SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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 0-27580

NETLOJIX COMMUNICATIONS, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE	87-0378021
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

501 BATH STREET
SANTA BARBARA, CALIFORNIA 93101
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(805) 884-6300
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 [X] No [_]

As of May 13, 2002, there were 14,493,423 shares of the Registrant's Common Stock, par value $0.01 per share, issued and outstanding, excluding treasury stock.

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

NETLOJIX COMMUNICATIONS, INC.
QUARTER ENDED March 31, 2002

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

NETLOJIX COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(unaudited)

		March 31, 2002
Assets		
CURRENT ASSETS		
Cash	$	100,000
Accounts receivable, net		1,060,000
Accounts receivable from related parties		767,000
Prepaid expenses and other current assets		382,000
Total current assets		2,309,000
Property and equipment, net		1,003,000
Customer bases aquired and other intangibles, net		340,000
Other assets		58,000
Total assets	$	3,710,000
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES		
Revolving line of credit	$	800,000
Accounts payable and other accrued expenses		1,122,000
Accrued payroll related liabilities		769,000
Accrued network services costs		759,000
Litigation settlement liability		73,000
Sales and excise tax payable		62,000
Unearned revenue		869,000
Other current liabilities		550,000
Total current liabilities		5,004,000
Long term obligations		22,000
Total liabilities		5,026,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, authorized 1,000,000 shares, $0.01 par value		
Series A convertible preferred stock, designated 250,000 shares, cumulative as to 8% dividends, 147,700 shares issued and outstanding. (Liquidation preference of $799,000 at March 31, 2002 including dividends in arrears.)		1,000
Common stock, authorized 40,000,000 shares, $0.01 par value, issued 14,656,328 shares at March 31, 2002.		147,000
Deferred Compensation - restricted stock		(14,000)
Additional paid in capital		28,468,000
Preferred dividends		(102,000)
Accumulated deficit		(29,814,000)
Treasury stock, $0.01 par value, 162,905 shares at March 31, 2002		(2,000)
Total stockholders' equity		(1,316,000)
Total liabilities and stockholders' equity	$	3,710,000

See accompanying notes.

NETLOJIX COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months Ended March 31, 2002	Three months Ended March 31, 2001
SERVICE REVENUES		
Unrelated parties	$ 2,889,000	4,303,000
Related parties - (note 6)	1,032,000	894,000
TOTAL SERVICE REVENUES	3,921,000	5,197,000
COST OF SERVICE REVENUES (exclusive of depreciation - note 8)	2,290,000	3,026,000
GROSS MARGIN	1,631,000	2,171,000
OPERATING EXPENSES		
Selling, general and administrative	1,597,000	2,171,000
Depreciation and amortization	154,000	379,000
Total operating expenses	1,751,000	2,550,000
OPERATING (LOSS)	(120,000)	(379,000)
Interest expense	(21,000)	(51,000)
Other income (expense), net	(12,000)	17,000
(Loss) from operations before income taxes	(153,000)	(413,000)
Income tax benefit	-	-
NET (LOSS)	$ (153,000)	(413,000)
Preferred dividends	-	-
Loss applicable to common shareholders	$ (153,000)	(413,000)
Net (loss) per common share - basic and diluted	$ (0.01)	(0.03)
Weighted average number of common shares - basic & diluted	14,656,328	14,481,328

See accompanying Notes

NETLOJIX COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unadudited)

	Three months Ended March 31, 2002	Three months Ended March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	$ (153,000)	$ (413,000)
Adjustments to reconcile net loss from continuing operations to cash provided by (used by) continuing operating activities:		
Depreciation and amortization	154,000	379,000
Provision for bad debts	70,000	143,000
Stock compensation earned	2,000	-
Changes in certain operating assets and liabilities:		
Accounts receivable	748,000	(323,000)
Due from affiliates	(206,000)	233,000
Other current assets	(92,000)	23,000
Litigation settlement liability	-	133,000
Accounts payable and accrued liabilities	(841,000)	(384,000)
Cash provided by (used by) operating activities	(318,000)	(209,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(18,000)	(75,000)
Cash used by investing activities	(18,000)	(75,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	(4,000)	(5,000)
Amount borrowed (paid) on line of credit, net	373,000	155,000
Amounts paid on long term borrowings	(5,000)	(1,000)
Cash provided by (used by) financing activities	364,000	149,000
Net increase (decrease) in cash and cash equivalents	28,000	(135,000)
Cash at beginning of period	72,000	184,000
Cash at end of period	$ 100,000	$ 49,000
Cash paid during the period:		
Interest	$ 21,000	$ 51,000
Non cash investing and financing activities:		
None	$ -	$ -

See accompanying notes.

