U.S. 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 JUNE 30, 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)

As of Aug 12, 2002, there were 14,463,149 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 June 30, 2002

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

NETLOJIX COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(unaudited)

	June 30, 2002
Assets	
CURRENT ASSETS	
Cash	$ 191,000
Accounts receivable, net	1,181,000
Accounts receivable from related parties	677,000
Prepaid expenses and other current assets	370,000
Total current assets	2,419,000
Property and equipment, net	906,000
Customer bases aquired and other intangibles, net	315,000
Other assets	52,000
Total assets	$ 3,692,000
Liabilities and Stockholders' Equity	
CURRENT LIABILITIES	
Revolving line of credit	$ 1,200,000
Accounts payable and other accrued expenses	1,408,000
Accrued payroll related liabilities	635,000
Accrued network services costs	399,000
Litigation settlement liability	73,000
Sales and excise tax payable	72,000
Unearned revenue	821,000
Accrued litigation & contingencies cost	465,000
Other current liabilities	52,000
Total current liabilities	5,125,000
Long term obligations	18,000
Total liabilities	5,143,000
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 June 30, 2002 including dividends in arrears.)	1,000
Common stock, authorized 40,000,000 shares, $0.01 par value, issued 14,626,054 shares at June 30, 2002.	146,000
Deferred Compensation - restricted stock	(12,000)
Additional paid in capital	28,469,000
Preferred dividends	(102,000)
Accumulated deficit	(29,951,000)
Treasury stock, $0.01 par value, 162,905 shares at June 30, 2002	(2,000)
Total stockholders' equity	(1,451,000)
Total liabilities and stockholders' equity	$ 3,692,000

See accompanying notes.

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

		Three months Ended June 30,		Six months Ended June 30,	
		2002	2001	2002	2001
SERVICE REVENUES					
Unrelated parties	$	2,684,000	3,946,000	5,573,000	8,250,000
Related parties - (note 6)		1,079,000	1,005,000	2,111,000	1,899,000
TOTAL SERVICE REVENUES		3,763,000	4,951,000	7,684,000	10,149,000
COST OF SERVICE REVENUES (exclusive of depreciation - note 8)		2,251,000	2,979,000	4,541,000	6,006,000
GROSS MARGIN		1,512,000	1,972,000	3,143,000	4,143,000
OPERATING EXPENSES					
Selling, general and administrative		1,413,000	1,954,000	3,010,000	4,124,000
Litigation settlement (recovery) costs		-	(684,000)	-	(684,000)
Depreciation and amortization		135,000	394,000	289,000	774,000
Total operating expenses		1,548,000	1,664,000	3,299,000	4,214,000
OPERATING (LOSS)		(36,000)	308,000	(156,000)	(71,000)
Interest expense		(32,000)	(38,000)	(54,000)	(89,000)
Other income (expense), net		(69,000)	(8,000)	(81,000)	9,000
(Loss) from operations before income taxes		(137,000)	262,000	(291,000)	(151,000)
Income tax benefit		-	-	-	-
NET (LOSS)	$	(137,000)	262,000	(291,000)	(151,000)
Preferred dividends		-	-	-	-
Loss applicable to common shareholders	$	(137,000)	262,000	(291,000)	(151,000)
Net (loss) per common share - basic & diluted	$	(0.01)	0.02	(0.02)	(0.01)
Weighted average number of common shares - basic		14,630,046	14,481,328	14,643,114	14,481,328
Weighted average number of common shares - diluted		14,630,046	15,063,752	14,643,114	14,481,328

See accompanying Notes

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

	Six months Ended June 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	$ (291,000)	$ (151,000)
Adjustments to reconcile net loss from continuing operations to cash provided by (used by) continuing operating activities:		
Depreciation and amortization	289,000	774,000
Provision for bad debts	96,000	207,000
Litigation settlement (recovery)		(684,000)
Stock compensation earned	3,000	1,000
Changes in certain operating assets and liabilities:		
Accounts receivable	602,000	192,000
Due from affiliates	(116,000)	35,000
Other current assets	(75,000)	(169,000)
Litigation settlement liability	-	(183,000)
Accounts payable and accrued liabilities	(1,119,000)	229,000
Cash provided by (used by) operating activities	(611,000)	251,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(31,000)	(154,000)
Cash used by investing activities	(31,000)	(154,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	(7,000)	(10,000)
Amount borrowed (paid) on line of credit, net	773,000	(225,000)
Amounts paid on long term borrowings	(5,000)	(2,000)
Cash provided by (used by) financing activities	761,000	(237,000)
Net increase (decrease) in cash and cash equivalents	119,000	(140,000)
Cash at beginning of period	72,000	184,000
Cash at end of period	$ 191,000	$ 44,000
Cash paid during the period:		
Interest	$ 54,000	$ 89,000
Non cash investing and financing activities:		
None	$ -	$ -

