SEGMENTZ INC
Form 10QSB
May 12, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2005

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: 000-49606

Segmentz, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	03-0450326
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification no.)

18302 Highwoods Preserve Parkway Suite 100

Tampa, FL 33647

(Address of principal executive offices, including zip code)

(813) 989-2232

(Registrant s telephone number, including area code)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section l2, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes x No ¨

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

The Registrant has 26,730,034 shares of its common stock issued and outstanding as of May 11, 2005

The Registrant has no shares of its preferred stock issued or outstanding as of May 11, 2005

Transitional Small Business Disclosure Format (Check one): Yes ¨ No x

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial Statements

Segmentz, Inc.

Three Months Ended March 31, 2005 and 2004 (Unaudited)

Segmentz, Inc.

Financial Statements

Three Months Ended March 31, 2005 and 2004 (Unaudited)

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Segmentz, Inc.

Balance Sheet

March 31, 2005 (Unaudited)

Assets	
Current assets:	
Cash and cash equivalents	$ 271,000
Accounts receivable, net of allowance of approximately $550,000	4,919,000
Prepaid expenses	578,000
Other current assets	788,000
Total current assets	6,556,000
Property and equipment, net of accumulated depreciation	2,684,000
Long-lived assets to be disposed of by sale	400,000
Goodwill	1,759,000
Identified intangible assets	4,917,000
Loans and advances	102,000
Other long term assets	1,922,000
	$ 18,340,000
Liabilities and Stockholders Equity	
Current liabilities:	
Accounts payable	$ 1,611,000
Accrued salaries and wages	412,000
Accrued expenses, other	1,110,000
Line of credit	1,386,000
Short-term portion of notes payable and capital leases	411,000
Other current liabilities	102,000
Total current liabilities	5,032,000
Long-term liabilities:	
Notes payable and capital leases, less current portion	533,000
Other long-term liabilities	57,000
Stockholders equity:	
Preferred stock, $.001 par value; 10,000,000 shares authorized; no shares issued or outstanding	
Common stock, $.001 par value; 40,000,000 shares authorized; 26,730,034 shares issued and outstanding	27,000
Additional paid-in capital	20,471,000
Accumulated deficit	(7,780,000)
Total stockholders equity	12,718,000
	$ 18,340,000

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

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Segmentz, Inc.

Statements of Operations (Unaudited)

	Three-months Ended March 31,	
	2005	**2004**
Revenues:		
Operating revenue	$ 10,349,000	$ 6,621,000
Total revenue	10,349,000	6,621,000
Expenses:		
Operating expenses	8,378,000	5,471,000
Gross profit	1,971,000	1,150,000
Sales, general and administrative expenses	3,009,000	1,703,000
Restructuring, exit and consolidation expenses	3,583,000	
Total sales, general and administrative expenses	6,592,000	1,703,000
Other expense	5,000	
Interest expense, net	24,000	71,000
Loss before taxes	(4,650,000)	(624,000)
Income tax provision (benefit)		(220,000)
Net loss	$ (4,650,000)	$ (404,000)
Basic loss per share of common stock	$ (.17)	$ (.02)
Weighted average common stock outstanding	26,705,309	18,926,748
Net loss per share of common stock	$ (.17)	$ (.02)
Weighted average diluted common stock outstanding	26,705,309	18,926,748

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

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Segmentz, Inc.

Statement of Changes in Stockholders Equity

Three Months Ended March 31, 2005 (Unaudited)

	Capital Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2004	26,727,034	$ 27,000	$ 20,405,000	$ (3,130,000)	$ 17,302,000
Repayment of note receivable	(22,000)		(28,000)		(28,000)
Issuance of stock compensation and warrants			66,000		66,000
Issuance of common stock, ESOP	25,000		28,000		28,000
Net loss through March 31, 2005				(4,650,000)	(4,650,000)
Balance, March 31, 2005	26,730,034	$ 27,000	$ 20,471,000	$ (7,780,000)	$ 12,718,000

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

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Segmentz, Inc.

