SEGMENTZ INC
Form 10QSB
August 19, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

(X) Quarterly report pursuant to section 13 or 15(d) of the SECURITIES AND EXCHANGE ACT OF 1934

For the Quarterly period ended June 30, 2002

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from to

Commission File Number 000-49606

SEGMENTZ, INC.

(Name of Small Business Issuer in Its Charter)

Delaware	(I.R.S. Employer Identification No.)
(State or other jurisdiction of incorporation or organization)	75-2928175
18302 Highwoods Preserve Parkway, Suite 210 Tampa, Florida	33647
(Address of Principal Executive Offices)	(Zip Code)

(813) 989-2232

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by section 13 or 15(d) of the Exchange Act during the past 12 months (or forsuch shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes [X] No [ ]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDING DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the

Exchange Act after the distribution of Securities under a plan confirmed by court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuers classesof common stock, as of the latest practicable date:

The registrant has 6,502,913 shares of its common stock issued and outstanding as of June 30, 2002.

The registrant has 1,200,794 shares of its preferred stock issued and outstanding as of June 30, 2002.

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

Item 1. Financial Statements.

Financial Statements

Segmentz, Inc.

Six Months Ended June 30, 2002 and 2001 (Unaudited)

Segmentz, Inc.

Financial Statements

Six Months Ended June 30, 2002 and 2001 (Unaudited)

Contents

Financial Statements:

Segmentz, Inc.

Balance Sheet

June 30, 2002 (Unaudited)

Assets

Current assets:	
Cash and cash equivalents	$ 69,665
Accounts receivable, net of allowance of $86,354	585,335
Other receivables	143,570
Prepaid expenses and other current assets	188,547
Total current assets	987,117
Equipment, net of accumulated depreciation	266,021
Other assets:	
Note receivable, net of allowance of $225,000	200,000
Other receivables, net of allowance of $200,000	64,833
Loans and advances	72,160
Total other assets	336,993
	$ 1,590,131

Liabilities and Stockholders Equity Current liabilities:Accounts payable
$ 375,546Line of credit, related party
263,902Accrued expenses,
other 12,131Income tax payable
25,000Obligation due under factoring arrangement
221,662Total current liabilities
898,241
Stockholders equity:Convertible preferred stock; 10,000,000 sharesauthorized; 1,200,794 shares issued andoutstanding 1,200,794Common stock; $.001 par value; 40,000,000 sharesauthorized; 6,502,913 shares issued andoutstanding
6,503Additional paid-in capital
(6,403)Accumulated deficit
(509,004)Total stockholders equity
691,890
$ 1,590,131

The accompanying notes are an integral part of the financial statements. 1

Segmentz, Inc.

Statements of Operations (Unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Revenues:				
Operating revenue	$ 1,722,644	$ 1,729,671	$ 3,869,275	$ 3,435,360
Consulting and other revenue	59,897		63,646	
	1,782,541	1,729,671	3,932,921	3,435,360
Expenses:				
Operating expenses	1,283,468	1,543,053	2,948,645	2,990,417
General and administrative expenses	463,108	548,190	824,951	662,292
	1,746,576	2,091,243	3,773,596	3,652,709
Income (loss) before taxes	35,965	(361,572)	159,325	(217,349)
Income tax expense			25,000	
Net income (loss)	$ 35,965	$ (361,572)	$ 134,325	$ (217,349)
Basic earnings (loss) per common share	$.01	$(.06)	$.02	$(.03)
Basic weighted average common shares outstanding	6,502,913	6,502,913	6,502,913	6,502,913
Diluted earnings (loss) per common share	$.00	$(.06)	$.02	($.03)
Diluted weighted average common shares outstanding	8,904,501	6,502,913	8,904,501	6,502,913

The accompanying notes are an integral part of the financial statements. 2

Segmentz, Inc.

