

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year Ended December 31, 2003

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 registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

03-0450326
(I.R.S. Employer
Identification No.)

18302 Highwoods Preserve Parkway Tampa, FL
(Address of principal executive offices)

33647
(Zip Code)

Registrant's telephone number, including area code: (813) 989-2232

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Title of each class:

Name of each exchange on which registered:

Common Stock, par value \$.001 per share

OTC Bulletin Board System

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of March 15, 2004 was \$46,352,349 based upon the closing sale price of the Registrant's common stock on the OTC Bulletin Board of \$2.35 on such date. See Footnote (1) below.

The number of shares outstanding of the Registrant's common stock as of March 15, 2004 was 19,724,404.

Documents Incorporated by Reference: None

Index to Exhibits appears in Item 13

(1) The information provided shall in no way be construed as an admission that any person whose holdings are excluded from the figure is an affiliate or that any person whose holdings are included is not an affiliate and any such admission is hereby disclaimed. The information provided is solely for record keeping purposes of the Securities and Exchange Commission.

[Table of Contents](#)

SEGMENTZ, INC.
ANNUAL REPORT ON FORM 10-KSB
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003

TABLE OF CONTENTS

PART I		1
Item 1.	Business	1
Item 2.	Properties	10
Item 3.	Legal Proceedings	11
Item 4.	Submission of Matters to a Vote of Security Holders	11
PART II		12
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7.	Financial Statements	20
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	21
Item 8.A	Controls and Procedures	21
PART III		21
Item 9.	Directors and Executive Officers of the Registrant	21
Item 10.	Executive Compensation	23
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	25
Item 12.	Certain Relationships and Related Transactions	27
PART IV		28
Item 13.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	28
Item 14.	Principal Accountant Fees and Services	27
SIGNATURES		29

PART I

This Annual Report on Form 10-KSB 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. The Company has based these forward-looking statements on the Company's current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and the Company's subsidiaries that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue" or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed elsewhere in this Annual Report, including the section entitled "Risks Particular to The Company's Business" and the risks discussed in the Company's other Securities and Exchange Commission filings. The following discussion should be read in conjunction with the Company's audited Consolidated Financial Statements and related Notes thereto included elsewhere in this report.

Item 1. Business

OVERVIEW

Segmentz provides transportation and logistics services to over 1,000 active customers, specializing in time definite delivery in support of specific supply chain requirements. Services include expedited transportation, deferred airfreight transportation, local cartage, aircraft charters, dedicated delivery, consolidation, warehouse management and fulfillment. The Company has expanded its network, with operating service stations in over 20 cities, five located at international gateways, in the Midwest and Southeast United States providing scheduled airport-to-airport line haul movements. The Company offers a 24 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, proof of delivery reconciliation, billing status and performance reports via a custom designed web site. The Company is dedicated to providing services that are customized to meet its client's individual needs and flexible enough to cope with an ever-changing business environment.

The Company is positioned in the industry to market its services to both commercial shippers and third party logistics companies such as; warehouse management, transportation management, air/ocean freight forwarders, integrated air carriers, passenger and cargo airlines. The Company offers a high level of service with emphasis on time critical and damage free delivery. The Company locates facilities in close proximity to airports to maintain strict service schedules. The majority of shipments handled in the Company's network are delivered overnight. Segmentz objective is to build a company that supports "segments" of customer's supply chain initiatives. The Company sustains a competitive advantage by providing flexible, customized, end-to-end solutions, which utilize experienced personnel and technology to exceed the customer's expectations.

The Segmentz acquisition strategy focuses on integrating 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. The Company selects acquisition targets based upon their ability to demonstrate: (1) consistent profitability; (2) history of service level delivery and brand identity; (3) regional or service niche and position that is accretive to our current footprint and overlaps or enhances our current service offerings; and (4) creates maximum capacity and equipment utilization to stabilize a platform that will support continued enterprise revenue growth that drives profitability.

Segmentz intends to create additional stockholder value by: (1) improving productivity by adopting enhanced technologies and business processes; (2) improving transportation margins by leveraging our growing purchasing power and (3) enhancing the opportunity for organic growth by cross-selling and offering expanded services to new and existing customers.

Through March 25, 2004, Segmentz has completed the acquisition of three strategically located logistics and transportation providers. The acquisition companies are as follow: 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 has developed and implemented a comprehensive process, which has allowed rapid integration of these companies into the network. The Company's focus has been to solidify and expand the time definite network of facilities in the Midwestern and Southeastern United States. 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 2004, 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.

[Table of Contents](#)

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 section of this Item 1 entitled "Risks Particular to The Company's Business."

INDUSTRY OVERVIEW

The third party logistics industry is rapidly changing to keep pace with shippers' demands, technology innovation and the influx of capital. These dynamics will pose major challenges and opportunities to both users and service providers, demanding the attention of all supply chain professionals. Businesses are striving to reduce inventory levels, reduce order and cycle lengths, perform manufacturing and assembly operations in low cost locations and distribute their products throughout global markets. This trend has increased the need for expedited or time-definite shipment services. Furthermore, customers increasingly cite an efficient supply chain as a critical element in improving their financial performance. To remain competitive, successful companies must achieve success in their core businesses and execute quickly and accurately.

Modern third-party logistics providers have emerged recently because of transportation deregulation in the 1980s, tax advantages to outsourcing, predictability of costs, capital savings and the shipper emphasis on "core competencies" in the 1990s. As a result, outsourcing has dramatically increased. In the last decade, according to research by investment banker Lazard Freres and BG Strategic Advisors, the third party logistics ("3PL") category has grown at a rate greater than 20 percent per year. Many companies have grown as the market has grown, including Expeditors, CH Robinson, and Landstar. This has spawned an entire industry of small and mid-sized logistics providers, which number approximately 1,000 today. Many observers have predicted that the logistics provider industry will continue to expand at a rate of 15-20 percent annually. A recent Lazard Freres study shows that while 37 percent of high-volume shippers outsourced transportation in 2000, 73 percent expected to do so by 2005. As the outsourcing trend continues the third party logistics industry will benefit. Less frequently noted is the enormous fragmentation in the logistics industry. The four core logistics sectors—warehousing, transportation management, air/ocean freight forwarding, and dedicated contract carriage are growing at a rate of 15-25 percent annually. The market share available for small companies in the third party logistics sector of the industry is between 30 and 80 percent. To put this in perspective, the parcel sector of the industry is growing at 4 percent, and the market share available for small companies is zero.

This combination of high growth and high fragmentation makes the logistics industry ripe for consolidation. A growing market supports a broad range of successful companies that attract expansion-minded buyers. At the same time, fragmentation translates into a plethora of small acquisition opportunities for larger, cash-rich companies. Further, as the market inevitably matures, businesses that were used to 20% growth will likely supplement their organic operations with acquisitions. The Company believes logistics companies that can successfully position their businesses to benefit from these trends will enjoy an exciting future. These will be the companies with broad multimodal capabilities, geographic scope, and technological leadership. The Company also believes smart, mid-sized companies must invest aggressively in niche strategies and technologies that create differentiation and drive growth. Consolidation is an unmistakable reality. The choice to raise capital to pursue a niche strategy, sell to a larger player, or harvest the business—is not easy. However, just as UPS and FedEx achieved domination in the once-fragmented parcel industry, today's logistics providers who pick a unique strategy and make the necessary investments can be very successful going forward.

The total U.S. expedited cargo market, including air and surface, was estimated to generate \$81.4 billion in revenue in 2003. The U.S. domestic airfreight market estimated to be approximately \$30.7 billion, or 37.7% of this market. Approximately \$3.7 billion, or 11.9% of that market, made up of heavyweight overnight and deferred airfreight, representing the portion of the market within which the Company primarily competes. Although aircraft normally transports expedited airfreight, freight forwarders often elect to transport cargo by truck, especially for shipments without time sensitive transit times. Generally, the cost of shipping freight, especially heavy freight, by truck is substantially less than shipping by aircraft. The Company believes there is an increasing demand for lower-cost truck transportation of expedited airfreight. Integrated air cargo carriers that transport heavy freight are targeting their marketing efforts at higher yielding overnight freight to better utilize their high fixed-cost infrastructures. As a result, these carriers are outsourcing deferred freight to surface transportation providers. Domestic airlines have eliminated many cargo aircraft while the demand for air cargo services has increased creating capacity constraints. Thus, the reduced capacity of air cargo space has resulted in increased demand for surface transportation of cargo.

The Company also feels that the large third party logistics providers have not targeted the middle market of the industry. Web-based transportation and warehousing management systems now enable mid sized logistics companies to provide leading edge services to smaller customers. Historically, large logistics service providers would not do business with small to mid-sized companies, which are defined as under \$ 50 million in annual transportation spending.

The Company's competitive advantage is its ability to serve commercial shippers and collaborate with global logistics providers. The company is following industry trends by creating a strong expedited delivery network to support both commercial shipments and deferred airfreight. The Company has

[Table of Contents](#)

strategically positioned its service stations to respond quickly to customer needs providing comprehensive solutions. Segmentz culture promotes attention to detail, understanding the customer's unique parameters and offering the services that support "segments" of that customers supply chain to increase efficiency and reduce costs.

GROWTH STRATEGY

The Company's current growth strategy is to increase capacity and leverage the expanding expedited delivery network to maximize profitability. The principal components of the Company's growth strategy are to:

- **Increasing Market Share** - The Company will continue to market directly to new and existing customers to capture additional freight volume. The Company believes that there is significant potential for increased freight volume from passenger and cargo airlines as well as from the integrated air cargo carriers. As third party logistics providers who rapidly grow in size, they must collaborate with providers like Segmentz to execute time definite supply chain services. As the Company expands into new cities, leverage the existing network to increase volumes at all service stations. Additionally, the Company will promote end-to-end expedited solutions that are not offered by the competition, in most markets.
- **Cross Selling Services** - The Company expects to fuel internal growth by cross-selling services to new customers and existing customers to leverage acquisitions to bring the added results needed to extract shareholder value. By cross-utilizing assets to serve multiple customers, we ensure the best return on assets and equity as our expansion meets or exceeds milestones we have set.
- **Developing Brand Recognition** - The Company must continue to develop the "Segmentz" brand and intends to leverage the Company's broader set of capabilities with the goal of capturing business opportunities, which would not normally be available to a regional logistics company.
- **Improving Efficiency of the Expedited Network** - The Company will constantly seek to improve the efficiency of the expedited network without changing the infrastructure or incurring significant capital expenditures.
- **Expanding Logistics Services** - The Company will continue to expand logistics service offerings to increase revenue, improving utilization of all service stations and labor force. Due to the timing of the arrival and departure of cargo, the service stations that are not sufficiently utilized during portions of the day, allowing the Company to add a number of logistics services without significantly increasing costs. The Company plans to make the service stations multi-functional providing dedicated delivery, warehousing, customs clearance, consolidation and handling services. These services directly benefit the Company's existing customers and the ability to attract new customers.
- **Increasing Owner Operator Fleet** - The Company seeks to establish long-term relationships with owner-operators to assure dependable service and availability, and strive to maintain a low turnover rate. The Company has established guidelines relating to safety records, driving experience and personnel evaluations that are used to select qualified owner-operators. Additionally, the owner operator model allows the Company to reduce fixed costs related to equipment, insurance and payroll and allows the Company to react favorably to seasonal fluctuations without impacting costs and ultimately capture more revenue.

ACQUISITION STRATEGY

The Company believes there are many attractive acquisition candidates in this industry because of the highly fragmented composition of the marketplace, the industry participants' need for capital and their owners' desire for liquidity.

The Company will continue to expand the business by acquiring select candidates. "Service" or "Region" drives the Company's acquisitions, with each candidate either offering specialty services, technology, personnel ("Service") or locations that fit into the network, thus significantly expanding by offering the Company's services and cross selling to their customers. ("Region").

A "Service" acquisition is significant to the brand recognition of the Company. It will provide increased industry recognition for excellence in service and a client base that will further enhance brand identity. It may take more time and effort to integrate this type of company, as the corporate culture must be maintained while integrated into the Segmentz culture .

A "Region" acquisition, on the other hand, will more likely be geographical in nature, will be a generally smaller acquisition and will enable Segmentz to expand into new markets. When justified by the size and service offerings of a Region acquisition, the Company expects to retain the management, along with the operations, sales and technical personnel of the acquired company, while seeking to improve the company's profitability by implementing the Company's operating strategies. In most instances where there is overlap of geographic coverage, the operations acquired by Region acquisitions can be integrated into existing operations in that market, resulting in the elimination of duplicating overhead and operating costs.

The Company believes it can successfully implement the acquisition strategy due to: (i) few exit opportunities that exist for smaller transportation services providers; (ii) single source selling strategy that empowers acquired companies to meet or surpass their profit expectations as part of Segmentz; (iii) delivery of lower insurance, human resource and central operational costs; (iv) the liquidity provided at the

[Table of Contents](#)

time of sale combined with upside from the stock of the public company; (v) continued involvement of the management of the acquired companies in branding Segmentz expanding offerings; and (vi) the ability of management to integrate acquisitions while maintaining internal growth and customer satisfaction.

OPERATIONS

The Company's primary business operation involves obtaining shipments from customers and delivering a wide range of logistics solutions to meet specific requirements and arranging and monitoring all aspects of the shipment utilizing advanced information technology systems. These logistics solutions include expedited transportation, deferred airfreight transportation, local cartage, aircraft charters, dedicated delivery, consolidation, warehouse management and fulfillment. Additionally, the company picks up shipments from business partners such as air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines consolidating these shipments at the Company's service stations. The Company will then cross-dock and transport these shipments through the Segmentz network to service stations nearest the ultimate destinations of the shipments. The Company operates regularly scheduled service to and from each of the service stations through regional hubs. When a shipment arrives at the service station nearest its destination, the shipments go through sorting, segregating and then routing for delivery to its final destination.

SERVICES

Segmentz provides three core services to over 1,000 customers:

- **Expedited or Time-definite Transportation**
 - Time-definite ground transportation of cargo as a cost effective, reliable alternative to air transportation.
 - Daily scheduled transportation between airport locations in the Southeast and Midwest.
 - Pick up and delivery services to residential as well as commercial addresses.
 - Premium, exclusive use vehicle transportation services such as expedited, aircraft charter, white glove and specialized handling throughout all 48 states
- **Third-Party Logistics Services (3PL)**
 - Comprehensive inbound, outbound and aftermarket services to support the client's entire supply chain.
 - 3PL services include Dedicated Delivery, Transportation Management, Warehouse Management, Yard Management, Reverse Logistics and Trade Show Transportation Management.
- **Nationwide Truckload and Less-than-truckload Service**
 - Segmentz arranges truckload transportation with dedicated company equipment, owner operator fleet and extensive agent partners throughout all 48 states.
 - Each day Segmentz manages hundreds of shipments throughout North America, utilizing over 5,000 contracted carriers to provide capacity to its customers.

INFORMATION SYSTEMS

A key component of the Segmentz growth strategy is the significant capital, planning and corporate intelligence that is deployed towards technology to enhance service levels, productivity and customer access to information. The third-party logistics services business increasingly relies upon advanced information technology to link the shipper with its inventory and as an analytical tool to optimize transportation solutions. This trend favors the larger, more professionally managed companies that have the resources to support a sophisticated information technology infrastructure. By outsourcing all non-core business services to third party providers, companies can help to control costs, eliminate staff and focus on internal business. Furthermore, this kind of outsourcing is often done in lockstep with "unit pricing" models that provide for a variable price that is less than the current pricing available to a company. This method is calculated on a unit basis, enabling a company to price logistics, storage, shipping, staging and related services into their wholesale pricing matrix and providing a scalable solution that can scale downwards in an off economy, as well as upwards as the market demands. Such models are popular as "risk sharing," an outsourcing concept that has been adopted in many support and third party service arenas, enabling outsourced companies to build critical mass, method and pricing efficiencies, and to pass these efficiencies on to clients in pricing schedules that help clients build competitive market positions that are measurably more predictable.

In executing this strategy, the Company has and will continue to invest significant management and financial resources to deliver these technologies. The Company believes these technologies will provide financial and competitive advantages in the years ahead and will increase our sustainable competitive advantages in the marketplace.

CUSTOMERS, SALES AND MARKETING

Segmentz has many commercial customers that range from small companies to Fortune 100 companies. The Company also serves third party logistics providers, airfreight forwarders, integrated air cargo carriers and passenger or cargo airlines. The Company's third party logistics customers vary in size from small, independent, single facility companies to large, global logistics companies, such as Eagle Global, Schneider Logistics, Nippon Express, Danzas/AEI, Exel and Pilot Air Freight. Segmentz maintains a reputation for dependable service, which has allowed the Company to provide overflow capacity to integrated air cargo carriers such as United Parcel Service, Federal Express, DHL Worldwide Express and Menlo Worldwide. The Company also provides services to passenger and cargo airline customers including British Airways, Continental, United Airlines, Northwest Airlines, Alliance Airlines, Kitty Hawk Cargo, Delta Airlines and Air Cargo, Inc.

Segmentz markets services throughout the United States through the business development staff, facilities management and agents. The Executive management team is also actively involved in sales and marketing at the national account level, which supports local sales activity. The Company's sales focus will be to promote single source logistics and transportation solutions. The Company has a strong commitment to marketing to the airfreight community that has time-sensitive shipping needs requiring customized services, and has also developed a network of consulting firms and specialty professional firms that introduce the Company to contract based freight management and logistics opportunities. The Company will allocate resources to respond to such requests for proposal (RFP), that build upon the Company's logistics and contract services offerings. The Company participates in industry trade shows, direct mail programs, advertises in industry journals, and is listed with prominent internet search engines.

For large-scale contract logistics projects, the Company offers onsite personnel and "White Paper" support of customer initiatives. This offering provides customers with experienced personnel and case study data developed with a stated goal of examination of a customer's historical requirements, their customer's requirements and the likelihood that change will occur in the immediate future. The onsite personnel build relationships with customers by maintaining interactive analysis capabilities that leverage experience in the freight and delivery environment, offering customers the intelligence and tools to stay ahead of their competitors.

The Company has created the Segmentz name with the intention of building a branded identifiable organization known by customers and within the industry. The Company has branded each acquired company "a Segmentz company" to leverage our brand with the brand of each acquired company. In the near future, the Company will consolidate acquisitions into service defined operating companies ultimately re-branding under the "Segmentz" name.

COMPETITION AND BUSINESS CONDITIONS

The volume of domestic and international trade directly affects the Company's business. The volume of this trade is influenced by many factors, including economic and political conditions in the United States and abroad, major work stoppages, exchange controls, currency fluctuations, acts of war, terrorism and other armed conflicts, and United States and international laws relating to tariffs, trade restrictions, foreign investments and taxation.

The logistics service and transportation industries are intensely competitive and should remain so for the near future. Segmentz competitors include regional trucking companies that specialize in handling deferred airfreight and national and regional less-than-truckload carriers. To a lesser extent, the Company competes with integrated air cargo carriers and passenger and cargo airlines. The Company believes competition is based primarily on service, on-time delivery, flexibility and reliability, as well as rates. The Company offers services at rates that generally are significantly below the charge to transport the same shipment to the same destination by air. The Company believes that it has an advantage over less-than-truckload carriers based upon the Company's reputation for faster, more reliable service between multiple cities.

The Company has competition from a large number of firms, which have only one office or a small number of offices, and can not offer the breadth of services and integrated approach that the Company offers. However, some of this competition comes from major United States and foreign-owned firms, which have networks of offices and offer a wide variety of services. The Company believes that quality of service, including information systems capability, global network capacity, reliability, responsiveness, expertise and convenience, scope of operations, customized program design and implementation and price are important competitive factors in the industry.

REGULATION

The Company is licensed by the Department of Transportation as a motor carrier and broker. The Company does not believe that transportation related regulatory compliance has had a material adverse impact on operations to date. However, failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of operating permits or authorities. The Company cannot give assurance as to the degree or cost of future regulations on business. Some of the regulations affecting the Company's operations are described below.

The Surface Transportation Board and U.S. Department of Transportation also have the authority to regulate interstate motor carrier operations, including the regulation of certain rates, charges and accounting systems, to require periodic financial reporting, and to regulate insurance, driver qualifications, operation of

[Table of Contents](#)

motor vehicles, parts and accessories for motor vehicle equipment, hours of service of drivers, inspection, repair, maintenance standards and other safety related matters. The federal laws governing interstate motor carriers have both direct and indirect application to the Company. The breadth and scope of the federal regulations may affect the operations of the Company and the motor carriers, which the Company uses to provide transportation services. In certain locations, state or local permits or registrations may also be required to provide or obtain intrastate motor carrier services for the Company. Property brokerage operations similarly subject the Company to various federal statutes and regulation as a property broker by the Surface Transportation Board, and the Company has obtained a property broker license and posted a surety bond as required by federal law. In the United States, the Company is also subject to federal, state and local provisions relating to the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many foreign jurisdictions in which the Company operates or may operate in the future. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and the Company cannot predict what impact future environmental regulations may have on the business. The Company does not anticipate making any material capital expenditures for environmental control purposes.

SEASONALITY

Historically, the Company's revenues and profitability have been subject to quarterly seasonal trends. The first quarter has traditionally been the weakest and the third and fourth quarters have traditionally been the strongest. Typically, this pattern has been the result of factors such as climate, national holidays, customer demand and economic conditions. Additionally, a significant portion of the Company's revenue is from customers whose business levels are impacted by the economy.

PERSONNEL

At December 31, 2003, the Company had approximately 365 employees for Segmentz. At this time, none of the Company's employees are covered by a collective bargaining agreement. The Company recognizes the employees as its most valuable asset and provides above industry average compensation and benefits. The recruitment, training and retention of qualified employees are essential to support continued growth and to meet the service requirements of customers.

RISK MANAGEMENT

The Company maintains general liability, auto liability, cargo, physical damage, trailer interchange, inland marine, contents and workers' compensation insurance. The Company also carries an excess auto and general liability policy in compliance with Ford Motor Company's global terms and conditions for dedicated service providers. The Company could incur claims in excess of the policy limits or incur claims not covered by the insurance policy.

CORPORATE INFORMATION

Segmentz, Inc. was incorporated in Delaware in 2001. The Company's principal executive offices are located at 18302 Highwoods Preserve Parkway, Suite 100, Tampa, FL 33647. The telephone number is (813) 989-2232 and the internet website address is www.segmentz.com. The Company makes available on the website all materials filed with the Securities and Exchange Commission, including the Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K and amendments to these reports as soon as such materials have been filed with, the Securities and Exchange Commission.

RISKS PARTICULAR TO THE COMPANY'S BUSINESS

LOSSES FROM OPERATIONS; NO ASSURANCES OF PROFITABILITY

Although Segmentz had net income from operations of \$203,163 for the year ended December 31, 2003, and \$374,115 for the year ended December 31, 2002, there can be no assurance that the Company will not incur net losses in the future. The Company's operating expenses have increased as the business has grown and can be expected to increase significantly because of expansion efforts. There is no assurance that the Company will be able to generate sufficient revenue to meet its operating expenditures or to operate profitably.

ECONOMIC RISKS; RISKS ASSOCIATED WITH THE BUSINESS OF TRANSPORTATION AND LOGISTICS MANAGEMENT

The Company's business is dependent upon a number of factors, over which the Company has little or no control, that may have a material adverse effect on the Company's business. These factors include excess capacity in the trucking industry, significant increases or rapid fluctuations in fuel prices, interest rates, fuel taxes, government regulations, governmental and law enforcement anti-terrorism actions, tolls, license and registration fees, insurance premiums and labor costs. It is difficult at times to attract and retain qualified drivers and owner-operators. Operations also are affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries (such as retail and paper products) in which the Company has a significant concentration of customers. Seasonal factors could

[Table of Contents](#)

also adversely affect us. Customers tend to reduce shipments after the winter holiday season and operating expenses tend to be higher in the winter months primarily due to increased operating costs in colder weather and higher fuel consumption as a result of increased idle time. Regional or nationwide fuel shortages could also have adverse effects.

DEPENDENCE ON EQUIPMENT PROVIDED BY THIRD PARTIES; RELIANCE ON INDEPENDENT CONTRACTORS

The trucking industry is dependent upon transportation equipment such as chassis, containers and rail, truck and ocean services provided by independent third parties. Periods of equipment shortages have occurred historically in the transportation industry, particularly in a strong economy. If the Company cannot secure sufficient transportation equipment or transportation services from these third parties to meet the customers' needs, the business, results of operations and financial position could be materially adversely effected and customers could seek to have their transportation and logistics needs met by other third parties on a temporary or permanent basis. The reliance on agents and independent contractors could reduce operating control and the strength of relationships with customers, and the Company may have trouble attracting and retaining agents and independent contractors.

NEW TRENDS AND TECHNOLOGY; CONSOLIDATION AMONG CUSTOMERS

If, for any reason, the Company's business of providing warehousing and logistic services ceases to be a preferred method of outsourcing these functions, or if new technological methods become available and widely utilized, the Company's business could be adversely effected. Moreover, increasing consolidation among customers and the resulting ability of such customers to utilize their size to negotiate lower outsourcing costs has, and may continue in the future to have, a depressing effect on the pricing of third-party logistic services.

INTERRUPTION OF BUSINESS DUE TO INCREASED SECURITY MEASURES IN RESPONSE TO TERRORISM

The continued threat of terrorism within the United States and the ongoing military action and heightened security measures in response to such threat has and may cause significant disruption to commerce. The Company's business depends on the free flow of products and services through these channels of commerce. Recently, in response to terrorists' activities and threats aimed at the United States, transportation and other services have been slowed or stopped altogether. Further delays or stoppages in transportation or other services could have a material adverse effect on our business, results of operations and financial condition. Furthermore, the Company may experience an increase in operating costs, such as costs for transportation, insurance and security as a result of the activities and potential activities. The Company may also face interruption of services due to increased security measures in response to terrorism. The U.S. economy in general is being adversely affected by the terrorist activities and potential activities. Any economic downturn could adversely impact the Company's results of operations, impair the Company's ability to raise capital or otherwise adversely effect the Company's ability to grow the business. It is impossible to predict how this may affect the Company's business or the economy in the U.S. and in the world, generally. In the event of further threats or acts of terrorism, the Company's business and operations may be severely and adversely affected or destroyed.

COMPETITION

The transportation and logistics services industry is heavily fragmented and intensely competitive and includes numerous regional, inter-regional and national competitors, none of which dominates the market.

REGULATION

The Company's operations are subject to various federal, state and local laws and regulations. Although compliance with these laws and regulations has not had a material effect on the Company's operations or financial condition, there is no assurance that additions or changes to current laws or regulations will not have a material effect on us, the Company's profitability and financial condition.

SUBSTANTIAL ALTERATION OF THE COMPANY'S CURRENT BUSINESS AND REVENUE MODEL

The Company's present business and revenue model represents the current view of the optimal business and revenue structure, which is to derive revenues and achieve profitability in the shortest period. There can be no assurance that current models will not be altered significantly or replaced with an alternative model that is driven by motivations other than near-term revenues and/or profitability (for example, building market share before the Company's competitors). Any such alteration or replacement of the business and revenue model may ultimately result in the deferring of certain revenues in favor of potentially establishing larger market share. The Company cannot assure that any adjustment or change in the business and revenue model will prove to be successful.

INABILITY TO MANAGE GROWTH AND INTERNAL EXPANSION

The Company has not yet undergone the significant managerial and internal expansion that the Company expects will occur, and the Company's inability to manage growth could hurt the results of operations. Expansion of operations will be required to address anticipated growth of the Company's customer base and market opportunities. Expansion will place a significant strain on the Company's management, operational and financial resources. Currently, the Company has a limited number of employees. The Company will need to improve existing procedures and controls as well as implement new transaction processing, operational and financial systems, procedures and controls to expand, train and manage the Company's employee base. The Company's failure to manage growth effectively could have a damaging effect on the Company's business, results of operations and financial condition.