Statements of Cash Flows (Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Operating activities		
Net loss	$ (4,650,000)	$ (404,000)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	129,000	(26,000)
Depreciation and amortization	447,000	239,000
Non-cash impairment of intangible assets	3,303,000	
Non-cash expenses related to issuance of stock and warrants	52,000	17,000
Changes in:		
Accounts and other trade receivables	2,149,000	(40,000)
Other current assets		(197,000)
Prepaid expenses and other assets	452,000	(395,000)
Other receivables	(243,000)	
Accounts payable	(470,000)	(735,000)
Accrued expenses	(110,000)	204,000
Accrued salaries and wages	(232,000)	159,000
Other liabilities	(28,000)	(22,000)
Total adjustments	5,449,000	(796,000)
Net cash provided by (used in) operating activities	799,000	(1,200,000)
Investing activities		
Purchases of equipment	(31,000)	(256,000)
Payment on acquisition earn-out	(1,460,000)	
Deposit on equipment purchase		(146,000)
Loans, advances, and other receivables	1,000	2,000
Net cash used in investing activities	(1,490,000)	(400,000)
Financing activities		
Net obligations under factoring arrangements		(1,033,000)
Proceeds from line of credit, net	203,000	637,000
Proceeds from issuance of debt and capital leases		100,000
Payment on debt and capital leases	(95,000)	(540,000)
Proceeds from issuance of equity, net		1,960,000
Net cash provided by financing activities	108,000	1,124,000
Net decrease in cash	(583,000)	(476,000)

Cash, beginning of period	854,000	2,029,000
Cash, end of period	$ 271,000	$ 1,553,000
Supplemental disclosure of cash flow information and non-cash financing activities:		
Cash paid during the period for interest	$ 22,000	$ 56,000

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

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Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 2005 and 2004 (Unaudited)

1. Significant Accounting Principles

Basis of Presentation

In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair statement of (a) the financial position at March 31, 2005, (b) the results of operations for the three month periods ended March 31, 2005 and 2004, and (c) cash flows for the three month periods ended March 31, 2005 and 2004, 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, 2004. The results of operations for the three-month period ended March 31, 2005 are not necessarily indicative of those to be expected for the entire year.

Stock-Based Compensation

The Company accounts for stock based compensation under the intrinsic value method of accounting for stock based compensation and has disclosed pro forma net income and earnings per share amounts using the fair value based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation. The Company has implemented the disclosure provisions of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*.

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Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 2005 and 2004 (Unaudited)

1. Significant Accounting Principles -continued

Stock-Based Compensation

For the three-months ended March 31, 2005 and 2004:

	2005	2004
Net loss applicable to common stockholders:		
As reported	$ (4,650,000)	$ (404,000)
Total stock-based employee compensation expense included in reported net income applicable to common stockholder, net of tax		
Total stock-based employee compensation determined under fair value based method, net of related tax effects	(31,000)	(134,000)
Pro forma:		
Net loss applicable to common stockholders	$ (4,681,000)	$ (538,000)
Loss per share:		
Basic as reported	$ (0.17)	$ (0.02)
Basic pro forma	$ (0.18)	$ (0.03)
Diluted loss per share:		
Diluted as reported	$ (0.17)	$ (0.02)
Diluted pro forma	$ (0.18)	$ (0.03)
Weighted average fair value of options granted	$ 0.00	$ 0.42

The preceding pro forma results were calculated using the Black-Scholes option pricing model. The following assumptions were used; (1) risk-free interest rate of 2.80%, (2) no dividend yield, (3) expected lives of between 4.0 and 5.0 years, (4) volatility of 35% to 85%. Results may vary depending on the assumptions applied within the model. Compensation expense recognized in providing pro forma disclosures may not be representative of the effects on net income for future years.

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Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews its estimates, including but not limited to, purchased transportation, recoverability of long-lived assets, recoverability of prepaid expenses, valuation of investments and allowance for doubtful accounts, on a regular basis and makes adjustments based on historical experiences and existing and expected future conditions. These evaluations are performed and adjustments are made as information is available. Management believes that these estimates are reasonable; however, actual results could differ from these estimates.

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Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 2005 and 2004 (Unaudited)

1. Significant Accounting Principles -continued

Income Taxes

Taxes on income are provided in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax bases of particular assets and liabilities and the tax effects of net operating loss and capital loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized as income or expense in the period that included the enactment date. A valuation allowance is provided to offset the net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. There is an allowance recorded as of March 31, 2005 of approximately $1,700,000 on deferred tax assets.

Earnings Per Share

Earnings per common share are computed in accordance with SFAS No. 128, Earnings Per Share, which requires companies to present basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive options outstanding during the year. The weighted average number of shares was 26,705,309 and 18,926,748 for the three months period ended March 31, 2005 and 2004, respectively. The diluted weighted average number of shares was 26,714,504 and 22,466,886 for the three months period ended March 31, 2005 and 2004, respectively.