NETLOJIX COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

March 31, 2002 and 2001

(1) Basis of Presentation

The unaudited condensed consolidated financial statements of NetLojix Communications, Inc. and Subsidiaries (the "Company" or “NetLojix”) as of March 31, 2002 and 2001 and for the three month periods then ended have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in NetLojix's Form 10-K for the year ended December 31, 2001. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the interim financial information have been included. The results of operations for any interim period are not necessarily indicative of the results of operations for the entire year.

(2) Acquisitions and Dispositions

On September 30, 2001 we sold a portion of our New York technical support services business (consisting of our New York City customer list and related customer contracts) to an unrelated third party. We retained all of our help desk customers and contracts, which we will focus on in the future. The purchaser assumed responsibility for unused customer retainers and remaining terms on service agreements. We recorded a gain (net of costs) of $203,000 in connection with this sale. In addition, if the purchaser is able to renew retainers, service agreements or provide any additional services to the customers that were transferred, then it will pay us 5% of any such cash received prior to September 30, 2002. We have recorded $3,918 in such additional payments as of May 13, 2002.

(3) Net Loss Per Common Share

Net Loss per common share for the three-month periods ended March 31, 2002 and 2001 are as follows:

		Three Months Ended March 31,	
Net Loss per share:		2002	2001
Numerator:			
Net Loss	$	153,000	413,000
Preferred dividends		-	-
Net Loss applicable to common stockholders	$	153,000	413,000

Denominator:			
Weighted average number of common shares used in basic and diluted Net Loss per common share		14,656,328	14,481,328
Basic and diluted net Loss per common share	$	0.01	0.03

As of March 31, 2002 and 2001, common stock equivalent shares such as employee stock options have been excluded from the computation of diluted weighted average shares, as the effect would be antidilutive. Comprehensive loss for the periods ended March 31, 2002 and 2001 is equal to net loss reported for such periods.

(4) Litigation and Contingencies

As previously reported, NetLojix was a defendant in a class action under the federal securities laws (IN RE AVTEL SECURITIES LITIGATION, Case No. 98-9236) initiated in December 1998 in the United States District Court for the Central District of California.

On October 4, 2000, NetLojix finalized an agreement with counsel for the plaintiff class to settle all outstanding claims under the class action lawsuit. This agreement received the preliminary approval of the court on November 8, 2000, and NetLojix thereafter paid $150,000 for administrative costs and other settlement implementation expenses. On May 29, 2001, the court entered its final order of dismissal and approval of the settlement. We expect to issue a total of 232,000 shares of common stock and warrants to purchase 200,000 shares of common stock at an exercise price of $8.00 per share during the second quarter of 2002 for distribution to the claimant class members, and payment of the plaintiffs attorneys' fees and litigation expenses.

In connection with the sale in November 1999 of Matrix Telecom (a former subsidiary of NetLojix) to Platinum Equity Holdings LLC, the amount of the final purchase price is subject to adjustment based on finalization of a balance sheet for Matrix Telecom as of August 31, 1999 and agreement by both parties. We completed the balance sheet as required. We were subsequently notified by Platinum that it materially disagreed with the closing balance sheet that we prepared. We attempted to negotiate a settlement of the balance sheet items in disagreement, but were unsuccessful. To date, the buyer has resisted submitting the matter to an independent firm of accountants chosen by the parties for final resolution, as required by the contract. At this time, we believe that the ultimate resolution of the items in dispute will not materially affect the recorded gain.

NetLojix presently has other contingent liabilities relating to various other matters related to the conduct of our business. On the basis of information furnished by counsel and others, management believes that the resolution of these contingencies will not materially affect the financial condition or results of operations of the Company.