DEPENDENCE ON KEY MANAGEMENT; LOSS OF KEY MANAGEMENT COULD HAVE A MATERIAL ADVERSE EFFECT ON OPERATIONS

The Company believes that the attraction and retention of qualified personnel is critical to success. If the Company loses key personnel or are unable to recruit qualified personnel, the ability to manage the day-to-day aspects of the business will be weakened. The Company's operations and prospects depend in large part on the performance of the senior management team. The loss of the services of one or more members of the senior management team could have a material adverse effect on the business, financial condition and results of operation. Because the senior management team has exceptional experience with us and within the transportation industry, it would be difficult to replace them without adversely affecting the Company's business operations. In addition to their unique experience, the management team has fostered key relationships with the Company's suppliers. These relationships are especially important to a non-asset based company such as Segmentz and the loss of these relationships could have a material adverse effect on the Company's profitability.

NEED FOR SUBSTANTIAL, ADDITIONAL FINANCING

There is no guarantee that the Company will be able to obtain financing required to continue to expand the business or that the present funding sources will continue to extend terms under which the Company can operate efficiently. If the Company is unable to secure financing under favorable terms, the Company may be adversely affected. The Company has relied on factoring receivables to expedite cash flow. There is no assurance that the Company will continue to be able to factor receivables or to obtain either replacement or additional financing on acceptable terms.

The Company's continued viability depends on the Company's ability to raise capital. Changes in economic, regulatory or competitive conditions may lead to cost increases. Management may also determine that it is in the Company's best interest to expand more rapidly than currently intended, to expand marketing activities, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary services, businesses or technologies. In any such case or other change of circumstance, additional financing will be necessary. If additional financing is required, there can be no assurances that the Company will be able to obtain such additional financing on terms acceptable to us and at times required by us, if at all. In such event, the Company may be required to materially alter the Company's business plan or curtail all or a part of the Company's expansion plans.

VOLATILITY OF THE MARKET PRICE OF THE COMPANY'S STOCK

The market price of the Company's common stock may be volatile, which could cause the value of your investment to decline. Any of the following factors could affect the market price of our common stock:

- Changes in earnings estimates and outlook by financial analysts;
- Our failure to meet financial analysts' and investors' performance expectations;
- Changes in market valuations of other transportation and logistics companies; or
- General market and economic conditions.

In addition, many of the risks described elsewhere in this "Risk Factors" section could adversely affect the stock price. The stock markets have experienced price and volume volatility that have affected many companies' stock prices. Stock prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These types of fluctuations may affect the market price of our common stock.

APPLICABILITY OF LOW PRICED STOCK RISK DISCLOSURE REQUIREMENTS

The Company's common stock may be considered a low priced security under rules promulgated under the Securities Exchange Act of 1934 ("Exchange Act"). Under these rules, broker-dealers participating in transactions in low priced securities must first deliver a risk disclosure document which describes that risks associated with such stock, the broker-dealer's duties, the customer's rights and remedies, and certain market and other information, and make a suitability determination approving the customer for low priced stock transactions based on customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing and provide monthly account statements to the customer, and obtain specific written consent of the customer. With these restrictions, the likely effect of designation as a low price stock, would be to decrease the willingness of broker-dealers to make a market for the stock, to decrease the liquidity of the stock and to increase the transaction costs of sales and purchase of such stocks compared to other securities.

NO DIVIDENDS ANTICIPATED

The Company intends to retain all future earnings for use in the development of the Company's business and does not anticipate paying any cash dividends on the Common Stock in the near future.

[Table of Contents](#)

Item 2. Properties

The Company's executive offices are located in 8,500 square feet of leased office space located at 18302 Highwood's Preserve Parkway, Suite 100, Tampa, FL 33467. Monthly rent expense is \$7,819 per month under a lease that expires August 2005. The initial lease term is for a period of 5 years and the lease agreement includes an optional lease period of an additional 3 years. The Company also leases certain equipment under non-cancelable operating leases.

The following is an annual schedule of future minimum rental payments required under operating facilities leases that have an initial or remaining non-cancelable lease term in excess of 1 year as of December 31, 2003:

<u>Year Ending December 31</u>	<u>Minimum Rental Payments</u>
2004	\$ 147,338
2005	\$ 143,875
2006	\$ 140,972
2007	\$ 79,089
Total	\$ 511,274

The Company currently services over twenty locations in the Midwestern and Southeastern United States, offering pickup, delivery, truckload, less-than-truckload and expedited services in facilities that range in size between 7,000-30,000 square feet. The Company has regional services stations that support supply chain requirements of various manufacturers, importers, freight forwarders and distributors, throughout these regions, including the following locations:

- 301 West Touhy Avenue, Bensenville, IL
- 1488 Cox Avenue, Cincinnati, OH
- 2100 South 9th Street, Louisville, KY
- 951 Air Freight Drive, Lexington, KY
- 7600 Airline Drive, Greensboro, NC
- 3414 Hensen Road, Unit #4, Knoxville, TN
- 1400 Glendale-Milford Road, Cincinnati, OH
- 11311 W. Airport Service Road, Swanton, OH
- One Air Cargo Parkway, Swanton, OH
- 10 Southwoods Parkway, Suite 200, Atlanta, GA
- 7270 NW 35th Terrace, Miami, FL
- 1520 Latham Road, West Palm Beach, FL
- 9210 Boggy Creek Road, Orlando, FL
- 15000B Highway 41 North, Evansville, IN

The Company also operates 3 sales agent offices across the United States in New Jersey, Florida and Texas. These offices are located at:

- 9 Beacon Hill, East Brunswick, NJ
- 11448 Rene Drive, Jacksonville, FL
- 4772 FM 3080, Maybank, TX

The Company believes the facilities are the correct size and adequately provide for the Company's immediate and foreseeable needs in the future. In the opinion of management, these properties are adequately insured, in good condition and are suitable for the Company's anticipated future use. Additionally, The Company owns a building and land at 771 Enterprise Drive Lexington KY that it acquired as part of its purchase of Dasher Express in December 31, 2003. There was a \$62,000 mortgage related to this property, which was paid in February 2004.

[Table of Contents](#)

Item 3. Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. No accruals have been established for any pending legal proceedings.

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

None

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is traded on the NASDAQ Bulletin Board quotation system under the symbol "SEGZ." The table below sets forth the high and low prices for the Company's common stock for the quarters included within 2003 and 2002. Quotations reflect inter-dealer prices, without retail mark-up, mark-down commission, and may not represent actual transactions.

	<u>Period</u>	<u>High</u>	<u>Low</u>
January 1, 2002	- March 31, 2002	\$0.75	\$0.10
April 1, 2002	- June 30, 2002	\$0.75	\$0.50
July 1, 2002	- September 30, 2002	\$1.10	\$0.75
October 1, 2002	- December 31, 2002	\$1.47	\$0.91
January 1, 2003	- March 31, 2003	\$1.45	\$0.76
April 1, 2003	- June 30, 2003	\$1.22	\$0.76
July 1, 2003	- September 30, 2003	\$1.37	\$0.90
October 1, 2003	- December 31, 2003	\$1.75	\$1.12
January 1, 2004	- March 25, 2004	\$2.88	\$1.10

There are approximately 568 holders of record own the Company's common stock. The Company has never paid cash dividends on the Company's common stock. The Company intends to keep future earnings, if any, to finance the expansion of the Company's business, and the Company does not anticipate that any cash dividends will be paid in the near future. The Company's future payment of dividends will depend on the Company's earnings, capital requirements, expansion plans, financial condition and other relevant factors.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information, as of December 31, 2003, with respect to the Company's stock option plan under which common stock is authorized for issuance, as well as other compensatory options granted outside of the Company's stock option plan.

LONG-TERM INCENTIVE PLANS AWARDS IN LAST FISCAL YEAR

None

RECENT SALES OF UNREGISTERED SECURITIES

In July of 2003, the Company closed a private placement pursuant to which the Company issued a total of 2,673,334 shares of its common stock, par value \$0.001 per share, and warrants to purchase up to 1,336,667 shares of its common stock, par value \$0.001 per share, for \$1.25 per share for a period of 5 years, to 58 accredited investors. The Company received \$2,005,000 in consideration for the issuance of the securities, less placement fees and other offering costs associated with the private placement. The securities were issued pursuant to the exemption from registration provided by Rule 506 of Regulation D. The Company incurred offering costs of approximately \$310,000 in cash and issued an option to buy 267,334 units at \$1.50 per unit. Each unit consisted of two shares of common stock, in addition to one warrant to purchase stock at an exercise price of \$1.25 per share.

In the third quarter of 2003 ten institutional investors, existing shareholders, and accredited investors purchased approximately 4,000,000 shares of common stock, par value \$0.001 per share, and warrants to purchase approximately 2,724,500 shares of the Company's common stock, par value \$0.001 per share, at a weighted average price of \$1.40 per share for a period of 5 years under an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The Company received \$2,810,000 in connection with this offering and incurred offering costs approximating \$510,000 in cash and 300,000 options to purchase common stock at a strike price of \$1.40 per share.

In December of 2003 the Company raised approximately \$2,750,000 through the issuance of a total of 2,750,000 shares of the Company's common stock, par value \$0.001 per share, and warrants to purchase up to 1,375,000 shares of the Company's common stock, par value \$0.001 per share, for \$1.50 per share for a period of 5 years, to 3 institutional investors. The securities were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. In connection with this offering the Company incurred offering costs of approximately \$500,000 in cash and approximately 200,000 options to purchase stock at a strike price of \$1.50 per share.

Item 6. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This discussion is intended to further the reader’s understanding of the Company’s financial condition and results of operations and should be read in conjunction with the Company’s consolidated financial statements and related notes included elsewhere herein. This discussion also contains forward-looking statements. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in this Annual Report and in the Company’s other SEC filings. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. The company is not party to any transactions that would be considered “off balance sheet” pursuant to disclosure requirements under ITEM 303(c).

OVERVIEW

Segmentz provides transportation and logistics services to over 1,000 active customers, specializing in time definite delivery in support of specific supply chain requirements. Services include expedited transportation, deferred airfreight transportation, local cartage, aircraft charters, dedicated delivery, consolidation, warehouse management and fulfillment. The Company has expanded its network, operating service stations in over 20 cities, five located at international gateways, in the Midwest and Southeast United States providing scheduled airport-to-airport line haul movements. The Company offers a 24 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 with remote order entry capability, shipment tracking, proof of delivery reconciliation, billing status, and performance reports via a custom designed web site. The Company is dedicated to providing services that are customized to meet its client’s individual needs and flexible enough to cope with an ever-changing business environment.

The Company is uniquely positioned in the industry to market its services to both commercial shippers and third party logistics companies such as; warehouse management, transportation management, air/ocean freight forwarders, integrated air carriers, passenger and cargo airlines. The Company offers a high level of service with emphasis on time critical and damage free delivery. The Company locates facilities in close proximity to airports to maintain strict service schedules. The majority of shipments handled in the Company’s network are delivered overnight. Segmentz objective is to build a Company that supports “segments” of customer’s supply chain initiatives. The Company sustains a competitive advantage by providing flexible, customized, end-to-end solutions, which utilize experienced personnel and technology to exceed the customer’s expectations.

The Segmentz acquisition strategy focuses on integrating 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. The Company selects acquisition targets based upon their ability to demonstrate: (1) consistent profitability; (2) history of service level delivery and brand identity; (3) regional or service niche and position that is accretive to our current footprint and overlaps or enhances our current service offerings; and (4) creates maximum capacity and equipment utilization to stabilize a platform that will support continued enterprise revenue growth that drives profitability.

Segmentz intends to create additional stockholder value by: (1) improving productivity by adopting enhanced technologies and business processes; (2) improving transportation margins by leveraging our growing purchasing power and (3) enhancing the opportunity for organic growth by cross-selling and offering expanded services to new and existing customers.

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 section of this Item 1 entitled “Risks Particular to The Company’s Business.”

CRITICAL ACCOUNTING POLICIES

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, 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.

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 December 31, 2003 or 2002 customer accounts receivable balance. One customer represented approximately 20% of the sales for the year ended December 31, 2003 and another customer represented approximately 18% of sales for the year ended December 31, 2002. The one significant customer for the year ended 2003 is related to a multi-year contract with a national logistics company, providing service to an investment credit grade, Fortune 500[™] manufacturing company.

The Company extends credit to its various customers based on evaluation of the customer's financial condition and ability to pay the Company within the payment terms. The Company provides for estimated losses on accounts receivable considering a number of factors, including the overall aging of the receivables, previous history with the customer 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 \$1,080,000 and \$137,000 is considered necessary as of December 31, 2003 and 2002, respectively.

Accrued liabilities consist primarily of estimates that take into account potential income or expense that may be generated related to credits, offsets, deposits or prepaid amounts that may become payable to customers. These amounts are accrued to estimate the potential liability that may exist and are based on managements' review of historical data and projections regarding credits or offsets that might become due. Management believes that the estimated accrued liabilities are reasonable in comparison to such historical data; however, actual results could differ from these estimates. A ten percent variation from this estimate could be an additional expense or income of approximately \$24,000.

RESULTS OF OPERATIONS

Year ended December 31, 2003 compared to year ended December 31, 2002

The following table summarizes the Company's total revenues, net transportation revenues and other revenues:

	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Percent</u>
Total revenue	\$ 14,687,754	\$ 9,994,506	\$ 4,693,248	47%
Cost of goods sold	11,118,710	7,781,632	3,337,078	43%
Gross Profit	3,569,044	2,212,874	1,356,170	61%
Selling, General & Administrative	3,309,875	1,743,476	1,566,399	90%
Net income	\$ 203,163	\$ 374,115	\$ (170,952)	(-45%)

[Table of Contents](#)

CAPITALIZATION

The following table sets forth the Company's capitalization as of December 31, 2003. The table should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Form 10-KSB filing. The table does not give effect to the issuance of up to 7,386,498 shares of common stock in the event common stock purchase warrants and options that have been granted, are exercised or the issuance of up to 776,896 shares in the event of the conversion into common stock of shares of the Company's preferred stock that were issued and outstanding as of December 31, 2003.

Total current liabilities	\$3,853,377
Long-term loan	351,466
Shareholder's equity:	
Common Stock, \$0.001 par value, 40,000,000 shares authorized, 17,087,840 shares issued and outstanding	17,088
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, 773,896 shares issued or outstanding	773,896
Additional paid-in capital	7,427,013
Retained earnings	108,217
Total shareholder's equity	8,326,214

Total revenues were approximately \$14,688,000 for the year ended December 31, 2003, an increase of approximately \$4,693,000 million or 47% over total revenues of approximately \$9,995,000 the comparable period in 2002. approximately \$600,000 or 4% of the increase in total revenues was attributable to the operations of the businesses the Company acquired in 2003; approximately \$4,093,000 or 28% was due to an increase in Segmentz' core revenues ("organic growth"); and Segmentz terminated relationships with its largest customer in 2002, representing approximately \$1,191,000 of business during the year ending December 31, 2002, resulting in approximately 60% of organic growth for Segmentz during the year ending December 31, 2003. Revenues were lower than expected in the fourth quarter due to the timing of holiday schedules. Additionally, the Company did not complete its Dasher Express acquisition until December 31, 2003.

Costs of services provided, which consist primarily of payment for trucking services, fuel, insurance, sales, marketing and general and administrative support increased by approximately \$3,337,100 or 43%, to approximately \$11,118,700 for the year ended December 31, 2003, as compared to approximately \$7,781,600 for the year ended December 31, 2002. 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% of related revenues for the year ended December 31, 2003, as compared to 78% for the year ended December 31, 2002. The increase in cost of services provided resulted primarily from corresponding increase in business, as well as increased network size resulting from planning for expansion and delivery of stated service levels to our customers. The Company had a \$30,000 claim in the fourth quarter which was a contributing factor in the increase in cost of services.

Gross margin increased by approximately \$1,356,170 or 61%, to approximately \$3,569,044 for the year ended December 31, 2003, as compared to approximately \$2,212,874 for the year ended December 31, 2002. This increase is primarily attributed to (i) increased sales; (ii) acquisitions; and (iii) successful cross-selling and marketing within the Company's facilities based network.

General and administrative expenses increased by approximately \$1,566,400 or 90%, to approximately \$3,309,900 for the year ended December 31, 2003, up from approximately \$1,743,500 for the year ended December 31, 2002. This increase was a result of (i) significant costs incurred to prepare company infrastructure for rapid integration and expansion of target entities; (ii) increased costs of being a fully reporting public company; and (iii) an increase in staff and facilities costs through the year to manage growth. The Company believes it is sufficiently staffed for it's 2004 anticipated growth.

The Company earned \$203,163 for the fiscal year ended December 31, 2003, as opposed to approximately \$374,115 for the fiscal year ended December 31, 2002. This reduction in earnings was primarily due to (i) cost associated with the Company expanding infrastructure to support growth; (ii) \$30,000 claim in the fourth quarter; (iii) timing of the holiday schedule in quarter four; and (iv) the delay in obtaining a more favorable credit facility.

Basic earnings per share from continuing operations for the year ended December 31, 2003, decreased by \$.04 per share to \$0.2 per share, as compared to \$.06 per share for December 31, 2002.

Liquidity and Capital Resources

In July of 2003, the Company closed a private placement where it issued a total of 2,673,334 shares of its common stock, and warrants to purchase up to 1,336,667 shares of its common stock, for \$1.25 per share for a period of 5 years, to 58 accredited investors. The Company received \$2,005,000 in consideration for the issuance of the securities, less placement fees and other offering costs associated with the private placement. The securities were issued pursuant to the exemption from registration provided by Rule 506 of Regulation D. The Company incurred offering costs of approximately \$310,000 in cash and issued an option to buy 267,334 units,

[Table of Contents](#)

at \$1.50 per unit, each unit consisted of two shares of common stock and one warrant to purchase stock at an exercise price of \$1.25 per share.

In the third quarter of 2003 ten institutional investors, all of whom were accredited, purchased approximately 4,000,000 shares of common stock and warrants to purchase approximately 2,724,500 shares of the Company's common stock, at a weighted average price of \$1.40 per share for a period of 5 years under an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The Company received \$2,810,000 in connection with this offering and incurred offering costs approximating \$510,000 in cash and 300,000 options to purchase common stock at an exercise price of \$1.40 per share.

In December of 2003 the Company raised approximately \$2,750,000 through the issuance of a total of 2,750,000 shares of the Company's common stock, and warrants to purchase up to 1,375,000 shares of the Company's common stock, for \$1.50 per share for a period of 5 years, to 3 institutional investors. The securities were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. In connection with this offering the Company incurred offering costs of approximately \$500,000 in cash and approximately 200,000 options to purchase stock at a strike price of \$1.50 per share.

In July 2003 the Company entered into a \$270,000 note with Fifth Third Bank that provided for monthly payments over a term of 24 month at an interest rate of 8% per annum. The note was executed as partial consideration for equipment and other assets purchased from Fifth Third Bank. The purchased assets collateralize the loan.

In July 2003 the Company entered into two loans with Daimler Chrysler Services to purchase equipment. The terms were for 24 months and 30 months with interest rates of approximately 9.5% and 9.8% respectively. The purchased assets collateralize the loans.

In September of 2003 the Company entered into a master agreement with GE Capital Fleet Services for up to \$750,000 of credit related to either loans or capital leases. Under that master agreement the Company entered into a 36 month loan with an interest rate of approximately 5.85%. The purchased assets collateralize the loan. At December 31, 2003 there was approximately \$545,000 available borrowing under that master agreement.

As part of an acquisition in October 2003 the Company assumed a variable rate promissory note with Commerce Bank for approximately \$140,000 with a term of five years. At December 31, 2003 the interest rate was approximately 5%. As of December 31, 2003 the loan was classified current as the note was fully paid as of January 2004.

The Company may receive proceeds in the future from the exercise of warrants and options outstanding as of March 1, 2004 in accordance with the following schedule:

	Number of Shares	Proceeds
Options outstanding under the Company's Stock Option Plan	300,000	\$ 375,000
Non-Plan Options	300,000	363,000
Warrants	6,436,500	8,689,275
Total	7,036,500	\$9,427,275

[Table of Contents](#)

The Company believes that current working capital, anticipated cash flow from operations and existing credit facilities are adequate to support existing operations and to implement acquisition strategy in the short-term. However, the Company will need additional financing to pursue the acquisition strategy in the longer term. The Company intends to finance these acquisitions primarily using cash, funds from the Company's debt facility and shares of the Company's common stock or other securities. In the event that the Company's common stock does not attain or maintain a sufficient market value or potential acquisition candidates are otherwise unwilling to accept the Company's securities as part of the purchase price for the sale of their businesses, the Company may be required to utilize more of the Company's cash resources, if available, in order to continue our acquisition program. If the Company does not have sufficient cash resources through either operations or from debt facilities, growth could be limited unless the Company is able to obtain such additional capital.

To ensure that the Company has adequate near-term liquidity as of January 2004, the Company obtained a revolving credit facility of \$1.75 million (the "Facility") with Merrill Lynch Business Financial Services, Inc. (MLBFS) that is collateralized by accounts receivable and other assets of the Company and its subsidiaries. The Facility requires the Company and its subsidiaries to comply with certain financial covenants. Advances under the Facility are available for general corporate purposes. Pending filing of the Company's Form 10-KSB, there is a provision that requires lender consent to complete any acquisition. The Company expects that the cash flow from the Company's existing operations and any other subsidiaries acquired during the year will be sufficient to support operations and some portion, if not all, of the contingent earn-out payments or other cash requirements associated with the Company's acquisitions. Therefore it is anticipated that the Company's primary uses of capital in the near term will be to finance the cost of new acquisitions and to pay any portion of existing earn-out arrangements that cash flow from operations is otherwise unable to fund.

Below are descriptions of acquisitions completed during the year with a breakdown of consideration paid at closing and future potential earn-out payments.

On October 1, 2003 Segmentz Inc. acquired all of the outstanding stock of Bullet Freight Systems of Miami, Inc., Bullet Freight Systems of Palm Beach, Inc., Bullet Courier Services, Inc., Bullet Freight Systems of Orlando, Inc., Bullet Freight Systems, Inc. and B.C.S. Transportation ("Bullet"). Bullet provides local pickup, delivery, warehouse management and expedited freight services in Miami and Palm Beach, FL. As consideration for the purchase the Company paid \$225,000 in cash, which was available from working capital and 225,000 shares of common stock of Segmentz, Inc., and conditional payments that could total \$400,000 over a four year period based on the financial performance of the business. The total purchase price, which includes acquisition costs of approximately \$20,000, but excludes the contingent consideration, was \$497,000.

On December 31, 2003, the Segmentz, Inc. acquired all of the outstanding capital stock of Dasher Express, Inc. ("Dasher"). Dasher is in the business of providing expedited trucking, schedule line haul movements, trade show transportation and integrated third party logistics services. As consideration for the purchase the Company paid \$1,300,000 cash, 538,462 shares of Segmentz, Inc.'s common stock and conditional payments that could total up to \$800,000 over a four year period based on the financial performance of the business. The total purchase price includes acquisition costs of approximately \$50,000, but excludes the contingent consideration, was \$2,050,000.

The Company will be required to make significant payments in the future if the earn-out 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 earn-out 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.

The Company has potential earn-out payments due to the shareholders of Bullet Freight Systems, Inc. (and other related entities acquired by the Company contemporaneous with the acquisition of BFS), Dasher Express Inc., and to the sole shareholder of Frontline Freight, for the assets purchased. These earn out amounts are tied directly to divisional performance of the respective entities and are paid out of cash flows, mitigating any risks that might exist for contingent payments tied to other performance indicators. The Company will examine the annual benchmarks for each earn-out 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.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities.” This interpretation of Accounting Research Bulletin 51, “Consolidated Financial Statements,” addresses consolidation by business enterprises of variable interest entities in which an enterprise absorbs a majority of the entity’s expected losses, receives a majority of the entity’s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. The Company does not have any variable interest entities whose financial results are not included in the consolidated financial statement.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003, except for mandatorily redeemable financial instruments. Mandatorily redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. We have not entered into or modified any financial instruments subsequent to May 31, 2003 effected by this statement. We do not expect the adoption of this statement will have a material impact on our financial condition or results of operations.

Item 7. Financial Statements

Consolidated Financial Statements

Segmentz, Inc.

Years Ended December 31, 2003 and 2002

Independent Auditors' Report

[Table of Contents](#)

Segmentz, Inc.

Consolidated Financial Statements

Years Ended December 31, 2003 and 2002

Independent Auditors' Report

Contents

[Independent Auditors' Report](#) F-1

Financial Statements:

[Consolidated Balance Sheets](#) F-2

[Consolidated Statements of Operations](#) F-3

[Consolidated Statements of Changes in Stockholders' Equity](#) F-4

[Consolidated Statements of Cash Flows](#) F-5

[Notes to Consolidated Financial Statements](#) F-6-29

[Table of Contents](#)

Independent Auditors' Report

Board of Directors
Segmentz, Inc.
Tampa, Florida

We have audited the accompanying consolidated balance sheets of Segmentz, Inc. as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of Segmentz, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Segmentz, Inc. as of December 31, 2003 and 2002 and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Pender Newkirk & Company
Certified Public Accountants
Tampa, Florida
February 27, 2004

Segmentz, Inc.
Consolidated Balance Sheets

	December 31,	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,029,298	\$ 3,758
Accounts receivable, net of allowances of \$1,080,177 and \$136,644 at December 31, 2003 and 2002, respectively	4,402,657	3,017,091
Other receivables		40,741
Other current assets	40,000	
Prepaid expenses	818,744	295,425
Total current assets	7,290,699	3,357,015
Property & equipment, net of accumulated depreciation	3,072,010	211,063
Goodwill	1,550,446	
Other long-term assets	963,938	
Loans and advances	104,943	25,611
Total other assets	2,619,327	25,611
	\$ 12,982,036	\$ 3,593,689
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,492,896	\$ 706,407
Accrued salaries and wages	175,288	6,770
Accrued expenses, other	320,829	161,033
Short-term portion of long-term debt	791,200	
Advances from shareholder		51,177
Other current liabilities	40,456	
Obligation due under factoring arrangement	1,032,708	1,709,097
Total current liabilities	3,853,377	2,634,484
Long-term liabilities:		
Notes payable and capital leases	351,466	
Deferred tax liability	450,979	
Stockholders' equity:		
Convertible preferred stock; 10,000,000 shares authorized; 773,896 and 1,189,019 shares issued and outstanding at December 31, 2003 and 2002, respectively	773,896	1,202,639
Common stock; \$.001 par value; 40,000,000 shares authorized; 17,087,840 and 6,778,913 shares issued and outstanding at December 31, 2003 and 2002, respectively	17,088	6,779
Additional paid-in capital	7,427,013	19,001
Retained earnings (accumulated deficit)	108,217	(269,214)
Total stockholders' equity	8,326,214	959,205
	\$ 12,982,036	\$ 3,593,689

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

[Table of Contents](#)

Segmentz, Inc.
Consolidated Statements of Operations

	Years Ended December 31,	
	2003	2002
Revenues:		
Operating revenue	\$ 14,390,113	\$ 9,960,810
Consulting and other revenue	297,641	33,696
	<u>14,687,754</u>	<u>9,994,506</u>
Expenses:		
Operating expenses	11,118,710	7,781,632
General and administrative expenses	3,309,875	1,743,476
Gain on sale of fixed asset	(71,742)	(43,830)
Other income	(103,808)	—
Interest expense	257,521	139,113
	<u>14,510,556</u>	<u>9,620,391</u>
Income before taxes	177,198	374,115
Income tax expense	(25,965)	—
Net income	\$ 203,163	\$ 374,115
Gain on repurchase of preferred stock	174,268	—
Net income applicable to common stock	<u>\$ 377,431</u>	<u>\$ 374,115</u>
Basic income per share of common stock	<u>\$.04</u>	<u>\$.06</u>
Weighted average common stock outstanding	<u>9,403,695</u>	<u>6,565,242</u>
Net income per share of common stock	<u>\$.04</u>	<u>\$.05</u>
Weighted average diluted common stock outstanding	<u>10,630,956</u>	<u>7,956,009</u>

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

Segmentz, Inc.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2003 and 2002

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount			
Balance, December 31, 2001	1,200,794	\$ 1,200,794	6,502,913	\$ 6,503	\$ (6,403)	\$ (643,329)	\$ 557,565
Redemption of Series B redeemable convertible preferred stock	(11,975)	(11,975)					(11,975)
Series C redeemable convertible preferred & common stock payable	200	13,820	26,000	26	16,154		30,000
Issuance of common stock			250,000	250	2,250		2,500
Issuance of warrants for services						7,000	7,000
Net income						374,115	374,115
Balance, December 31, 2002	1,189,019	1,202,639	6,778,913	6,779	19,001	(269,214)	959,205
Redemption of series B & C preferred stock	(415,123)	(428,743)					(428,743)
Issuance of common stock, net			10,308,927	10,309	7,408,012		7,418,321
Net income applicable to common stock						377,431	377,431
Balance, December 31, 2003	773,896	\$ 773,896	17,087,840	\$ 17,088	\$ 7,427,013	\$ 108,217	\$ 8,326,214

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

Segmentz, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2003	2002
Operating activities		
Net income applicable to common stock	\$ 377,431	\$ 374,115
Adjustments to reconcile net income to net cash used in operating activities:		
Provisions for allowance for doubtful accounts	132,529	210,279
Depreciation and amortization	179,171	101,764
Gain on the redemption of preferred stock	(174,268)	
Gain on forgiveness of debt	(98,829)	
Gain on sale of asset	(71,742)	
Non-cash expense relating to issuance of stock and warrants	44,583	7,000
Valuation on deferred tax asset	(97,600)	
Changes in:		
Accounts receivables	(245,846)	(2,218,794)
Prepaid expenses and other current assets	(40,000)	(69,428)
Other current assets	(496,122)	
Other receivables	40,741	
Other assets	(65,326)	
Accounts payable	433,101	82,730
Accrued expenses	(129,092)	20,869
Accrued salaries and wages	128,540	
Other liabilities	(8,565)	
Total adjustments	(468,736)	(1,909,590)
Net cash used in operating activities	(91,305)	(1,535,475)
Investing activities		
Acquisition of business, net of cash acquired	(1,500,543)	
Acquisition of Murphy Assets	(1,951,851)	
Acquisition of property and equipment	(857,570)	(42,339)
Loans and advances	(72,607)	
Proceeds from sale of equipment		95,150
Loans, advances, and other receivables		(5,736)
Net cash provided by (used in) investing activities	(4,310,829)	47,075
Financing activities		
Net obligations incurred under factoring arrangements	(676,389)	1,069,636
Redemption or conversion of preferred shares	(254,475)	
Proceeds from sale of equity	6,404,009	32,500
Proceeds and payments from debt, net	954,529	
Advances from stockholder		350,533
Net cash provided by financing activities	6,427,674	1,452,669
Net increase (decrease) in cash and cash equivalents	2,025,540	(35,731)
Cash and cash equivalents, beginning of year	3,758	39,489
Cash and cash equivalents, end of period	\$ 2,029,298	\$ 3,758
Supplemental disclosure of cash flow information and non-cash financing activities:		
Cash paid during the year for interest	\$ 254,500	\$ 155,192

During the year ended December 31, 2002, a stockholder offset \$299,256 of amounts due him against receivables which were deemed to be uncollectible in accordance with a guarantee of that stockholder, and the majority stockholder satisfied \$11,975 of proceeds he owed the Company by redeeming 11,975 shares of his preferred stock.

