

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

STONEPATH GROUP INC
Form 10-K/A
August 28, 2003

=====

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

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2002
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-16105

STONEPATH GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware

65-0867684

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1600 Market Street, Suite 1515, Philadelphia, PA

19103

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (215) 979-8370
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
Common Stock, par value
\$.001 per share

Name of each exchange on which registered:
American Stock Exchange

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

None

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-K or any amendment to this
Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as
defined in Rule 12b-2 of the Act)

YES NO

The aggregate market value of the Registrant's common stock held by
non-affiliates of the Registrant as of June 28, 2002 was \$21,606,526 based upon

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

the closing sale price of the Registrant's common stock on the American Stock Exchange of \$1.10 on such date. See Footnote (1) below.

The number of shares outstanding of the Registrant's common stock as of March 17, 2003 was 27,945,914.

Documents Incorporated by Reference: None

Index to Exhibits appears at page 43 of this Report

(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.
=====

STONEPATH GROUP, INC.
ANNUAL REPORT ON FORM 10-K/A
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2002

TABLE OF CONTENTS

PART I.....

Item 1. Business.....

Item 2. Properties.....

Item 3. Legal Proceedings.....

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

PART II.....

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....

Item 6. Selected Financial Data.....

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Op.....

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....

Item 8. Financial Statements and Supplementary Data.....

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Dis.....

PART III.....

Item 10. Directors and Executive Officers of the Registrant.....

Item 11. Executive Compensation.....

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

-----	-----
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related St
-----	-----
Item 13.	Certain Relationships and Related Transactions.....
-----	-----
Item 14.	Controls and Procedures.....
-----	-----
PART IV.....	-----
-----	-----
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....
-----	-----
SIGNATURES.....	-----
-----	-----

Explanatory Note

This Form 10-K/A is being filed to restate our consolidated financial statements as of and for the years ended December 31, 2002 and 2001 and to revise certain disclosures in connection with a review of our Form 10-K for the year ended December 31, 2002 by the Staff of the Division of Corporation Finance of the Securities and Exchange Commission. The restatement of our consolidated financial statements relates to (i) allocating more value to the customer relationship intangible assets for some of our acquisitions and (ii) revising the amortization method and life used for such assets. The Financial Outlook section previously included in Item 7 of Part II of our Form 10-K has been omitted as it has been superceded by subsequent guidance provided by us. Except as otherwise specifically noted, all information contained herein is as of December 31, 2002 and does not reflect any events or changes in information that may have occurred subsequent to that date.

PART I

This Annual Report on Form 10-K/A 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. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and our subsidiaries, that may cause our 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 Our Business" and the risks discussed in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our audited Consolidated Financial Statements and related Notes thereto included elsewhere in this report.

Item 1. Business

Overview

We are a non-asset based third-party logistics services company providing

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

supply chain solutions on a global basis. We offer a full range of time-definite transportation and distribution solutions through our Domestic Services platform where we manage and arrange the movement of raw materials, supplies, components and finished goods for our customers. These services are offered through our domestic air and ground freight forwarding business. We offer a full range of international logistics services including international air and ocean transportation as well as customs house brokerage services through our International Services platform. In addition to these core service offerings, we also provide a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management solutions. We service a customer base of manufacturers, distributors and national retail chains through a network of offices in 18 major metropolitan areas in North America, plus two international locations, and an extensive network of over 200 independent carriers and over 150 service partners strategically located around the world.

Our strategic objective is to build a leading global logistics services organization that integrates established logistics companies with innovative technologies. To that end, we are extending our network through a combination of synergistic acquisitions and the organic expansion of our existing base of logistics operations.

Our acquisition strategy focuses on acquiring and integrating logistics businesses that will enhance operations within our current market areas as well as extend our network to targeted locations in Asia, South America and Europe. We select acquisition targets based upon their ability to demonstrate: (1) historic levels of profitability; (2) a proven record of delivering superior time-definite distribution and other value added services; (3) an established customer base of large and mid-sized companies; and (4) opportunities for significant growth within strategic segments of our business.

As we integrate these companies, we intend to create additional stockholder value by: (1) improving productivity through the adoption of 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.

Our strategy is designed to take advantage of shifting market dynamics. The third-party logistics industry continues to grow as an increasing number of businesses outsource their logistics functions to more cost effectively manage and extract value from their supply chains. Also, the industry is positioned for further consolidation since it remains highly fragmented, and since customers are demanding the types of sophisticated and broad reaching service offerings that can more effectively be handled by larger and more diverse organizations.

1

There are a variety of risks associated with our ability to achieve our strategic objectives, including our ability to acquire and profitably manage additional businesses, our current reliance on a small number of key customers, the risks inherent in international operations, and the intense competition in our 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 our Business."