Statements of Changes in Stockholders Equity

Six Months Ended June 30, 2002 (Unaudited)

	-	Preferred Stock	
		Shares	Amount
Balance, December 31, 2001			1,200,794
$ 1,200,794			
Net income for the period			
Balance, June 30, 2002			
1,200,794	$ 1,200,794		

The accompanying notes are an integral part of the financial statements.

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
	6,502,913	$ 6,503	$ (6,403)	$ (643,329)	$ 557,565

				134,325	134,325	
	6,502,913	$ 6,503	$ (6,403)		$ (509,004)	$ 691,890

3

Segmentz, Inc.

Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2002	2001
Operating activities		
Net income (loss)	$ 134,325	$ (217,349)
Adjustments to reconcile net income (loss) to net cash(used) provided by operating activities:		
Bad debt expense	30,888	
Depreciation and amortization	43,750	6,269
(Increase) decrease in:		
Accounts and other trade receivables	392,353	(1,151,205)
Prepaid expenses and other assets	(30,856)	(117,027)
Increase (decrease) in:		
Accounts payable	(248,131)	939,515
Accounts payable to related party		(43,938)
Accrued expenses	(134,983)	135,673
Income taxes payable	25,000	(2,917)
Total adjustments	78,021	(233,630)
Net cash provided (used) by operating activities	212,346	(450,979)
Investing activities		
Purchases of equipment	12,037	(433,814)
Loans, advances, and other receivables	(40,310)	
Net cash used by investing	(28,273)	(433,814)
Financing activities		
(Increase) decrease in net obligations incurred underfactoring arrangements	(417,799)	796,959
Net borrowings on line of credit	263,902	
Proceeds from incurrence of long-term debt		86,125
Net cash (used) provided by financing activities	(153,897)	883,084
Net increase in cash	30,176	(1,709)
Cash, beginning of period	39,489	1,709
Cash, end of period	$ 69,665	$ 0

The accompanying notes are an integral part of the financial statements. 4

Segmentz, Inc.

Notes to Financial Statements

Six Months Ended June 30, 2002 and 2001 (Unaudited)

1. Basis of Presentation

In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three- and six-month periods ended June 30, 2002 and 2001, (b) the financial position at June 30, 2002, and (c) cash flows for the six-month periods ended June 30, 2002 and 2001, have been made. The financial information for the periods ended June 30, 2001 have not been reviewed by the Company s independent accountants.

The unaudited financial statements and notes are presented as permitted by Form 10-QSB. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying financial statements and notes should be read in conjunction with the audited financial statements and notes of Segmentz, Inc. (the Company) for the fiscal year ended December 31, 2001. The results of operations for the three- and six-month period ended June 30, 2002 are not necessarily indicative of those to be expected for the entire year.

2. Contingent Liabilities

The Company has been party to a lease in its Atlanta facility that it believed to be month-to-month pursuant to data provided by Logistics Management Resources, Inc. (LMR). In cooperation with LMR, the Company purchased the assets of Q Logistic Solutions, Inc. (QLS) from bankruptcy and began utilizing the space in Forest Park, Georgia pursuant to providing logistic services for clients. The Company notified the landlord, IDI Services, Inc. (IDI), of its intentions to find smaller space and offered IDI an opportunity to provide a lesser facility size within the facility currently occupied by the Company. IDI informed the Company at that time that the Company was party to a lease arrangement that had previously not been disclosed or evidenced. IDI and the Company are engaged in discussions to resolve this misunderstanding in which the Company asserts that IDI accepted a letter of credit provided by LMR as inducement to enter into the lease with LMR, with whom the Company had an arrangement to vacate the premises of its month-to-month sublease on 30 days written notice. IDI s assertion included a variety of material issues, including a representation that the Company was a prime lease holder with an obligation through May 2006. The Company has secured legal counsel and continues to assert that any lease documents that exist suggesting the Company s prime tenancy are not authorized by the Company, its board, or officers as provided for in the Company s bylaws. The Company continues to defend its position in this matter and believes that it will reach an amicable settlement pursuant to this issue.

5

Segmentz, Inc.