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

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

1. Significant Accounting Principles

Basis of Presentation

Segmentz, Inc. and its wholly owned subsidiaries (“the Company”) provide regional outsourced trucking, time definite transportation, dedicated delivery and supply chain management services within a network of cross dock facilities throughout the east.

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, 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.

Reclassifications

Certain prior year amounts shown in the accompanying consolidated financial statements have been reclassified to conform with the 2003 presentation. These reclassifications did not have any effect on total assets, total liabilities, total stockholders’ equity or net income.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and investments in money market funds with high quality financial institutions. The Company considers all highly liquid instruments purchased with a remaining maturity of less than three months at the time of purchase as cash equivalents.

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 December 31, 2003 or 2002 customer accounts receivable balance. One customer represented approximately 20% of the sales for the year ended December 31, 2003 and another customer represented approximately 18% of sales for the year ended December 31, 2002. The one significant customer for the year ended 2003 is related to a multi-year contract with a national logistics company, providing service to a Fortune 500[™] manufacturing company (whose credit is investment grade).

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 \$1,080,000 and \$137,000 is considered necessary as of December 31, 2003 and 2002, respectively. We do not accrue interest on past due receivables.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

Factoring Arrangement

During the second quarter of 2002, the Company entered into an agreement with a factoring company to provide for the borrowing against eligible receivables of up to ninety percent (90%) of the face value of such receivables. The borrowings against eligible receivables is not a true sale and the company maintains any advances under this agreement as an obligation due under factoring arrangement and any receivables, net of allowances for losses, as assets pursuant to Statements of Financial Accounting Standards (“SFAS”) No. 140 “Accounting for transfers and servicing of financial assets and extinguishment of liabilities,” such amounts are not sold without recourse and therefore reported in accordance with provisions of applicable rules and guidelines. As of January 31, 2004 the company terminated this arrangement and paid the obligation due under factoring arrangement in full.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repair costs are expensed as incurred. Major improvements that increase the estimated useful life of an asset are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in the results of operations. Depreciation is calculated by the straight-line method over the following estimated useful lives of the related assets:

	<u>Years</u>
Land	0
Building and improvements	39
Equipment	2-7
Office equipment	3-10
Warehouse equipment and shelving	3-7
Computer equipment and software	2-5
Leasehold improvements	Lease term

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

Goodwill

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations.

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires an annual impairment test for goodwill and intangible assets with indefinite lives. Under the provisions of SFAS No. 142, the first step of the impairment test requires that the Company determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. The Company acquired all of the goodwill in the current year and is in the process of obtaining a valuation on each acquisition. Management does not believe there is any impairment of goodwill at December 31, 2003. In the future, the Company expects to perform the annual test during its fiscal third quarter unless events or circumstances indicate impairment of the goodwill may have occurred before that time.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

Other Long-Lived Assets

Other long-lived assets primarily related to capitalized set up costs that are recovered over the term of multi-year contracts and acquired identifiable intangible assets.

During the year ended December 31, 2003 the Company capitalized approximately \$162,000 of direct and incremental setup costs that are scheduled to be reimbursed by a customer over the term of the contract. These costs are amortized over the remaining life of that contract. As of December 31, 2003 accumulated amortization related to these setup costs was approximately \$25,000.

Acquired identifiable intangible assets of approximately \$825,000 consist of the present value of excess cash flows from favorable lease transactions and favorable insurance rates, and safety history from an asset acquisition. These intangibles are amortized on a straight-line method over 1 to 5 years and favorable lease agreements are amortized using the straight-line method over contract period, which is five years. As of December 31, 2003, there was no accumulated amortization related to these identifiable intangible assets. The yearly amortization expense related to these assets will be approximately \$210,000 in 2004 and \$155,000 for subsequent years.

The Company follows the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes accounting standards for the impairment of long-lived assets such as property, plant and equipment and intangible assets subject to amortization. The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. For the year ended December 31, 2003 there was no impairment recorded related to these long-lived assets.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

Accrued Expenses, Other

Accrued liabilities consist primarily of estimates that take into account potential income or expense that may be generated related to credits, offsets, deposits or prepaid amounts that may become payable to customers. These amounts are accrued to estimate the potential liability that may exist and are based on managements' review of historical data and projections regarding credits or offsets that might become due. Management believes that the estimated accrued liabilities are reasonable in comparison to such historical data; however, actual results could differ from these estimates. A ten percent variation from this estimate could be an additional expense or income of approximately \$24,000.

Estimated fair value of financial instruments

The aggregated net fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash and cash equivalents, receivables, payable, accrued expenses and short-term borrowings. Fair values were assumed to approximate carrying values for these financial instruments since they are short-term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The fair value of the Company's debt is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Revenue Recognition

Operating revenues for the Company are recognized on the date the freight is delivered or the services are performed. Related costs of delivery of shipments in transit or services in progress are accrued as incurred and expensed when the revenue is recognized.

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

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. During the year ended December 31, 2003 it became evident to management that the valuation allowance related to prior year deferred tax assets was no longer deemed necessary and the valuation of approximately \$97,000 was reversed.

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*. There was no stock based compensation given to employees during the year ended December 31, 2002.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

For the year ended December 31, 2003:

Net income applicable to common stockholders:	
As reported	\$377,431
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	(86,805)
<hr/>	
Pro forma	
Net income applicable to common stockholders	\$290,626
Earnings per share	
Basic – as reported	\$ 0.04
Basic – pro forma	\$ 0.03
Diluted earnings per share	
Diluted – as reported	\$ 0.04
Diluted – pro forma	\$ 0.03

The preceding pro forma results were calculated with the use of the Black-Scholes option pricing model. The following assumptions were used for the year ended December 31, 2003 (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 50%. 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.

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.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

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.

Recently Issued Financial Accounting Standards

“Consolidation of Variable Interest Entities”

In January 2003, the FASB issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities.” This interpretation of Accounting Research Bulletin 51, “Consolidated Financial Statements,” addresses consolidation by business enterprises of variable interest entities in which an enterprise absorbs a majority of the entity’s expected losses, receives a majority of the entity’s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. The Company does not have any variable interest entities whose financial results are not included in the consolidated financial statement.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003, except for mandatorily redeemable financial instruments. Mandatorily redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. We have not entered into or modified any financial instruments subsequent to May 31, 2003 affected by this statement. We do not expect the adoption of this statement will have a material impact on our financial condition or results of operations.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

2. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2003	2002
Land	\$ 100,000	\$ —
Building and improvements	350,000	—
Leasehold improvements	329,813	4,462
Office equipment	363,088	56,620
Equipment	1,605,206	—
Warehouse equipment	148,760	148,760
Warehouse shelving	51,947	51,947
Computer equipment	135,363	61,000
Computer software	295,131	41,140
	<u>3,379,308</u>	<u>363,929</u>
Less: Accumulated depreciation and amortization	(307,298)	(152,866)
	<u>\$ 3,072,010</u>	<u>\$ 211,063</u>

Depreciation and amortization expense of property and equipment totaled approximately \$154,000 and \$103,000 for 2003 and 2002, respectively.

3. Loans and Advances

Loans and advances primarily relates to a stockholder of the company, which borrowed approximately \$80,000. The loan is due in 2004 and bears interest and six percent per annum. This loan is collateralized by 773,896 shares of the Company's preferred A stock, which have a face value of \$1.00 per share. In the event that the Preferred Shares are converted to Common Stock, such stock will collateralize this loan until it is repaid.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

4. Goodwill

The change in the carrying amount of goodwill for the year ended December 31, 2003 is as follows:

December 31, 2002	\$ —
Acquisition (see note 11 to consolidated financial statements)	1,550,446
December 31, 2003	<u>\$1,550,446</u>

5. Obligations Due Under Factoring Arrangement

The Company factors a significant portion of its accounts receivable. During the years ended December 31, 2003 and 2002, the Company utilized the services of several factoring companies. Accounts receivable are factored to companies with full recourse for unpaid invoices in excess of 90 days old. The most recent agreement provides for the payment of factoring fees at 2.5 percent of each invoice factored. As of January 31, 2004 the Company terminated the factoring agreement and the obligation due under factoring arrangement was fully satisfied.

6. Notes Payable and Capital Leases

In February 2003 the Company entered into a note with Sports Funding, Inc for a term of eighteen months. The note was for \$250,000, at an interest rate of 12% per annum plus an origination fee of \$5,000 and 250,000 three-year warrants at \$1.01 per share. In addition to all assets of the Company, tangible or intangible, collateralizing the loan, the Chief Executive Officer and the Chief Financial Officer personally pledged a security interest in all the Segmentz, Inc. common stock and preferred stock owned by them. Interest was payable monthly with the entire principle balance being due at the end of eighteen months.

In April 2003 the above agreement was amended to increase the borrowed amount by \$100,000. The terms of the loan were the same as above with an additional 100,000 three-year warrants issued at a price of \$1.15 per share. All of the warrants were callable by the Company if the last sale price of the common stock is at least 166.6% of the then current exercise price for 10 consecutive trading days.

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

6. Notes Payable and Capital Leases (con't)

In consideration for accelerating the due date from August 2004 to February 2004, Sports Funding forgave approximately \$98,800 of the outstanding principle. For the year ended December 31, 2003 the gain on the forgiveness of debt was recognized as other income. Subsequent to Segmentz, Inc. paying off the debt, the President of Sports Funding, Inc. was nominated and accepted a position on the Board of Directors.

In July 2003 the Company entered into a \$270,000 note with Fifth Third Bank for a term of 24 month at an interest rate of 8% per annum. The note was executed as partial consideration for equipment and other assets purchase from Fifth Third Bank. The purchased assets collateralize the loan.

In July of 2003 the Company entered into two loans with Daimler Chrysler Services to purchase equipment. The terms were for 24 months and 30 months with interest rates of approximately 9.5% and 9.8% respectively. The purchased assets collateralize the loans.

In September of 2003 the Company entered into a master agreement with GE Capital Fleet Services for up to \$750,000 of credit related to either loans or capital leases. Under that master agreement the Company entered into a 36 month loan with an interest rate of approximately 5.85%. The purchased assets collateralize the loan. At December 31, 2003 there was approximately \$545,000 available borrowing under that master agreement.

As part of an acquisition in October 2003 the Company assumed a variable rate promissory note with Commerce Bank with a term of five years. At December 31, 2003 the interest rate was approximately 5%. As of December 31, 2003 the loan was classified current as the note was fully paid as of January 2004.

As part of an acquisition at December 31, 2003 the Company assumed a "504" note with the U.S. Small Business Administration under the Certified Development Company Program for a term of 20 years. The note was originally for \$85,000 at an interest rate of 8.374% and was collateralized by the Lexington, Kentucky building. As of December 31, 2003 the loan was classified as current as it was fully paid as of February 2004

As part of an acquisition at December 31, 2003 the Company assumed various other notes payable, which are collateralized by equipment. The terms range from three to five years with interest rates ranging from 0% to 7% with varying payoff dates during 2004.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

6. Notes Payable and Capital Leases (con't)

During the year ended December 31, 2003 the Company entered into several capital leases for computer software, computer equipment and operational equipment. The terms range from two to four years with interest rates ranging from approximately 5.8% to approximately 12%. All of the assets either transfer ownership at the end of the lease or have a bargain purchase agreement.

The balances outstanding as of December 31, 2003 on the above debt instruments are as follows:

Sports Funding loan	\$ 251,171
Fifth Third loan	205,143
Daimler Chrysler loan	150,751
GE Capital loan	143,383
Commerce Bank loan	128,333
SBA loan	61,961
Other notes payable	18,550
Interchange (capital leases)	93,959
GE Capital (capital leases)	62,570
Other capital leases	26,845
	<hr/>
	1,142,666
Less: current portion	791,200
	<hr/>
Long-term portion of notes payable	\$ 351,466

The following is a schedule by year of future minimum principle payments required under the terms of the above notes payable as of December 31, 2003:

2004	\$ 791,200
2005	234,446
2006	115,813
2007	1,207
2008	—
Thereafter	—
	<hr/>
	\$1,142,666

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

7. Commitments and Contingencies

Lease Commitments

The following is a schedule by year of future minimum payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of December 31, 2003:

2004	\$ 672,769
2005	625,952
2006	405,538
2007	99,600
2008	1,558
Thereafter	—
	<hr/>
	\$1,805,417

The Company rents equipment and facilities under operating leases with lease terms of less than one year.

Rent expense amounted to approximately \$295,000 and \$276,000 for the years ended December 31, 2003 and 2002, respectively.

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.

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

8. Equity

Convertible Preferred Stock

The authorized preferred stock of the Company consists of 10,000,000 shares at \$.001 par value, of which 773,896 shares of Series A convertible preferred stock ("Series A Preferred Stock") outstanding as of December 31, 2003 and 2002 and 414,923 shares of Series B convertible preferred stock ("Series B Preferred Stock") was outstanding as of December 31, 2002. In addition the Company authorized the issuance of up to 250,000 shares of Series C Redeemable Convertible Preferred Stock ("Series C Preferred Stock"). There were no outstanding shares at December 31, 2003 and 20,000 shares outstanding at December 31, 2002. The company records preferred stock as issued when the consideration is received or the obligation is incurred.

Series A Redeemable Convertible Preferred Stock

Each share of the Series A Preferred Stock is convertible, at the option of the holder, at any time into shares of common stock of the Company at a conversion price equal to the trading price of the shares or at the price of the last placement of shares by the Company, whichever is less. Interest on the shares of the Series A Preferred Stock does not accrue. The Series A Preferred Stock is redeemable at the option of the Company for cash at a rate of \$1.00 per share. The holders of the preferred stock are entitled to vote, together with the holders of common stock, on all matters submitted to stockholders for a vote. Each preferred stockholder is entitled to the number of votes equal to the number of shares of preferred stock convertible at the time of such vote.

In the event of any distribution or liquidation event, the holders of the then outstanding Series A Preferred Stock shall receive a pro-rata distribution to be determined by performing a fictional conversion into common stock, and determining the pro-rata distribution of such proceeds on the basis "as-if converted" which is subordinate in classification to any debt classes which may be outstanding at the time of such events.

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

8. Equity (con't)

Series B Convertible Preferred Stock

Each share of the Series B Preferred Stock is convertible, at the option of the holder, at any time into shares of common stock of the Company at a conversion price equal to the trading price of the shares or at the price of the last placement of shares by the Company, or at \$1.00, whichever is greater. In addition to voting rights and preferred liquidation rights.

During the year ended December 31, 2002 the Company elected to retire 11,975 shares of Series B Stock based upon a then-favorable conversion when compared with the potential floor conversion price of \$.50 per share, reducing the number of shares outstanding to 414,923. The Company subsequently renegotiated a revision in the floor of the conversion price to \$1.00 per share.

Pursuant to a condition of the Company's private placement and agreed to by the Company and the preferred stock holder, the Company redeemed all 414,923 outstanding shares of preferred B stock for the price of approximately \$240,655. At the time of redemption, the value of the preferred shares was approximately \$414,923 and the Company recognized a gain on repurchase of preferred shares of approximately \$174,268.

Series C Redeemable Convertible Preferred Stock

Each share of the Series C Preferred Stock is redeemable for \$100 within six months of their date of issuance, in addition to interest of ten percent per annum; or bears penalty interest of 5 shares of Common Stock of the Company for each month the Company fails to redeem after the six month period has expired, or can convert, at the Holders option, after failure to redeem within nine months into Senior Debt of the Company, subordinate in nature to any Senior Debt that is in place at the time of the conversion, bearing interest at 12% per annum on the face value of \$100 per share. As of December 31, 2003 there was no outstanding Series C Preferred Stock.

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

8. Equity (con't)

Common Stock

Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors (the "Board"), subject to the prior rights of the holders of all classes of stock outstanding. The company records stock as issued when the consideration is received or the obligation is incurred.

The following summarizes the Company's stock option and warrant activity and related information:

	Shares	Range of exercise prices	Weighted average exercise price
Outstanding at January 1, 2003			
Warrants Granted	6,886,498	\$ 1.01-1.50	\$ 1.35
Warrants Cancelled			
Options Granted	500,000	\$ 1.01-1.50	1.23
Options Cancelled			
Outstanding at December 31, 2003	7,386,498	\$ 1.01-1.50	\$ 1.35

The following table summarizes information about options and warrants outstanding and exercisable as of December 31, 2003:

Range of Exercise Price	Outstanding Warrants and Options			Exercisable Warrants and Options		
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Price	Weighted Average Remaining Life	Number Exercisable	Weighted Average Price
\$1.01-1.50	7,386,498	5 years	\$ 1.35	5 years	7,136,498	\$ 1.35

Segmentz, Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

8. Equity (con't)

Equity funding

In July of 2003, the Company closed a private placement pursuant to which the Company issued a total of 2,673,334 shares of its common stock, par value \$0.001 per share, and warrants to purchase up to 1,336,667 shares of its common stock, par value \$0.001 per share, for \$1.25 per share for a period of 5 years, to 58 accredited investors. The Company received \$2,005,000 in consideration for the issuance of the securities, less placement fees and other offering costs associated with the private placement. The securities were issued pursuant to the exemption from registration provided by Rule 506 of Regulation D. The Company incurred offering costs of approximately \$310,000 in cash and issued an option to buy 267,334 units at \$1.50 per unit. Each unit consisted of two shares of common stock, in addition to one warrant to purchase stock at an exercise price of \$1.25 per share.

In the third quarter of 2003 ten institutional investors, existing shareholders, and accredited investors purchased approximately 4,000,000 shares of common stock, par value \$0.001 per share, and warrants to purchase approximately 2,852,500 shares of the Company's common stock, par value \$0.001 per share, at a weighted average price of \$1.40 per share for a period of 5 years under an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The Company received \$2,810,000 in connection with this offering and incurred offering costs approximating \$510,000 in cash and 300,000 options to purchase common stock at a strike price of \$1.40 per share.

In December of 2003 the Company raised approximately \$2,750,000 through the issuance of a total of 2,750,000 shares of the Company's common stock, par value \$0.001 per share, and warrants to purchase up to 1,375,000 shares of the Company's common stock, par value \$0.001 per share, for \$1.50 per share for a period of 5 years, to 3 institutional investors. The securities were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. In connection with this offering the Company incurred offering costs of approximately \$500,000 in cash and approximately 200,000 options to purchase stock at a strike price of \$1.50 per share.

Each investor received current information about the Company's company and had the opportunity to ask questions about the Company's company. These investors purchased the securities for investment purposes and the securities they received were marked with the appropriate restrictive legend.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

9. Segment Information

Historically the Company has had two reportable segments; truck hauling and warehouse operations, although the Company continues to provide these two services, the warehousing segment has become an immaterial component of providing overall third party logistical support to the Company's customers and no longer meets the criteria for a reportable segment. Therefore, for the year ending December 31, 2003 the Company has only one reportable segment.

For the year ended December 31, 2002, information regarding operations by segment was as follows:

	<u>Trucking</u>	<u>Warehouse</u>	<u>Total</u>
Revenue	\$8,061,123	\$1,899,687	\$9,960,810
Other	\$ 33,696	\$ 0	\$ 33,696
Interest expense	\$ 139,113	\$ 0	\$ 139,113
Depreciation	\$ 11,734	\$ 90,030	\$ 101,764
Net (loss) income	\$ 295,521	\$ 78,594	\$ 374,115
Equipment, net of accumulated depreciation	\$ 34,524	\$ 176,539	\$ 211,063
Segment assets	\$3,214,150	\$ 379,539	\$3,593,689

10. Asset Acquisition

In May 2003, the Company received indication from Fifth Third Bank, the sole senior secured creditor in the bankruptcy filing of Murphy Surf Air Trucking, Inc., one of the Company's agent firms, that it bid to acquire various assets from Murphy's bankruptcy filing under terms and conditions that were agreed upon between the parties. The sale was effected and the terms have been modified several times during the fiscal year and at year end the sale had been consummated for all business intents and purposes in that Segmentz continues to serve its customers and operate in all of the Company's cities. The total purchase price was \$1,952,206, which includes acquisition costs and advances in excess of the agency agreement of approximately \$1,402,206. The following table summarizes the allocation of the purchase price based on management's estimate of the fair value of assets acquired and liabilities assumed at December 31, 2003.

Fixed assets	\$1,126,100
Identifiable intangible assets	825,751
Total assets acquired	\$1,951,851

The acquired intangible assets have a weighted average life of 4.68 years. The intangible assets include safety and insurance record with a life of five years, their motor carrier permits with a life of one year and a below market lease with a life of five years.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

11. Business Acquisitions

On October 1, 2003 Segmentz Inc. acquired all of the outstanding stock of Bullet Freight Systems of Miami, Inc., Bullet Freight Systems of Palm Beach, Inc., Bullet Courier Services, Inc., Bullet Freight Systems of Orlando, Inc., Bullet Freight Systems, Inc. and B.C.S. Transportation (“Bullet”). Bullet provides local pickup, delivery, warehouse management and expedited freight services in Miami and Palm Beach, FL. As consideration for the purchase the Company paid \$225,000 in cash, which was available from working capital and 225,000 shares of common stock of Segmentz, Inc., and conditional payments that could total \$400,000 over a four year period based on the financial performance of the business. The total purchase price, which includes acquisition costs of approximately \$20,000, but excludes the contingent consideration, was \$497,000.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. Segmentz, Inc. is in the process of obtaining a third-party valuation of certain intangible assets, and thus the allocation of the purchase price is preliminary and subject to change.

Current assets	\$ 242,291
Fixed assets	266,600
Identifiable intangible assets	—
Goodwill	340,428
	<hr/>
Total assets acquired	849,319
Current liabilities assumed	(183,213)
Capital lease obligation	(33,756)
Notes payable	(135,350)
	<hr/>
Net assets acquired	\$ 497,000

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

11. Business Acquisitions (con't)

On December 31, 2003, the Segmentz, Inc. acquired all of the outstanding capital stock of Dasher Express, Inc. ("Dasher"). Dasher is in the business of providing expedited trucking, schedule line haul movements, trade show transportation and integrated third party logistics services. As consideration for the purchase the Company paid \$1,300,000 cash, 538,462 shares of Segmentz, Inc.'s common stock and conditional payments that could total up to \$800,000 over a four year period based on the financial performance of the business. The total purchase price includes acquisition costs of approximately \$50,000, but excludes the contingent consideration, was \$2,050,000. A \$500,000 deferred tax liability has been recorded related to this acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. Segmentz, Inc. is in the process of evaluating possible tax liabilities and obtaining a third-party valuation of certain intangible assets, and thus the allocation of the purchase price is preliminary and subject to change.

Current assets	\$ 1,268,441
Fixed assets	765,109
Other long-term assets	6,725
Identifiable intangible assets	—
Goodwill	1,210,018
	<hr/>
Total assets acquired	3,350,293
Current liabilities assumed	(1,200,293)
	<hr/>
Net assets acquired	\$ 2,050,000
	<hr/>

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

11. Business Acquisitions (con't)

The following unaudited pro forma information is presented as if the purchase of the stock of Bullet and Dasher had occurred on January 1, 2002:

	December 31, 2003	December 31, 2002
Total Revenues	\$22,946,539	\$18,886,164
Net Income applicable to common stock	420,402	277,627
Earnings per share:		
Basic	\$.04	\$.02
Diluted	\$.04	\$.02

12. Income Taxes

The provision for income taxes is as follows:

	Years Ended December 31,	
	2003	2002
Current		
Federal	\$ —	\$—
State	—	—
	—	—
Deferred		
Federal	(23,460)	—
State	(2,505)	—
	(25,965)	—
Provision for income taxes	\$(25,965)	\$—

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

12. Income Taxes (con't)

The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The items causing this difference are as follows:

	2003	2002
Tax expense (benefit) at U.S. statutory rate	\$ 60,248	\$ 129,600
State income tax expense (benefit), net of federal benefit	6,663	13,800
Effect of non-deductible expenses	4,724	4,300
Change in valuation allowance	(97,600)	(147,700)
	<u>\$(25,965)</u>	<u>\$ 0</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows:

	2003	2002
Deferred tax assets (liability):		
Accounts and loan receivables due to bad debts	\$ 82,920	\$ 51,400
Capital loss carryforward	14,695	29,700
Net operating loss carryforward	188,434	15,900
Prepaid expenses	(94,410)	
Depreciation variance	(283,808)*	600
Accounts receivable	(200,000)*	
Intangible assets	(130,000)*	
Contract set up costs	(51,866)	—
	<u>(474,035)</u>	<u>97,600</u>
Total gross deferred tax assets		
Less valuation allowance		(97,600)
	<u>\$(474,035)</u>	<u>\$ 0</u>

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. No valuation allowance was considered necessary at December 31, 2003 based on the Company's expectations of future taxable income.

As of December 31, 2003, the Company had federal and state net operating loss carry-forwards totaling approximately \$502,620, which begin expiring in 2021.

* A \$500,000 deferred tax liability was recorded related to acquisitions during the year ended December 31, 2003.

Segmentz, Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002

13. Related Party Transactions

During the year ended December 31, 2002, a stockholder of the Company consented to a reduction in balance due to it from the Company pursuant to an agreement to offset credit losses in connection with Huff Timber Company, a former customer, and Logistics Management Resources, Inc., and the receivable losses experienced by the Company in the year ended December 31, 2002. The amount of offset was approximately \$299,300 and is reflected as a reduction to G&A expenses in the consolidated financial statements for the year ended December 31, 2002.