See accompanying notes.

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

June 30, 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 June 30, 2002 and 2001 and for the three and six 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. 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 August 12, 2002.

(3) Net Loss Per Common Share

Net Loss per common share for the three and six month periods ended June 30, 2002 and 2001 are as follows:

		Three Months Ended June 30,		Six Months Ended June 30,	
Net income (loss) per share -		2002	2001	2002	2001
Numerator:					
Net income (loss)	$	(137,000)	262,000	(291,000)	(151,000)
Preferred dividends		-	-	-	-
Net Income (loss) applicable to common stockholders	$	(137,000)	262,000	(291,000)	(151,000)
Denominator:					
Weighted average number of common shares used in basic Net Income (loss) per common share		14,630,046	14,481,328	14,643,114	14,481,328
Shares issuable upon conversion of preferred stock, exercise of dilutive option, and effect of restricted stock		-	582,424	-	-
Weighted average number of common shares used in diluted Net Income (loss) per common share		14,630,046	15,063,752	14,643,114	14,481,328
Basic Net Income (loss) per common share	$	(0.01)	0.02	(0.02)	(0.01)
Diluted Net Income (loss) per common share	$	(0.01)	0.02	(0.02)	(0.01)

As of June 30, 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 June 30, 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 third 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 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.

During April 2002, we retired 30,274 shares of our common stock out of the 100,000 shares held in escrow from the purchase of CW Electronic Enterprises, Inc. ("CWE^2") in 2000. These shares were returned to Netlojix due to discrepancies in CWE^2's balance sheet at the time of purchase. The remaining 69,726 shares were released from escrow to the former owner of CWE^2.

(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.

Since 1998, NetLojix has from time to time loaned or advanced Craig R. Clark, its former Vice President of Business Development, a total of $86,000, including interest. All of these loans and obligations are unsecured. On January 15, 2002, NetLojix entered into a separation agreement with Craig R. Clark. As a result of the agreement, Mr. Clark resigned from all positions with NetLojix, effective March 31, 2002. With all obligations of the separation agreement preformed, NetLojix has notified Mr. Clark that his loan is now due. With no response, we have chosen to reserve for the total amount advanced as of June 30, 2002.

(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 depreciation from Cost of Sales in the amount of $25,000 and $25,000 for the three month periods ended and $51,000 and $50,000 for the six month periods ended June 30, 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) Intangible Assets

Intangible assets consist of the following:

		June 30, 2002			
		Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Ave. Life (Years)
Customer Base	$	1,583,000	1,293,000	290,000	0.42
Non - Compete		200,000	175,000	25,000	0.25
Total	$	1,783,000	1,468,000	315,000	

		December 31, 2001			
		Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Ave. Life (Years)
Customer Base	$	1,583,000	1,293,000	290,000	0.92
Non - Compete		200,000	150,000	50,000	0.75
Total	$	1,783,000	1,443,000	340,000	

The Company adopted SFAS 142 on January 1, 2002 and has ceased amortization of assets, which are deemed to have indefinite lives. Under the new rules, the Company is no longer permitted to amortize intangible assets with indefinite lives; instead they will be subject to periodic tests for impairment.

SFAS 142 supercedes APB Opinion #17, Intangible Assets. In accordance with SFAS 142 the Company also performed an impairment test of its remaining customer base and determined that no write-down was necessary.

Below is a reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of amortization expense for goodwill and the customer base, net of income tax.