Common stock equivalents in the three month periods ended March 31, 2005 and 2004 were anti-dilutive due to the net losses sustained by the Company during these periods. Therefore, the diluted weighted average common shares outstanding in these periods are the same as the basic weighted average common shares outstanding.

2. Obligations Due Under Factoring Arrangement

As of January 31, 2004 the Company terminated the factoring agreement and the obligation due under the factoring arrangement was fully satisfied.

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Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 2005 and 2004 (Unaudited)

3. Commitments and Contingencies

Litigation

In the ordinary course of business, the Company may be a party to a variety of legal actions that affect any business. The Company does not anticipate any of these matters or any matters in the aggregate to have a material adverse effect on the Company s business or its financial position or results of operations.

Regulatory Compliance

The Company s activities are regulated by state and federal regulatory agencies under requirements that are subject to broad interpretations. The Company cannot predict the position that may be taken by these third parties that could require changes to the manner in which the Company operates.

4. Line of Credit

In November 2004, Segmentz entered into agreements with Fifth Third Bank, a Michigan banking corporation, under which Fifth Third Bank extended an asset-based line of credit to Segmentz. Under the Loan Documents, Segmentz may draw down under the line of credit the lesser of $3,500,000 or 80% of the eligible accounts receivable of Segmentz and its wholly owned subsidiary Express-1, Inc. All obligations of Segmentz under the agreements are secured by the accounts receivable of Segmentz. Express-1, Inc. entered into agreements providing for a guaranty of the obligations of Segmentz under the Loan Documents, which the guaranty is secured by the accounts receivable of Express-1, Inc. All advances under the Loan Documents are subject to interest at the rate of the one-month LIBOR plus 2.0%, payable monthly. The maturity date of the loan is July 1, 2005. The Company s line of credit contains various covenants pertaining to the maintenance of certain financial ratios. As of March 31, 2005, the Company did not meet one of the required ratios. It is management s belief that it is highly unlikely the bank may demand payment, foreclose its security interest or lien against the Company s accounts without notice, or exercise other rights or remedies as provided under the note or other loan documents. As of March 31, 2005 the interest rate was approximately 4.4% and there was approximately $1,900,000 available under this credit facility.

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Segmentz, Inc.

Notes to Financial Statements

Three Months Ended March 31, 2005 and 2004 (Unaudited)

5. Restructuring, Exit and Consolidation Expenses

During the fourth quarter of 2004, shortly after the Express-1 acquisition was completed, the Company implemented a restructuring plan aimed at optimizing performance in our call center operations, consolidating several duplicate functions throughout the Company, eliminating unprofitable locations and focusing the Company on providing premium transportation to our customers. The primary goal was to convert more of our transportation cost to a variable cost model, effectively reducing our fixed cost and appropriately aligning our support functions with sustainable revenue levels. As a result we incurred total employee payments of approximately $630,000, approximately $305,000 of equipment related expenses, approximately $245,000 of adverse lease expenses, approximately $737,000 of non-cash impairment of assets and approximately $651,000 of other related expenses.

Based on the three-month period ended March 31, 2005, the board implemented phase-two of the restructuring plan, which includes the elimination of all non-expediting services and the elimination of excess overhead costs. As a result we incurred approximately $3,303,000 of non-cash impairment of assets and approximately $280,000 of accruals and increases in the allowance for doubtful accounts for the period ended March 31, 2005. Management estimates additional restructuring costs of approximately $400,000 of total employee payments and approximately $150,000 of adverse lease accruals, which will be expensed during the remainder of the year ended December 31, 2005.

For the three month period ended March 31, 2005, restructuring accruals changed as follows:

December 31, 2004, adverse lease accruals:	$ 200,000
Additions to adverse lease accruals	
Lease payments	70,000
March 31, 2005, adverse lease accruals	$ 130,000

The lease obligations for the closed facilities are approximately $700,000 over the next four years. At March 31, 2005, two of the facilities were subleased and the Company is continuing to search for a sublease tenant for the third facility.