Notes to Financial Statements

Six Months Ended June 30, 2002 and 2001 (Unaudited)

3. Sale of Accounts Receivable

During the first quarter of 2002, the Company entered into an agreement with a financing company to purchase certain receivables of the Company without recourse at a discount of nine percent, offset by a charge estimated to be one percent per ten days outstanding, after which any unused discount is refunded. The Company is treating this as a sales transaction in accordance with Statement of Financial Accounting Standards No. 140. The receivable is removed from the assets of the Company on the date of sale of the receivable in exchange for cash received.

4. Line of Credit and Related Party Transaction

As of December 31, 2001, the Company had entered into an agreement with a related party to provide a line of credit up to $1.0 million. At December 31, 2001, that party agreed to convert its outstanding balance of $773,896 to Series A preferred stock of the Company. The Company currently has up to $300,000 available under the facility, of which, $263,902 is outstanding as of June 30, 2002.

5. Income Taxes

Income tax expense for the three and six months ended June 30, 2002 is based on the Company s estimate of the effective tax rate expected to be applicable for the full year. The effective tax rate of 37.5 percent for the three and six months ended June 30, 2002 differs from the statutory rate because of the effects of utilizing a net operating loss carryover.

6. Earnings Per Share

Common stock equivalents in the three- and six-month periods ended June 30, 2001 for basic and diluted earnings per share are the same as if there were no dilutive securities outstanding at June 30, 2001.

Segmentz, Inc.

Notes to Financial Statements

Six Months Ended June 30, 2002 and 2001 (Unaudited)

7. Subsequent Events

The Company reflects a balance of $425,000 on its balance sheet for an obligation due to them from LMR. The Company received a payment of $35,000 against this amount on July 25, 2002. The Company holds a reserve against this obligation of $225,000, which it continues to believe is sufficient to cover any losses that might result from the failure of LMR to pay this obligation.

The Company was notified of a civil action filed against them by Murphy Surf Air, Inc., a client of the Company, pursuant to a non-disclosure agreement executed by the Company in fiscal 2001 in connection with plans to examine the potential purchase of Murphy Surf Air, Inc. by the Company and the subsequent actions of a former Company employee who is alleged to have breached the agreement. Murphy Surf Air, Inc. is currently not pursuing any action against the Company and has agreed that if the assertions made by the Company relating to this matter are true (specifically that the Company had no material contact with its former employee related to this breach), that no further action will be brought against the Company. The Company believes that it has no liability in connection with this action.

8. Segment Information

Segment information has been prepared in accordance with Statements of Financial Accounting Standards No. 131, Disclosure About Segments of an Enterprise and Related Information. The Company has two reportable segments: truck hauling brokering and warehouse operations. The segments were determined based on the types of services provided by each segment. The Company had only one reportable segment until the purchase of QLS in April 2001.

The brokering operations arrange truckload transportation with dedicated Company equipment, owner operator fleet, and extensive agent partners throughout 48 states.

7

Segmentz, Inc.

Notes to Financial Statements

Six Months Ended June 30, 2002 and 2001 (Unaudited)

8. Segment Information (continued)

The warehousing operation, acquired in 2001, offers warehouse locations in two facilities covering the east coast. The Company is attempting to expand to offer smaller satellite facilities to enable conduit and direct route trucking solutions on a contracted, dedicated route basis to larger clients.

	Six Months Ended June 30, 2002		
	Trucking	Warehouse	Total
Revenue	$ 2,219,877	$ 1,649,398	$ 3,869,275

Other	$ 63,646	$ 0	$ 63,646
Depreciation	$ 7,770	$ 35,980	$ 43,750
Net (loss) income	$ (395,628)	$ 529,953	$ 134,325
Equipment, net of accumulateddepreciation	$ 31,791	$ 234,230	$ 266,021
Segment assets	$ 1,029,027	$ 561,104	$ 1,590,131

	Six Months Ended June 30, 2001		
	Trucking	Warehouse	Total
Revenue	$ 2,593,699	$ 841,661	$ 3,435,360
Net (loss) income	$ (236,566)	$ 19,217	$ (217,349)
Equipment	$ 27,702	$ 50,000	$ 77,702
Segment assets	$ 848,217	$ 1,031,394	$ 1,879,611

Item 2. Management's Discussion and Analysis or Plan of Operation.