		Six Months Ended June 30,	
		2002	2001
Net income (loss)	$	(291,000)	(151,000)
Goodwill and Customer base amortization		-	444,000
Adjusted net income (loss)	$	(291,000)	293,000
Reported diluted earnings (loss) per share	$	(0.02)	(0.01)
Goodwill and Customer base Amortization per share		-	0.03
Adjusted diluted earnings (loss) per share	$	(0.02)	0.02

Estimated amortization expense for each of the next five years ended June 30, is as follows:

2002 (12 Months)	$	25,000
2003		0
2004		0
2005		0
2006		0
Total	$	25,000

(10) Segment Reporting

NetLojix's primary business segments are Network Connectivity, Technical Support Services and Application Development and Hosting. 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 June 30, 2002 and 2001 are as follows:

		Three Months Ended June 30, 2002			
		Network Connectivity Services	Technical Support Services	Applications Development and Web Hosting	Total
Revenues	$	2,026,000	1,331,000	406,000	3,763,000
Gross margin		644,000	544,000	324,000	1,512,000
Selling, general & administration		647,000	561,000	205,000	1,413,000
Depreciation & amortization		59,000	51,000	25,000	135,000
Interest expense		16,000	13,000	3,000	32,000
Other expense		31,000	31,000	7,000	69,000
Net income (loss)	$	(109,000)	(112,000)	84,000	(137,000)
EBITDA	$	(34,000)	(48,000)	112,000	30,000
Total assets	$	1,868,000	1,310,000	514,000	3,692,000

		Three Months Ended June 30, 2001			
		Network Connectivity Services	Technical Support Service	Applications Development and Web Hosting	Total
Revenues	$	2,381,000	2,201,000	369,000	4,951,000
Gross margin		686,000	986,000	300,000	1,972,000
Selling, general & administration		882,000	974,000	98,000	1,954,000
Depreciation & amortization		148,000	226,000	20,000	394,000
Interest expense		19,000	19,000	-	38,000
Other expense (income)		-	8,000	-	8,000
Corporate litigation settlement recovery		-	-	-	684,000
Net income (loss)	$	(363,000)	(241,000)	182,000	262,000
EBITDA	$	(195,000)	4,000	202,000	694,000
Total assets	$	3,334,000	6,975,000	388,000	10,697,000

		Six Months Ended June 30, 2002			
		Network Connectivity Services	Technical Support Services	Applications Development and Web Hosting	Total
Revenues	$	4,052,000	2,817,000	815,000	7,684,000
Gross margin		1,310,000	1,209,000	624,000	3,143,000
Selling, general & administration		1,376,000	1,215,000	419,000	3,010,000
Depreciation & amortization		120,000	119,000	50,000	289,000
Interest expense		27,000	23,000	4,000	54,000
Other expense		35,000	37,000	9,000	81,000
Net income (loss)	$	(248,000)	(185,000)	142,000	(291,000)
EBITDA	$	(101,000)	(43,000)	196,000	52,000

		Six Months Ended June 30, 2001			
		Network Connectivity Services	Technical Support Service	Applications Development and Web Hosting	Total
Revenues	$	5,027,000	4,244,000	878,000	10,149,000
Gross margin		1,806,000	1,716,000	621,000	4,143,000
Selling, general & administration		1,896,000	2,065,000	163,000	4,124,000
Depreciation & amortization		286,000	453,000	35,000	774,000
Interest expense		50,000	39,000	-	89,000
Other expense (income)		(25,000)	14,000	2,000	(9,000)
Other expense (income)		-	-	-	684,000
Net income (loss)	$	(401,000)	(855,000)	421,000	(151,000)
EBITDA	$	(65,000)	(363,000)	456,000	712,000

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

	Three months Ended June 30,		Six months Ended June 30,	
	2002	2001	2002	2001
Network Connectivity Services				
Data & Voice Services	$ 1,416,000	1,649,000	2,791,000	3,537,000
Internet Services	610,000	731,000	1,261,000	1,490,000
Technical Support Services				
Technical Support	479,000	993,000	993,000	1,889,000
Help Desk Services	814,000	1,131,000	1,757,000	2,220,000
Hardware	39,000	77,000	67,000	134,000
Applications Development and Web Hosting				
Applications Development	113,000	98,000	245,000	314,000
Web Hosting	292,000	272,000	570,000	565,000
	$ 3,763,000	4,951,000	7,684,000	10,149,000

(11) 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 OR PLAN OF OPERATION

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 and six month periods ended June 30, 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 $25,000 for the three month periods ended and $51,000 and $50,000 for the six month periods ended June 30, 2002 and 2001 respectively in depreciation from Cost of Sales.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2001.

