreciation and amortization	1.4%	1.7%
Operating income (loss)	2.1%	0.2%
Interest expense	1.7%	1.8%
Other (income) expense, net	(0.1)%	(0.1)%
Income (loss) from continuing operations	0.3%	(0.9)%

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Nine Months Ended September 30, 2001 Compared to the Nine Months Ended September 30, 2000

Revenue for the nine months ended September 30, 2001 decreased by \$7.4 million, or 5.8%, to \$120.4 million from \$127.8 million for the nine months ended September 30, 2000. The decrease in revenue is primarily due to the Company's ongoing efforts to increase its profit margins and eliminate less profitable business. As a result of a portfolio review, contracts with certain customers that had unacceptable profit margins were given notice of rate increases. If the rate increases were not accepted, the contracts were terminated. This revenue loss was partially offset by the effect of fuel surcharges and price increases implemented throughout 2000 that remained in effect for 2001.

Cost of revenue decreased by \$5.8 million, or 5.8%, to \$95.0 million for the nine months ended September 30, 2001 from \$100.8 million for the nine months ended September 30, 2000. Cost of revenue for the nine months ended September 30, 2001 represents 78.9% of revenues as compared to 78.8% for the same period in 2000. The increase in cost of revenue is due primarily to the effect of the September 11, 2001 events on the Company's New York City operations, offset by a decrease in

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labor and vehicle operating costs as compared to the same period in 2000. While the September 11, 2001 events caused an increase in overall cost of revenue, both the elimination of less profitable business and better utilization of direct labor have contributed to increased gross profit margins in other areas of the Company. Additionally, a slowing economy has helped in recruiting and retaining reliable couriers and subcontractors at reasonable costs.

Selling, general and administrative expenses ("SG&A") decreased by \$4.7 million, or 18.4%, to \$20.8 million for the nine months ended September 30, 2001 from \$25.5 million for the same period in 2000. Stated as a percentage of revenue, SG&A decreased to 17.3% for the nine months ended September 30, 2001 as compared to 20.0% for the same period in 2000. The decrease in SG&A is due primarily to both the Company's ongoing efforts to reduce and better control such costs and certain non-recurring items recorded during the first quarter of 2000. The non-recurring items recorded during the first quarter of 2000 were the bad debt expense recorded as a result of a previous customer filing for bankruptcy protection and certain consulting expenses.

Depreciation and amortization decreased by \$0.6 million, or 23.1%, to \$2.0 million for the nine months ended September 30, 2001 from \$2.6 million for the same period in 2000. The decrease in depreciation and amortization is due primarily to certain equipment and leasehold improvements reaching the end of their depreciable lives during 2000 that have not yet been replaced as of September 30, 2001.

As a result of the factors discussed above, operating income (loss) increased by \$3.7 million for the nine months ended September 30, 2001 as compared to the same period in 2000.

Other (income) expense, net increased by \$2.4 million, to \$2.2 million, primarily as a result of the loss recorded on the sale of the Company's Mid-West Region business. On June 14, 2001, the Company consummated a transaction providing for the sale of all the outstanding stock in National Express, Inc. The selling price was approximately \$2.5 million and is comprised of \$0.9 million in cash and a subordinated promissory note (the "Note Receivable") for \$1.6 million. The Note Receivable bears interest at the rate of 7.0% per annum. The note is payable in seventeen equal quarterly installments through March 14, 2006 and a final balloon payment of approximately \$1.1 million on June 14, 2006. As a result of the transaction, the Company recorded a \$2.3 million loss on the sale with no related tax benefit pending review and analysis by our tax advisors.

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Loss from continuing operations was (\$2.0) million for the nine months ended September 30, 2001, the same amount as compared to the same period in 2000. This was primarily due to the improved results of operations, offset by the loss recorded on the sale of the Company's Mid-West Region business.

During the nine months ended September 30, 2000 the Company also recorded \$1.1 million of income from discontinued operations, net of tax, as a result of the activities of the air delivery business.

Net loss increased by \$1.1 million to a loss of (\$2.0) million for the nine months ended September 30, 2001 as compared to a loss of (\$0.9)

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million for the same period in 2000 for the reasons discussed above.