(5) Stockholders' Equity

During December 2001, we repurchased 25,000 shares of our common stock from the NetLojix Communications, Inc. Employees' Savings Plan and Trust (the "401(k) Plan") at a price of $0.16 per share. These were unallocated shares that had been part of the employer contribution to the 401(k) Plan and were repurchased as a result of our decision to remove stock ownership as an option under the 401(k) Plan. These 25,000 shares were retired on March 20, 2002.

(6) Related Party Transactions

We have had transactions in the normal course of business with various companies who are related to our shareholders. We provide long distance and data network service to a number of such related companies. Balances related to operating activities are settled monthly. The relationships that generate the revenues are effectively the same as all other customer relationships held by the Company. The agreements are standard term agreements. We neither receive nor provide any benefit outside of a standard customer-supplier relationship.

On January 31, 2002, NetLojix's secured credit facility with Coast Business Credit expired, and NetLojix entered into a new secured credit facility with DTL One, LLC ("DTL"). DTL is owned and controlled by director Jeffrey J. Jensen. Under the DTL line of credit, NetLojix may borrow up to 80% of eligible receivables (as defined) up to a total amount of $2.0 million. Borrowings under the line of credit bear interest, payable monthly, based upon the prime rate of Bank of America NT & SA plus 2% with a minimum interest rate of 10%. Borrowings under the credit facility are secured by substantially all assets of NetLojix. The credit facility also prohibits the payment of dividends and limits the size of business acquisitions that we may make without the prior consent of DTL. NetLojix believes that the terms of the DTL line of credit are more favorable to NetLojix than those of any other credit facility available to NetLojix to replace the expiring Coast agreement.

(7) Revenue Recognition

Revenues for long distance, frame relay, Internet, applications development and web hosting services are recognized as service is provided. Amounts paid in advance are recorded as unearned revenue and recognized as services are provided. Within the Technical Support Services segment, we sell services under hourly service contracts (whether prepaid or billed in arrears), flat fee service contracts or prepaid maintenance contracts. For prepaid maintenance contracts, we recognize revenue ratably over the service period. A small number of our applications development contracts contain customer acceptance provisions. In accordance with SAB 101, we recognize revenue on such contracts only after a customer has indicated acceptance or the customer acceptance period has lapsed. For all other services, revenues are recognized when the services are rendered.

(8) Depreciation Excluded from Cost of Sales

We have also excluded $25,000 and $24,000 in depreciation from Cost of Sales for the three month periods ended March 31, 2002 and 2001 respectively. Such amounts are included in depreciation in the operating expense section of the Statement of Operations and represents depreciation of equipment used in our data center.

(9) Segment Reporting

NetLojix's primary business segments are Network Connectivity, Technical Support Services and Application Development and Hosting. All of our services are targeted toward corporate companies within the United States. Parent company costs are allocated to each segment based on revenue.

The Network Connectivity segment includes services for the transfer of data or voice traffic. We provide traditional long distance services, calling card, dedicated voice and data access and numerous Internet service options. Telecommunications product offerings include dedicated or leased lines, switched long distance, frame relay, calling cards, and "1-800" services. Internet product offerings within the network connectivity segment include dial-up access, DSL, ISDN and dedicated access. This segment includes the Internet connectivity portion of our Southern California based ISP.

The Technical Support Services segment encompasses a broad array of technical support services and solutions including system integration, desktop and network support, asset management and help desk solutions. Services include flat-fee maintenance contracts, prepaid time block retainers, help desk management contracts, LAN installations, warranty repairs and a small amount of hardware sales.

The Applications Development and Hosting services segment includes producing, designing, and programming creative multimedia applications that can be produced as a web application or a stand alone application, and hosting, including shared, dedicated, co-location and managed services.

We measure our performance based on revenues, gross margin, net income or loss and earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to net income or cash flows from operations, as a measure of performance.