The Company utilizes the services of tractor owner-operators that are employed by Bryant Plastics, a stockholder in the Company. The Company's agreement with Bryant Plastics is identical to its agreement with any independent owner-operators, and Bryant receives payment terms and percentages that are identical to other agreements with unrelated entities. The Company believes these terms to be equitable and fair and believes that these transactions are treated in the normal course of business as if Bryant had no relationship with the Company other than that of an owner-operator.

In October 2003, the Company entered into an agreement to sell several owned vehicles to Bryant Plastics, Inc., resulting in a gain on sale of \$76,000. In this transaction, Bryant exchanged 90,000 shares of stock at \$1.40 per share in exchange for clear title to several tractors that had been purchased by Segmentz previously.

In July 2003, the Company consented to utilize "best efforts" to retire all preferred shares by fiscal year end. In concert with this agreement, the Company's officers entered into negotiations with the CEO of the Company that resulted in the purchase of 414,923 shares of preferred series A stock for the price of \$.58 per share, a total of \$240,655. Because the purchase price of these shares had been set at \$1.00 at the time of their issuance resulting from them having been converted from debt at face value, this purchase resulted in a gain for the Company in the amount of \$174,268.

14. Subsequent Events

Since December 31, 2003, the Company received approximately \$1,550,000 in gross proceeds from a private placement offering of the Company's stock that was made in accordance with exemption under Regulation D, Rule 506 of the Securities and Exchange Act of 1933, as amended, in which the Company sold approximately 400,000 units to accredited investors at a price of \$2.00 per unit, each unit consisting of two shares of common stock and one warrant to purchase a share of common stock of the Company at an exercise price of \$1.50 per share, and one investor exercised purchase rights under the terms of options issued in connection with this placement, buying 500,000 shares for \$1.50 per share.

Since December 31, 2003, the Company entered into a term credit facility with Merrill Lynch Business Financial Services (MLBFS) with a stated credit limit of \$1.75 million. This facility is a revolving facility that provides for advance against the Company's eligible accounts receivable balances. The facility bears interest at London InterBank Over the Counter Rate (LIBOR) plus 275 basis points. The LIBOR rate at the closing of the facility was 1.21%. As of January 31, 2004, the Company has drawn approximately \$600,000 against its available credit line.

In January 2004, the Company entered into an agreement to acquire selected assets and to assume certain liabilities of Frontline Freight Systems, Inc. In concert with this acquisition, the Company issued 77,000 shares of Segmentz stock that is held in escrow, pending the achievement of revenue milestones, and assumed certain liabilities that have been defined not to exceed the collection of assets acquired by the Company in connection with this transaction.

[Table of Contents](#)

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8A Controls and Procedures

Under the supervision and with the participation of management, including the CEO and CFO, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2003. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective for timely gathering, analyzing, and disclosing the information we are required to disclose in our reports filed under the Securities Act of 1934, as amended. There has been no significant changes in internal controls during the year ended December 31, 2003.

PART III

Item 9. Directors and Executive Officers of the Registrant

The Company's directors and executive officers as of March 15, 2004 were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Allan J. Marshall ⁽²⁾	37	Chairman of the Board of Directors and Chief Executive Officer
John S. Flynn	39	President & Chief Financial Officer, Director
Dennis M. McCaffrey	35	Chief Operations Officer, Director
Andrew Norstrud	30	Chief Accounting Officer
David Hare ⁽¹⁾⁽²⁾	57	Director
Robert Gries ⁽¹⁾ (2 Alt)	46	Director
Jay Taylor ⁽¹⁾	55	Director

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation Committee

The following is a brief summary of the business experience of the foregoing directors and executive officers.

The following sets forth information concerning the officers and directors, including their ages, present principal occupations, other business experience during the last 5 years, membership on committees of the board of directors and directorships in other publicly-held companies.

Allan Marshall, age 37, has over eighteen years experience in the transportation and logistics industry. Mr. Marshall founded Segmentz, Inc. in November of 2000 and has since served as the company's Chairman and the Chief Executive Officer. Prior to Segmentz, Mr. Marshall founded U.S. Transportation Services, Inc. ("UST") in 1995, whose main focus was third party logistics. UST was sold to Professional Transportation Group, Inc. in January 2000 and Professional Transportation Group ceased business in November 2000. Prior to 1995, Mr. Marshall served as Vice President of U.S. Traffic Ltd, a Canadian company, where he founded their United States logistics division and had previously founded a successful driver leasing company in Toronto, Ontario, Canada.

John S. Flynn, age 39, has held senior management positions previously in a number of Companies, public and private. He was the Chairman and co-founder of Remote Lojix, a New York based computer service company, from January 1994-November 1998, at which time the company was sold to Avtel Communications, he was a consultant for Saliva Diagnostics that worked on a restructuring for the Board of Directors that resulted in saving the company \$3 million in debt based obligations and enabled it to continue operations without interruption, he was President of Corporate Computing, Inc., a New York based computer service company serving Fortune 100™ companies with onsite service and parts, and has always been a managing member of Aspen Rhodes Capital Corporation, an eleven year old advisory firm providing merger, financing and strategic consulting to small to mid-sized companies in various industries, whose clients included Westbury Metals Group, Computerrepair.com, Hugeclick.com, US Automotive, Bio Reference Laboratories, Riviera Finance, Segmentz, Inc., Chancellor Leasing Corporation, RT Industries and Private Retreats.

Dennis M. McCaffrey, age 35, is one of the founding partners of Segmentz, Inc. and served as Chief Operations Officer of US Transportation Services since 1996, prior to joining the company in November of 2000. Mr. McCaffrey is currently responsible for creating and implementing strategic business plans, supervising operations staff, designing and managing all sales and marketing programs. Additionally, Mr. McCaffrey has assisted in the development of the company's internal software program and formed strategic alliances with partners across all modes of transportation. Mr. McCaffrey has a Bachelor of Science degree in Marketing from University of South Florida and also served in the United States Marine Corps.

Mr. Andrew J. Norstrud, age 30, joined Segmentz, as the Chief Accounting Officer in May of 2003. Mr. Norstrud has both public accounting and private industry experience and was most recently an assurance manager with Grant Thornton LLP; specializing in fast growth, middle market companies. Mr. Norstrud has experience with the redesigning and implementation of accounting processes and procedures to streamline reporting while also improving financial controls. As well as financial experience, Mr. Norstrud has experience in computer assurance services and computer system operations. Mr. Norstrud earned a Master of Accounting with a systems emphasis from the University of Florida and is a Florida licensed Certified Public Accountant.

AUDIT COMMITTEE

The Audit Committee consists of Mr. Hare, Mr. Gries, and Mr. Taylor. The Audit Committee selects the independent auditors; reviews the results and scope of the audit and other services provided by the Company's independent auditors, and reviews and evaluates the Company's internal control functions. As an advisory function of the committee, members also participate in financings, review budgets prior to presentation to the Board of Directors and review budgets vs. actual reports. The board of directors has determined that Mr. Hare is the audit committee "financial expert", as such term is defined under federal securities law, and is independent. Mr. Hare is an expert by virtue of : (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; and (iv) other relevant experience.

[Table of Contents](#)

Mr. David J. Hare, age 57, has been President and Chief Executive Officer of Perkins Shearer, Inc., a world-renowned exclusive group of upscale specialty stores, since 1974. Beginning that year, Mr. Hare would guide the growth and development of Perkins Shearer. In 1981, the Perkins Shearer concept grew to include the first of nine freestanding Polo/Ralph Lauren stores to open over the next eight years under his leadership. During this period, Mr. Hare would become the largest Polo/Ralph Lauren licensee in the United States and was responsible for launch of the tremendously successful home furnishings concept in these stores. This growth culminated in 1991 in a joint venture with Ralph Lauren, to own and operate all of the Polo/Ralph Lauren stores in the United States. Mr. Hare was appointed President and Chief Executive Officer of Polo Retail corporation and served in this capacity through 1998, when Perkins Shearer sold its' interests in all retail stores to concentrate on private investment and retail consulting business.

Mr. Jay N. Taylor, age 55, was recently the co-founding partner of Capital Resource Partners, Inc., an investment banking firm focused on providing merger and acquisition services to the transportation and logistics industry. From 1979 to 1987, Mr. Taylor was the Vice President of Schneider National, Inc. where he was responsible for marketing, planning and business development at the corporate level for the then \$700 million revenue motor carrier. He then became the Senior Vice President for Tri-State Motor Transit, Inc. and acquired the same position at Country Wide Truck Service, Inc. In 1995, Mr. Taylor was Founder and became the President and CEO for Ampace Corporation, which is an asset, based, publicly traded transportation company servicing Fortune 500 shippers. Mr. Taylor received his MBA from the University of Iowa in finance and his BS from Iowa State University, concentrating in transportation.

Mr. Robert D. Gries, Jr., age 46 is the President of Sports Funding, Inc., which specializes in providing bridge loans and mezzanine financing for corporations and real estate projects. He is also a board member and the largest shareholder of Arena Football's Orlando Predators. Prior to forming Sports Funding, Mr. Gries was the managing member of an entity which developed the \$25 million, 43,000 square foot WWF-New York entertainment facility in Times Square New York. Mr. Gries has previously been a General Partner with Beacon Sports Capital, which is an investment-banking firm active in the professional sports industry. Mr. Gries is the former majority owner, President and Chief Executive Officer of the Tampa Bay Storm, an Arena Football franchise that he owned from 1991-1994, and was elected League Executive of the Year in 1993. Prior to that, Mr. Gries was the owner, President and Chief Executive Officer of CIC-Disc Corporation, a computer software company that provided investment and back-office services to the financial industry.

CODE OF ETHICS

The Company's Board of Directors has adopted a Code of Ethics applicable to all of the Company's employees, including the Company's Chief Executive Officer, Chief Financial Officer, and Principal Accounting Officer and Controller. A copy of the Company's Code of Ethics is attached as an exhibit to this Annual Report on Form 10-KSB. The Company intends to provide any disclosures which are required by the rules of the Securities and Exchange Commissions, or which the Company would otherwise determine to be appropriate, with respect to amendments of, and waivers from the Company's Code of Ethics by posting such disclosures on the Company's Internet website, www.Segmentz.com.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT

Based solely on the Company's review of copies of forms filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, and written representations from certain reporting persons, the Company believes that during 2003 all reporting persons timely complied with all filing requirements applicable to them.

Section 16(a) of the Securities and Exchange Act of 1934 (the "Exchange Act") requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission ("SEC") and any securities exchanges on which the equities of the Company trade, initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company

[Table of Contents](#)

Item 10. Executive Compensation

The following table sets forth a summary of the compensation paid or accrued for the three fiscal years ended December 31, 2003 to or for the benefit of the Company's Chief Executive Officer and the Company's four most highly compensated executive officers whose total annual salary and bonus compensation exceeded \$100,000 (the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position		Annual Compensation		Long-Term Compensation Awards		All Other Compensation ⁽²⁾
		Salary	Bonus	Restricted Stock Awards	Number of Options ⁽¹⁾	
Allan J. Marshall, Chairman and chief Executive Officer	2003	\$ 150,000	—	—	100,000 ⁽¹⁾	—
	2002	\$ 120,000	—	—	—	—
	2001	\$ 120,000	\$ —	—	—	—
John S. Flynn President, Chief Financial Officer And Director	2003	\$ 110,000	\$ —	—	100,000 ⁽²⁾	—
	2002	\$ 138,000	\$ —	—	,	—
	2001	\$ 65,000	\$ —	—	,	—
Dennis M. McCaffrey Chief Operations Officer	2003	\$ 96,250	—	—	—	—
	2002	\$ 75,000	\$ —	—	100,000 ⁽³⁾	\$ —
	2001	\$ 75,000	—	—	—	—

⁽¹⁾ For previous years at strike price of \$1.25 per share

⁽²⁾ For previous years at strike price of \$1.25 per share

⁽³⁾ For previous years at a strike price of \$1.25 per share

Employment Agreements

DIRECTOR COMPENSATION

The Company's Board appoints the executive officers to serve at the discretion of the Board. Directors who are also employees receive no compensation for serving on the Board. The Company's non-employee directors receive options to purchase shares of common stock at the market price on the date they agree to serve on the Board, reimbursement of expenses incurred consequential to their service and additional options at each anniversary of service. The Company intends to reimburse non-employee directors for travel and other expenses incurred in connection with attending the Board meetings.

EMPLOYMENT AGREEMENTS

The Company entered into an employment agreement with Allan Marshall, the Company's Chief Executive Officer, on November 15, 2001, which terminates on November 15, 2006. The agreement shall be automatically extended for an additional one-year period after the initial term unless at least 30 days prior to the termination date either the Company or Mr. Marshall give written notice to the other that the employment agreement will not be renewed. In addition to auto, cellular and other expense allowances, Mr. Marshall's starting base salary was \$150,000 under the terms of the agreement, with provisions for annual increase in base salary of ten percent each year. Mr. Marshall may also be eligible to receive an annual bonus based on the Company's financial performance in the form of stock options and cash not to exceed 15% of his base salary.

In January 2004, the Company entered into an employment agreement with John S. Flynn, the Company's President, which terminates December 31, 2006, replacing the agreement that had been agreed to in December 2002. In addition to auto, health and cellular phone reimbursement, this agreement provides for an initial annual base salary of \$110,000, and an annual bonus at the discretion of the Board of Directors.

In September 2003, the Company entered into an employment agreement with Dennis M. McCaffrey, the Company's Chief Operations Officer, which terminates December 31, 2006. In addition to auto, health, cellular phone reimbursement, this agreement will provide for an annual base salary of \$96,250 and bonus at the discretion of the Board of Directors.

[Table of Contents](#)

EXECUTIVE COMPENSATION

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning the Company's grant of options to purchase shares of the Company's common stock and stock appreciation rights ("SARs") during the fiscal year ended December 31, 2003, to the Company's President and Chief Executive Officer and to each of the Company's executive officers who earned more than \$100,000 during the fiscal year ended December 31, 2003:

<u>Name/Position</u>	<u>Granted (#)</u>	<u>Number of Securities Underlying Options/SARs Year</u>	<u>Percent of Total Options/SARs Granted To Employees In Fiscal (\$/Sh)</u>	<u>Exercise Or Base Price Expiration Date</u>
Allan Marshall CEO	100,000	—	—	1.25 10/1/2008
John S. Flynn President, CFO	100,000	—	—	1.25 9/4/2008
Dennis McCaffrey COO	100,000	—	—	1.25 9/4/2008

STOCK OPTION PLAN

On November 1, 2001, the Company's majority stockholders approved the 2001 Stock Compensation Plan ("2001 Plan"). The number of shares of common stock which may be issued under the 2001 Plan shall initially be 600,000 shares which amount may, at the discretion of the Board, be increased from time to time to a number of shares of common stock equal to 5% of the total outstanding shares of common stock, provided that the aggregate number of shares of common stock which may be granted under the 2001 Plan shall not exceed 600,000 shares. The Company may also grant options under the 2001 Plan to attract qualified individuals to become employees and non-employee directors, as well as to ensure the retention of management of any acquired business operations. Under the 2001 Plan, the Company may also grant restricted stock awards. Restricted stock represents shares of common stock issued to eligible participants under the 2001 Plan subject to the satisfaction by the recipient of certain conditions and enumerated in the specific restricted stock grant. Conditions that may be imposed include, but are not limited to, specified periods of employment, attainment of personal performance standards or the Company's overall financial performance. The granting of restricted stock represents an additional incentive for eligible participants under the 2001 Plan to promote the Company's development and growth and may be used by Management as another means of attracting and retaining qualified individuals to serve as the Company's employees and directors. Currently, the Company has granted the 600,000 options as provided for in its 2001 Plan.

OPTION EXERCISES AND HOLDINGS

The following table contains information with respect to the exercise of options to purchase shares of common stock during the fiscal year ended December 31, 2003, to the Company's President and Chief Executive Officer and to each of the Company's executive officers who earned more than \$100,000 during the fiscal year ended December 31, 2003:

AGGREGATED OPTION/SAR EXERCISED IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

<u>Name/Position</u>	<u>Value of In-The-Money Options/SARs At FY-End (\$) Exercisable/(#)</u>	<u>Shares Acquired on Exercise (\$)</u>	<u>Value At Realized Unexercisable</u>	<u>Number of Securities Underlying Unexercised Options/SARs FY-End(#) Exercisable/Unexercisable</u>
Allan Marshall CEO	105,000	—	—	—
John S. Flynn President, CFO	110,000	—	—	—
Dennis McCaffrey COO	110,000	—	—	—

[Table of Contents](#)

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

PRINCIPAL SHAREHOLDERS

The following table sets forth information known to us, as of the date of this Form 10-KSB filing, relating to the beneficial ownership of shares of common stock by:

each person who is known by us to be the beneficial owner of more than 5% of the Company's outstanding common stock;

- each director;
- each executive officer; and
- all executive officers and directors as a group

Under securities laws, a person is considered to be the beneficial owner of securities owned by him (or certain persons whose ownership is attributed to him) and that can be acquired by him within 60 days from the date of this Form 10-KSB filing, including upon the exercise of options, warrants or convertible securities. The Company determined a beneficial owner's percentage ownership by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person, and which are exercisable within 60 days of the date of this Form 10-KSB filing, have been exercised or converted.

Except with respect to beneficial ownership of shares attributed to the named person, the following table does not give effect to the issuance of shares in the event outstanding common stock purchase warrants are exercised.

The Company believes that all persons named in the table have sole voting and investment power with respect to all shares of common stock shown as being owned by them. Unless otherwise indicated, the address of each beneficial owner in the table set forth below is care of Segmentz, Inc., 18302 Highwoods Preserve Parkway, Suite 100 Tampa, Florida 33647.

Name/Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
Allan Marshall ⁽¹⁾	3,196,161	16.1%
John S. Flynn ⁽²⁾	400,000	2.0%
Dennis M. McCaffrey ⁽³⁾	200,000	1.0%
Robert Gries ⁽⁶⁾	400,000	2.0%
David J. Hare ⁽⁷⁾	50,000	*
Barron Partners, LP ⁽⁴⁾	3,266,667	15.5%
Kinderhook Partners ⁽⁵⁾	2,250,000	11.0%
Peter Lynch Foundation ⁽⁸⁾	1,500,000	7.3%
Jay Taylor ⁽⁹⁾	50,000	*
Executive Officers and Directors (as a group of 6)	4,121,161	20.5%

* Less than one percent

- ⁽¹⁾ Mr. Marshall is the Company's Chairman, Chief Executive Officer and a Director. Includes 100,000 shares underlying common stock purchase warrants exercisable at \$1.25 per share, and 8,285 shares of common stock held by Mr. Marshall's wife Christine Otten. Mr. Marshall disclaims any beneficial interest in the shares owned by his wife Christine Otten.
- ⁽²⁾ Mr. Flynn is the Company's President, Chief Financial Officer and a Director. Includes 100,000 shares underlying common stock purchase warrants exercisable at \$1.25 per share.
- ⁽³⁾ Mr. McCaffrey is the Company's Chief Operating Officer and a Director. Includes 100,000 shares underlying common stock purchase warrants exercisable at \$1.25 per share.
- ⁽⁴⁾ Andrew Worden has investment and voting control over the shares of common stock beneficially owned by Barron Partners, LP. Includes 1,404,999 shares underlying common stock purchase warrants exercisable at \$1.40 per share until September 22, 2008.
- ⁽⁵⁾ Steven Clearman has investment and voting control over the shares of common stock beneficially owned by Kinderhook Partners. Includes 750,000 shares underlying common stock purchase warrants exercisable at \$1.50 per share until December 31, 2008.
- ⁽⁶⁾ Mr. Gries is a Director. Includes 50,000 warrants to purchase shares at \$2.75, expiring February 10, 2009.
- ⁽⁷⁾ Mr. Hare is a Director. Includes 50,000 shares underlying common stock purchase warrants exercisable at \$1.30 per share until October 30, 2008.
- ⁽⁸⁾ Mr. Peter Lynch has investment and voting control over the shares of common stock beneficially owned by the Peter Lynch Foundation. Includes 500,000 shares underlying common stock purchased already exercised at \$1.50 per share in January of 2004.
- ⁽⁹⁾ Mr. Taylor is a Director. Includes 50,000 shares underlying common stock purchase warrants exercisable at \$2.75 per share until February 11, 2009.

SHARES ELIGIBLE FOR FUTURE SALE

Item 12. Certain Relationships and Related Transactions

During the year ended December 31, 2002, a stockholder of the Company consented to a reduction in balance due to it from the Company pursuant to an agreement to offset credit losses in connection with Huff Timber Company, a former customer, and Logistics Management Resources, Inc., and the receivable losses experienced by the Company in the year ended December 31, 2002. The amount of offset was approximately \$299,300 and is reflected as a reduction to G&A expenses in the consolidated financial statements for the year ended December 31, 2002.

The Company utilizes the services of tractor owner-operators that are employed by Bryant Plastics, a stockholder in the Company. The Company's agreement with Bryant Plastics is identical to its agreement with any independent owner-operators, and Bryant receives payment terms and percentages that are identical to other agreements with unrelated entities. The Company believes these terms to be equitable and fair and believes that these transactions are treated in the normal course of business as if Bryant had no relationship with the Company other than that of an owner-operator

In October 2003, the Company entered into an agreement to sell several owned vehicles to Bryant Plastics, Inc., resulting in a gain on sale of \$76,000. In this transaction, Bryant exchanged 90,000 shares of stock at \$1.40 per share in exchange for clear title to several tractors that had been purchased by Segmentz previously.

In July 2003, the Company consented to utilize "best efforts" to retire all preferred shares by fiscal year end. In concert with this agreement, the Company's officers entered into negotiations with the CEO of the Company that resulted in the purchase of 414,923 shares of preferred series A stock for the price of \$.58 per share, a total of \$240,655. Because the purchase price of these shares had been set at \$1.00 at the time of their issuance resulting from them having been converted from debt at face value, this purchase resulted in a gain for the Company in the amount of \$174,268.

Table of Contents

Item 13. Exhibits List and Reports on Form 8-K

(a) Exhibit List

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
3 (ii).2	Audit Committee Charter
10.1	Acquisition of Assets
10.2	Frontline Purchase Agreement
14	Code of Ethics
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive 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.)
32.2	Certification of 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.)
99.1	Third-Party Valuation of Acquired Assets

(b) Reports on Form 8-K:

The Company filed two reports on Form 8-K related to activities during the fiscal quarter ended December 31, 2003:

- (i) October 6, 2003-Acquisition of Bullet Freight Systems, Inc., et. Al
- (ii) January 7, 2003-Acquisition of Dasher Express, Inc. (as of December 31, 2003)

Item 14. Principal Accountants Fees and Services

Audit Fees

During 2002, we were billed by our accountants, Pender Newkirk & Company, approximately \$60,000 for audit and review fees. During 2003, we were billed by Pender Newkirk & Company, approximately \$ 69,000 for audit and review fees associated with our 10-QSB, 10-KSB filings and Employee Benefit Plan.

Audit related fees

None

Tax Fees

During 2002 and 2003 were billed by our accountants, Pender Newkirk & Company approximately \$6,000 and \$6,000 to prepare our federal and state tax returns.

All Other Fees

None

1. The Audit Committee operates under its charter and policies and additionally examines estimates and supporting data provided by auditing accounting firms to determine that such work is:

- (a) required under the Company's filing status;
- (b) necessary to provide shareholder with material information as detailed in the Securities regulations, as applicable; and
- (c) priced in accordance with scope of work and service levels requested.

2. To the Company's knowledge, all work completed by its' audit accounting firm was done by full-time employees of the firm.

[Table of Contents](#)

(c) Exhibit Listing:

<u>Exhibit Number</u>	<u>Document</u>
-----------------------	-----------------

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tampa, State of Florida, on March 30, 2004.

SEGMENTZ, INC.

BY: /s/ ALLAN J. MARSHALL
Allan J. Marshall
(Chairman of the Board of Directors and Chief Executive Officer)

BY: /s/ JOHN S. FLYNN
John S. Flynn
(President & Chief Financial Officer)

BY: /s/ DENNIS M. MCCAFFREY
Dennis M. McCaffrey
(Chief Operating Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-KSB has been signed by the following persons in the capacities indicated:

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u> /s/ ALLAN J. MARSHALL</u> Allan J. Marshall	Chairman of the Board of Directors and Chief Executive Officer	March 30, 2004
<u> /s/ JOHN S. FLYNN</u> John S. Flynn	President & Chief Financial Officer	March 30, 2004
<u> /s/ DENNIS M. MCCAFFREY</u> Dennis M. McCaffrey	Chief Operations Officer	March 30, 2004
<u> /s/ DAVID HARE</u> David Hare	Director	March 30, 2004
<u> /s/ ROBERT GRIES</u> Robert Gries	Director	March 30, 2004
<u> /s/ JAY TAYLOR</u> Jay Taylor	Director	March 30, 2004

SEGMENTZ, INC.
AUDIT COMMITTEE CHARTER

Purpose

The purpose of the Audit Committee is to assist the Board of Directors' oversight of:

- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the independent auditor's qualifications and independence; and
- the performance of the Company's internal audit function and independent auditors.

Structure and Membership Number.

The Audit Committee shall consist of at least three members of the Board of Directors.

Independence. Except as otherwise permitted by the applicable rules of The Nasdaq Stock Market and Section 301 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder), the majority of the members of the Audit Committee shall be "independent" as defined by such rules and Act.

Financial Literacy. Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement, at the time of his or her appointment to the Audit Committee. At least one member of the Audit Committee shall be a "financial expert" (as defined by applicable SEC rules).

Chair. Unless the Board of Directors elects a Chair of the Audit Committee, the Audit Committee shall elect a Chair by majority vote.

Compensation. The compensation of Audit Committee members shall be as determined by the Board of Directors. No member of the Audit Committee may receive any compensation from the Company other than director's fees.

Selection and Removal.

Members of the Audit Committee shall be appointed by the Board of Directors. The Board of Directors may remove members of the Audit Committee from such committee, with or without cause.

[Table of Contents](#)

Authority and Responsibilities

General

The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the independent auditor, in accordance with its business judgment.

Oversight of Independent Auditors

Selection. The Audit Committee shall have the sole authority to appoint, determine funding for, and oversee the independent auditors as set forth in Section 301 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder).

Independence. The Audit Committee shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the independent auditor. In connection with this responsibility, the Audit Committee shall obtain and review a formal written statement from the independent auditor describing all relationships between the independent auditor and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Audit Committee shall engage in an active dialogue with the independent auditor concerning any disclosed relationships or services that might impact the objectivity and independence of the auditor.

Compensation. The Audit Committee shall be directly responsible for setting the compensation of the independent auditor. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent auditor established by the Audit Committee.

Pre-approval of Services. The Audit Committee shall pre-approve all auditing services, which may entail providing comfort letters in connection with securities underwritings, and non-audit services (other than de minimus non-audit services as defined by the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder)) to be provided to the Company by the independent auditor. The Audit Committee shall cause the Company to disclose in its SEC periodic reports the approval by the Audit Committee of any non-audit services to be performed by the independent auditor.

Oversight. The independent auditor shall report directly to the Audit Committee and the Audit Committee shall be directly responsible for oversight of the work of the independent auditor, including resolution of disagreements between Company management and the independent auditor regarding financial reporting. In connection with its oversight role, the Audit Committee shall, from time to time as appropriate:

Obtain and review the reports required to be made by the independent auditor pursuant to paragraph (k) of Section 10A of the Securities Exchange Act of 1934 regarding:

- critical accounting policies and practices;
- alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
- other material written communications between the independent auditor and Company management.

[Table of Contents](#)

Review of Audited Financial Statements

Discussion of Audited Financial Statements. The Audit Committee shall review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) requires discussion.

Recommendation to Board Regarding Financial Statements. The Audit Committee shall consider whether it will recommend to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.

Audit Committee Report. The Audit Committee shall prepare for inclusion where necessary in a proxy or information statement of the Company relating to an annual meeting of security holders at which directors are to be elected (or special meeting or written consents in lieu of such meeting), the report described in Item 306 of Regulation S-K.

