

SEGMENTZ INC
Form 10QSB
May 20, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the Quarterly period ended March 31, 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

75-2928175

incorporation or organization)

18302 Highwoods Preserve Parkway, Suite 210

33647

Tampa, Florida

(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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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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 classes of common stock, as of the latest practicable date:

The registrant has 6,502,913 shares of its common stock issued and outstanding as of March 31, 2002.

The registrant has 1,200,794 shares of its preferred stock issued and outstanding as of March 31, 2002.

Traditional Small Business Disclosure Format (check one) Yes No

Item 1. Financial Statements.

Financial Statements

Segmentz, Inc.

Three Months Ended March 31, 2002 and 2001 (Unaudited)

Segmentz, Inc.

Financial Statements

Three Months Ended March 31, 2002 and 2001 (Unaudited)

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Segmentz, Inc.

Balance Sheet

March 31, 2002 (Unaudited)

Assets

Current assets:

Cash and cash equivalents	\$ 248,310
Accounts receivable, net of allowance of \$45,000	657,932
Other receivables	57,728
Prepaid expenses and other current assets	<u>191,626</u>
Total current assets	<u>1,155,596</u>

Equipment, net of accumulated depreciation	<u>302,601</u>
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Other assets:

Note receivable	425,000
Other receivables, net of allowance of \$200,000	64,833
Loans and advances	<u>57,051</u>
Total other assets	<u>546,884</u>

\$ 2,005.081

Liabilities and Stockholders	Equity	Current liabilities:	Accounts payable	
			\$ 427,069	Line of credit
			238,902	Accrued salaries and wages
		15,305		Accrued expenses, other
		26,750		Income tax payable
			25,000	Obligation due under factoring arrangement
	391,130	Total current liabilities		1,124,156
Stockholders	equity:	Convertible preferred stock; 10,000,000 shares	authorized; 1,200,794 shares issued and	
outstanding	1,200,794	Common stock; \$.001 par value; 40,000,000 shares	authorized; 6,502,913 shares issued	
and outstanding			6,503	Additional paid-in capital
		(6,403)		Accumulated deficit
		<u>(319,969)</u>		Total stockholders equity
	<u>880,925</u>			
				<u>\$ 2,005,081</u>

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

Segmentz, Inc.

Statements of Operations (Unaudited)

<u>Ended</u> 31,	<u>Three Months</u>	
	March 31, <u>2002</u>	March
2001 Revenues: Operating revenue		\$
2,146,631		
Consulting and other revenue		
<u>3,749</u>	<u>340</u>	
Total Revenues:	<u>2,150,380</u>	
1,705,689 Expenses: Operating expenses		
1,665,177		
General and administrative expenses		
<u>361,843</u>	<u>114,102</u>	
	<u>2,027,020</u>	<u>1,561,466</u>
Income before taxes	123,360	144,223
Income tax expense	<u>25,000</u>	<u>44,800</u>
Net income	<u>\$ 98,360</u>	<u>\$ 99,423</u>
Basic earnings per common share	\$.02	\$.02
Basic weighted average common shares outstanding	6,502,913	6,502,913
Diluted earnings per common share	\$.01	\$.02
Diluted weighted average common shares outstanding	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

Three Months Ended March 31, 2002 (Unaudited)

<u>Preferred Stock</u>	<u>Shares</u>	<u>Amount</u>
Balance, December 31, 2001		1,200,794 \$
1,200,794		

Assets

Net income for the period

Balance, March 31, 2002
1,200,794

1,200,794 \$

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

Common Stock		Additional	Accumulated	
Shares	Amount	Paid-In Capital	Deficit	Total
6,502,913	\$ 6,503	\$ (6,403)	\$ (418,329)	\$ 782,565

			98,360	98,360
6,502,913	\$ 6,503	\$ (6,403)	\$ (319,969)	\$ 880,925

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Segmentz, Inc.

Statements of Cash Flows (Unaudited)

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Three Months Ended	March 31,	<u>2002</u>	<u>2001</u>	Operating activities	Net income
		\$ 98,360	\$ 99,423		Adjustments to reconcile net income to net cash provided(used) by
operating activities:	Bad debt expense				23,928
	amortization			24,934	6,467
	receivables			326,716	(682,314)
	Accounts payable			51,907	(67,092)
	party				(196,608)
	payable				(49,753)
	adjustments				(5,028)
	operating activities				(105,059)
	Investing activities				220,107
	Purchases of equipment				25,000
	advances, and other receivables				44,800
	activities				150,818
	Financing activities				(532,813)
	Net obligations incurred under factoring arrangements				(5,727)
	from issuance of debt				(3,096)
	activities				(248,331)
	Net increase in cash				481,202
	Cash, beginning of period				238,902
	Cash, end of period				208,821
					44,716
					39,489
					1,709
					\$ 248,310
					\$ 46,425

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

Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 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-month periods ended March 31, 2002 and 2001, (b) the financial position at March 31, 2002, and (c) cash flows for the three-month periods ended March 31, 2002 and 2001, have been made.

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 the Company for the fiscal year ended December 31, 2001. The results of operations for the three-month period ended March 31, 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 LMR. In cooperation with LMR, the Company purchased the assets of 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.

Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 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 rate estimated to be one percent per ten days outstanding. 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, and the reserve is held until the receivable is paid to the purchaser (at which time, the remaining balance due to the Company, if any, is paid).

4. Line of Credit

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 \$250,000 available under the facility, of which \$238,902 is outstanding as of March 31, 2002.