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6. Acquisitions

The following unaudited pro forma information is presented as if the purchase of the stock of Express-1, Bullet and Dasher had occurred on January 1, 2004:

	Three Months ended March 31, 2004	
Total revenues	$	11,694,000
Net loss applicable to common stock	$	(110,000)
Loss per share:		
Basic	$	(.01)
Diluted	$	(.01)

Earnings (loss) per share is calculated based on approximately 3,500,000 additional shares being outstanding as of January 1, 2004 to account for the shares issued to raise capital to pay the initial purchase price of Express-1, Inc.

7. Subsequent Events

Since March 31, 2005, the Company accepted an offer of approximately $428,000 for the facility in Lexington, Kentucky and expects to close on the sale of the facility in June 2005. The net proceeds from the sale are expected to be approximately $400,000. The Company has recorded an impairment of $50,000 on the facility as of March 31, 2005.

Since March 31, 2005, the Company has closed on the purchase of the Buchanan facility. The purchase price is approximately $870,000. The Company has secured a mortgage on the property of approximately $680,000. The amortization of the loan is ten years; however there is a balloon payment due after the fifth year for the remaining amount of the note. The interest rate is fixed at approximately 6.00%.

Since March 31, 2005, the board implemented phase-two of the restructuring plan, which includes the elimination of all non-expediting services and the elimination of excess overhead costs. As a result we incurred approximately $3,303,000 of non-cash impairment of assets and approximately $280,000 of accruals and increases in the allowance for doubtful accounts for the period ended March 31, 2005. Management estimates additional restructuring costs of approximately $400,000 of total employee payments and approximately $150,000 of adverse lease accruals, which will be expensed during the remainder of the year ended December 31, 2005.

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

Forward-Looking Statements.

This Form 10-QSB includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-QSB which address activities, events or developments which the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), finding suitable merger or acquisition candidates, expansion and growth of the Company s business and operations, and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results or developments will conform with the Company s expectations and predictions is subject to a number of risks and uncertainties, general economic market and business conditions; the business opportunities (or lack thereof) that may be presented to and pursued by the Company; changes in laws or regulation; and other factors, most of which are beyond the control of the Company.

This Form 10-QSB contains statements that constitute forward-looking statements. These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as believes, anticipates, expects, estimates, plans, may, will, or si terms. These statements appear in a number of places in this filing and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company s financial condition or results of operations for its limited history; (ii) the Company s business and growth strategies; and, (iii) the Company s financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Factors that could adversely affect actual results and performance include, among others, the Company s limited operating history, potential fluctuations in quarterly operating results and expenses, government regulation, technology change and competition. Consequently, all of the forward-looking statements made in this Form 10-QSB are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The Company assumes no obligations to update any such forward-looking statements.

General

Segmentz provides transportation and logistics services to over 1,000 active customers, specializing in time definite transportation and offers a variety of exclusive use vehicles, providing reliable same day or overnight service to customers throughout the United States and Canada. Services include expedited transportation, capacity management, aircraft charters, dedicated delivery and warehouse management. The Company offers an ISO 9001:2000 certified, twenty-four hour, seven day a week call center allowing the customer immediate communication and status of time sensitive shipments in transit. The Company also provides the customer remote order entry capability, shipment tracking, on-line proof of delivery, billing status and performance reports. The Company is dedicated to providing premium services that are customized to meet its client s individual needs and flexible enough to cope with an ever-changing business environment. Segmentz, Inc. is publicly traded on the American Stock Exchange under the symbol SZI.

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The Company has undertaken several major initiatives designed to enhance our operating flexibility, upgrade and standardize our business processes, improve our customer service and increase our profitability. Most of these initiatives began in the fourth quarter of 2004 and management does not expect these initiatives to yield significant benefits until the second half of the year ending December 31, 2005. In addition, the Company significantly expanded the use of independent contract drivers in our transformation to an asset-light business model.

The Segmentz acquisition strategy focuses on integrating transportation and logistics businesses that will enhance service offerings within our current market areas as well as extend our network to targeted locations in the Midwestern and Southeastern United States. Future acquisitions will primarily focus on enhancing our expediting delivery network. The Company selects acquisition targets based upon their ability to demonstrate: (i) consistent profitability; (ii) history of service level delivery and brand identity; (iii) regional or service niche and position that is accretive to our current footprint and overlaps or enhances our current service offerings; and (iv) creates maximum capacity to stabilize a platform that will support continued enterprise revenue growth and profitability. Through March 31, 2005, Segmentz has completed the acquisition of five logistics and transportation providers. The acquisition companies are as follow: Temple Trucking Services, Inc. (Temple) on November 29, 2004, Express-1 Inc., (Express-1) on August 1, 2004, Dasher Express, Inc., (Dasher) on December 31, 2003, certain assets of Frontline Freight (Frontline) on January 8, 2004, and Bullet Freight Systems, (Bullet) on October 1, 2003.