The results for the three months ended March 31, 2002 and 2001 are as follows:

		Three Months Ended March 31, 2002			
		Network Connectivity Services	Technical Support Services	Applications Development and Web Hosting	Total
Revenues	$	2,026,000	1,486,000	409,000	3,921,000
Gross margin		664,000	666,000	301,000	1,631,000
Selling, general & administration		743,000	653,000	201,000	1,597,000
Depreciation & amortization		62,000	68,000	24,000	154,000
Interest expense		10,000	10,000	1,000	21,000
Other expense		5,000	6,000	1,000	12,000
Net income (loss)	$	(156,000)	(71,000	74,000	(153,000)
EBITDA	$	(84,000)	7,000	99,000	22,000
Total assets	$	2,265,000	975,000	470,000	3,710,000

		Three Months Ended March 31, 2001			
		Network Connectivity Services	Technical Support Service	Applications Development and Web Hosting	Total
Revenues	$	2,646,000	2,042,000	509,000	5,197,000
Gross margin		1,120,000	787,000	264,000	2,171,000
Selling, general & administration		1,016,000	1,091,000	64,000	2,171,000
Depreciation & amortization		138,000	226,000	15,000	379,000
Interest expense		31,000	20,000	-	51,000
Other expense (income)		(25,000)	6,000	2,000	(17,000)
Net income (loss)	$	(40,000)	(556,000)	183,000	(413,000)
EBITDA	$	129,000	(310,000)	198,000	17,000
Total assets	$	3,297,000	7,471,000	437,000	11,205,000

Within the three business segments there are multiple types of revenue which are stated separately below:

	Three months Ended March 31, 2002	2001
Network Connectivity Services:		
Data & Voice Services	$ 1,375,000	1,887,000
Internet Services	650,000	759,000
Technical Support Services:		
Technical Support Services	514,000	897,000
Help Desk Services	943,000	1,088,000
Hardware	29,000	57,000
Applications Development and Web Hosting:		
Applications Development	132,000	216,000
Web Hosting	278,000	293,000
	$ 3,921,000	5,197,000

(10) Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 establishes accounting standards for recognition and measurement of a liability for the costs of asset retirement obligations. Under SFAS 143, the costs of retiring an asset will be recorded as a liability when the retirement obligation arises, and will be amortized to expense over the life of the asset. We do not expect any effect on our financial position or results of operations from the adoption of this statement.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and discontinued operations. We do not expect any effect on our financial position or results of operations from the adoption of this statement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE STATEMENTS CONTAINED IN THIS DOCUMENT THAT ARE NOT PURELY HISTORICAL ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, INCLUDING WITHOUT LIMITATION STATEMENTS REGARDING THE COMPANY'S EXPECTATIONS, BELIEFS, INTENTIONS OR STRATEGIES REGARDING THE FUTURE. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS QUARTERLY REPORT ARE BASED ON INFORMATION AVAILABLE TO THE COMPANY ON THE DATE HEREOF, AND THE COMPANY ASSUMES NO OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS. ACTUAL EVENTS AND OUTCOMES COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF MANY FACTORS, INCLUDING THOSE DESCRIBED HEREIN AND THOSE SET FORTH IN THE RISK FACTORS DESCRIBED IN ITEM 1 OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001.

The following discussion and analysis should be read in connection with the unaudited condensed consolidated financial statements for the three month periods ended March 31, 2002 and 2001 of the Company and related notes included elsewhere in this report and the consolidated financial statements and related management discussion and analysis included in NetLojix's Annual Report on Form 10-K, for the year ended December 31, 2001.

DESCRIPTION OF REVENUE SEGMENTS

We classify our business into three segments: Network Connectivity, Technical Support Services and Application Development and Hosting. The segmentation of our company is how we manage the day-to-day operations of our business and is based on the types of services we provide.

Network Connectivity

The network connectivity segment includes services for the transfer of data or voice traffic. We provide numerous Internet service options, data and voice access and traditional long distance services. Our Internet product offerings within the network connectivity segment include dial-up access, DSL, dedicated access and cable access. Our telecommunications product offerings include dedicated or leased lines, switched long distance, frame relay, ATM, calling cards, and "1-800" services. This segment includes the Internet connectivity portion of our Internet service provider business. Within this segment, our networking and communications professionals will design, build and maintain a flexible, cost-effective package of data networking and voice communication services to meet our customers' needs.