5. Income Taxes

Income tax expense for the three months ended March 31, 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 months ended March 31, 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-month period ended March 31, 2001 for basic and diluted earnings per share are the same as there were no dilutive securities outstanding at March 31, 2001.

Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 2002 and 2001 (Unaudited)

7. 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.

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.

	<u>Three Months Ended March 31, 2002</u>		
	<u>Trucking</u>	<u>Warehouse</u>	<u>Total</u>
Revenue 2,146,631	\$ 1,176,633	\$ 969,997	\$
Other 3,749	\$ 3,749	\$ 0	\$
Depreciation 24,934	\$ 3,885	\$ 21,049	\$
Net (loss) income \$ 123,360	\$ (90,891)	\$ 214,251	
Equipment, net of accumulated depreciation 35,676 \$ 266,925 \$ 302,601			\$
Segment assets 2,005,081	\$1,575,729	\$ 429,352	\$
	<u>Three Months Ended March 31, 2001</u>		
	<u>Trucking</u>	<u>Warehouse</u>	<u>Total</u>
Revenue 1,705,349	\$ 1,705,394	\$ 0	\$
Other 340	\$ 340	\$ 0	\$

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Net income 99,423	\$ 99,423	\$ 0	\$
Equipment 3,060	\$ 3,060	\$ 0	\$
Segment assets 1,322,553	\$ 1,322,553	\$ 0	\$

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

Plan of Operation.

The Company is focusing resources that will enable delivery of a suite of transportation brokerage, agent and business operational services to various partners and existing clients over the next fiscal year. The Company will continue to examine all segments of its business and all existing client relationships to ensure that operations continue to achieve profitability and stable growth.

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 fiscal year ended December 31, 2001 to period ended March 31, 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 March 31, 2002, \$248,310 of cash and cash equivalents compared with \$39,489 at fiscal year ended December 31, 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.

The Company plans to consolidate and reduce its warehouse facility size in Atlanta, GA to correspond with anticipated needs and its model to operate facilities at or near capacity. In connection with this reduction in space, the Company is selling materials and equipment that are not needed in connection with the delivery of warehouse services to its major clients. The Company has booked gains on the sale of equipment, in connection with its facility expansion in Edison, NJ, and may realize additional gain on sale in connection with the facility reduction in Atlanta, GA. The sale of equipment will enhance short term capital ratios as the Company converts some long term assets into cash and equivalents.

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 meaning of Section 27A of the Securities Act and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to

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 business operations

For the period ended March 31, 2002 compared to the period ended March 31, 2001.

Revenues increased approximately \$444,691, or 26.7%, to approximately \$2,150,380 for the period ended March 31, 2002, as compared to approximately \$1,705,689 for the period ended March 31, 2001. This increase was primarily due to increase in revenues achieved consequential to the acquisition of Q Logistics from bankruptcy and increase of revenues in the business lines of the Company.

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Revenue for the Trucking segment of our business decreased approximately \$528,761 from \$1,705,394 for the period ended March 31, 2001 to \$1,176,633 for the period ended March 31, 2002. This decrease was primarily due to management strategies to focus on profitable niche business relationships and reduce related overhead to build long term growth in all segments and stricter credit qualifications for clients in this segment that have resulted from historically slow payment histories amongst larger transportation clients.

Revenue for the Warehouse segment of our business was \$969,997 for the period ended March 31, 2002 compared with \$0 for the period ended March 31, 2001. The purchase of Q Logistics from bankruptcy enabled the Company to build a profitable entry to this sector of the third party logistics support business and the Company continues to focus on profitable segments of this business and the relationship between this segment and transportation services and trucking.

Costs of services provided, which consist primarily of payment for trucking services, fuel, insurance, sales, marketing and general and administrative support increased by approximately \$465,554, or 29.8%, to approximately \$2,027,020 for the period ended March 31, 2002, as compared to approximately \$1,561,466 for the period ended March 31, 2001. As a percentage of revenues Trucking and transport related services of fuel, insurance, sales and marketing are aggregated as cost of goods sold and amounted to 77.44% of related revenues for the period ended March 31, 2002, as compared with 84.8% for the period ended March 31, 2001, and general and administrative expenses increased from 6.7% of gross revenues for the period ended March 31, 2001 to 16.8% of gross revenues for the period ended March 31, 2002.

The Company realized income from continuing operations before provisions for income taxes of approximately \$123,360 for the period ended March 31, 2002, compared with income from continuing operations before provisions for income taxes of approximately \$144,223 for the period ended March 31, 2001.

Although the Company has tax loss carryforward from earlier periods, GAAP accounting requires a provision for taxes of \$25,000 for the period ended March 31, 2002, leaving net profits of \$98,360 compared with net profits after provisions for income taxes of \$99,423 from the period ended March 31, 2001, while diluted income per share from continuing operations for the period ended March 31, 2002 decreased by one cent per share to \$.01 per share, as compared to \$.02 per share for the same period in 2001.

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.

Liquidity and Capital Resources

Cash and cash equivalents were approximately \$248,310 at March 31, 2002, compared with \$39,489 at December 31, 2001. This increase of approximately \$208,821 was primarily a result of the Company's cash flow management initiatives and aggressive

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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 \$391,130 as of period ended March 31, 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.

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

The Company is not currently a party to any legal proceedings.

Item 2. Changes in Securities.

The Company did not issue new equity securities in the period ended March 31, 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 March 31, 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

None

(b) REPORTS ON FORM 8-K

On March 8, 2002, the Company filed Form 8-K to advise of a change in accounting firm from Valiente, Hernandez P.A. to Pender, Newkirk & Company.

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: May 19, 2002