Plan of Operation.

The Company continues to develop and implement its suite of transportation, brokerage, agent and business operational service tools to empower its partners and clients to success in the trucking and transportation business. The Company has segued its business away from the warehousing segment and expects to enter into a term relationship with its largest client that provides for a term operation at the client facility in Atlanta, GA. The Company is redeploying the capital removed from this segment through closing the NJ facility relationship into the transportation brokerage and agent support sections of its business and expects a continual growth in those area as a consequent.

The Company currently has credit facilities with Yankton Factors and Riviera Finance of $1,000,000 each and continues to negotiate with asset based lenders to consolidate borrowings at more favorable market rates. The Company will devote resources towards consolidation of borrowings that are more cost effective and that provide the Company with adequate room for continued growth. The Company believes the current facilities provide adequate capital for continued operations in the event it cannot secure alternative funding in accordance with these efforts.

The Company has increased its short term capital ratios from last year's period ended June 30, 2001 to period ended June 30, 2002 to mitigate cash flow concerns and short term capital requirements. It has negotiated more reasonable terms with significant third party service providers and secured better payment terms with its major customers. The Company had, at period ended June 30, 2002, $69,665 of cash and cash equivalents compared with $0 at period ended June 30, 2001. The Company believes it has enough cash on hand to continue to operate for the next twelve months without outside capital but continues to seek equity capital to enable it to reduce borrowing costs and expand its markets pursuant to its plans, and has closed on the first $50,000, on July 24, 2002, of an interim bridge funding which provides unsecured funding on a demand basis over the next twelve months.

The Company moved its facility in Atlanta, GA. on July 20 as part of its desire to size facilities to reflect zero excess space available policies. The Company is realizing gains on sale of assets in connection with its termination of operations at the facility in Edison, NJ and in concert with the downsizing of its facility in Atlanta. This is part of the Company's strategy to concentrate resources on land based transportation services and expansion in its broker and agent segment of business.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements. This Form 10-QSB includes "forward-looking statements" within the meaningof Section 27A of the Se

General

Through its subsidiaries, the Company operates in three inter-related areas of the logistics support service and transportation business:

Warehousing -- The Company provides onsite labor, computer technology, equipment, facilities and management to clients to fulfill third party logistics service requirements of those clients.

Trucking -- The Company provides point to point delivery of goods for clients on a truckload and less than truckload (LTL) basis.

Broker, Agent & Owner/Operator Services -- The Company provides direct connection to software products that allow brokers, agents and independent owner/operators to provide captive and near-captive fulfillment services for trucking clients. The Company also provides advance funding and fuel funding to enable these third party providers to expand their busines operations a

For the period ended June 30, 2002 compared to the period ended June 30, 2001.

Revenues increased approximately $52,870, or 3%, to approximately $1,782,541 for the period ended June 30, 2002, as compared to approximately $1,729,671 for the period ended June 30, 2001. This increase was primarily due to continued expansion of the trucking services group and segment.

Costs of services provided, which consist primarily of payment for trucking services, fuel, insurance, sales, marketing and general and administrative support decreased by approximately $344,667, or 16.4%, to approximately $1,746,576 for the period ended June 30, 2002, as compared to approximately $2,091,243 for the period ended June 30, 2001, primarily due to management's aggressive campaign to reduce fixed expenses and to manage cash flows more efficiently.

The Company realized income from continuing operations before provisions for income taxes of approximately $35,965 for the period ended June 30, 2002, compared with losses from continuing operations before provisions for income taxes of approximately $361,572 for the period ended June 30, 2001.