Three Months Ended September 30, 2001 Compared to the Three Months Ended September 30, 2000

Revenue for the three months ended September 30, 2001 decreased by \$2.4 million, or 5.6%, to \$40.6 million from \$43.0 million for the three months ended September 30, 2000. The decrease in revenue is primarily due to the sale of the Company's Mid-West Region operations on June 14, 2001. For the three months ended September 30, 2000 revenue of \$2.7 million was recorded by the Mid-West Region. This was partially offset by the effect of fuel surcharges and price increases implemented throughout 2000 that remained in effect for 2001.

Cost of revenue decreased by \$1.6 million, or 4.7%, to \$32.3 million for the three months ended September 30, 2001 from \$33.9 million for the three months ended September 30, 2000. Cost of revenue for the three months ended September 30, 2001 represents 79.6% of revenues as compared to 78.7% for the same period in 2000. The increase in cost of revenue is due primarily to the effect of the September 11, 2001 events on the Company's New York City operations, partially offset by a decrease in labor and vehicle operating costs in other business units as compared to the same period in 2000. While the September 11, 2001 events caused an increase in overall cost of revenue, both the elimination of less profitable business and better utilization of direct labor have contributed to increased in gross profit margins in other areas of the Company. Additionally, a slowing economy has helped in recruiting and retaining reliable couriers and subcontractors at reasonable costs.

SG&A decreased by \$1.4 million, or 16.9%, to \$6.9 million for the three months ended September 30, 2001 from \$8.3 million for the same period in 2000. Stated as a percentage of revenue, SG&A decreased to 16.9% for the three months ended September 30, 2001 as compared to 19.4% for the same period in 2000. The decrease in SG&A is due primarily to the Company's ongoing efforts to reduce and better control such costs.

Depreciation and amortization decreased by \$0.1 million, or 14.3%, to \$0.6 million for the three months ended September 30, 2001 from \$0.7 million for the same period in 2000. The decrease in depreciation and amortization is due primarily to certain equipment and leasehold improvements reaching the end of their depreciable lives during 2000 that have not yet been replaced as of September 30, 2001.

As a result of the factors discussed above, operating income increased by \$0.8 million for the three months ended September 30, 2001 as compared to the same period in 2000.

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Income (loss) from continuing operations increased by \$0.5 million, to \$0.1 million for the three months ended September 30, 2001 as compared to the same period in 2000. This was primarily due to the factors discussed above.

During the three months ended September 30, 2000 the Company also recorded \$0.5 million of income from discontinued operations, net of tax, as a result of the activities of the air delivery business.

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Net income was \$0.1 million for the three months ended September 30, 2001, the same amount as compared to the same period in 2000 for the reasons discussed above.

New Accounting Pronouncements

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separate or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001.

SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives shall be tested for impairment. Goodwill recognized on or before June 30, 2001, will be tested for impairment as of the beginning of the fiscal year in which SFAS No. 142 is initially applied in its entirety.

The Company is currently assessing the impact of the adoption of these statements. Amortization of goodwill and other intangibles was \$1,113,000 for the year ended December 31, 2000, and \$745,000 for the nine months ended September 30, 2001.

Liquidity and Capital Resources

As a result of the effects of the events of September 11, 2001 and the other factors discussed herein, CD&L was unable to meet its financial covenants to First Union and the holders of the Senior Notes for the third quarter of 2001, and CD&L will not meet those covenants for the fourth quarter. First Union has waived compliance with those covenants for the third quarter and has modified its covenants for the fourth quarter consistent with CD&L's fourth quarter financial forecast. CD&L is in the process of negotiating revised financial covenants with First Union for 2002 consistent with CD&L's financial projections. First Union also agreed to extend the maturity of the First Union Loan and Security Agreement to September 30, 2002.

The holders of the Senior Notes have waived compliance with the financial covenants for the third and fourth quarters and have agreed to reschedule their \$250,000 principal repayment that was due November 15, 2001 to January 2002. CD&L is in the process of negotiating revised financial covenants with the holders of the Senior Notes for 2002 consistent with CD&L's financial projections. If CD&L and the holders of the Senior Notes are unable to agree on revised covenants and the covenants are not met as of March 31, 2002 or thereafter, the Senior Notes would become callable and CD&L would be required to classify the Senior Notes as current and would need to seek replacement financing to satisfy its obligations to the holders of the Senior Notes. No assurances can be given that CD&L would be able to secure replacement financing for the Senior Notes on terms and conditions satisfactory to

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CD&L and its senior lender. If the covenants are not renegotiated or replacement financing obtained, this would have a material adverse effect on the Company's liquidity and financial position.