Technical Support Services

Technical support services encompasses a broad array of solutions including system integration, desktop and network support, asset management and help desk solutions aimed at keeping our customers' IT systems operational and their networks running smoothly. The IT support team is certified by over 40 hardware and software manufacturers. Service options within this segment include systems and network installations, flat-fee maintenance contracts, prepaid time block retainers, help desk management contracts, warranty repairs and a small amount of hardware sales.

Application Development and Hosting

The applications development and hosting services segment includes producing, designing and programming creative multimedia and commerce applications that can be produced as a web application or a stand alone application. Once a web site has been designed we can also provide site maintenance services, host the web site on our own web servers or provide co-location space within one of our data centers.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with our Board of Directors and Audit Committee, we have identified three accounting policies that we believe are key to an understanding of our financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

The first critical accounting policy relates to revenue recognition. In most cases, we recognize revenue when the services are rendered. For prepaid maintenance contracts, we recognize revenue ratably over the service period. For contracts that contain customer acceptance provisions, we recognize revenue only after a customer has indicated acceptance.

The second critical accounting policy relates to accounts receivable. We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of our customers, historical trends and other information.

The third critical accounting policy relates to depreciation of fixed assets. The purchase of equipment is capitalized based on its cost. We provide depreciation of fixed assets using the straight-line method over the equipment's estimated useful life. We have also excluded $25,000 and $24,000 in depreciation from Cost of Sales for the three months period ended March 31, 2002 and 2001 respectively.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2001.

Revenues

Revenues from operations for the three months ended March 31, 2002 were $3.9 million, a decrease of 24.6% or $1.3 million from $5.2 million for the three months ended March 31, 2001.

Network connectivity services revenues, decreased $0.6 million to $2.0 million for the three months ended March 31, 2002 from $2.6 million for the three months ended March 31, 2001. Within the network connectivity services segment, data and voice services accounted for $0.5 million of the decrease with the balance of the decrease attributable to Internet services. Data and voice services decreased 27.1% from the comparable quarter in 2001 primarily due to the loss of a large customer as a result of the sale of that customer by its parent company. Internet services revenues decreased $0.1 million or 14.3% to $0.65 million. The decrease is primarily due to a decrease in dial up connectivity accounts due to the competitiveness of the industry.

Technical support services revenues were $1.5 million for the three months ended March 31, 2002, a decrease of $0.5 million or 27.8%, over the comparable quarter in 2001. The decrease was primarily due to the reduction of revenue from the sale of a portion of the New York technical support services business (consisting of the New York City customer list and related customer contracts).

Application development and hosting services revenues decreased to $0.4 million for the three months ended March 31, 2002 from $0.5 million for the comparable quarter in 2001, a 19.5% decrease. The decrease is primarily attributable to the downsizing of the application development group. We have made a strategic decision to focus our applications development efforts on e-commerce, web centric applications and managed web hosting. Generally, these are higher margin services. However, for the three months ended March 31, 2002 hosting services revenues decreased by $15,000, or 5% over the quarter ended March 31, 2001. This decrease was due to the loss of two large customers. One left because of bankruptcy and the second moved to a competitor that offered to provide service for free.

Gross Margin

Gross margin from operations as a percentage of revenues decreased to 41.6% for the three months ended March 31, 2002 from 41.7% for the three months ended March 31, 2001. Gross margin from operations decreased $0.6 million to $1.6 million for the three months ended March 31, 2002 from $2.2 million for the three months ended March 31, 2001.

Network connectivity services gross margin as a percent of revenue decreased to 32.8% for the three months ended March 31, 2002 from 42.4% for the three months ended March 31, 2001. Within the network connectivity services segment, data and voice gross margins averaged 18.0% compared to 34.8% in the first quarter of 2001. The decrease in gross margin was primarily due to a one-time adjustment made in the first quarter of 2001 to cost of goods sold due to resolution of the amount of Universal Service Fund liability.

Gross margins for Internet services increased to 64.2% during the three months ended March 31, 2002 compared to 61.1% for the comparable 2001 quarter. The increase from 2001 is primarily attributable to the reduction of network infrastructure costs, better utilization of bandwidth and a focus on higher margin services.