Revenues

Revenues from operations for the three months ended June 30, 2002 were $3.8 million, a decrease of 24.5% or $1.2 million from $5.0 million for the three months ended June 30, 2001.

Network connectivity services revenues, decreased $.4 million to $2.0 million for the three months ended June 30, 2002 from $2.4 million for the three months ended June 30, 2001. Within the network connectivity services segment, data and voice services accounted for $.3 million of the decrease with the balance of the decrease attributable to Internet services. Data and voice services decreased 14.1% 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 $.1 million or 16.6% to $.61 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 $1.3 million for the three months ended June 30, 2002, a decrease of $.9 million or 39.5%, 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 increased to $.41 million for the three months ended June 30, 2002 from $.4 million for the comparable quarter in 2001, a 9.8% increase. For the three months ended June 30, 2002 revenues from hosting services increased 7.6% over the three months ended June 30, 2001.

Gross Margin

Gross margin from operations as a percentage of revenues remained stable at 40.0% for the three months ended June 30, 2002 and for the three months ended June 30, 2001. Gross margin from operations decreased $.5 million to $1.5 million for the three months ended June 30, 2002 from $2.0 million for the three months ended June 30, 2001.

Network connectivity services gross margin as a percent of revenue increased to 31.8% for the three months ended June 30, 2002 from 28.8% for the three months ended June 30, 2001. Within the network connectivity services segment, data and voice gross margins averaged 18.8% vs. 17.6% in the comparable quarter in 2001. The increase in gross margins was primarily due to the re-provisioning of certain customers to alternate carriers for optimal pricing.

Gross margins for Internet services increased to 62.0% during the three months ended June 30, 2002 compared to 54.1% for the comparable 2001 quarter. The increase from 2001 is primarily attributable to lower network costs as compared to 2001 when we were in the process of opening the New York, San Francisco, and Los Angeles multiple points of presence (“MPOPs”) along with the reduction of network infrastructure costs, better utilization of bandwidth and a focus on higher margin services.

Technical support services gross margins averaged 40.9% during the quarter ended June 30, 2002 compared to 42.2% for the comparable quarter in 2001. Gross margins in the technical service segment decreased due to an increased use of subcontractors for special projects during the second quarter of 2002.

Application development and web hosting gross margins were 79.8% during 2002 compared to 81.9% for the comparable quarter in 2001. The decrease in gross margin is due primarily to a one-time adjustment following the resolution of a warranty liability for an application development project increasing the gross margin in the second quarter of 2001.

Selling, General, and Administrative Costs

Selling, general, and administrative costs decreased $.6 million to $1.4 million for the three months ended June 30, 2002 from $2.0 million for the three months ended June 30, 2001. As a percentage of revenues, selling, general and administrative costs decreased to 37.6% for the three months ended June 30, 2002 from 39.5% for the three months ended June 30, 2001. Of the decrease in selling, general and administrative expenses, $0.25 million is attributable to 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). Approximately $0.2 million is due to decreased salary expense. The remainder is due to decreased professional service fees, primarily due to the change in auditors and the decline of legal fees associated with the class action lawsuit.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2001.

Revenues

Revenues from continuing operations for the six months ended June 30, 2002 were $7.7 million, a decrease of 24.3% or $2.5 million from $10.2 million for the six months ended June 30, 2001.

Network connectivity services revenues, decreased $0.9 million to $4.1 million for the six months ended June 30, 2002 from $5.0 million for the six months ended June 30, 2001. Within the network connectivity services segment, data and voice services accounted for $0.7 million of the decrease with the balance of the decrease attributable to Internet services. Data and voice services decreased 21.1% from the comparable period 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 $.2 million or 15.4% to $1.3 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 $2.8 million for the six months ended June 30, 2002, a decrease of 33.6% or $1.4 million over the comparable period in 2001. Approximately $1.0 million of the decrease was 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). The remaining decrease in revenue was associated with a large customer’s decision to decrease spending in this area.