Review of Other Financial Disclosures

Independent Auditor Review of Interim Financial Statements. The Audit Committee shall direct the independent auditor to use its best efforts to perform all reviews of interim financial information prior to disclosure by the Company of such information and to discuss promptly with the Audit Committee and the Chief Financial Officer any matters identified in connection with the auditor's review of interim financial information which are required to be discussed by Statement on Auditing Standards Nos. 61, 71 and 90. The Audit Committee shall direct management to advise the Audit Committee in the event that the Company proposes to disclose interim financial information prior to completion of the independent auditor's review of interim financial information.

Controls and Procedures

Oversight. The Audit Committee shall coordinate the Board of Director's oversight of the Company's internal accounting controls, the Company's disclosure controls and procedures and the Company's code of conduct. The Audit Committee shall receive and review the reports of the CEO and CFO required by Section 302 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder) and Rule 13a-14 of the Exchange Act.

Procedures for Complaints. The Audit Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Related-Party Transactions. The Audit Committee shall review and, prior to the Company's engaging in such transaction, must approve all related-party transactions.

[Table of Contents](#)

Procedures and Administration

Meetings. The Audit Committee shall meet as often as it deems necessary in order to perform its responsibilities. The Audit Committee shall keep such records of its meetings as it shall deem appropriate.

Subcommittees. The Audit Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member), as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to preapprove audit or non-audit services shall be presented to the full Audit Committee at its next scheduled meeting.

Charter. At least annually, the Audit Committee shall review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

Independent Advisors. The Audit Committee shall have the authority to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Audit Committee.

Investigations. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Audit Committee or any advisors engaged by the Audit Committee.

RESOLVED this 1st day of November 2003.

Allan J. Marshall
Chairman and Chief Executive Officer

John S. Flynn
President and Chief Financial Officer

Dennis M. McCaffrey
Chief Operating Officer

[Table of Contents](#)

Exhibit Index

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
3 (ii).2	Audit Committee Charter
10.1	Acquisition of Assets
10.2	Frontline Purchase Agreement
14	Code of Ethics
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive 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.)
32.2	Certification of 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.)
99.1	Third-Party Valuation of Acquired Assets

SEGMENTZ, INC.

AUDIT COMMITTEE CHARTER

Purpose

The purpose of the Audit Committee is to assist the Board of Directors' oversight of:

- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the independent auditor's qualifications and independence; and
- the performance of the Company's internal audit function and independent auditors.

Structure and Membership Number.

The Audit Committee shall consist of at least three members of the Board of Directors.

Independence. Except as otherwise permitted by the applicable rules of The Nasdaq Stock Market and Section 301 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder), the majority of the members of the Audit Committee shall be "independent" as defined by such rules and Act.

Financial Literacy. Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement, at the time of his or her appointment to the Audit Committee. At least one member of the Audit Committee shall be a "financial expert" (as defined by applicable SEC rules).

Chair. Unless the Board of Directors elects a Chair of the Audit Committee, the Audit Committee shall elect a Chair by majority vote.

Compensation. The compensation of Audit Committee members shall be as determined by the Board of Directors. No member of the Audit Committee may receive any compensation from the Company other than director's fees.

Selection and Removal.

Members of the Audit Committee shall be appointed by the Board of Directors. The Board of Directors may remove members of the Audit Committee from such committee, with or without cause.

Authority and Responsibilities

General

The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the independent auditor, in accordance with its business judgment.

Oversight of Independent Auditors

Selection. The Audit Committee shall have the sole authority to appoint, determine funding for, and oversee the independent auditors as set forth in Section 301 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder).

Independence. The Audit Committee shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the independent auditor. In connection with this responsibility, the Audit Committee shall obtain and review a formal written statement from the independent auditor describing all relationships between the independent auditor and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Audit Committee shall engage in an active dialogue with the independent auditor concerning any disclosed relationships or services that might impact the objectivity and independence of the auditor.

Compensation. The Audit Committee shall be directly responsible for setting the compensation of the independent auditor. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent auditor established by the Audit Committee.

Pre-approval of Services. The Audit Committee shall pre-approve all auditing services, which may entail providing comfort letters in connection with securities underwritings, and non-audit services (other than de minimus non-audit services as defined by the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder)) to be provided to the Company by the independent auditor. The Audit Committee shall cause the Company to disclose in its SEC periodic reports the approval by the Audit Committee of any non-audit services to be performed by the independent auditor.

Oversight. The independent auditor shall report directly to the Audit Committee and the Audit Committee shall be directly responsible for oversight of the work of the independent auditor, including resolution of disagreements between Company management and the independent auditor regarding financial reporting. In connection with its oversight role, the Audit Committee shall, from time to time as appropriate:

Obtain and review the reports required to be made by the independent auditor pursuant to paragraph (k) of Section 10A of the Securities Exchange Act of 1934 regarding:

- critical accounting policies and practices;
- alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
- other material written communications between the independent auditor and Company management.

Review of Audited Financial Statements

Discussion of Audited Financial Statements. The Audit Committee shall review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) requires discussion.

Recommendation to Board Regarding Financial Statements. The Audit Committee shall consider whether it will recommend to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.

Audit Committee Report. The Audit Committee shall prepare for inclusion where necessary in a proxy or information statement of the Company relating to an annual meeting of security holders at which directors are to be elected (or special meeting or written consents in lieu of such meeting), the report described in Item 306 of Regulation S-K.

Review of Other Financial Disclosures

Independent Auditor Review of Interim Financial Statements. The Audit Committee shall direct the independent auditor to use its best efforts to perform all reviews of interim financial information prior to disclosure by the Company of such information and to discuss promptly with the Audit Committee and the Chief Financial Officer any matters identified in connection with the auditor's review of interim financial information which are required to be discussed by Statement on Auditing Standards Nos. 61, 71 and 90. The Audit Committee shall direct management to advise the Audit Committee in the event that the Company proposes to disclose interim financial information prior to completion of the independent auditor's review of interim financial information.

Controls and Procedures

Oversight. The Audit Committee shall coordinate the Board of Director's oversight of the Company's internal accounting controls, the Company's disclosure controls and procedures and the Company's code of conduct. The Audit Committee shall receive and review the reports of the CEO and CFO required by Section 302 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder) and Rule 13a-14 of the Exchange Act.

Procedures for Complaints. The Audit Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Related-Party Transactions. The Audit Committee shall review and, prior to the Company's engaging in such transaction, must approve all related-party transactions.

Procedures and Administration

Meetings. The Audit Committee shall meet as often as it deems necessary in order to perform its responsibilities. The Audit Committee shall keep such records of its meetings as it shall deem appropriate.

Subcommittees. The Audit Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member), as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to preapprove audit or non-audit services shall be presented to the full Audit Committee at its next scheduled meeting.

Charter. At least annually, the Audit Committee shall review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

Independent Advisors. The Audit Committee shall have the authority to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Audit Committee.

Investigations. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Audit Committee or any advisors engaged by the Audit Committee.

RESOLVED this 1st day of November 2003.

Allan J. Marshall
Chairman and Chief Executive Officer

John S. Flynn
President and Chief Financial Officer

Dennis M. McCaffrey
Chief Operating Officer

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "Agreement"), is made and entered into as of this 22nd of July, 2003, by and among Murphy Surf-Air, Inc., Debtor-in-Possession, a Kentucky Corporation (the "Seller" or "Debtor"), Segmentz, Inc. (the "Purchaser" or "Segmentz"), a Florida corporation, and Fifth Third Bank, Kentucky, Inc., a Kentucky corporation, as secured creditor of the Debtor (the "Bank"). Purchaser and Seller are sometimes referred to collectively as the "Parties" and individually as a "Party".

RECITALS

- A. Whereas, on March 31, 2003 ("Petition Date"), the Seller filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code, in the United States Bankruptcy Court for the Eastern District of Kentucky (the "Court"), under which Seller is a Debtor-in-Possession in the matter styled *In re Murphy Surf-Air Trucking Co., Inc.*, Case No. 03-51040 (the "Bankruptcy Case") and is in the business of over-the-road trucking with emphasis on less than truckload hauling (the "Business");
- B. Whereas, the Seller is a Debtor-in-Possession in the matter styled *In re Murphy Surf-Air Trucking Co., Inc.*, Case No. 03-51040 (the "Bankruptcy Case") and is in the business of over-the-road trucking with emphasis on less than truckload hauling (the "Business");
- C. Whereas, on the 26th day of June, 2003, the Court held a hearing on and granted the Motion of Murphy Surf-Air Trucking, Inc., For an Order Approving (I) Sales of Assets Free and Clear of Liens, Encumbrances and Interests, (II) Assumption And Assignment of Certain Unexpired Leases And/Or Executory Contracts In Connection With Sale, (III) Fixing Cure Obligations With Respect To All Related Assumed Leases And Contracts, (IV) Approving Letter of Intent And Documents Related Thereto, And (V) Authorizing Debtor To Consummate All Transactions Related To Above (the "Sale Motion"), and approving the sale of all of the Seller's assets to the Purchaser free and clear of all liens, encumbrances, claims and causes of action as against the Debtor and/or Segmentz (the "Liens"), subject to objections, if any, of the U.S. Trustee, creditors, and other interested parties; and
- D. Whereas, Seller desires to sell to Purchaser, and Purchaser desires to purchase, substantially all the Seller's assets used or usable in connection with the Business, on the terms and subject to the conditions set forth in this Agreement, the Sale Order, and pursuant to the terms and conditions set forth in the Term Promissory Note in the original principal amount of \$270,000, Security Agreement and Agreement Of Settlement And Release executed and delivered by Segmentz in

favor of the Bank each dated July 22, 2003 (collectively, the “Bank Documents”).

NOW, THEREFORE, for and in consideration of the foregoing Recitals, the mutual covenants and undertakings set forth below and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Parties hereby agree as follows:

1. CERTAIN DEFINITIONS:

1.1 Definitions. The terms defined in this Section 1 have the meaning so stated:

- (a) “Agreement” means this Asset Purchase Agreement.
- (b) “Assets” mean all of the assets and properties located at, used in connection with or related to the Business, whether known or unknown, tangible or intangible, real or personal, wherever situated, owned by any Seller or in which any Seller has any right, title or interest, subject to a first priority lien held by the Bank and which shall continue to be subject to said lien in connection with the Bank Documents incorporated by reference herein, including but not limited to, the following:
 - (i) All furniture, fixtures, office equipment or other fixed assets located at, used in connection with, or related to the Business (and regardless of their location);
 - (ii) All trademark applications and registrations, trade names, service marks; and service names used in connection with the operation of or related to the Business;
 - (iii) All personnel records of Seller’s employees; customer and/or client agreements, contracts and lists; corporate books, records and reports; advertising and promotional materials, directory listings; telephone and fax numbers; websites and addresses, including but not limited to, JohnS@QX.net; and mailing lists, if any;
 - (iv) All equipment, machinery, tools, office equipment, trucks, trailers, and/or other motor vehicles located at, used in connection with or related to the Business;
 - (v) All tangible and intangible assets, contracts of insurance, inventories, and supplies of the Business, regardless of the nature or kind, including the good will of the Business;

- (vi) All third party warranties and claims for warranties relating to the Business, the Assets and the General Contracts; and
 - (vii) All prepaid expenses, deposits and other similar items of Seller relating to the Assets, listed herein.
 - (viii) Any cash, cash equivalents, deposits, checking, operating and other such bank accounts, invoices, and accounts receivable of Seller and/or generated in connection with the Business;
 - (ix) Any and all Contracts, Personal Property Leases and Real Property Leases. For purposes of this Agreement, all of the Contracts, Real Property Leases and Personal Property Leases shall be collectively referred to as the "General Contracts".
 - (x) All corporate books and records of Seller;
 - (xi) All credits, rebates, refunds, self-insured workers' compensation refunds and dividends, and cost settlements payable to the Seller;
 - (xii) All claims and rights concerning any litigation in which the Seller claims an interest in connection with or with respect to the Business; and
- (c) "Contracts" means all written contracts and agreements, other than the Personal Property Leases and Real Property Leases defined herein, entered into by any Seller in connection with the Business.
- (d) "Real Property Leases" means all written real property leases entered into by any Seller which cover any real property used in connection with or related to the Business, a complete list of which, together with a list of the Assets subject to such leases
- (g) "Personal Property Leases" means all personal property leases entered into by any Seller which cover any personal property used in connection with or related to the Business.
- (h) "Knowledge of Seller" means the actual knowledge of any one or more of the following individuals: John Stoeckinger.

1.2 Schedule of Assets. A complete list of the Asset are described both in this Agreement and as set forth on the attached **Schedule "A"** for descriptive purposes

only; provided however, that the parties hereto acknowledge that said Schedule may not be inclusive of all Assets transferred by the Seller to Purchaser, in which event this Agreement and the Bank Documents shall otherwise control.

2. PURCHASE AND SALE OF ASSETS

- 2.1 **Purchase and Sale of the Assets.** On the Closing Date (defined in Section 10.1 below), Seller shall transfer, sell and assign the Purchaser, and Purchaser shall purchase from Seller, on the terms and subject to the conditions set forth in this Agreement, and Orders entered by the Bankruptcy Court in connection with said sale, the Assets, free and clear of all Liens (defined in Section 5.9 below) other than the Permitted Liens (defined in Section 5.9 below).

3. NO LIABILITIES ASSUMED BY PURCHASER.

- 3.1 **Non-Assumed Liabilities.** Purchaser shall not assume nor held be liable for any debts, liabilities or obligations of Seller, regardless of the type or nature of such debts, liabilities and obligations (collectively, the "Excluded Liabilities"). Such Excluded Liabilities shall include, without limitation: (i) any liability or obligation of Seller under the Environmental Laws with respect to solid waste or Hazardous Materials which have been transported by or on behalf of Seller for offsite disposal; (ii) any liability or obligation of Seller for any violation of the Environmental Laws arising from the operation of the Business prior to the Closing Date, including, without limitation, any fine or penalty arising from any permit violations; (iii) any liability or obligation relating, in any way, threatened against Seller, the Business or the Assets, at law or in equity, before any federal, state, municipal or other governmental department, commission, board, agency, court or instrumentality; (iv) any liability or obligation relating, in any way, to the Employee Benefit Plans incurred by Seller, or relating to the period, prior to or following the Closing Date; (v) any liability or obligation under the Licenses (defined in Section 5.5) incurred, or relating to the period, prior to the Closing Date, or accrued anytime thereafter, as a result of Seller's operation of the Business; and (vi) any federal, state or local tax liability or obligation relating to, or in any way incurred by Seller, for any period, prior to or following the Closing Date.
- 3.2 **Exceptions.** Purchaser may, but shall not be obligated, to assume at its sole option and discretion, any liabilities or obligations of Seller, relating to, or in any way incurred by Seller, with respect to the Contracts, if any, for any period, prior to or following the Closing Date.

4. PURCHASE PRICE.

- 4.1 **Purchase Price.** For and in consideration of the Assets, General Contracts, Real Property Leases and Personal Property Leases, Purchaser shall pay to Seller Assumed Liabilities and shall pay Seller Five Hundred Fifty-Thousand Dollars (\$550,000.00)(the "Purchase Price").
- 4.2 **Payment of Purchase Price.** Purchaser shall pay to Seller (which shall be paid to Fifth Third Bank of Lexington) the Purchase Price, upon the following terms and conditions:
- (a) At the closing, Purchaser shall pay the Purchase Price of Two Hundred Eighty Thousand Dollars (\$280,000.00), in cash and a Promissory Note payable to the Bank in the sum of Two Hundred Seventy Thousand Dollars (\$270,000.00), which shall be secured by a first lien on the Assets sold by the Seller. The cash required by Purchaser to close this transaction shall consist of: (i) a certified bank or cashier's check in the amount of \$200,000.00, made payable to Fifth Third Bank and (ii) the retention and application by the Bank of the proceeds remaining in the Debtor's DIP Account #82670162 (the "Account"), in the amount of \$80,000.00, held and maintained at the Bank. All other funds held in the Account, if any, including any additional proceeds derived from the Purchaser's and Debtor's invoices and/or accounts receivable generated in connection with the Agency Agreement dated September 11, 2002, between the Debtor and Purchaser, shall be considered part of the Assets acquired by Purchaser under this Agreement and shall be applied by Bank as a prepayment of the outstanding balance due on the Note, or if the Note has been paid in full, turned over to Purchaser to the extent such proceeds have been collected by the Debtor or Bank upon the entry of a final, non-appealable Sale Order from the Bankruptcy Court.
- (b) At closing, Purchaser shall also execute and deliver to the Bank (i) a Term Promissory Note in amount of Two Hundred Seventy Thousand Dollars (\$270,000.00); (ii) Security Agreement securing the Assets under this Agreement; and (iii) Agreement Of Settlement And Release, providing for the settlement and mutual release of any and all demands, claims and causes of action by the Bank as against Segmentz and the Debtor in accordance with the specific provisions thereto (collectively, the "Bank Documents"). The Bank Documents are hereby incorporated by reference and made a part hereto.

- 4.3 **Allocation of Purchase Price.** The Purchase Price shall be allocated among the Assets as follows: \$80,000 shall be assigned to cash proceeds from Seller's accounts receivable, \$200,000 shall be assigned to outstanding accounts receivable of Seller and the remaining \$270,000 shall be assigned to the Assets in the manner set forth in a schedule to be delivered by the Buyer to the Seller on or after the Closing Date. Neither the Buyer nor the Seller shall, in connection with any tax return, any refund claim, any litigation or investigation or otherwise, take any position with respect to the allocation of the Purchase Price which is inconsistent with the manner of allocation provided herein, as supplemented by such schedule.
5. **REPRESENTATION AND WARRANTIES CONCERNING SELLER AND THE ASSETS.** The Seller hereby represents, warrants and covenants the following to Purchaser:
- 5.1 **Good Standing and Authority.** The Seller is a Corporation duly organized, validly existing and in good standing under the laws State of Kentucky. The Seller has the power and authority to enter into this Agreement, to enter into any and all documents contemplated in this Agreement (the "Attendant Documents") to which it is a party and to consummate the transactions contemplated in this Agreement, have been or will be, on or prior to the Closing Date, duly authorized and approved by all necessary and proper action on the part of the Seller. This Agreement, and all of the Attendant Documents to which Seller is a party, when executed and delivered, will constitute legal, valid and binding obligations of Seller, enforceable against Seller, its successors and/or assigns, in accordance with their respective terms.
- 5.2 **Assets.** All of the Assets listed on the attached **Schedule "A"** contains a true and complete schedule for the quarter ended June 31, 2003, with respect to all material furniture, fixtures and fixed assets, including without limitation, all tangible and intangible personal property, used in connection with or related to the Business. The attached **Schedule "A"** identifies all Assets, which are being assumed, sold and assigned to the Purchaser and complete copies of all of which have been delivered to Purchaser. All of the Assets were acquired by the Seller in the ordinary course of business. Seller has complied in all material respects with the provisions of each Lease(s), Seller is not in default under any such contract or lease, and, the Purchaser agrees that it shall assume, at its sole option, said Leases and bring them current with the Sale Order of the Bankruptcy Court, provided however, that this subsection shall not apply to any Leases which have been rejected by the Seller pursuant to 11 U.S.C. §365 prior to the date of entry of the Sale Order, which Assets are subject to a first priority lien held by the Bank in connection with the Bank Documents which are incorporated by reference herein.

- 5.3 Intellectual Property. Other than the Seller's company names used by Seller in connection with the Business, there are no patents, patent applications, registered trademarks, applications for registered trademarks, registered service marks, applications for registered service marks, logos, registered copyrights and applications for registered copyrights used in connection with or related to the Business.
- 5.4 Seller' Contracts and Leases. The attached **Schedule "A"** identifies all General Contracts ("Contracts"), and Real Property Leases and Personal Property Leases (collectively, the "Leases"), if any, which are being assumed, sold and assigned to the Purchaser and complete copies of all of which have been delivered to Purchaser. All of the Contracts and Leases were entered into in the ordinary course of business. Seller has complied in all material respects with the provisions of each Contract(s) and Lease(s), Seller is not in default under any such contract or lease, and, the Purchaser agrees that it shall assume, at its sole option, but without any obligation or liability to do so, said Leases and bring them current with the Sale Order of the Bankruptcy Court, provided however, that this subsection shall not apply to any Contracts and/or Leases which have been rejected by the Seller pursuant to 11 U.S.C. §365.
- 5.5 Permits and Licenses. All governmental franchises, permits, licenses, certifications, accreditations or other authorizations held by Seller in connection with the Business (the "Licenses"), true and complete copies of all of which have been delivered to Purchaser. All of the Licenses are in full force and effect and the Seller has performed all of the obligations arising under the Licenses prior to the Closing Date. Seller has obtained all permits, licenses, franchises, certifications, accreditations and other authorizations required for Seller to lawfully engage in the Business. No action or proceeding looking to or contemplating the revocation or suspension of any License is pending or, to the Knowledge of Seller, threatened.
- 5.6 Litigation. There are no actions, suits, investigations or proceedings pending or, to the Knowledge of Seller, threatened against Seller, the Business, the Assets or the Leased Personal Property, at law or in equity, before any federal, state, municipal or other governmental department, commission, board, agency, court or instrumentality which could have a material adverse effect on the Business. Seller is not in default with respect to nor are in violation of any order, writ, injunction or decree of any court or other governmental department, commission, board, agency or instrumentality which relates or could relate to, or the default with respect to which or the violation of which could have a material adverse effect on the Business.

- 5.7 Compliance with Applicable Laws and Regulations. Seller has complied in all material respects with all laws, regulations, rules, orders, judgments, decrees and other requirements imposed by any governmental authority applicable to them in connection with the operation of the Business the violation of which could have a material adverse effect on the Business.
- 5.8 Employees. Prior to the Closing Date, Seller shall provided Purchaser with a complete and accurate list (the "List") of Seller's current employees involved in the Business (the "Seller Employees"), together with employee benefit plans and, with respect to each Seller Employee, his or her salary or hourly rate currently in effect, annual bonuses (last paid or payable), if any, and any other fringe benefits or incentive paid or payable to him or her. Except as set forth on the List all such Seller Employees are actively at work, and no such Seller Employee is currently on leave of absence, layoff, military leave, suspension, sick leave, workers' compensation, salary continuance or short or long-term disability or otherwise not actively performing his or her work during all normally schedule business hours. Except as set forth on the attached List, there are no former employees (or their dependents) who are receiving, or who have the right to elect to receive, coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, nor are there any dependents of Seller Employees who are confined to their home or a hospital.
- 5.9 Employee Relations. Seller warrants and represents that there are no written or oral collective bargaining or other employment agreements or understandings with or affecting any Seller Employee. Except as set forth on the List, hours worked by, and payments made to, all Seller Employees have been in compliance with the Fair Labor Standards Act and other applicable federal, state or local laws. All payments determined to be due from Seller on account of any Seller Employee's work, health or welfare insurance, under any agreement, whether oral or written, will have been paid as of the Closing Date except for such obligations that are expressly assumed by Purchase in Article 8 or any such claim shall be with the Seller/Debtor's estate before the Bankruptcy Court; there are no vacation moneys which have been earned by any Seller Employee under any agreement, whether oral or written, that have not been paid, nor are there any severance payments which could become payable by Purchaser under the terms of any oral or written agreement or commitment. There is no unfair labor practice charge or complaint concerning the Business or any Seller Employee pending before any governmental agency; (b) to the Knowledge of Seller, there is no representation claim or petition concerning the Business or any Seller Employee pending before any government agency; (c) to the Knowledge of Seller, there are no charges with respect to or relating to the Business pending before the Equal Employment Opportunity Commission or any agency responsible for the prevention of unlawful employment

practices; (d) no Seller has received formal notice from any governmental agency responsible for the enforcement of labor or employment laws of an intention to conduct an investigation or the Business and no such investigation is currently in progress.

- 5.10 Employee Benefits. Except for the employee benefit plans set forth on the List (the "Employee Benefits Plans"), the Seller is not a party to, bound by or, to the Knowledge of Seller, has any liability or potential liability with respect to any profit sharing, stock option, pension, severance, retirement, stock purchase, hospitalization, group or individual life, disability or health insurance, or employee welfare benefit or similar plan or agreement providing benefits to the current or former employees or agents of Seller. Sellers do not nor will they prior to the Closing Date, participate in, contribute to or employ any persons covered by a multiemployer plan, as defined in Section 3 (ERISA), other than a Union Contract, if any, and have not, and will not prior to the Employee Retirement Income Security Act of 1974, as amended, incur any withdrawal liability within the meaning of Title IV of ERISA. Seller does not, nor will it prior to the Closing Date, maintain (i) a pension plan, as defined in Section 3 (3) of ERISA, subject to § 412 of the Internal Revenue Code of 1986, as amended (the "Code"), or Title IV of ERISA, or (ii) any plan that provides post-retirement or post-termination health, life, disability or welfare-type benefits to current or former employees of Seller, other than the Union Contract. All amounts due under or with respect to the Employee Benefit Plans for services rendered by Seller Employees prior to the Closing Date shall be fully paid as of the Closing.
- 5.11 Financial Information. Upon request of Purchaser, Seller shall provide, if available, an unaudited balance sheets, financial statements, audits and other financial books and records of the Debtor as of May 30, 2003. All such financial records (the "Financial Statements of Seller") have been prepared in accordance with generally accepted accounting principles applied consistently with past practices, and fairly present the financial condition, results of operations and cash flows of the Business as of the dates and for the periods indicated.
- 5.12 No Undisclosed Liabilities. To the extent set forth on or reflected in the bankruptcy schedules of Seller, and excepting current liabilities incurred by Seller in connection with or with respect to the Business in the ordinary course, Seller has no debts, liabilities or obligations of any nature or kind (whether absolute, accrued, contingent, unliquidated or otherwise, whether or not known to Seller, whether due or to become due and regardless of when asserted) arising out of transactions entered into, at or prior to the Closing which could materially adversely affect the Business.

5.13 Seller's Tax Matters

- (a) Except as set forth in section 13.8 of this Agreement:
- (i) Seller, and each of its affiliated groups shall be responsible for filing all Tax Returns which they are required to file under and pursuant to all applicable federal, state and local laws and regulations, both prior to and following the Closing Date, and all such Tax Returns shall be complete and correct and have been prepared in compliance with all applicable laws and regulations;
 - (ii) Seller, and each of its affiliated groups, represent that they have not paid all Taxes due and owing by them (whether or not such Taxes are required to be shown on a Tax Return) under and pursuant to all applicable federal, state and local laws and regulations, and have not withheld and paid over to the appropriate taxing authority all Taxes which they are required to withhold from amounts paid or owing to any employee, stockholder, creditor or third party;
 - (iii) Neither Seller nor any of its subsidiaries and/or affiliated groups have waived any statute of limitations with respect to any Taxes or agreed to any extension of time with respect to any Tax assessment or deficiency;
 - (iv) Since the Petition Date, the Seller has incurred liability for Taxes with respect to the Business in the ordinary course which have not been paid and are listed in the schedules;
 - (v) No foreign, federal, state or local tax audits or administrative or judicial proceedings are pending or being conducted with respect to any Seller, any of its subsidiaries or any of its affiliates groups;
 - (vi) Neither Seller nor any of its subsidiaries or affiliated groups have received from any foreign, federal, state or local taxing authority any (a) written notice indicating an intent to open an audit or other review or (b) request for information related to Tax Matters; and (vii) there are no material unresolved questions or claims concerning any Tax Liability of Seller or any subsidiary or affiliated group.
- (b) Except as otherwise provided in this Agreement, neither Seller nor any afflicted groups of Seller (a) has made an election under §341(f) of the

Code, (b) is liable for the Taxes of another person (1) under Treasury Regulation § 1.1502.6 (or comparable provisions of state, local or foreign law), (2) as a transferee or successor, (3) by contract or indemnity or (4) otherwise, (c) is a party to any tax sharing agreement or (d) has made any payments, is obligated to make any payments or is a party to an agreement that could obligate it to make any payments that would not be deductible under §290G of the Code.