The Company continues to develop and implement comprehensive processes and strategies, which enable rapid integration of companies into the network. The next phase of the Company s acquisition strategy is to further enhance expedited delivery services, expand logistics services offerings and increase market share. In 2005, the Company plans to continue acquisition activity. The Company has researched and identified a number of companies that may be suitable candidates. Although there is no assurance that the Company will be able to complete any acquisitions, the Company is currently in preliminary discussions with a select number of them.

There are a variety of risks associated with the Company s ability to achieve strategic objectives, including the ability to acquire and profitably manage additional businesses, current reliance on key customers, the risks inherent in expanding, and the intense competition in the industry for customers and for the acquisition of additional businesses. For a more detailed discussion of these risks, see the form 10KSB for the year ended December 31, 2004 the section entitled Risks Particular to The Company s Business.

Results of Operations

Revenues increased approximately $3,728,000, or 56%, to approximately $10,349,000 for the three months period ended March 31, 2005, as compared to approximately $6,621,000 for the three months period ended March 31, 2004. The increases in revenue primarily relate to the acquisitions and the general increases resulting from marketing efforts and brand awareness. The increase was significantly decreased by the restructuring plan implemented in the fourth quarter of 2004 and the slightly lower than expected growth in the industry.

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Operating expenses, which consist primarily of payment for trucking services provided by both partners and independent contractors, fuel, insurance, cross dock facilities, equipment costs and payroll expenses increased by approximately $2,907,000, or 53%, to approximately $8,378,000 for the three months period ended March 31, 2005, as compared to approximately $5,471,000 for the three months period ended March 31, 2004. As a percentage of revenues, operating expenses amounted to approximately 81% of related revenues for the period ended March 31, 2005, as compared with approximately 83% for the period ended March 31, 2004. Increased operating expenses for the first quarter result primarily from (i) the recent acquisitions, (ii) slightly lower sales volumes than expected, (iii) changes in independent contractor pay, and (iv) a significant increase in depreciation and amortization related to the recent acquisitions. The Company anticipates continuing to integrate, consolidate and eliminate redundant expenses in 2005 and will continue its efforts to transform a significant portion of its fleet to an owner operator model, reduce fixed payroll and reduce equipment costs as the fleet is transformed.

General and administrative expense increased by approximately $4,889,000 or 287% to approximately $6,592,000 for the period ended March 31, 2005 as compared to approximately $1,703,000 for the period ended March 31, 2004. The increase of general and administrative expenses resulted primarily from (i) the additional restructuring, exit and consolidation costs of approximately $3,583,000 recognized in the first quarter, (ii) the recent acquisitions, (iii) expansion of technology, equipment, personnel and infrastructure, (iv) expenses directly related to integration of acquisitions, (v) additional sales, marketing and branding efforts, and (vi) expenses related to prospective acquisitions. The Company had anticipated these increases in general and administrative costs in connection with acquisitions and internally generated growth and believes it will be able to reduce expenses to historical percentage levels as acquisitions are completed, integrated and synergies are capitalized upon. The Company is in the process of consolidating the administrative functions and expects this to continue throughout the year.

The Company realized a loss from continuing operations before provisions for income taxes of approximately $4,650,000 for the period ended March 31, 2005, compared with losses from continuing operations before provisions for income taxes of approximately $624,000 for the period ended March 31, 2004.

There was no tax benefit recorded for the three months period ended March 31, 2005 compared to a benefit of approximately $220,000 for the three months period ended March 31, 2004. There was no tax benefit recorded as the Company fully reserved for any newly created tax assets. Differences between the effective tax rate used for 2005 and 2004, as compared to the U.S. federal statutory rate, are primarily due to permanent differences and adjustments to the deferred tax asset valuation allowance.

Basic loss per share from continuing operations for the period ended March 31, 2005 was $.17, compared with basic loss of $.02 for the period ended March 31, 2004. Diluted loss per share from continuing operations for the period ended March 31, 2005 was $.17, compared with diluted loss per share of $.02 for the period ended March 31, 2004.