The Company's earned income per share from continuing operations for the period ended June 30, 2002 increased by seven cent per share to $.01 per share, as compared to a loss of ($.06) per share for the same period in 2001.

For the six month period ended June 30, 2002 compared to the six month period ended June 30, 2001.

Revenues increased approximately $497,561, or 14.5%, to approximately $3,932,921 for the six month period ended June 30, 2002, as compared to approximately $3,435,360 for the six month period ended June 30, 2001. This increase was primarily due to continued expansion of the business and new client acquisition.

Costs of services provided, which consist primarily of payment for trucking services, fuel, insurance, sales, marketing and general and administrative support increased by approximately $120,887, or 2%, to approximately $3,773,596 for the period ended June 30, 2002, as compared to approximately $3,652,709 for the period ended June 30, 2001, primarily due to management's aggressive campaign to reduce fixed expenses and to ensure profitability measured as a percentage of gross sales.

The Company realized income from continuing operations before provisions for income taxes of approximately $134,325 for the six month period ended June 30, 2002, compared with losses from continuing operations before provisions for income taxes of approximately $217,349 for the six month period ended June 30, 2001.

The Company's earned income per share from continuing operations for the six month period ended June 30, 2002 increased by five cent per share to $.02 per share, as compared to a loss of ($.03) per share for the same period in 2001.

Revenue for the Trucking segment of our business decreased approximately $373,822 from $2,593,699 for the six month period ended June 30, 2001 to $2,219,877 for the six month period ended June 30, 2002. This decrease was primarily due to a shift from a blending of warehouse and trucking segments to a focus on trucking, which requires available capital from the warehouse segment of the Company's business to be redeployed.

Revenue for the Warehouse segment of our business was $1,649,398 for the six month period ended June 30, 2002 compared with $841,661 for the six month period ended June 30, 2001, primarily due to six full months of segment operations, compared with two for the 2001 period.

Revenue Recognition

The Company operates tractors and trailers, which may be owned by the Company or provided by independent owner-operators, for clients that ship products throughout North America. The Company has insurance and requisite authorities, licenses and permits that enable it to haul various types of freight for third parties on an as-needed basis. The Company recognizes revenues in this line of its business that are directly tied to the relationship between the Company, its customers and third parties who, from time to time, may fulfill transportation requirements. When the Company has a client and a load to ship, and a third party trucking company provides fulfillment for that load, the Company bills the client directly for the gross value of trucking services. In cases where the Company refers a client to a third party company who provides trucking services, the Company would act as a broker in such transactions and would be paid by the fulfillment firm a commission. The Company only reports income as such definitions apply and has provided trucking service and brokered services throughout the past fiscal year.

Contingent Liabilities

The Company has been party to a lease in its Atlanta facility that it believed to be month-to-month pursuant to data provided by LMR. In cooperation with LMR, the Company purchased the assets of Q Logistics from bankruptcy and began utilizing the space in Forest Park, Georgia pursuant to providing logistic services for clients. The Company notified the landlord, IDI Services, Inc. (IDI), of its intentions to find smaller space and offered IDI an opportunity to provide a lesser facility size within the facility currently occupied by the Company. IDI informed the Company at that time that the Company was party to a lease arrangement that had previously not been disclosed or evidenced. IDI and the Company are engaged in discussions to resolve this misunderstanding in which the Company asserts that IDI accepted a letter of credit provided by LMR as inducement to enter into the lease with LMR with whom the Company had an arrangement to vacate the premises of its month-to-month sublease on 30 days written notice. IDI s assertion included a variety of material issues, including a representation that the Company was a prime lease holder with an obligation through May 2006. The Company has secured legal counsel and continues to assert that any lease documents that exist suggesting the Company s prime tenancy are not authorized by the Company, its board, or officers as provided for in the Company s bylaws. The Company continues to defend its position in this matter and believes that it will reach an amicable settlement pursuant to this issue.