(c) For purposes of this Agreement, the term "Tax" means any federal, state, province, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not. For purposes of this Agreement, the term "Tax Return" means any return, information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

5.14 Consents, Approvals and Authorizations. No consent, approval or authorization of, or designation, declaration or filing with, or notice to, any governmental authority, or any lender, excepting Fifth Third Bank which has consented to the sale at a hearing before the Bankruptcy Court, lessors, creditors, shareholders or others, is required on the part of Seller in connection with the valid execution and delivery of this Agreement and the Attendant Documents to which Seller is a party of the consummation of the transactions contemplated in this Agreement without breach or violation or any agreement, lease, indenture or other instrument, or any judgment, decree, order, award, law, rule or regulations applicable to or affecting any Seller, the Business, the Assets or the Leased Personal Property, other than any consent, approval, authorization, designation, declaration, filing or notification which, if not obtained or made would not have a material adverse affect on the Business. Prior to the Closing, Seller shall properly obtain, perform or give all of the consents, approvals, authorizations, designations, declarations, filings and notices set forth on the attached and as of the Closing, Seller shall have given Purchaser's counsel copies or adequate evidence of all such consents, approvals, authorizations, designations, declaration, filings and notices.

5.15 Insurance. Seller has maintained and now maintains insurance with respect to the Assets, the Leases and the Business, covering property damages by fire or other casualty, and against such liabilities, claims and risks and in such amounts as is customary or appropriate in the industry. Seller shall provide Purchaser with all

such insurance policies maintained by Seller, up to and including the Closing Date, setting forth the names of the insured and the insurer, policy numbers, the types of coverage, premium payments or basis of payment, deductible amounts and limits of coverage. No such policy of insurance is subject to any deductible, self-insured retrospective rating agreement, indemnification agreement or any other method or device by which the insured person is subject to all or any part of the liability for any or all claims. Concurrently with or prior to the execution of this Agreement, Seller has delivered to Purchaser or Purchaser's counsel true, correct and complete copies of all such insurance policies. There are no set of facts and no event has occurred forming the basis for any present property, casualty or fidelity claim against Seller which is not fully covered by insurance. Seller does not know of any occurrence, circumstance, or event which could reasonably be expected to result in any such claim.

- 5.16 Recent Conduct of Business; Interim of Operations. As of the date of the Most Recent Balance Sheet of Seller, there has not been any material adverse change in the Business or in the operations or conditions (financial or otherwise) of the Business.
- 5.17 Non-Violative Agreement. Neither the execution or delivery of this Agreement or the Attendant Documents to which Seller is a party nor the consummation of the transactions contemplated in this Agreement will conflict with, result in the breach or violation of or constitute a default under the terms, conditions or provisions of Seller's Articles of Incorporation, Bylaws or the any other agreement or instrument to which a Seller is a party, or by which a Seller may be bound or to which a Seller may be subject.
- 5.18 Brokerage or Finder's Fee. No broker, finder, agent or similar intermediary has acted for or on behalf of Seller in connection with this Agreement or the transactions contemplated hereby and no broker, finder, agent or similar intermediary is entitled to any broker's finder's or similar fee or other commission in connection therewith based on any agreement, arrangement or understanding with Seller or any action taken by Seller.
- 5.19 Disclosure. No representation or warranty by Seller contained in this Agreement and no statement contained in any of the Attendant Documents to which a Seller is a party or any other certificate or instrument furnished or to be furnished pursuant to this Agreement or in connection with the transactions contemplated in this Agreement contains or will contain any untrue statements of a material fact, or omits or will omit to state a material fact, necessary in order to make any of the statements so misleading, or necessary in order to provide Purchaser with all pertinent information regarding the Business.

6. REPRESENTATION AND WARRANTIES OF PURCHASER. Purchaser hereby represents, warrants and covenants the following to Seller, with the knowledge and expectation that Seller is placing complete reliance on such representations, warranties and covenants:

- 6.1 Good Standing and Authority. Purchaser is Segmentz, Inc., a duly organized, validly existing and in good standing under the laws of the State of Delaware. Purchaser has the corporate power and authority to enter into this Agreement, to enter into the Attendant Documents to which it is a party and to consummate the transactions contemplated in this Agreement. This Agreement and all of the Attendant Documents to which Purchaser is a party, and the consummation of the transactions contemplated in this Agreement, have been or will be, on or prior to the Closing Date, duly authorized and approved by all necessary and proper corporate action on the part of the Purchaser. This Agreement, and all of the Attendant Documents to which Purchaser is a party, when executed and delivered, will constitute legal, valid and binding obligations of Purchaser enforceable against Purchaser in accordance with their respective terms.
- 6.2 Non-Violative Agreement. Neither the execution and delivery of this Agreement and the Attendant Documents to which Purchaser is a party nor the consummation of the transactions contemplated in this Agreement will conflict with, result in the breach or violation of or constitute a default under the terms, conditions or provisions of Purchaser's Articles of Organization or Bylaws or any such agreement or instrument to which Purchaser is a party, or by which Purchaser may be bound or to which it may be subject.

7. FUTURE DEVELOPMENTS; SURVIVAL; TITLE.

- 7.1 Notice of Material Developments. Each Party shall give prompt written notice to the other Party of any (i) representation or warranty contained in this Agreement which was true as of the date of this Agreement, but which has subsequently become untrue, (ii) breach of any covenant under this Agreement by such Party, and (iii) any other material development affecting the ability of such party to consummate the transactions contemplated in this Agreement.
- 7.2 Conduct of Business. Until the Closing, Seller shall keep Purchaser fully informed with respect to the operation and condition of the Business. Until the Closing, Seller will cause the Business to be conducted only in the ordinary course and Seller shall not, without the prior written consent of Purchaser, which consent shall not be unreasonably withheld:
 - (a) make or incur capital expenditures with respect to the Business in excess of \$10,000.00 in any one transactions or series of similar transactions;
 - (b) except in accordance with consistent prior practice and in the ordinary course, make any change in the rate of compensation, commission, bonus or other direct or indirect remuneration payable or to become payable to any Seller Employee or agent of Seller, or agree or orally promise to pay, conditionally or otherwise, any bonus, extra compensation, pension or severance or vacation pay to any Seller Employee or agent of Seller;

- (c) sell or transfer any of the material assets of the Business;
- (d) terminate or amend any material General Contract;
- (e) subject any of the Assets or any of the Leased Personal Property to, or permit any of the Assets or any of the Leased Personal Property to become subject to, any Lien other than in the ordinary course; or
- (f) enter into any agreement or commitment (other than this Agreement or any arrangement provided for or contemplated in this Agreement) to take any of the types of actions described in subsection (a) through (e) of this Section 7.3.

8. EMPLOYEE MATTERS.

8.1. Employees

- (a) Employment. Purchaser may, at its sole option and discretion, offer employment to all Seller Employees (other than Seller Employees covered by any Union Contract or by written employment agreements) on terms which are substantially similar to the terms in existence on the Closing Date. Purchaser may, at its sole option and discretion, offer employment to all Seller Employees covered by any Union Contract or by written employment agreements and shall assume all obligations under any such Union Contract or written employment agreements arising from and after the Closing Date. As a result of Purchaser's agreement to offer employment to all Seller Employees as set forth above, none of Seller Employees shall incur any "employment loss" (as that term is defined in the Worker Adjustment and Restraining Notification Act, 29 U.S.C. § 2101 et seq. (the "Warn Act")) and Seller shall not be obligated to provide any notice to Seller Employees under the Warn Act.

(b) Employee Benefits

- (i) Effective as of the Closing, Purchaser may, at its sole option and discretion, establish an employee benefit plan only with respect to Sellers' Employees retained by Purchaser: (A) for non-union employees which are comparable to the existing employee benefit plan(s) of the Purchaser; and (B) for union employees, if any, to the extent required under the Union Contract. The provision of medical, dental, life insurance and any other Employee benefit Plan coverage to Seller Employees (including entitlement by any former participant or dependent of a participant or former participant to continuation of medical or dental benefits coverages) through an Employee Benefit Plan shall be the obligation of Purchaser after Closing, to the extent Purchaser offers the same to its existing employees.

8.2 COBRA It is the intent of the Parties that the sale of the Assets to Purchaser comply with ERISA Secs. 601 through 608 in U.S. Code Section 4980B (the "COBRA Sections"). In connection therewith, Purchaser shall be responsible for the provision of continuation coverage in accordance with the COBRA Sections to any Seller Employee retained by Purchaser. Seller warrants and represents that it has complied with any and all notice provisions to Seller's employees regarding COBRA Sections governing Seller Employees' rights of coverages and/or benefits either prior to or immediately following the Closing Date.

8.3 Retiree Medical Plans. Purchaser shall not retain any assets and/or liabilities relating to its retiree medical plans and with respect to its employees who retired before or on the Closing Date and all expenses relating to such retiree medical plans.

8.4 Workers' Compensation Claims. Purchaser shall not be responsible nor liable for workers' compensation benefits payable to the Seller Employees for any claim for such benefits arising as a result of an injury or occupational disease sustained while employed by Seller.

9. CONDITIONS TO CLOSING:

9.1 Conditions Precedent to Purchaser's Obligation. The obligations of Purchaser to consummate the transactions contemplated in this Agreement as the Closing is subject to the satisfaction of all of the following conditions, any of which may be

waived (but only in writing) by Purchaser:

- (a) Seller's Representations and Warranties. All representations, warranties and covenants made by Seller in this Agreement shall have been true and correct in all respects on the date of this Agreement and shall be true and correct in all material respects as of the Closing Date with the same force and effect as if they had been made on and as of such date.
- (b) Performance of Agreement. Seller has performed and complied with all their obligations under this Agreement which are to have been performed or complied with on or prior to the Closing Date.
- (c) Approvals. Seller shall have obtained all approvals, authorizations, consents or waivers necessary for the consummation of the transactions contemplated in this Agreement.
- (d) Litigation. There shall not be any litigation, action, suit, claim, proceeding, order, investigation or inquiry pending or threatened before any court or quasi-judicial or administrative agency to, or pursuant to which a judgment, order, decree, stipulation or charge could be entered which would: (i) enjoin or prevent the consummation of the transactions contemplated in this Agreement (ii) caused any of the transactions contemplated in this Agreement, to be rescinded following consummation, (iii) adversely affect the right of Purchaser to own, operate or control the Business, the Assets, or the Leased Personal Property, or (iv) otherwise have a material adverse effect on the operations or financial condition of the Business. In addition, no such litigation, action, suit, claim, proceeding, order, investigation or inquiry shall have initiated between the date of this Agreement and the Closing Date.
- (e) Updating of Disclosure Schedules. From the date of this Agreement until the Closing, Seller shall have used its best efforts to update all of the Schedules of this Agreement and shall have promptly notified Purchaser of any material changes or additions or events which may cause any change or addition to any such Schedules or in any representation or warranty made pursuant to Section 5 above. The provisions of this Section 9.1(f) and any notice by Seller pursuant to this Section 9.1(f) shall not be deemed in any way to constitute a waiver by Purchaser for condition set forth in Section 9.1(a) above.

- (f) Termination. This Agreement shall not have been terminated pursuant to Section 12.2 above.
- (g) Delivery of Closing Documents. Seller shall have executed and delivered, or caused to be executed and delivered, all of the documents described in Section 10.2 below. All documents relating to the transactions contemplated in this Agreement shall be satisfactory in form and content to Purchaser's legal counsel.
- (h) No Encumbrances. All of the Assets shall be owned free and clear of all Liens. Prior to the Closing Date, Purchaser shall have received satisfactory evidence that all Liens will be released, discharged or terminated on or prior to the Closing Date pursuant to the Sale Order to be entered by the Bankruptcy Court, except those liens agreed to between the Purchaser and Bank under the Bank Documents.
- (i) Due Diligence. Purchaser has completed such due diligence investigation with respect to the Assets listed in Schedule "A", and is unaware of any undisclosed liabilities that may cause a material adverse impact of said Assets, as it deems necessary, proper, convenient or desirable in its sole and absolute discretion, and, on completion of such investigation, the business, affairs, assets, liabilities and other matters concerning Seller, the Business and the Assets shall be satisfactory to Purchaser, in its sole and absolute discretion. In connection with Purchaser's due diligence investigation, Seller shall have fully cooperated with Purchaser's accountants, attorneys, lenders, employees, officers and other representatives, all books of account, documents and information which Purchaser, its agent, representatives, attorneys, accountants or lenders may from time-to-time request, so that Purchaser may investigate all aspects of Seller, the Business and the Assets, including the prospects and financial condition of the Business. As of the execution of this Agreement, the Purchaser warrants that it has completed its due diligence inquiry.

9.2 Conditions Precedent to Seller's Obligation. The obligation of Seller to consummate the transactions contemplated in this Agreement as the Closing is subject to the satisfaction of all the following conditions, any of which may be waived (but only in writing) by Seller:

- (a) Purchaser's Representations, Warranties and Covenants. All representations, warranties and covenants made by Purchaser in this Agreement shall have been true and correct in all respects on the date of this Agreement and shall be true and correct in all material respects as of the Closing Date with the same force and effect as if they had been made on and as of such date.
- (b) Performance of Agreement. Purchaser shall have performed and complied with all of its obligations under this Agreement which are to have been performed or complied with on or prior to the Closing Date.
- (c) Termination. This Agreement shall not have been terminated pursuant to Section 12.2 below.
- (d) Delivery of Closing Documents. Purchaser shall have executed and delivered, or caused to be delivered, all of the documents described in Section 10.3 below. All documents relating to the transactions contemplated in this Agreement shall be satisfactory in form and content to Seller's legal counsel.

10. CLOSING:

- 10.1 Closing. The closing (the "Closing Date") of the transactions contemplated in this Agreement shall occur on and effective as of July 22, 2003, and the Seller and Purchaser shall cause a final, non-appealable Order (the "Sale Order") from the Bankruptcy Court approving the Seller/Debtor's Sale Motion and this Agreement to be entered by the Court no later than July 22, 2003, which order shall provide for any objections to same to be filed not more than 10 days after entry thereof. In the event of any objections to such sale and order approving same are filed with the Court within the ten (10) day period by any third party, then, at the option of either Purchaser or the Bank, this Agreement and the closing shall be considered null and void and of no force and effect.
- 10.2 Documents to Be Delivered at Closing by Seller. At the Closing, Seller shall properly executed (if necessary) and deliver to Purchaser, or caused to be executed and delivered to Purchaser, the following:
 - (a) A Warranty Bill of Sale and Assignment and Assumption Agreement (the "Bill of Sale") for the purchase of the Assets and Assets identified in this Agreement.
 - (b) Covenants Not to Compete (the "Covenants"), executed by Seller and each of the certificate holders and/or partners of Seller.

- (c) A copy of Seller's Articles of Incorporation, certified by the Secretary of State of the Commonwealth of Kentucky, and a Certificate of Good Standing (or analogous document) for Seller issued by the Secretary of State of the Commonwealth of Kentucky and each and every other state in which such Seller is authorized to do business. All such documents shall be dated no earlier than thirty (30) days prior to the Closing Date.
- (d) A certificate, executed by an officer of Seller, to the effect that (i) all of the representations, warranties and covenants made by Seller in this Agreement are true and correct on the Closing Date with the same effect as through made on and as of the Closing Date, (ii) all covenants and agreement undertaken to be performed by Seller under this Agreement have been taken or performed, (iii) since the date of this Agreement, Seller has operated the Business only in the ordinary course, and (iv) there has been no material adverse change in the Business from the date of this Agreement to the Closing Date. Attached to such certificate shall be a copy of Seller's bylaws and a copy of all of the minutes or resolutions approving this transaction contemplated in this Agreement (as required by Section 9.1 and 9.2 above, and the officer of Seller executing such certificate shall certify that, as of the Closing Date, such bylaw as and minutes or resolutions are true, complete and correct, have not been altered or repealed and are in full force and effect.
- (e) All of the Assets and Contracts as set forth in this Agreement and listed in **Schedule "A"**.
- (f) Such other documents and instruments as are contemplated in this agreement or as Purchaser or Purchaser's counsel may reasonably request in order to evidence or consummate the transactions contemplated in this Agreement or to effectuate the purpose of intent of this Agreement.
- (g) A final Order from the Bankruptcy Court approving the sale contemplated by this Agreement (the "Sale Order") from Seller to Purchaser.

11. INDEMNIFICATION:

- 1.1 Indemnification of Purchaser. If the transactions contemplated by this Agreement

are consummated, Seller shall indemnify, defend and hold harmless Purchaser and its respective officers, directors, shareholders, employees, independent contractors, agents, successors and assigns (collectively, the "Purchaser Parties") from and against any and all liabilities, losses, costs and expenses which any of the Purchaser parties may suffer or for which any of the Purchaser Parties may become liable and which are based on, the result of, arise out of or are otherwise related to any of the following:

- (a) any inaccuracy or misrepresentation in, or breach of any representation or warranty of Seller contained in this Agreement, any of the Attendant Documents or any certificate, schedule, list or other instrument to be furnished by Seller to Purchaser pursuant to this Agreement or any of the Attendant Documents;
- (b) any breach or failure of Seller to perform any covenant or agreement required to be performed by Seller pursuant to this Agreement or any of the Attendant Documents;
- (c) any Third Party Claim against any of the Purchaser Parties resulting from, arising out of or in any way related to the failure of Seller to perform, pay or discharge any liability incurred by Seller prior to the Closing Date, which has not be assumed by Purchaser under this Agreement; and
- (d) any and all Related Expenses incident to any of the foregoing.

11.2 Exclusive Remedy. Except for specific performance, injunctive relief and recoveries for claims of fraud, indemnification pursuant to this Section 11 shall be the sole remedy available to the Parties for the claims made under this Agreement.

11.3 Assignment of Claims. If, however, Seller is unable to indemnify or hold harmless Purchaser as provided in this Agreement, then each party agrees that satisfaction of the obligation to indemnify under this Section 11, and in consideration of such obligation, it will assign to the Party or Parties making such payment or giving such credit any and all claims, causes of action and demands of whatever kind and nature which such indemnified Party may have against any person, firm or other entity giving rise to such indemnified loss, and to reasonably cooperate in any efforts to recover therefrom.

12. TERMINATION.

12.1 Termination. This Agreement may be terminated at any time before the Closing:

- (a) by the mutual consent of Seller and Purchaser; or
- (b) by Seller if any of the conditions set forth in Section 9.2 above have not been fulfilled, satisfied or waived by Seller, or Purchaser.

12.2 Effect of Termination. If termination in accordance with Section 12.1 above, this Agreement shall be null and void and have further force or effect and neither Party shall have any further rights or obligations under this Agreement.

13. MISCELLANEOUS.

- 13.1 AS IS. Except as otherwise specifically provided in this Agreement, Sellers are making no representations or warranties whatsoever as to the condition of the Assets and Purchaser acknowledges that it is purchasing the Assets "AS IS".
- 13.2 Expense. Except as otherwise expressly provided in this Agreement, Purchaser shall each bear all expenses incurred in connection with the preparation and negotiation of this Agreement and the Attendant Documents and the consummation of the transactions contemplated in this Agreement; including all accounting, employee expenses and legal fees and costs incurred by the Seller in closing this transaction and the Seller's Chapter 11 case.
- 13.3 Headings. The headings contained in this Agreement are for reference purposes only and shall not in any affect the meaning or interpretation of this Agreement.
- 13.4 Notices. Any and all notices, request, demands and other communications permitted under or required pursuant to this Agreement shall be in writing and shall be deemed given if personally delivered or if mailed, postage prepaid, certified or registered mail, return receipt requested, to the parties at the addresses set forth below, or at such other address as they may indicate by written notice given as provided in this Section 13.4. Unless otherwise modified upon written notice to all parties, compliance with this provision shall be made, as follows:

If to Seller:
Murphy Surf-Air Trucking Company
c/o John Steckinger
865 Sparta Court
Lexington, KY 40504

With a required copy to:
Bruce Atherton, Esq.
Atherton & Carter, LLP
624 West Main Street,
Suite 500
Louisville, KY 40202

If to Purchaser:

Alan Marshall, CEO
Segmentz, Inc.
18302 Highwoods Preserve Parkway
Suite 100
Tampa, FL 33647

With a required copy to:

Barry P. Gruher, Esq.
Adorno & Yoss, P.A.
350 East Las Olas Blvd.
Suite 1700
Ft. Lauderdale, FL 33301

If to Bank:

Mr. Andy Walker
Fifth Third Bank, Kentucky, Inc.
250 West Main Street
Suite 100
Kentucky, FL 40507

With a required copy to:

Dan M. Rose, Esq.
Stoll, Keenon & Park, LLP.
300 West Vine Street
Suite 1200
Lexington, Kentucky 40507-1801

- 13.5 Construction. This Agreement has been executed in, and shall be construed and enforced in accordance with the laws of, the State of Kentucky without regard to the conflicts of law principles thereof.
- 13.6 No Assignment: Benefit. No party may assign its rights and obligations under this Agreement without the prior written consent of the other Parties. This Agreement shall be binding on and inure to the benefit of the Parties and their respective successors and assigns. This Agreement is not intended to, and shall not, benefit any person or entity other than the Parties and this Agreement shall not create any third party beneficiary rights in any person or entity.
- 13.7 Entire Agreement. This Agreement, including **Schedule "A"** attached or to be attached to it, is and shall be deemed to be the complete and final expression of the agreement between the Parties as to the matters contained in and related to this Agreement and supersedes any previous agreements between the parties pertaining to such matters, including, without limitation, that certain Agency Agreement dated September 11, 2002, by and among, the Seller and Purchaser.
- 13.8 Purchaser's Tax Matters.
- (a) Purchaser shall not, under any circumstances, be responsible for the preparation and filing of any Tax Returns due or that become due to be filed by the Seller, and each of its affiliated groups, under and pursuant to any federal, state and/or local laws for any periods,

whether such tax obligations arose prior to or following the Closing Date, as to which such Tax Returns are due or that become due to be filed by Seller .

- (b) Purchaser shall not, under any circumstances, be responsible for any payments, claims, penalties (including interest) and/or other liabilities (collectively, "Tax Payments") due or that become due to be paid by the Seller, and each of its affiliated groups, under and pursuant to any federal, state and/or local laws for any periods as to which such Tax Payments are due or that become due to be paid by Seller, whether such tax obligations arose prior to or following the Closing Date.
 - (c) Notwithstanding subsection (b) above, Purchaser shall pay all sales, use and transfer taxes, if any, including the filing, recording and registration fees payable in connection with the transactions contemplated in this Agreement.
- 13.9 Books and Records. Seller shall preserve all documents, books and records concerning the Business for a period of three (3) years from the Closing Date. During such 3-year period, on reasonable notice and during normal business hours, Seller shall allow Purchaser full access to such documents and shall permit Purchaser to make copies and extracts from such documents.
- 13.10 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement. Photostatic or facsimile reproductions of this Agreement may be made and relied upon to the same extent as originals.
- 13.11 Waiver. The waiver by any Party of any breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent or similar breach.
- 13.12 Amendment. This Agreement may only be amended by written agreement executed by all of the Parties.
- 13.13 Further Assurances. From time to time after the Closing Date, at Purchaser's request and without further consideration, Seller shall execute and deliver, or caused to be executed and delivered, such further instruments of conveyance, assignment and transfer and shall take such other action as Purchaser may reasonably request in order more effectively

to convey, transfer, reduce to possession or record title to any of the Assets purchased pursuant to this Agreement, including, without limitation, executing and delivering to Purchaser such written authorizations as Purchaser may reasonably request granting it authority to negotiate and/or appeal any cost report adjustment proposed by the Kentucky Cabinet for Human Services which would have an impact on the reimbursement rate applicable to the Assets or the operation of the Business after the Closing Date, on behalf of and as agent for Seller, provided, however, that Seller shall not be obligated in so doing to waive, relinquish or assign their own right or appeal with respect thereto. Seller shall assist and cooperate, in all reasonable respects, with Purchaser and its representatives in obtaining all permits, licenses, certifications, certificates of need and provider agreements or other agreements with Purchaser deems necessary or appropriate for the operation of the Business.

- 13.14 Litigation Support. In the event and for so long as any Party is actively contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand in connection with any fact, situation, circumstance, status, condition, activity, practice, plan occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving Seller, the other parties shall cooperate in all reasonable respects with the contesting or defending Party and its counsel in the contest or defense, make available its personnel, and provide such testimony and access to its books and records as shall be reasonably necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under Section 11 of this Agreement).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Parties have executed this Asset Purchase Agreement as of the date first written above.

PURCHASER:

SEGMENTZ, INC.

By: _____

Its: _____

SELLER:

MURPHY SURF-AIR, INC.,

By: _____

Its: _____

SECURED CREDITOR:

FIFTH THIRD BANK, KENTUCKY, INC.

By: _____

Its: _____

Contract for Purchase of Business Assets From a Corporation

1. Parties. Frontline Freight Systems of Florida, Inc., a Florida S corporation with officers at 9024 Boggy Creek Road Orlando FL, Seller, and Segmentz, Inc., a Delaware Corporation with headquarters at 18302 Highwoods Preserve Parkway, Buyer, agree to the following sale.

2. Sale of Business Assets. Seller is selling to Buyer and Buyer is buying from Seller the assets of the business known as Frontline Freight Systems of Florida, Inc. located at 9025 Boggy Creek Road Orlando, FL 32824.

3. Assets Being Sold. The assets being sold consist of:

- A. The goodwill of the business, including the current business name and phone number.
- B. The lease , between Frontline Freight, Inc., Seller, and (Landlord), Landlord, covering the premises at 9024 Boggy Creek Road Orlando FL.
- C. The furniture, fixtures and equipment listed in attached Schedule A.
- D. The equipment leases listed in attached Schedule B

4. Purchase Price

The purchase price is \$100,000, payable in shares of Segmentz common stock, determined by the closing price over the prior twenty trading days, allocated as follows:

A.	Goodwill	\$	0
B.	Assignment of lease	\$	10,000
C.	Furniture, fixtures and equipment	\$	40,000
D.	Accounts Receivable	\$	50,000
	Total		\$100,000

The total purchase price will be adjusted by prorating rent, taxes, insurance premiums, utility costs and security deposits as of the date of closing.

5. Payments Due at Closing. At closing, Buyer will reserve for Seller the following amounts, in shares of Common Stock of Segmentz, Inc.:

- \$100 to be applied toward the amount listed in paragraph 4.
- \$99,900 in shares of Common Stock of the Buyer reserved for issuance, tendered pursuant to provision 8 herein, to be applied toward the amount listed in paragraph 4.

6. Incentive Agreement. At closing, Seller will enter into a contract of employment with Judy Bruner that provides for salary and benefits and incentive earnings as detailed below:

Salary. Judy Bruner will remain for three years as the Vice President of Operations of Segmentz, d/b/a Frontline Freight/Bullet Freight of Orlando, Inc. at a base salary of \$55,000

Benefits. Buyer will provide such benefits as are provided to all employees including partial payment for medical insurance, 401K plan and expense reimbursement in accordance with company policies

Options. Buyer will grant the Seller Options to purchase 25,000 shares of Segmentz, Inc. at a price of \$2.50 per share, exercisable for three years from date of issuance, granted one-third for each full year of employment as further detailed in employment agreement.

Performance Bonus. Judy Bruner will receive 25% of the net profits from the operation of Segmentz, Inc. Orlando operations d/b/a Frontline/Bullet Freight Systems, Inc. for each dollar in profit in excess of \$75,000 per year (the "Breakpoint") as defined in her employment agreement.

Liquidation Bonus or Penalty. Buyer will assist the Seller in reducing obligations with creditors with its best efforts, to reduce outstanding balances due to creditors and will give Seller a liquidation bonus in cash equal to fifty percent of the excess over the price paid for the assets, realized from collection of Accounts Receivable, fair market value estimate of fixed assets minus amount paid on behalf of Seller to creditors. In the event that such calculation yields a deficit balance, there will be an offset to amounts due to Seller in the Buyer's sole discretion+. In the event that there are liabilities remaining after the settlement of claims with funds received from Accounts Receivable, Buyer will disclose options to Seller who will select remaining settlements and final actions with regards to Frontline Freight Inc.

7. Seller's Debts. Buyer is assuming Seller's debts and liabilities as detailed on Schedule B to this Agreement.

At closing, Seller will confirm in an affidavit (Attachment) that Seller has assumed all debts and liabilities of the business pursuant to this agreement, including those that are known and those that are in dispute.