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For the pro-forma three months period ended March 31, 2005 compared to the pro-forma three months ended March 31, 2004

The following unaudited and unreviewed pro forma information is presented as if the purchase of the stock of Express-1, Bullet and Dasher had occurred on January 1, 2004.

On a pro-forma basis revenues decreased approximately $1,345,000, or 12%, to approximately $10,349,000 for the three months period ended March 31, 2005, as compared to pro-forma revenue of approximately $11,694,000 for the three months period ended March 31, 2004. The decrease in revenue primarily relates to the restructuring plan that was implemented by management in the fourth quarter of 2004 and slightly lower than expected industry sales volume. There was an increase in total sales handled in the Buchanan facility of approximately 34% during the three months period ended March 31, 2005 as compared to the same period in 2004.

The Company realized a loss of approximately $4,650,000 for the three months period ended March 31, 2005, compared with a pro-forma loss of approximately $110,000 for the three months period ended March 31, 2004. The increase in loss of approximately $4,540,000 resulted primarily from (i) the additional restructuring, exit and consolidation costs of approximately $3,583,000, (ii) costs related to the elimination of some unprofitable terminals, (iii) costs related to the consolidation of operations and call center functions, (iv) decrease in margin related to increases in independent contractor rates, (v) amortization of intangible assets and (vi) expenses related to prospective acquisitions.

Critical Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Segmentz, Inc. and all of its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. The Company does not have any variable interest entities whose financial results are not included in the consolidated financial statements.

Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews its estimates, including but not limited to, purchased transportation, recoverability of long-lived assets, recoverability of prepaid expenses, valuation of investments and allowance for doubtful accounts, on a regular basis and makes adjustments based on historical experiences and existing and expected future conditions. These evaluations are performed and adjustments are made as information is available. Management believes that these estimates are reasonable and have been discussed with the audit committee; however, actual results could differ from these estimates.

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Concentration of Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, are cash and cash equivalents and accounts receivables.

The majority of cash is maintained with a major financial institution in the United States. Deposits with this bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand, and, therefore, bear minimal risk.

Concentration of credit risk with respect to trade receivables is limited due to the Company s large number of customers and wide range of industries and locations served. No customer comprised more than ten percent of the March 31, 2005 or December 31, 2004 customer accounts receivable balance.

The Company extends credit to its various customers based on evaluation of the customer s financial condition and ability to pay the Company in accordance with the payment terms. The Company provides for estimated losses on accounts receivable considering a number of factors, including the overall aging of accounts receivables, customers payment history and the customer s current ability to pay its obligation. Based on managements review of accounts receivable and other receivables, an allowance for doubtful accounts of approximately $550,000 is considered necessary as of March 31, 2005. Although management believes that account receivables are recorded at their net realizable value, a 10% decline in historical collection rate would increase the current bad debt expense for the three months period ended March 31, 2005 by approximately $25,000. We do not accrue interest on past due receivables.

Contingent Liabilities

The Company is party to a number of legal actions, which are not material to operations pursuant to Item 301 of Regulation S-B.

EBITDA

EBITDA for the three months ended March 31, 2005 was approximately $(596,000) compared to approximately $(314,000) in the comparable period of the prior year. The Company defines EBITDA as earnings before interest, taxes, depreciation and amortization costs. The Company also excludes the cumulative effect of a change in accounting principle, discontinued operations, and the impact of restructuring and other charges from the computation. The Company believes EBITDA is a useful measure of operating performance before the impact of investing and financing transactions, making comparisons between companies earnings power more meaningful and providing consistent comparisons of the Company s performance. In order to provide consistent comparisons of year-over-year EBITDA, the following reconciliation is provided.

	Three months ended March 31,

	2005	2004
Net loss as reported	$ (4,650,000)	$ (404,000)
Income tax (benefit) provision		(220,000)
Interest expense	24,000	71,000
Restructuring, exit and consolidation expenses	3,583,000	
Depreciation and amortization	447,000	239,000
EBITDA	$ (596,000)	$ (314,000)

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SELECTED FINANCIAL DATA

For the three months period ended March 31, 2005:

	Bullet and Temple	Express-1 and Dasher	Dedicated	Other	Corporate	As Reported
Operating revenues	$ 2,133,000	$ 6,907,000	$ 1,064,000	$ 245,000	$	$ 10,349,000
Operating expenses	1,755,000	5,085,000	1,019,000	519,000		8,378,000
Sales, general and administrative expenses	604,000	1,640,000	124,000	86,000	4,138,000	6,592,000
Other expenses					29,000	29,000
Total expenses	2,359,000	6,725,000	1,143,000	605,000	4,167,000	14,999,000
Net income (loss) before tax provision (benefit)	$ (226,000)	$ 182,000	$ (79,000)	$ (360,000)	$ (4,167,000)	$ (4,650,000)
Restructuring expenses					$ 3,583,000	$ 3,583,000
Depreciation and amortization	$ 75,000	$ 193,000	$ 111,000		$ 68,000	$ 447,000
Interest expense, net					$ 24,000	$ 24,000

The selected data represents reporting units within the Company and are primarily allocated based on acquisitions, which is the basis for their respective earn-out provisions. Dedicated represents the dedicated contract in Evansville, Indiana and Other represents services or location revenue and expenses that has primarily been eliminated based on the restructuring plan implemented in the fourth quarter of 2004. Neither Dedicated nor Other met the quantitative criteria in 2004 or 2005 required for segment reporting.

USE OF GAAP AND NON-GAAP MEASURES

In addition to results presented in accordance with generally accepted accounting principles (GAAP), the Company has included in this report earnings EBITDA with EBITDA being defined by the Company as earnings before interest, taxes, depreciation and amortization. The Company also excludes the cumulative effect of a change in accounting principle, discontinued operations, and the impact of restructuring and other charges from the computation of EBITDA. The Company also included some selected financial data related to the various acquisitions. For each non-GAAP financial measure, the Company has presented the most directly comparable GAAP financial measure and has reconciled the non-GAAP financial measure with such comparable GAAP financial measure.

These non-GAAP financial measures provide useful information to investors to assist in understanding the underlying operational performance of the Company. Specifically, EBITDA is useful measures of operating performance before the impact of investing and financing transactions, making comparisons

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between companies earnings power more meaningful and providing consistent period-over-period comparisons of the Company s performance. In addition, the Company uses these non-GAAP financial measures internally to measure its on-going business performance and in reports to bankers to permit monitoring of the Company s ability to pay outstanding liabilities.

Liquidity and Capital Resources

As of March 31, 2005 the Company has approximately $1,524,000 of working capital and has cash and cash equivalents of approximately $271,000, compared with approximately $854,000 of cash and cash equivalents at December 31, 2004.

During the three months period ended March 31, 2005 cash has decreased by approximately $583,000. During the three months period ended March 31, 2005 there were significant payments related to previous acquisitions of approximately $1,460,000 and significant operational losses which was primarily off-set by: (i) the net increase of approximately $108,000 in debt; (ii) the significant decrease in the accounts receivable from the fourth quarter restructuring of approximately $2,149,000; and (iii) the $3,303,000 of non-cash impairments recorded during the period. While the Company continues to experience rapid revenue growth, management expects to have negative cash flow from operations as the Company operationally funds the growth of accounts receivable. In addition, independent contractors are typically paid within two weeks of providing the service, which will also significantly impact our cash flow as we continue to grow our independent contractor fleet. The Company will fund this growth primarily through operations and the line of credit.

To ensure that the Company has adequate near-term liquidity, Segmentz entered into agreements (the Loan Documents) with Fifth Third Bank, a Michigan banking corporation, under which Fifth Third Bank extended an asset-based line of credit to Segmentz. Under the Loan Documents, Segmentz may draw down under the line of credit the lesser of $3,500,000 or 80% of the eligible accounts receivable of Segmentz and its wholly-owned subsidiary Express-1, Inc. All obligations of Segmentz under the agreements are secured by the accounts receivable of Segmentz. Express-1, Inc. entered into agreements providing for a guaranty of the obligations of Segmentz under the Loan Documents, which guaranty is secured by the accounts receivable of Express-1, Inc. All advances under the Loan Documents are subject to interest at the rate of the one-month LIBOR plus 2.0%, payable monthly. The maturity date of the loan is July 1, 2005. The Company s line of credit contains various covenants pertaining to the maintenance of certain financial ratios. As of March 31, 2005, the Company did not meet one of the required ratios. Although it is management s belief that it is highly unlikely the bank may demand payment, foreclose its security interest or lien against the Company s accounts without notice, or exercise other rights or remedies as provided under the note or other loan documents. As of March 31, 2005 there was approximately $1,900,000 available under this credit facility.