Technical support services gross margins increased to 44.8% during the quarter ended March 31, 2002 compared to 38.5% for the comparable quarter in 2001. Gross margins in the technical service segment increased due to an increase in retail pricing along with a change of focus to our higher margin help desk solution.

Application development and web hosting gross margins were 73.3% during 2002 compared to 51.8% for the comparable quarter in 2001. The increase is attributable to staff reductions in the application development area and focusing our applications development efforts on e-commerce, web centric applications and managed web hosting which are generally higher margin services.

Selling, General, and Administrative Costs

Selling, general, and administrative costs decreased $0.6 million to $1.6 million for the three months ended March 31, 2002 from $2.2 million for the three months ended March 31, 2001. As a percentage of revenues, selling, general and administrative costs decreased to 40.7% for the three months ended March 31, 2002 from 41.7% for the three months ended March 31, 2001. These decreases are primarily due to a cost reduction plan, which began in November of 2000 and was fully implemented early in the second quarter of 2001.

Of the decrease in selling, general and administrative expenses, $0.3 million is attributable to salary expense, which was the main focus of the cost reduction plan. Approximately $0.16 million of the decrease is due to decreased professional service fees, primarily due to the decline of legal fees associated with the class action lawsuit. The remaining decrease in cost was associated with the consolidation of office space and a streamlining of our business.

Interest Expense

At March 31, 2002, we had approximately $0.8 million in borrowings outstanding under our secured line of credit. During the three months ended March 31, 2002 we averaged approximately $0.7 million in outstanding borrowings. Interest expense decreased to $21,000 for the three months ended March 31, 2002 from $51,000 for the three months ended March 31, 2001, as a result of the lower level of average borrowings outstanding in the first quarter of 2002.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2002, we reported a net loss from continuing operations of $0.15 million and used net cash in operations of $0.3 million. As of March 31, 2002, we had cash and cash equivalents of $0.1 million and outstanding indebtedness on our line of credit of $0.8 million. At that date, we had a working capital deficit of $2.7 million.

On January 31, 2002, we repaid our secured credit facility with Coast Business Credit and entered into a new secured credit facility with DTL One, LLC ("DTL"), a newly formed entity affiliated with director Jeffrey J. Jensen. Under the DTL line of credit, we may borrow up to 80% of eligible receivables (as defined) up to a total amount of $2.0 million. Borrowings under the line of credit bear interest, payable monthly, based upon the prime rate of Bank of America NT & SA plus 2%, with a minimum interest rate of 10%. Borrowings under the credit facility are secured by substantially all of our assets. The credit facility will mature on January 31, 2004. After January 31, 2003, DTL may terminate the line of credit without cause, upon six months notice. As of March 31, 2002, approximately $0.8 million was outstanding under the credit facility, and approximately $1.0 million was available to be borrowed under the formula described above.

Historically, our cash flow from operations, our secured borrowings, and occasional private placements of both common and preferred stock have been sufficient to meet working capital and capital expenditure requirements. However, as noted above, our cash flow from operations has been decreasing in recent years. We believe that current market conditions are not conducive to raising additional equity capital at this time. We continue to take steps to conserve cash and reduce operating expenses. As a result of these cost control measures, we expect that operating cash flows coupled with the remaining availability under our secured line of credit facility should be sufficient to meet our minimum working capital requirements into the foreseeable future. We are also exploring other possible sources of cash including the possibility of a private equity placement. However, our current low stock price and the delisting from The Nasdaq SmallCap Market present substantial obstacles to a private placement.

Additionally, an important component of our past growth has been to develop our business through acquisitions. In appropriate circumstances, we may use our capital stock for additional acquisitions in addition to debt and equity financing. However, our current low stock price and the delisting from The Nasdaq SmallCap Market again present substantial obstacles to such acquisitions.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K. NetLojix did not file any reports on Form 8-K during the quarter ended March 31, 2002.

SIGNATURE

In accordance with the requirements of the Exchange Act , the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETLOJIX COMMUNICATIONS, INC.,
a Delaware corporation

By: /S/ GREGORY J. WILSON

Gregory J. Wilson
Treasurer and Controller
(Duly Authorized Officer and Principal Financial Officer and Principal Accounting Officer)

Dated: May 13, 2002