8. Escrow Shares Earned out. The shares tendered pursuant to the Asset Purchase Agreement will be reserved and earned by the Seller over the next two years, payable six months from the date of this Agreement and every six months following the Agreement date up to 25% of Selling price, subject to meeting revenue goals set forth below:

Year	Amount	Shares
2004	\$600,000	\$49,950
2005	\$625,000	\$49,950

9. Closing. The closing will take place:

Date: December 22, 2003

Time: 12:00 PM

Location: 9024 Boggy Creek Road Orlando FL

At closing, Buyer and Seller will sign the documents specified in this contract and all other documents reasonably needed to transfer the business assets to Buyer. Buyer will pay Seller the amounts required by this contract and Seller will transfer the business assets to Buyer.

10. Documents for Transferring Assets. At closing, Seller will deliver to Buyer these signed documents:

- A. A bill of sale for the tangible assets being bought, with a warranty of good title.
- B. An assignment of the lease, with the landlord's written consent.
- C. Assignment of any other contracts that are being transferred to Buyer, with the written consent of the other contracting person, if such consent is required.
- D. Assignments of all trademarks, patents and copyrights that are part of this purchase.

Seller will also deliver to Buyer at closing all other documents reasonably needed to transfer the business assets to Buyer.

11. Seller's Representations. Seller warrants and represents that:

- A. Seller has good and marketable title to the assets being sold. The assets will be free from encumbrances at closing.
- B. At closing, Seller will have paid all taxes affecting the business and its assets.
- C. There are no judgments, claims, liens or proceedings pending against Seller, the business or the assets being sold, and none will be pending at closing.
- D. Seller has given Buyer complete and accurate information, in writing, about the earnings of the business, its assets and liabilities, and its financial condition.
- E. Until closing, Seller will not enter into any new contracts or incur any new obligations and will continue to conduct its business in a normal manner.

These warranties and representations will survive the closing.

12. Buyer's Representations. Buyer warrants and represents that:

- A. Buyer has inspected the tangible assets that Buyer is purchasing and the premises covered by the lease, and at closing its consent to complete this transaction will evidence its satisfaction with conditions and provisions pursuant to condition of assets and satisfaction with such condition.

These warranties and representations will survive the closing.

13. Covenant Not to Compete. The shareholders named at the end of this contract are all of Seller's shareholders. For 3 years following the closing, none of Seller's shareholders will directly or indirectly participate in a business that is similar to a business now or later operated by Buyer in the same geographical area. This includes participating in a shareholders' own business or as a co-owner, director, officer, consultant, independent contractor, employee or agent of another business.

In particular, none of the shareholders of Seller will:

(a) solicit or attempt to solicit any business or trade from Buyer's actual or prospective customers or clients;

(b) employ or attempt to employ any employee of Buyer;

(c) divert or attempt to divert business away from Buyer; or

(d) encourage any independent contractor or consultant to end a relationship with Buyer. Each shareholder of Seller acknowledges and agrees that if any shareholder of Seller breaches or threatens to breach any of the terms of this paragraph 16, Buyer will sustain irreparable harm and will be entitled to obtain an injunction to stop any breach or threatened breach of this paragraph 16.

Each shareholder, by signing this contract, accepts and agrees to be bound by this covenant not to compete. At closing, Buyer will pay each shareholders \$1 for his or her covenant not to compete.

14. Risk of Loss. If business assets are damaged or destroyed before closing, Buyer may cancel this contract, in which case Seller will release Buyer from further obligation hereunder.

15. Disputes.

Litigation. If a dispute arises, either party may take the matter to court.

Mediation and Possible Litigation. If a dispute arises, the parties will try in good faith to settle it through mediation conducted by

a mediator to be mutually selected.

The parties will share the costs of the mediator equally. Each party will cooperate fully and fairly with the mediator and will attempt to reach a mutually satisfactory compromise to the dispute. If the dispute is not resolved within 30 days after it is referred to the mediator, either party may take the matter to court.

Mediation and Possible Arbitration. If a dispute arises, the parties will try in good faith to settle it through mediation conducted by

a mediator to be mutually selected.

The parties will share the costs of the mediator equally. Each party will cooperate fully and fairly with the mediator and will attempt to reach a mutually satisfactory compromise to the dispute. If the dispute is not resolved within 30 days after it is referred to the mediator, it will be arbitrated by

an arbitrator to be mutually selected.

Judgment on the arbitration award may be entered in any court that has jurisdiction over the matter. Costs of arbitration, including lawyers' fees, will be allocated by the arbitrator.

16. Required Signatures. This contract is valid only if signed by all of the shareholders of Seller.

17. Entire Agreement. This is the entire agreement between the parties. It replaces and supersedes any and all oral agreements between the parties, as well as any prior writings.

18. Successors and Assignees. This agreement binds and benefits the heirs, successors and assignees of the parties.

19. Notices.

All notices must be in writing. A notice may be delivered to a party at the address that follows a party's signature or to a new address that a party designates in writing. A notice may be delivered:

- (1) in person,
- (2) by certified mail, or
- (3) by overnight courier.

20. Governing Law. This agreement will be governed by and construed in accordance with the laws of the state of Florida.

21. Counterparts. The parties may sign several identical counterparts of this agreement. Any fully signed counterpart shall be treated as an original.

22. Modification. This agreement may be modified only by a writing signed by the party against whom such modification is sought to be enforced.

23. Waiver. If one party waives any term or provision of this agreement at any time, that waiver will only be effective for the specific instance and specific purpose for which the waiver was given. If either party fails to exercise or delays exercising any of its rights or remedies under this agreement, that party retains the right to enforce that term or provision at a later time.

24. Severability. If any court determines that any provision of this agreement is invalid or unenforceable, any invalidity or unenforceability will affect only that provision and will not make any other provision of this agreement invalid or unenforceable and such provision shall be modified, amended or limited only to the extent necessary to render it valid and enforceable.

Agreed to this 22nd day of December, 2003.

Dated: December 22, 2003

SELLER

Name of Business: Frontline Freight, Inc.
a Florida S Corporation

By: _____

Judy Bruner

President

Address: 9024 Boggy Creek Road

Orlando FL

BUYER

Segmentz, Inc.
a Delaware Corporation

By: _____

John S. Flynn

President & Chief Financial Officer

18302 Highwoods Preserve Parkway

Tampa, FL 33647

Consent of Shareholders

To induce Buyer to buy the assets of Frontline Freight, we each represent and warrant that:

1. I am the sole shareholder of Frontline Freight, Inc.
2. I consent to this contract.
3. I will be personally bound by Seller's representations and warranties contained in this contract.
4. I will be personally bound by the covenant not to compete contained in Paragraph 16.
5. I personally guarantee the obligations of Seller contained in this contract.

Shareholder: _____

Judy Bruner

Dated: _____

Consent of Others to Covenant Not to Compete

I consent to and agree to be bound by the terms of the Covenant Not to Compete described in Paragraph 16 of the above Contract for Purchase of Business Assets and will sign the Covenant upon those terms.

By: _____

Judy Bruner

Dated: _____

Schedule A (Furniture, Fixtures and Equipment)

<u>Item</u>	<u>Year</u>	<u>SN</u>	<u>Lien</u>
Gestetner Copier 3325e	NA	1B3081369	
Smart Com Computer			
Dell		MY-08J854-46632-245-82WY	
HP Laser Jet 1100		JDE2029559	
Hyster Forklift S60XL		C187VO6923P	
Cass Scale	C1-2001	CI08908781	
5 Pallet Jacks			
Kenmore Refrigerator			
Daewoo Microwave			
60 feet 2-tier racking			
Vodavi Communications			
Starplus phone system (4 units)		#01001280	
4 Office Desks			
3 Desk Chairs			
Canon BJC-1000			
Accounts Receivable Approximately	\$ 112,000		

Lease and Debt Schedule B

<u>Creditor</u>	<u>Type</u>	<u>Payoff</u>	<u>Account Number</u>
Wachovia Bank		\$ 50,189.11	
American Express		\$ 2,179.63	
American Express		\$ 966.92	
American Express		\$ 4,000.00	
Citibank Platinum		\$ 5,375.20	
McCoy Federal Credit		\$ 5,000.00	
Individualized Bankcard		\$ 2,917.20	
Individualized Bankcard		\$ 699.36	
GMAC		\$ 3,000.00	
Marlin Leasing		\$ 234.28	
L & S Logistics		\$ 550.00	
Ryder Truck Rental		\$ 1,911.97	
Ryder Truck Rental		\$ 5,246.10	
Ryder Truck Rental		\$ 5,571.99	
Ryder Truck Rental		\$ 2,000.00	
Ryder Truck Rental		\$ 333.30	
Schuler Packaging		\$ 93.72	
Technology Air		\$ 283.02	
Excel Business		\$ 441.00	
DeArrigoitia Accounting		\$ 2,511.00	
Time Warner		\$ 706.61	
Sams LP Gas		\$ 225.29	
Clarkliftg		\$ 559.87	
Rreef		\$ 235.32	
ABP		\$ 3,495.00	
Brinks		\$ 133.12	
Datatrac		\$ 800.00	
Nextel		\$ 889.07	
DB Reef		\$ 2,697.11	
Miscellaneous		\$ 7,500.00	
Owner Operator P/R		\$ 9,000.00	
		\$119,745.19	

Segmentz, Inc.
Code of Business Conduct and Ethics

This booklet is being distributed [annually] to Segmentz directors, officers and employees around the country. If you have questions or need guidance or additional copies, please contact the corporate office at 18302 Highwoods Preserve Parkway, Suite 100 Tampa, Florida 33647 or via telephone at (813) 989-2232 or fax at (813) 989-2393.

To: All directors, officers and employees of Segmentz, Inc. and our subsidiaries and affiliates

Re: A Message from Allan Marshall

Segmentz, Inc. (“Segmentz”) is committed to operating with honesty, fairness and integrity. This Code of Business Conduct and Ethics (the “Code”) is your guide for achieving all these objectives. This Code contains standards and ethical principles necessary for making the right decisions in regards to ethical issues. These standards and principles precede our company’s excellent reputation as an ethical and law-abiding corporate citizen. Maintaining Segmentz excellent reputation will enable us to attract and retain customers, improve our competitive position and enhance stockholder value for years to come.

Because the Code cannot address every possible ethical situation, we have included in the Code various phone numbers should you need help.

The image and reputation of every organization is determined by the example established by its people. Segmentz is proud of its image and intends to continue to maintain its high standards.

Sincerely,

Allan Marshall

Allan Marshall
Chairman of the Board and
Chief Executive Officer

INTRODUCTION

Segmentz, Inc. (“Segmentz”) is committed to maximizing the value of our stockholders’ investment in Segmentz, while conducting our business in a manner that is socially responsible and in compliance with the laws and regulations that apply to our business. Therefore, this Code of Business Conduct and Ethics (the “Code”) has been adopted by our company’s Board of Directors and summarizes the standards that must guide our actions. In short, these standards are designed to deter wrongdoing and promote the following: (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely, and understandable disclosure in reports and documents that Segmentz files with, or submits to, the Securities and Exchange Commission (the “SEC”) and in other public communications made by Segmentz; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting to an appropriate person or persons identified herein regarding violations of this Code; and (v) accountability for adherence to this Code. The directors, officers and employees of Segmentz are responsible for their individual actions and for compliance with the policies set forth in this Code. Each director, officer and employee of Segmentz is required to read and follow the Code as a condition of such person’s position with Segmentz. Please be advised that this Code is not an employment contract of any form and does not in any manner amend or modify the terms and conditions of your employment with Segmentz.

HONEST AND ETHICAL CONDUCT

Segmentz requires its directors, officers and employees to discharge each of their respective responsibilities in accordance with the law and the highest standards of business ethics. If at any time a director, officer or employee is uncertain regarding the validity or legitimacy of a proposed course of action, the application of a law or regulation, or the applicability of the policies described in this Code, such person should contact the corporate office, in the future, such telephone number, web address or other telecommunications medium that Segmentz will disclose on its website for such help and information (the “Help Source”).

REPORTING PROCEDURES

Obligation to Report – If any director, officer or employee believes that actions have taken place, may be taking place, or are about to take place, that violate or would violate the Code, such person is obligated to report the matter to the Company or, if available, the Help Source. Each of us is encouraged to consult with a supervisor, human resources representative, company lawyer, financial controller, manager or other employee you trust regarding questions relating to this Code.

No Retaliation – Segmentz will keep the identity of the director, officer or employee making the report confidential. If a director, officer or employee reports in good faith a suspected violation of this Code, the individual making the report or providing information regarding the same will not be subject to discipline or other retaliatory action for doing so. Any director, officer or employee of Segmentz who engages in retaliatory actions will be subject to disciplinary action, including the possibility of termination.

Consequences for Violation – Any person in violation of this Code will be subject to discipline, including possible termination. Additionally, Segmentz may have a legal obligation to bring violations of the Code to the attention of appropriate enforcement authorities (as some violations are also violations of the law). In such cases, civil or criminal penalties may also be imposed.

FAIR DEALING

The directors, officers and employees of Segmentz must endeavor to deal fairly and in good faith with fellow directors, officers, employees, customers, suppliers, competitors, visitors, neighbors in the communities in which we operate and any others with whom we come in contact as representatives of Segmentz. The directors, officers and employees of Segmentz must not take unfair advantage of anyone through manipulation, concealment, abuse of privileged or confidential information, intentional misrepresentations of facts, fraudulent behavior or any other unfair practice.

COMPLIANCE WITH LAWS, RULES, AND REGULATIONS

Segmentz takes a proactive stance on compliance with applicable laws, rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies. Accordingly, Segmentz requires its directors, officers and employees to comply with applicable laws, rules and regulations, including insider trading and antitrust laws, each of which are discussed elsewhere in this Code. Segmentz also requires its directors, officers and employees to comply with the following:

Prohibition on Fraud – Segmentz strictly prohibits any fraudulent activity, including any act that constitutes cheating, stealing, deceiving or lying. The directors, officers and employees of Segmentz must act in good faith, responsibly, with due care, competence and diligence, without intentionally representing facts or allowing independent judgment to be subordinated.

Equal Opportunity – It is the policy of Segmentz to operate under sound and legal personnel policies. Segmentz objective is to be equitable and fair in the treatment of all directors, officers and employees in all situations. This includes, but is not limited to, the following: (i) the selection and placement of any individual is based on that individual's qualifications, without regard to race, religion, national origin, sex, age or disability; and (ii) compensating individuals in accordance with an his or her contribution to Segmentz, without regard to race, religion, national origin, sex, age or disability.

Harassment-Free Workplace – The directors, officers and employees of Segmentz must maintain an environment that is free of any form of discrimination or harassment. All employment-related decisions must be based on the needs of the business, individual qualifications, ability, contribution and demonstrated performance.

Confidential Information Regarding Directors, Officers and Employees – In conducting business, it is necessary to collect, maintain and use personal information about directors, officers and employees. Only job-related information and personal information related to business, benefits and legal purposes will be collected and maintained. This information will be maintained on a strictly confidential basis. The use or disclosure of any of this information is limited to required business or legal purposes.

GIFTS AND BRIBES

It is contrary to Segmentz policy and the laws of the United States to offer, solicit, give or accept bribes or kickbacks, or transfer or receive money or anything of value which could improperly influence one's conduct. Punishment is particularly severe for improper payments involving government officials in the United States or abroad. However, occasional business meals, social events or souvenirs of nominal value may be appropriate if reasonably limited in cost and frequency. Specific rules and prohibitions apply to business conducted with government agencies. Special care must be taken to understand and comply with these rules. Do not hesitate to contact the Company or, if available, the Help Source if you have a question or encounter a troubling situation.

CONFLICTS OF INTEREST

The directors, officers and employees of Segmentz have a duty of loyalty to Segmentz and must act in the best interests of Segmentz. Therefore, directors, officers and employees shall not engage in activities that give rise to a conflict of interest or even the appearance of a conflict of interest, without the approval of the General Counsel. A “conflict of interest” exists when a director’s, officer’s or employees private interest would reasonably be expected to interfere, or even appear to interfere, with the interests of Segmentz as a whole. In dealing with customers, suppliers, rivals or competitors, we must not engage in activities that may make it difficult to perform our work objectively and effectively or, directly or indirectly, cast doubt or create even the appearance that we cannot act with complete objectivity.

Conflicts of interest may include, but are not limited to, the following:

- 1) Receiving improper personal benefits for an individual or such individual’s family as a result of one’s position at Segmentz;
- 2) Holding an ownership interest (other than a nominal amount of stock in a publicly-traded company) in any supplier, customer or competitor of Segmentz;
- 3) Loaning money to, or borrowing money from, individuals or concerns that do business with or compete with Segmentz, except transactions with banks or other financial institutions in accordance with normal business practices;
- 4) Engaging in any outside business activity that is competitive with Segmentz business;
- 5) Receiving any gifts, gratuities, or excessive entertainment fees or payment from any party with which Segmentz has business dealings, except for commonly distributed items of nominal value that conform to customary industry practices. Any gifts that are not of nominal value must be returned immediately and reported to a supervisor. If an immediate return is not practical, the item or items should be given to Segmentz for charitable disposition;
- 6) Accepting outside employment that adversely affects one’s work for Segmentz;
- 7) Serving on a board of directors of any customer, supplier or competitor of Segmentz, unless such service has been disclosed and approved by the Segmentz Board of Directors; or
- 8) Using for personal gain or for the benefit of others, confidential information obtained during one’s affiliation with Segmentz.

The directors, officers and employees of Segmentz are encouraged to discuss with the Company any questions regarding a transaction or relationship that could reasonably be expected to give rise to a conflict. The directors, officers and employees of Segmentz must fully disclose the nature of any proposed conduct or transaction that involves or could involve a conflict of interest and obtain approval before any action is undertaken. It is the responsibility of each director, officer and employee of Segmentz to disclose to the Company all personal interests or circumstances that might constitute a conflict of interest as soon as the circumstances arise. Some conflicts of interest may arise innocently because of circumstances alone, without deliberate action on the part of an individual. If one finds himself or herself in such a position, such person must immediately notify the Company for guidance.

PROTECTION AND PROPER USE OF COMPANY ASSETS

The assets of Segmentz, such as information, materials, supplies, time, intellectual property, software, hardware and facilities, among other property, are valuable resources owned, licensed, or otherwise belonging to Segmentz. The directors, officers and employees of Segmentz are responsible for safeguarding the company assets. The assets of Segmentz must only be used for legitimate business purposes. The personal use of company assets without permission is prohibited. A director, officer or employee that becomes aware of the theft or misuse of company assets must report the matter to the Company or, if available, the Help Source.

Segmentz realizes that sometimes the line between personal and company benefit is difficult to determine. The only prudent course of conduct is to ensure that any use of Segmentz property or services that is not solely for the benefit of Segmentz is approved beforehand by the Board of Directors.

CORPORATE OPPORTUNITIES

The directors, officers and employees of Segmentz owe a duty to Segmentz to advance the company's interests when the opportunity arises. Accordingly, no director, officer or employee may: (i) take for himself or herself opportunities that are discovered through the use of corporate property or information or such person's position; (ii) use corporate property, information or such person's position for personal gain; or (iii) compete, directly or indirectly, with Segmentz.

CONFIDENTIALITY

The directors, officers and employees of Segmentz must maintain the confidentiality of information entrusted to them by Segmentz, its business partners, suppliers, customers or others related to Segmentz business except when disclosure is authorized or legally mandated. Confidential information is information that is not generally known to the public or our competitors. The directors, officers and employees of Segmentz must not use confidential information acquired in the course of business for personal advantage.

POLITICAL ACTIVITIES AND CONTRIBUTIONS

Segmentz prohibits its directors, officers and employees from using their time at work for political activities. Any director, officer or employee of Segmentz that has any questions about what is proper should consult with the Company before engaging in any activity that could be construed as involving Segmentz in any political activity, including any monetary contributions at the federal, state or local level or in any foreign countries. The directors, officers and employees of Segmentz must distinguish their personal views from those of Segmentz unless specifically authorized by Segmentz to speak on Segmentz behalf.

ACCOUNTING PRACTICES

It is the policy of Segmentz to fully and fairly disclose the financial condition of the company in compliance with applicable accounting principles, laws, rules and regulations. The books and records of Segmentz must be kept in such a way as to fully and fairly reflect all company transactions. It is also the policy of Segmentz to cooperate fully with the internal and external auditors and to disclose to them all required information on a timely, complete and accurate basis so that they can ensure compliance with these principles.

ANTITRUST AND FAIR TRADE

Governments have established antitrust and fair trade laws to protect and promote competition. The most serious infractions usually involve collusion among competitors. In some countries, violations of these laws can result in criminal penalties. Whenever legitimate contact with competitors is contemplated, you should seek advice from the Company before proceeding.

Segmentz prohibits directors, officers and employees from working with competitors to intentionally fix prices or to allocate markets or customers. Segmentz also prohibits attempts to influence the prices at which Segmentz distributors or other customers resell Segmentz products or services, or to agree with another person or business not to do business with a third party. The best approach is to limit contact with competitors and, enter into agreements in collusion with others to restrict trade or business with third parties when contact is necessary, to avoid discussions about prices or any of the prohibited activities listed here.

PUBLIC DISCLOSURE, INSIDE INFORMATION AND COMPANY STOCK TRADING

Segmentz stock is publicly traded on the NASDAQ. bulletin board. Therefore, there are specific rules regarding trading and the disclosure of information, which must be observed by all directors, officers and employees. The directors, officers and employees of Segmentz must strive to ensure full, fair, accurate, timely and understandable disclosure in reports that we file with the SEC and in other public communications.

Applicable law also regulates the manner in which the directors, officers and employees of Segmentz use and disclose inside information, including any material information about Segmentz that could affect the market price and investor decisions about our stock. Certain individuals will have access to inside information about Segmentz, including financial performance, negotiations about acquisitions or divestitures or major R&D and the like. Such inside information must be held in strict confidence, except when we are authorized or otherwise legally obligated to disclose the information.

Segmentz has in place a policy on insider trading which has been circulated to all directors, officers, and employees. Strict adherence to that policy is required.

CONCLUSION

This Code cannot and is not intended to cover every applicable law or provide answers to all the questions that may arise. The Code is intended to alert our directors, officers and employees to potential problem situations and provide a better understanding of what is expected of us in our business conduct. If you have any questions about the principles covered in this Code, please contact the General Counsel.

I, Allan J. Marshall, certify that:

1. I have reviewed this annual report on Form 10-KSB of Segmentz, Inc:
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 29, 2004

/s/ Allan J. Marshall

Chief Executive Officer

I, John S. Fynn, certify that:

1. I have reviewed this annual report on Form 10-KSB of Segmentz, Inc:
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 29, 2004

By: /s/ John S. Flynn
President

WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. §1350, I, the undersigned Chief Executive Officer of Segmentz, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-KSB of the Company for the year ended December 31, 2003, (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2004

By: /s/ ALLAN J. MARSHALL **Chief Executive Officer**

**VALUATION OF THE ASSETS
OF:**

Murphy Surf Air Trucking, Inc. sold by Fifth Third
Bank (sole secured creditor of Bankruptcy estate) to
Segmentz, Inc.

As of: December 2003
Report Dated: March 29, 2004

Monday, March 29, 2004

John S. Flynn
President & Chief Financial Officer
Segmentz, Inc.
18302 Highwoods Preserve Parkway
Tampa, FL 33647

Dear John:

The enclosed valuation report has been developed for the use of the audit committee of the Board of Directors of Segmentz, Inc. The report has been prepared by Bedford Partners & Company and was made by and/or under the direct supervision of the undersigned.

I hereby certify that, to the best of my knowledge and belief, the statements of fact contained in this report are true and correct, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation and in accordance with generally accepted standards pertaining to asset valuation, including but not limited to, the use of nationally recognized valuation guides for specific assets and examination of pooled assets and use of estimates to replace such assets to develop rules which can be used to estimate fair market value of such assets. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions; and represent my personal, unbiased, professional analyses, opinions, and conclusions.

Sincerely yours,

Bedford Partners & Company

Vincent Carroll
Managing Director

TABLE OF CONTENTS

INTRODUCTION	4
Assignment Definition	4
Summary of the Conclusion of this Report	4
Premise of Value	5
Statement of Scope and Limitations	5
Standard of Value	6
THE ECONOMIC OUTLOOK	6
Industry Outlook	7
OVERVIEW OF THE HISTORICAL ORIGIN OF THE ASSETS PURCHASED	8
Products and Markets	8
Description of Facilities	8
FINANCIAL ANALYSIS	9
Non-Public Peer Group for Financial Performance Comparison	9
Book Value and General Financial Condition of the Assets	9
Earnings, Performance, and Capacity	9
DETERMINATION OF FAIR MARKET VALUE	15
Overview of Valuation Approaches	15
CONCLUSION OF VALUE	17
APPENDIX A: CONTINGENT AND LIMITING CONDITIONS	18
APPENDIX B: QUALIFICATIONS OF APPRAISER	19
APPENDIX C: SOURCES OF INFORMATION	20
APPENDIX D GLOSSARY OF TERMS	20

INTRODUCTION**Assignment Definition**

Bedford Partners & Company has been retained by the audit committee of the Board of Directors of Segmentz, Inc., to render the business appraisal services described below. The following information summarizes our assignment:

Client Name	Segmentz, Inc. (Audit Committee of Board of Directors) John S. Flynn President & Chief Financial Officer
Business Name	Murphy Surf Air Trucking, Inc.
Appraisal Conducted on:	Assets sold by Fifth Third Bank (sole senior creditor)
State of Incorporation	Kentucky
Principle Business Locations	Lexington & Louisville, KY, Cincinnati, Chicago, Atlanta, Nashville & Knoxville, TN
Business Assets Valued	Pursuant to UCC-1 filing schedule
Standard of Value	Fair Market Value
Premise of Value	Orderly Liquidation, Replacement or Discounted value of premium
Effective Date of Appraisal	December 2003
Purpose and Intended Use	Board of Directors/Accounting Support

Summary of the Conclusion of this Report

The conclusion of the fair market value of the assets sold to Segmentz, Inc. by Fifth Third Bank, formally used in the business of Murphy Surf Air Trucking, Inc. as of December 2003 is \$1,951,851. This opinion is rendered in the context of the specific assignment described above and is applicable only for the period noted above. The conclusion is expressed based on orderly liquidation value and supported by historical revenue information and operating history as represented. The availability of support documents required to render an opinion on the comparable business value was not sufficient pursuant to the appraisal standards

used, therefore only asset valuation estimates comply with such standards in this report, and other estimates are based on information provided through third parties that could not be verified independently.

Premise of Value

Although valuation is a range concept, current valuation theory suggests that there are basic “levels” under which assets are appraised. The levels of value are respectively:

Orderly Liquidation: the value of assets if sold under circumstances that are conducive to realizing fair market value, without time constraints and allowing for the cataloguing for sale, reconditioning and orderly sales process that provides time for listing for sale of assets in public forums, targeted marketing to likely buyers and making available assets for inspection to allow for realization of market price.

Forced Liquidation: the value of assets if sold under time pressure with the focus being sale of items under time deadline, as opposed to sale for realization of market value. Such circumstances don’t necessarily offer reconditioning time, cataloguing of assets and targeted marketing to likely buyers, instead focusing on exchanging assets for cash or equivalents as available immediately.

This appraisal was conducted using Orderly Liquidation guidelines for estimates of value from nationally recognized guidebooks, nationally recognized auctioneer estimates based on recent auctions or actual offers for wholesale purchase with allowance made to estimate likely realized value in comparison with such wholesale estimates.

Statement of Scope and Limitations

This valuation report has been prepared in accordance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*. In accordance with these standards, a Statement of Contingent and Limiting Conditions is provided as Appendix A. and a Statement of Appraiser Qualifications is included in Appendix B.

Preparation of this report involved the review of substantial documentation with respect to the Company, the Transportation industry and the national economy. Information reviewed relative to the Company is summarized in Appendix C. Sources of information related to the industry and the national economy are cited specifically at appropriate sections of the report.

In conjunction with the preparation of this report, Vincent Carroll of Bedford Partners & Company examined the assets purchased by Segmentz, Inc., which were used in the business of Murphy Surf Air Trucking, Inc., as-is, and where-is. This visit, together with detailed analysis and value references provided by nationally recognized guidebooks, together provided important perspective to our understanding of the information reviewed and analyzed in the preparation of this asset valuation opinion.