The Company may receive proceeds in the future from the exercise of warrants and options outstanding as of March 31, 2005 in accordance with the following schedule:

	Approximate Number of Shares	Approximate Proceeds
Options outstanding under the Company s Stock Option Plan	600,000	$ 790,000
Non-Plan Options and warrants	4,728,000	8,006,000
Warrants	7,925,000	11,872,000
Total	13,253,000	$ 20,668,000

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The Company has embarked on upgrades to technology and support infrastructure that it believes will enhance cash flows by providing customers and customer service representatives with access to delivery information and documentation that will enable efficient collections of accounts receivable from customers. There is no assurance that we will be able to obtain financing on terms favorable to the Company or successfully implement infrastructure upgrades pursuant to our plans.

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 factors, 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.

Below is a table of the possible contingent consideration that the Company could pay over the next five years if certain criteria that is related to the acquired entities is obtained:

Year Ending December 31,	Possible Payments*
2005	$ 267,000
2006	$ 1,977,000
2007	$ 2,226,000
2008	$ 2,210,000
Total	$ 6,680,000

* Payments are listed in the year they become due and some portions of the payments can be paid in cash or stock

The Company will be required to make significant payments in the future if the contingent consideration installments under the Company s various acquisitions become due. While the Company believes that a significant portion of the required payments will be generated by the acquired subsidiaries, the Company may have to secure additional sources of capital to fund some portion of the contingent consideration payments as they become due. This presents the Company with certain business risks relative to the availability and pricing of future fund raising, as well as the potential dilution to the Company s stockholders if the fund raising involves the sale of equity.

These contingent consideration amounts are tied directly to divisional performance of the respective entities, mitigating some of the risks that might exist for contingent payments tied to other performance indicators. The Company will examine the annual benchmarks for each contingent consideration payment and will reserve any potential funds due under these agreements at the end of each fiscal quarter when the pro-rated annual benchmark is achieved for that quarterly period.

The Company is a defendant in a number of legal proceedings. Although the Company believes that the claims asserted in these proceedings are without merit, and the Company intends to vigorously defend these matters, there is the possibility that the Company could incur material expenses in the defense and resolution of these matters. Furthermore, since the Company has not established any reserves in connection with

such claims, any such liability, if at all, would be recorded as an expense in the period incurred or estimated. This amount, even if not material to the Company s overall financial condition, could adversely affect the Company s results of operations in the period recorded.

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Item 3. Controls and Procedures.

(a) ***Evaluation of disclosure controls and procedures.*** Under the supervision and with the participation of the Company s management, including the Company s principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operations of its disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission (SEC) reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to Segmentz, Inc., including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

(b) ***Changes in internal controls.*** There were no significant changes in our internal controls or to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the evaluation date.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Company is involved in various civil actions as part of its normal course of business. The Company is not party to any litigation that is material to ongoing operations as defined in Item 301 of Regulation S-B as of the period ended March 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months period ended March 31, 2005 there were no common or preferred shares sold.

Item 3. Defaults upon Senior Securities.

The Company s line of credit contains various covenants pertaining to the maintenance of certain financial ratios. As of March 31, 2005, the Company did not meet one of the required ratios.

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

No items have been submitted to Security Holders to be voted upon during the period ended March 31, 2005, however the following has been submitted subsequent to the period ended March 31, 2005.

(1) To elect a board of seven directors, each to serve a one-year term;

(2) To ratify the appointment of Pender Newkirk & Company as independent auditors for the Company for the year ending December 31, 2005;

(3) To approve and ratify an amendment and restatement to our Certificate of Incorporation increasing our authorized shares of common stock, par value $0.001 per share (Common Stock), from 40,000,000 shares to 100,000,000 shares, and eliminating certain other provisions; and

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(4) To approve and ratify an amendment to our 2001 Stock Option Plan increasing the number of shares of our Common Stock reserved for issuance thereunder from 600,000 shares to 5,600,000 shares.

Item 5. Other Information.

The Company has no other information to report for the period ended March 31, 2005.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibit list

31.1 Certification of the President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the President Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)

32.2 Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)

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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.
Date: May 11, 2005	/s/ Andrew J. Norstrud
	Chief Financial Officer
	/s/ Jennifer Dorris
	Chairman of Audit Committee
	/s/ Mike Welch
	President