The Company has also received notice from Murphy Surf-Air, a client of the Company that names the Company as a co-defendent in a civil action resulting from damage caused to Murphy Surf-Air by a former employee of the Company. The Company has entered into cooperative discussions with Murphy Surf-Air that resulted in the Company not being named in the motion that sought injunctive relief and termporary restraint against business activitity. The Company has received a letter from Murphy that indicates that the Company will be dropped from all civil actions subject to the Company's representations that it has no current involvment with the former employee being true. The Company believes it has no material liability in connection with this action.

Liquidity and Capital Resources

Cash and cash equivalents were approximately $69,665 at June 30, 2002, compared with $0 at June 30, 2001. This increase of approximately $69,655 was primarily a result of the Company's cash flow management initiatives and aggressive methods focused on building cash reserves and short term liquidity.

During the fiscal year ended December 31, 2001, the Company entered into a $1,000,000 factoring facility with Yankton Factors that provides for 97.5% advance rate against eligible receivables defined as those receivables which are likely to be paid to the Company within ninety days from the invoicing for services, this facility bears interest of 2.5% for up to 75 days of credit and is estimated to have an annual cost of approximately prime rate plus eighteen percent to the Company. The facility is currently unsecured and has outstanding balances due of $221,661 as of period ended June 30, 2002. In February 2002, the Company entered into a $1,000,000, factoring facility with Riviera Finance that provides for sale of eligible receivables without recourse with regards to credit and collections. The Company sells receivables to Riviera at a discount to their face value and does not collect or assume credit risk consequential to this sale.

The Company has embarked upon an aggressive campaign to manage cash that has resulted in greater anticipated levels of cash available for operations which it believes will be adequate to fund operations and financial requirements in the next fiscal year. At December 31, 2001, the Company arranged for the conversion of debt due to related parties to preferred equities. It is in discussion with the provider of the credit facility to convert remaining balances to an equity class and will continue to seek such conversion from preferred equity classes to common equity classes in the near future.

Our strategy is to continue to expand through acquisitions and internal development. We intend to seek, on a selective basis, acquisition of businesses that have product lines or services which complement and expand our existing services and product lines, and provide us with strategic distribution locations or attractive customer bases. Our ability to implement our growth will depend on a number of things which may be beyond our control. Successful deployment of this strategy will be dependent on our ability to identify, consummate and assimilate such acquisitions on desirable economic terms. There can be no assurance that we will be successful in implementing our growth strategy. Our ability to implement our growth strategy will also be dependent upon obtaining adequate financing. We may not be able to obtain financing on favorable terms.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 17, 2002, the Company received a summons from Industrial Property Fund I, LP that named the Company as a co-defendant in a civil action pursuant to the Company's tenancy in Forest Park, GA., which the Company continues to assert and claim is a month-to-month tenancy under which the Company has no obligation other than payment of rent when due. This facility is no longer occupied by the Company. No remedy is being sought against the Company at this time relating to this civil action.

The Company has also received notice from Murphy Surf-Air, a client of the Company that names the Company as a co-defendent in a civil action resulting from damage caused to Murphy Surf-Air by a former employee of the Company. The Company has entered into cooperative discussions with Murphy Surf-Air that resulted in the Company not being named in the motion that sought injunctive relief and termporary restraint against business activitity. The Company has received a letter from Murphy that indicates that the Company will be dropped from all civil actions subject to the Company's representations that it has no current involvment with the former employee being true. The Company believes it has no material liability in connection with this action.

Item 2. Changes in Securities.

The Company did not issue new equity securities in the period ended June 30, 2002.

Item 3. Defaults Upon Senior Securities.

The Company is not in default in any Senior Securities or material obligations.

Item 4. Submission of Matters to a vote of Security Holders.

Item 5. Other Information.

There is no information to report for the period ended June 30, 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

None

(b) REPORTS ON FORM 8-K

None

SIGNATURES.

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.

SEGMENTZ, INC.

By: /s/ Allan J. Marshall
Chief Executive Officer

Date: August 19, 2002