In addition Leo Ehrlich, CPA, examined the data and supporting information to ensure compliance with the USPAP standards and that any guidebooks referenced herein were up to date and reflected what is believed to be fair market value as defined herein for the asset classes detailed and appraised for this report.

In all cases, we have relied upon the referenced information without independent verification. This report is, therefore, dependent upon the information provided. A material change in critical information relied upon in this report would be cause for a reassessment to determine the effect, if any, upon our conclusion.

Standard of Value

Fair market value is defined as follows:

The amount at which property would change hands between a willing seller and a willing buyer when neither is under compulsion and when both have reasonable knowledge of the relevant facts.

Fair market value is similarly defined in various sections of the Internal Revenue Code, related regulations and interpretations (e.g., Revenue Ruling 59-60).

THE ECONOMIC OUTLOOK

In conjunction with the preparation of this valuation opinion, we have reviewed and analyzed current economic conditions and how the Company and the industries in which it competes might be impacted, as well as asset liquidation trends in the transportation business, specifically. The Gross Domestic Product of the US economy saw slight reductions as consumer spending declined in the Fourth Quarter 2003. The underlying figures in the manufacturing and distribution sectors

continue to be bullish which has indicated expansion in transportation and warehousing for the upcoming year.

Industry Outlook

Market penetration of third-party logistics providers (“3PLs”) is still relatively low. According to industry sources, total gross expenditures managed by third-party logistics services in the United States was approximately \$65 billion in 2002, representing about 7% of the \$910 billion in estimated domestic business logistics systems costs. For 2002, domestic non-asset based transportation management was estimated to have grown \$19.5 billion, or 11.4% as compared to 2001.

According to a Georgia Institute of Technology survey and analysis, third-party logistics use among North American companies remained strong in 2003, with 78% of North American companies reporting that they outsource a portion of their logistics needs to logistics service providers or 3PLs. Among companies surveyed in Western Europe, 79% of respondents indicated they use 3PL services, and in the Asia-Pacific region, more than half (58%) currently outsource.

It would appear that the strategic role of information technology and the demand for real-time information such as inventory visibility and order status updates will continue to have a positive impact on the logistics and land based transportation businesses. The 2003 Langley survey supports the contention that IT-based services and capabilities are among the key expectations with customers of logistics service providers. The top five outsourced logistics services and IT support functions were: warehouse/distribution center management (77%); Web-enabled communications (64%); transportation management (64%); shipment tracking/event management (62%); and export/import/freight-forwarding/customs clearance (61%).

Assets of land-based transportation have been trending upwards as the turmoil in the airline industry has created additional volumes in ground transportation resulting from lower availability on cargo airlines according to several industry sources, including the transportation industry intermediaries association (TIIA).

OVERVIEW OF THE HISTORICAL ORIGIN OF THE ASSETS PURCHASED

Wendell Murphy founded Murphy Surf Air Trucking, Inc. in 1949. The Company performed a variety of regional trucking and transportation services over its fifty year history for over ten thousand customers. In 2000, Wendell Murphy passed away and his widow, Betty Murphy hired business brokers to market the Company for sale. John Stoeckinger purchased the Company in September 2001 for approximately \$2.5 million, using personal funds and capital of approximately \$750,000 and a loan provided by the seller of the assets, Fifth Third Bank, issued under the guarantee and provisions of the Small Business Administration, in the amount of \$1.75 million dollars.

Products and Markets

Murphy Surf Air Trucking, Inc. provided local pickup and delivery services in the Southeast and Midwest areas of the United States, with locations in Chicago, Cincinnati, Louisville & Lexington KY., Atlanta, Knoxville and Nashville, TN. The Company provides local transportation, staging, consolidation and breakdown of freight and end delivery in its local offices and through a contract with ACI in alternative locations.

Description of Facilities

The facilities that were operated by Murphy Surf Air historically include the following locations:

<u>Location</u>	<u>Size</u>	<u>Type</u>
Atlanta	11,000 Sq. Ft	Cross-Dock
Chicago	12,500 Sq. Ft	Cross-Dock
Cincinnati	15,000 Sq. Ft.	Cross-Dock
Knoxville, TN	11,000 Sq. Ft.	Cross-Dock
Lexington, KY	7,500 Sq. Ft.	Airport Facility
Louisville, KY	14,000 Sq. Ft.	Cross-Dock

FINANCIAL ANALYSIS

Non-Public Peer Group for Financial Performance Comparison

For purposes of comparison with industry financial measures available from non-public company sources, we reviewed the *Annual Statement Studies*, published by The Risk Management Association "RMA". RMA compiled average percentage income statement and balance sheets and key financial ratios focused on fair market value transactions involving asset sales for companies classified under Standard Industrial Classification (SIC) #4731. The selected RMA group includes 37 companies. We believe the RMA data provide limited comparative perspective and strict comparisons should be made with caution.

Book Value and General Financial Condition of the Assets

As of December 2003, total assets were estimated to be worth \$1,951,851, against which First Third Bank had a chattel interest or UCC One filing and estimated equity was approximately \$1,951,851. The Assets listed in the sale by Fifth Third Bank including the following components: Fixed Assets (consisting of Leasehold Improvements (warehouse racking, construction and site improvements, pallet jacks, pallets, scales, cubing instrumentation and support methods), Transportation Equipment, favorable commercial lease with airport access and a favorable safety history that resulted in direct reductions to insurance costs for Segmentz. The tangible assets have been valued using nationally recognized guidebooks and the intangible assets valued by estimating benefits directly related to acquisition of these assets, and using present value methods to determine a value at the closing date (using five year estimated benefits to determine the closing valuation)

Earnings, Performance, and Capacity

Reported Revenues and Margins

Murphy Surf Air Trucking had an eleven million dollar estimated revenue base for the fiscal year ending December 31, 2001. The Company experienced approximately 20% reduction in revenues consequential to the terrorist threats and transportation industry contractions resulting

from the terrorist attacks on the World Trade Center and Pentagon on September 11, 2001. The Company continued to lose business during the following year, including Lexmark Corporation (based in Lexington, KY), resulting in a revenue base in 2002 of approximately \$8 million.

Because of the unforeseen nature of the reduction in business, Murphy was forced into a reorganization by Fifth Third Bank, its sole senior creditor, that resulted in the sale of the business assets as detailed herein. In addition to the physical assets and favorable leases tendered in the sale, all name rights, phone numbers and client lists were transferred to Segmentz, Inc., consequential to this sale. Those fully intangible assets are not valued here, nor is any enterprise business value resulting from the asset purchase that allowed Segmentz to obtain business immediately following closing.

The information provided with regards to the historical operation of the Murphy Surf Air business has been used solely to validate the value of these assets as might apply if these assets were deployed in an ongoing business venture.

Key Financial Ratio Analysis

No supporting tax or financial statement documentation was available to provide ratio analysis for the historical performance of MSA previous to or during the bankruptcy filing. In lieu of financial ratio data analysis information, the specific asset values and estimates and sources are presented in tables below:

<u>ASSET CLASS</u>	<u>VALUE</u>
Leasehold Improvements	\$ 225,000
Technology License and Software	\$ 150,000
Safety Record Insurance Rating	\$ 618,498
Furniture, Fixtures and Equipment	\$ 250,000
Transportation Equipment	\$ 526,100
Motor Carrier Permits	\$ 65,000
Airport Lease-Lexington	\$ 142,253
TOTAL	\$1,951,851

Leasehold improvements include many items that are capital items for transportation service companies that are in place in the facilities Segmentz occupies as part of the MSA asset purchase. These assets include drive in doors, paving, interior construction, gating and security, HVAC systems and upgrades, maintenance bays and other interior

warehouse and cross dock construction leaseholds that are generally valuable and tangible. The assets in some facilities are more valuable than in others and rather than list individual facilities assets, we have aggregated value over the facilities evenly below:

LEASEHOLD IMPROVEMENTS	\$ 300,000
Chicago	\$ 50,000
Louisville	\$ 50,000
Lexington	\$ 50,000
Atlanta	\$ 50,000
Nashville	\$ 50,000
Knoxville	\$ 50,000

TECHNOLOGY LICENSE and SOFTWARE

	<u>Value</u>	<u>Discount</u>	<u>Net Value</u>
Aurora Enterprise Transportation	\$ 100,000	75%	\$ 75,000
Custom Work Web Upgrades	\$ 75,000	50%	\$ 37,500
100 Microsoft Office Licenses	\$ 20,000	50%	\$ 10,000
Various Miscellaneous Use Licenses	\$ 55,000	50%	\$ 27,500

Total Net Value \$150,000

SAFETY RECORD/INSURANCE RATING

Murphy Surf Air Trucking Safety Record

The market for auto-liability and basic transportation insurance products has experienced significant cost increases and onerous policy provisions since the terrorist attacks on September 11, 2001. Segmentz, Inc. was paying between 4-5% of its revenues to secure insurance prior to purchasing the assets of MSA from Fifth Third Bank, which included a permitted Motor Carrier number and the historical safety record that enabled significant reduction in premiums paid for all transportation insurance products. The appraisal of the assets herein has taken the estimated benefits realized by Segmentz, Inc. at a ten million dollar anticipated revenue level (quite conservative, considering the Company's year end estimate of \$16 million) over a five year span and quantified a present value for that benefit as presented herein. We estimated the value at approximately twenty five percent of the PV of the five year

savings to take into consideration the possibility of rate increases after a year or two that might mitigate or reduce the value of this benefit.

<u>Historical Insurance Rate</u>	<u>Rate w/MSA Safety Record</u>	<u>Rate Diff.</u>	<u>Monthly</u>	<u>Annually</u>	<u>Present Value Annual Savings Five Year Period</u>
5%	4%	-2%	\$ 12,500	\$ 150,000	\$ 618,497.62
				Five Years	
				\$ 750,000	

Based on Attained Revenues of \$10,000,000

FURNITURE, FIXTURES & EQUIPMENT \$150,000

Attached is a schedule of computers, servers and office equipment. Pursuant to our estimate of the value of this equipment and office equipment, we have estimated the value of all Furniture, fixtures and equipment at \$250,000, with some aggregations of value as detailed below:

Office Desks	\$25,000
Computers	\$40,000
Servers	\$55,000
Laptops	\$20,000
TRANSPORTATION EQUIPMENT	VALUE
Small Trucks/Autos	\$ 178,150
Forklifts	\$ 71,500
Trucks	\$159,750
Trailers	\$106,000
TOTAL	\$515,400

SMALL TRUCKS/AUTOMOBILES

<u>Year</u>	<u>Make</u>	<u>Model</u>	<u>Type</u>	<u>Estimated Value</u>	<u>Source</u>
1999	GMC	Savanna	Cargo Van	\$ 13,200	NADA Guide
1999	GMC	Savanna	Cargo Van	\$ 13,200	NADA Guide
1999	GMC	Savanna	Cargo Van	\$ 13,200	NADA Guide
1999	GMC	Savanna	Cargo Van	\$ 13,200	NADA Guide
1999	GMC	Savanna	Cargo Van	\$ 13,200	NADA Guide
2000	Ford	E-150	Cargo Van	\$ 14,525	NADA Guide
2000	Ford	E-150	Cargo Van	\$ 14,525	NADA Guide
2000	Ford	E-150	Cargo Van	\$ 14,525	NADA Guide
1989	Ford	Ranger	Pickup Truck	\$ 3,000	NADA Guide
1993	GMC	G3500	Cube Van	\$ 8,500	NADA Guide
1986	GMC	G3500	Cube Van	\$ 4,500	NADA Guide
1998	Ford	Taurus	Automobile	\$ 7,750	NADA Guide
1997	Ford	Taurus	Automobile	\$ 5,200	NADA Guide
1997	Ford	Taurus	Automobile	\$ 5,200	NADA Guide
1997	Ford	Taurus	Automobile	\$ 5,200	NADA Guide
2002	Volvo	S-80	Automobile	\$ 15,500	NADA Guide
1997	Olds.	Aurora	Automobile	\$ 6,500	NADA Guide
2001	Toyota	Camry	Automobile	\$ 7,725	NADA Guide
TOTAL				\$ 178,150	

FORKLIFTS

2002	Kohmatsu	5000 LB	Forklift	\$21,500	Wholesale Offer
1999	Mitsubishi	3000 LB	Forklift	\$15,500	Wholesale Offer
2000	Mitsubishi	3000 LB	Forklift	\$17,250	Wholesale Offer
2000	Mitsubishi	3000 LB	Forklift	\$17,250	Wholesale Offer
TOTAL				\$71,500	

TRUCKS

<u>Year</u>	<u>Make</u>	<u>Model</u>	<u>Type</u>	<u>Estimated Value</u>	<u>Source</u>
1984	International	26'	Str. Truck Lift Gate	\$ 9,000	NADA Guide
1992	International	26'	Str. Truck Lift Gate	\$ 13,500	NADA Guide
1990	International	26'	Str. Truck Lift Gate	\$ 11,000	NADA Guide
1990	International	26'	Str. Truck Lift Gate	\$ 11,000	NADA Guide
1992	Ford	24'	Str. Truck Lift Gate	\$ 14,500	NADA Guide
1992	Ford	24'	Str. Truck Lift Gate	\$ 14,500	NADA Guide
1992	International	26'	Str. Truck Lift Gate	\$ 17,000	NADA Guide
1991	International	26'	Str. Truck Lift Gate	\$ 15,500	NADA Guide
1990	International	26'	Str. Truck Lift Gate	\$ 13,750	NADA Guide
1992	Ford	L-8000	Tractor	\$ 10,000	NADA Guide
1991	GMC	Tandem Day Cab	Tractor	\$ 15,000	NADA Guide
1991	GMC	Tandem Day Cab	Tractor	\$ 15,000	NADA Guide
TOTAL				\$ 159,750	

TRAILERS

<u>Year</u>	<u>Make</u>	<u>Model</u>	<u>Type</u>	<u>Estimated Value</u>	<u>Source</u>
1995	Air Ride	48'	Trailer	\$ 10,500	Trailer Guide
1987	Air Ride	48'	Trailer	\$ 7,500	Trailer Guide
1985	Air Ride	48'	Trailer	\$ 6,500	Trailer Guide
1989	Air Ride	48'	Trailer	\$ 9,000	Trailer Guide
1989	Air Ride	48'	Trailer	\$ 9,000	Trailer Guide
1989	Air Ride	48'	Trailer	\$ 9,000	Trailer Guide
1985	Air Ride	48'	Trailer	\$ 5,500	Trailer Guide
1986	Air Ride	48'	Trailer	\$ 7,000	Trailer Guide
1986	Air Ride	48'	Trailer	\$ 7,000	Trailer Guide
1986	Air Ride	48'	Trailer	\$ 7,000	Trailer Guide
1986	Air Ride	48'	Trailer	\$ 7,000	Trailer Guide
1986	Air Ride	48'	Trailer	\$ 7,000	Trailer Guide
1986	Air Ride	48'	Trailer	\$ 7,000	Trailer Guide
TOTAL				\$ 106,000	

AIRPORT LEASE

Favorable Lease at Lexington Airport

The Lease held by Betty Murphy at Lexington Airport was granted under favorable terms, when compared with the current terms proposed to new tenants entering into such leases in small regional airports. Lexington’s terminal facility has direct access to the airport tarmac, allowing plane freight to be loaded and offloaded directly on to land based transportation. In addition, all such leases are limited in number due to the constraints imposed by facility size and available land to build such facilities.

<u>Current Rent</u>	<u>Market Rent</u>	<u>Benefit</u>	<u>Monthly</u>	<u>Annually</u>	<u>Present Value</u>
\$ 7.20 p.s.f	\$ 21.00 p.s.f	\$ 13.80	\$ 2,875.00	\$ 34,500	\$ 142,253.28
				Five Years	
				\$ 172,500	

DETERMINATION OF FAIR MARKET VALUE

Overview of Valuation Approaches

Three basic approaches to value are defined in the *Business Valuation Standards* of the American Society of Appraisers:

Asset Based Approach: A general way of determining a value indication of a business's assets and/or equity using one or more methods based directly on the value of the assets of the business less liabilities. The Replacement Value of items, either new or used is often used to support the Asset Based Approach method.

Income Approach: A general way of determining a value indication of a business's assets and/or equity using one or more methods wherein a value is determined by converting anticipated benefits.

Market Approach: A general way of determining a value indication of a business's assets and/or equity using one or more methods that compare the subject to similar investments that have been sold.

The various methods of valuation that appraisers use in practice are typically considered as subdivisions of these broad approaches. Valuation methods under the Market and Income approaches generally contain common characteristics such as measures of earning power, discount rates and/or capitalization rates and multiples.

Asset Value

The reconstructed asset value of Murphy Surf Air Trucking, Inc. as of December 2003 was \$1,951,851. Asset value is an accounting value that is calculated by estimating the realizable value of various assets under "fair market conditions". In our opinion, fair market value of assets provides a realistic determination of likely realized value of assets under reasonable sale time deadlines, because the estimates used are supported by nationally recognized guidebook valuation analysis, reduction in stated asset value to comply with "as-is" reductions as would have been made under Generally Accepted Accounting Principals (GAAP) relating to reduction in value in both tangible and intangible asset classes, and such analysis is coordinated by speaking with sales and auction professionals to validate such guidebook values with practical recent sales support.

Adjusted Asset - Liquidation Value

The adjusted asset value - liquidation method develops a valuation indication by adjusting the reported asset values of a subject company to their actual or estimated liquidation values and subtracting any chattel interests (adjusted to fair market value, if appropriate).

Discount Applied

As the assets examined in this case stand alone with or without enterprise business value, our appraisal does not reflect a discount applied for the fact that no specific business operations were conducted at the time of the sale with the assets examined hereunder.

Adjusted Net Asset Value

The estimate of net asset value is developed in each supporting list providing specific assets and guidebook support for valuation in accordance with methodologies that are applied by USPAS, and "Fair Market" value estimates are applied. We described the specific adjustments in the analysis of the balance sheet. At the date of valuation, the estimated net asset value acquired by Segmentz from Fifth Third Bank in connection with the MSA operations was \$1,951,851.

Price to Revenues Method

This assignment was specifically focused on the asset value of assets purchased by Segmentz, Inc. from Fifth Third Bank. In order to determine the excess value, if any, that might be imparted to this asset pool if it were deployed in an ongoing business venture, the following information has been compiled:

Ongoing Revenue Base

Although the historical financial information regarding the operating history of Murphy Surf Air Trucking, Inc. was not available for this analysis, guidelines that provide guidance for support of comparable pricing of similar entities based upon revenues were examined to ensure that significant offset to "Fair Market" value of assets was not required in this case. The revenues for MSA for the 4th quarter of 2002, derived from the agency records of Segmentz, Inc. audited financial statements.

Price to Revenues Ratio

By convention, analysts express the relationship between the market price of a stock and its historical revenues in the form of a ratio of the market price of revenues for the most recent twelve months, i.e., price/revenues (P/R) ratio. If the public company group is sufficiently

homogeneous with respect to the companies selected, their recent performances, and the public market's reaction to their performances, analysts typically calculate some form of average P/R ratio as representative of the group.

The range of P/R ratios for the public company group as of the valuation date was 0.5 to 1.8X trailing twelve months revenues.

The median P/R multiple of the guideline companies is .8X trailing revenues. This is used as the base capitalization factor in the derivation of value.

Multiplying the ongoing revenues base of \$8 million by the capitalization factor of 0.8x derived from publicly traded companies, produces a potential operating value of \$2,540,000, after reducing the estimated value of \$6.4 million by 50% to take into account the discount of value applied to a privately held enterprise, then reducing the \$3.2 million resultant private company value by 20% to reflect enterprise value under time pressured sales requirements. This examination fully validates the as-is, where is appraisal of the assets listed herein as their value in the historical enterprise of Murphy Surf Air would support an analysis in which an equivalent business model deploying such assets could have equal or greater value than values expressed in this appraisal, subject to any qualifications expressed above.

CONCLUSION OF VALUE

The orderly liquidation value of the assets as examined; as is, where is, is \$1,951,851. The appraisal of the business did not yield valuation that would conform to USPAP standards, but the estimates range from \$1.2-5.0 million for peer companies based upon historically reported revenues and other information, backup for which was not satisfactory to determine a value standard under USPAP guidelines.

APPENDIX A: CONTINGENT AND LIMITING CONDITIONS

This report has considered all the information referenced in it whether specifically mentioned in the report or not. The various estimates and conclusions presented apply to this report only and may not be used out of the context presented herein.

Possession of the original or copies of this report do not carry with it the right of publication of all or part of it. It was prepared for the exclusive use of the client, and may not be used without the previous written consent of Bedford Partners and Company or the client, and in any event, only with proper attribution. No copies of this report will be furnished to persons other than the client without the client's specific permission or direction unless ordered by a court of competent jurisdiction.

No officer or employee of Bedford Partners and Company is required to give testimony in court or be in attendance during any hearings or depositions with reference to the Company. In any event, professional fees for such services are independent of this review and are subject to arrangements made satisfactory to the client and Bedford Partners.

Bedford Partners and Company, its officers, and its staff have no present business interest in the Company. No benefits will accrue to Bedford Partners as a result of this review other than the professional fees previously agreed to by the Company. Fees paid to Bedford Partners for the preparation of this review are neither dependent or contingent upon any transaction nor upon the results of the review.

APPENDIX B: QUALIFICATIONS OF APPRAISER

Vincent Carroll is a seasoned corporate finance professional spending the last 15 years providing Fairness Opinions and Business Appraisal Valuation Services for transactions within mergers-acquisitions-divestitures-joint ventures, investment banking, private equity, advisory consulting, strategic planning & development and venture capital segments for micro-small-mid cap publicly traded capital markets and privately held middle to large capitalization markets, following a successful career in marketing with the National Hockey League.

Leo Ehrlich is a Certified Public Accountant that has been practicing for 20 years in New York City. He is currently the Chief Executive and Financial Officer for Saliva Diagnostics, Inc., a medical devices corporation, as well as a principal in his own consultancy practice.

APPENDIX C: SOURCES OF INFORMATION

North American Dealer's Association (NADA) Guidebook

Daley Hokins Auction Averages

Crutcher Brothers Scrap and Transportation Equipment

APPENDIX D GLOSSARY OF TERMS

This Glossary was developed jointly by representatives of the American Institute of CPAs, the American Society of Appraisers, the Canadian Institute of Business Valuers, the Institute of Business Appraisers, and the National Association of Certified Valuation Analysts.

Adjusted Book Value - the value that results after one or more asset(s) or liability amounts are added, deleted, or changed from their respective financial statement amounts.

Appraisal - See Valuation.

Appraisal Approach - See Valuation Approach.

Appraisal Date - See Valuation Date.

Appraisal Method - See Valuation Method.

Appraisal Procedure - See Valuation Procedure.

Asset (Asset-Based) Approach - a general way of determining a value indication of a business, business ownership interest, or security by using one or more methods based on the value of the assets of that business net of liabilities.

Beta - a measure of systematic risk of a security; the tendency of a security's returns to correlate with swings in the broad market.

Business - see Business Enterprise.

Business Enterprise - a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

Business Valuation - the act or process of determining the value of a business enterprise or ownership interest therein.

Capital Asset Pricing Model (CAPM) - a model in which the cost of capital for any security or portfolio of securities equals a risk free rate plus a risk premium that is proportionate to the systematic risk of the security or portfolio.

Capitalization - a conversion of a single period stream of benefits into value.

Capitalization Factor - any multiple or divisor used to convert anticipated benefits into value.

Capitalization Rate - any divisor (usually expressed as a percentage) used to convert anticipated benefits into value.

Capital Structure - the composition of the invested capital of a business enterprise; the mix of debt and equity financing.

Cash Flow - cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, “discretionary” or “operating”) and a definition of exactly what it means in the given valuation context.

Control - the power to direct the management and policies of a business enterprise.

Cost Approach - a general way of estimating a value indication of an individual asset by quantifying the amount of money that would be required to replace the future service capability of that asset.

Cost of Capital - the expected rate of return (discount rate) that the market requires in order to attract funds to a particular investment.

Discount - a reduction in value or the act of reducing value.

Discount Rate - a rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into present value.

Economic Life - the period of time over which property may generate economic benefits.

Effective Date - See Valuation Date.

Enterprise - See Business Enterprise.

Fair Market Value - the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. {NOTE: In Canada, the term “price” should be replaced with the term “highest price”.}

Forced Liquidation Value - liquidation value at which the asset or assets are sold as quickly as possible, such as at an auction.

Going Concern - an ongoing operating business enterprise.

Going Concern Value - the value of a business enterprise that is expected to continue to operate into the future. The intangible elements

of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.

Goodwill - that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

Goodwill Value - the value attributable to goodwill.

Intangible Assets - nonphysical assets (such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts as distinguished from physical assets) that grant rights, privileges, and have economic benefits for the owner.

Invested Capital - the sum of equity and debt in a business enterprise. Debt is typically long term liabilities or the sum of short term interest bearing debt and long term liabilities. When the term is used, it should be supplemented by a definition of exactly what it means in the given valuation context.

Investment Risk - the degree of uncertainty as to the realization of expected returns.

Investment Value - the value to a particular investor based on individual investment requirements and expectations. {NOTE: In Canada, the term used is "Value to the Owner."}

Levered Beta - the beta reflecting a capital structure that includes debt.

Liquidity - the ability to quickly convert property to cash or pay a liability.

Liquidation Value - the net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced".

Market (Market-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Marketability - the ability to quickly convert property to cash at minimal cost.

Minority Discount - a discount for lack of control applicable to a minority interest.

Net Book Value - with respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities of a business enterprise as they appear on the balance sheet (synonymous with Shareholder's Equity); with

respect to an intangible asset, the capitalized cost of an intangible asset less accumulated amortization as it appears on the accounting books of the business enterprise.

Net Cash Flow - a form of cash flow. When the term is used, it should be supplemented by a qualifier (for example, "Equity" or "Invested Capital") and a definition of exactly what it means in the given valuation context.

Net Tangible Asset Value - the value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities. {NOTE: In Canada, tangible assets also include identifiable intangible assets.}

Non-operating Assets - assets not necessary to ongoing operations of the business enterprise. {NOTE: In Canada, the term used is "Redundant Assets."}

Orderly Liquidation Value - liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Premise of Value - an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern, liquidation.

Rate of Return - an amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Report Date - the date conclusions are transmitted to the client.

Replacement Cost New - the current cost of a similar new property having the nearest equivalent utility to the property being valued.

Reproduction Cost New - the current cost of an identical new property.

Residual Value - the prospective value as of the end of the discrete projection period in a discounted benefit streams model.

Risk Free Rate - the rate of return available in the market on an investment free of default risk.

Risk Premium - a rate of return in addition to a risk free rate to compensate the investor for accepting risk.

Rule of Thumb - a mathematical relationship between or among variables based on experience, observation, hearsay, or a combination of these, usually applicable to a specific industry.

Special Interest Purchasers - acquirers who believe they can enjoy post-acquisition economies of scale, synergy, or strategic advantages by combining the acquired business interest with their own.

Standard of Value - the identification of the type of value being utilized in a specific engagement; e.g. fair market value, fair value, investment value.

Sustaining Capital Reinvestment - the periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Systematic Risk - the risk that is common to all risky securities and cannot be eliminated through diversification. When using the capital asset pricing model, systematic risk is measured by beta.

Terminal Value - See Residual Value.

Unlevered Beta - the beta reflecting a capital structure without debt.

The Risk Management Association – Formerly know as Robert Morris Associates.

Unsystematic Risk - the portion of total risk specific to an individual security that can be avoided through diversification.

Valuation - the act or process of determining the value of a business, business ownership interest, security, or intangible asset.

Valuation Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods.

Valuation Date - the specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Appraisal Date").

Valuation Method - within approaches, a specific way to determine value.

Valuation Procedure - the act, manner, and technique of performing the steps of an appraisal method.

Valuation Ratio - a fraction in which a value or price serves as the numerator and financial, operating, or physical data serve as the denominator.

Value to the Owner - {NOTE: In Canada, see Investment Value. }

Weighted Average Cost of Capital (WACC) - the cost of capital (discount rate) determined by the weighted average at market value of the cost of all financing sources in the business enterprise's capital structure.