Working capital increased from a deficit of (\$3.4) million as of December 31, 2000 to \$4.2 million as of September 30, 2001. This increase of \$7.6 million reflects the cash received from the sales of the Company's air delivery business and the Mid-West Region business, as well as better management of accounts receivable, reduced capital expenditures and agreements to extend the due dates of certain debt.

Cash and cash equivalents decreased from \$0.3 million to \$0.2 million. Cash was provided by operating activities (a decrease in prepaid expenses and other current assets offset partially by a decrease in accounts payable and accrued liabilities during the nine months ended September 30, 2001), provided by investing activities (proceeds received from the sale of the businesses), used by financing activities (a decrease in the Company's borrowings on its line of credit and repayments of long-term debt) and used by discontinued operations. Capital expenditures amounted to \$0.2 million for the nine months ended September 30, 2001.

As of September 30, 2001 the Company had total cash on hand and borrowing ability of \$1.6 million under its revolving credit facility; after adjusting for the restrictions for outstanding letters of credit and the subordinated debentures.

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Management believes that anticipated cash flows generated from operations, together with its borrowing capacity, are sufficient to support the Company's operations and general business and liquidity requirements for the foreseeable future. However, if cash flows from operations materially fall short of our projections, no assurances can be given with respect to the adequacy of existing credit lines, the availability of alternative borrowing sources or the ability to sell non-strategic assets.

Inflation

Other than the described effects of fuel increases and labor cost increases during 2000, inflation has not had a material impact on the Company's results of operations for the past three years.

Quantitative and Qualitative Disclosures About Market Risk

CD&L's major "market risk" exposure is the effect of changing interest rates. CD&L manages its interest expense by using a combination of fixed and variable rate debt. At September 30, 2001, the Company's debt consisted of approximately \$21.2 million of fixed rate debt with a weighted average interest rate of 11.65% and \$0.3 million of variable rate debt with a weighted average interest rate of 6.25%. The amount of variable rate debt fluctuates during the year based on CD&L's cash requirements. If interest rates on such variable rate debt were to increase by 63 basis points (one-tenth of the rate at September 30, 2001), the net impact to the Company's results of operations and cash flows for the nine month period ended September 30, 2001 would be a decrease of approximately \$17,000.

Part II - OTHER INFORMATION

Item 1 - Legal Proceedings.

In February 1996, Liberty Mutual Insurance Company ("Liberty Mutual") filed an action against Securities Courier Corporation ("Securities"), a subsidiary of the Company, Mr. Vincent Brana and certain other parties in the United States District Court for the Southern District of New York. Under the terms of its acquisition of Securities, the Company had certain rights to indemnification from Mr. Brana. In connection with the indemnification, Mr. Brana has entered into a Settlement Agreement and executed a Promissory Note in such amount as may be due for any defense costs or award arising out of this suit. Mr. Brana has agreed to repay the Company on December 1, 2002, together with interest calculated at a rate per annum equal to the rate charged the Company by its senior lender. Mr. Brana delivered 357,301 shares of CD&L common stock to the Company as collateral for the note. On September 8, 2000 the parties entered into a settlement agreement in which Securities and Mr. Brana agreed to pay Liberty Mutual \$1,300,000. An initial payment of \$650,000 was made by Securities on October 16, 2000, \$325,000 plus interest at a rate of 10.5% per annum was paid in monthly installments ending July 1, 2001 and \$325,000 plus interest at a rate of 12.0% per annum is due in monthly installments ending July 1, 2002.

The Company is, from time to time, a party to litigation arising in the normal course of its business, most of which involves claims for personal injury and property damage incurred in connection with its same-day ground delivery operations. Management believes that none of these actions, including the action described above, will have a material adverse effect on the consolidated financial position or results of operations of the Company.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the third quarter of 2001.

SIGNATURE

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.

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Dated: November 20, 2001

CD&L, INC.

By: \s\ Russell J. Reardon

Russell J. Reardon
Vice President and
Chief Financial Officer