Application development and hosting services revenues decreased to $0.8 million for the six months ended June 30, 2002 from $0.9 million for the comparable period in 2001, a 7.2% 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. For the six months ended June 30, 2002 revenues from hosting services increased 1.0% over the six months ended June 30, 2001.

Gross Margin

Gross margin from operations as a percentage of revenues remained unchanged at 41.0% for the six months ended June 30, 2002 and for the six months ended June 30, 2001. Gross margin from operations decreased $1.0 million to $3.1 million for the six months ended June 30, 2002 from $4.1 million for the six months ended June 30, 2001.

Network connectivity services gross margin as a percent of revenue decreased to 32.3% for the six months ended June 30, 2002 from 35.9% for the six months ended June 30, 2001. Within the network connectivity services segment, data and voice gross margins averaged 18.4% vs. 26.8% in the comparable period in 2001. The decrease in gross margins was primarily due to a one-time adjustment to cost of goods sold due to resolution of the amount of Universal Service Fund liability in the first quarter of 2001.

Gross margins for Internet services increased to 63.2% during the six months ended June 30, 2002 vs. 58.0% for the comparable period in 2001. The increase from 2001 is primarily attributable to increased costs relating to the opening of the New York, San Francisco, and Los Angeles MPOPs along with the reduction of network infrastructure costs, better utilization of bandwidth and a focus on higher margin services.

Technical support services gross margins averaged 42.9% during the six months ended June 30, 2002 compared to 40.4% for the comparable period in 2001. Gross margins in the technical service segment increased due to the sale of a lower margin portion of the New York technical support services business (consisting of the New York City customer list and related customer contracts) along with a change of focus to our higher margin help desk solution.

Application development and web hosting gross margins were 76.5% during the six months ended 2002 compared to 70.8% for the six months ended 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 $1.1 million to $3.0 million for the six months ended June 30, 2002 from $4.1 million for the six months ended June 30, 2001. As a percentage of revenues, selling, general and administrative costs decreased to 39.2% for the six months ended June 30, 2002 from 40.6% for the six months ended June 30, 2001. Of the decrease in selling, general and administrative expenses, $0.53 million is attributable to 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). Approximately $0.25 million is due to decreased salary expense. The remainder is due to decreased professional service fees, primarily due to the change in auditors and the decline of legal fees associated with the class action lawsuit.

Interest Expense

At June 30, 2002, we had approximately $1.2 million in borrowings outstanding under our secured line of credit. During the six months ended June 30, 2002 we averaged approximately $0.9 million in outstanding borrowings. Interest expense decreased to $54,000 for the six months ended June 30, 2002 from $89,000 for the six months ended June 30, 2001, as a result of the lower level of average borrowings outstanding in the first quarter of 2002.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2002, we reported a net loss from continuing operations of $0.2 million and used net cash in operations of $0.6 million. As of June 30, 2002, we had cash and cash equivalents of $0.2 million and outstanding indebtedness on our line of credit of $1.2 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 August 12, 2002, approximately $1.1 million was outstanding under the credit facility, and approximately $0.3 million was available to be borrowed under the formula described above.

In July 2002, UICI (a public company affiliated with a director and certain stockholders of NetLojix) terminated NetLojix as its long distance services provider. For the six months ended June 30, 2002, UICI accounted for approximately $1,200,000 of NetLojix's revenues. However, because of the low margins associated with the UICI contract, we do not believe that the termination will have a material adverse effect on NetLojix's net income. Also in July 2002, ABN AMRO Inc. terminated NetLojix as its technical services provider. For the six months ended June 30, 2002, ABN AMRO accounted for approximately $424,000 of NetLojix's revenues and approximately $289,000 in gross margin. These terminations could negatively affect our cash flow from operations.

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. However, our current low stock price and 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 delisting from The Nasdaq SmallCap Market again present substantial obstacles to such acquisitions.

PART II. OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

(b) NetLojix has outstanding 147,700 shares of its Series A Convertible Preferred Stock (the "Series A Preferred"). The Series A Preferred ranks prior to NetLojix's common stock. As of August 12, 2002, dividend in arrears on the Series A Preferred totaled $231,392.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

(b) Reports on Form 8-K. NetLojix did not file any reports on Form 8-K during the quarter ended June 30, 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: August 14, 2002