Through December 31, 2002, we have completed the following four acquisitions:

- o On October 5, 2001, we acquired M.G.R., Inc., d/b/a "Air Plus Limited" and its operating affiliates, a group of Minneapolis-based privately

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

held companies that provide a full range of logistics and transportation services (collectively, "Air Plus"). Air Plus provides the platform for our Domestic Services organization.

- o On April 4, 2002, we acquired Global Transportation Services, Inc. ("Global"), a Seattle-based privately held company that provides a full range of international air and ocean logistics services. Global provides the platform for our International Services organization.
- o On May 30, 2002, we acquired United American Freight Services, Inc. ("United American"), a Detroit-based organization as an "add-on" acquisition to our Domestic Services organization to expand our service offering to include a time definite logistics service for the automotive industry.
- o On October 1, 2002, we acquired Transport Specialists, Inc. ("TSI"), a Virginia-based organization as an "add-on" acquisition to our Domestic Services organization to broaden our customer base to include various U.S. government agency and contractor relationships.

We are also in the process of closing a transaction that will significantly increase our presence in Asia. On March 12, 2003, we announced an agreement to acquire a 70% interest in Singapore-based G-Link Group, a "platform acquisition" that will provide the foundation for our service offering in Southeast Asia. We expect to close the transaction by no later than June 30, 2003, subject to customary closing conditions, including securing third-party and regulatory approvals and the completion of an audit for the year ended December 31, 2002.

Beyond these immediate acquisition opportunities, we have also identified a number of additional companies that may be suitable acquisition candidates and we are in preliminary discussions with a select number of them.

Industry Overview

As business requirements for efficient and cost-effective distribution services have increased, so has the importance and complexity of effectively managing freight transportation. Businesses are increasingly striving to minimize inventory levels, reduce order and cash-to-cash cycle lengths, perform manufacturing and assembly operations in lowest cost locations and distribute their products throughout global markets, often requiring expedited or time-definite shipment services. Furthermore, customers are increasingly citing an efficient supply chain as a critical element in achieving financial performance. To remain competitive, successful companies need to not only achieve success in their core businesses, they must execute quickly and accurately.

To accomplish their goals, many businesses turn to organizations providing a broad array of supply chain services. These service providers consist of freight forwarders, customs brokers, warehouse operators and other value added logistics service providers. We believe that these service providers must possess state-of-the-art technology and the ability to provide global supply chain management services to be responsive to the marketplace. Many logistics providers are now providing their customers with customized solutions for the planning and management of complex supply chains. The demand for these solutions has risen as companies continue to outsource non-core competencies, globally source goods and materials and focus on managing the overall cost of their supply chain. These trends are further facilitated by the rapid growth of technology including the growth of Web-based track and trace technology, and the ability to create electronic interfaces between the systems of service providers and their customers.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

The Company believes it can differentiate itself by focusing on time-definite supply chain solutions with capabilities across virtually every mode of transportation, as well as combining these services with other value-added logistics services, including pick-and-pack services, merge-in-transit, inventory management, Web-based order management, warehousing, reverse logistics, dedicated trucking and regional and local distribution. The Company also believes that it has a competitive advantage resulting from its extensive knowledge of logistics markets, information systems, the experience of its logistics managers and the market information it possesses from its diverse customer base.

2

Market penetration of third-party logistics providers ("3PLs") is still relatively low. According to industry sources, total revenue for the third-party logistics services in the U.S. was approximately \$61 billion in 2001, representing about 8% of the total logistics market that could be outsourced to 3PLs. The market for third-party logistics services in the United States is expected to grow at an average rate of about 15% over the next several years, or to well over \$100 billion by 2006. The total logistics market available to 3PLs in the United States is expected to grow at an average rate of about 4% over the next several years, to approximately \$875 billion in 2006, from \$720 billion in 2001.

Barring the risk of international crisis and armed conflicts, we believe that the third-party logistics industry in general, and that time-definite distribution in particular, is poised for continued growth. The growth in the use of third-party logistics services is being driven by a number of factors, including:

- o Outsourcing of non-core activities. Companies are increasingly outsourcing freight forwarding, warehousing and other supply chain activities to allow them to focus on their respective core competencies. From managing purchase orders to the timely delivery of products, companies turn to 3PLs to manage these functions at a lower cost and more efficiently.
- o Globalization of trade. As barriers to international trade are reduced or eliminated, companies are increasingly sourcing their parts, supplies and raw materials from the most cost competitive suppliers throughout the world. This places a greater emphasis on international freight management and just-in-time delivery. Outsourcing of manufacturing functions to, or locating company-owned manufacturing facilities in, low cost areas of the world also results in increased volumes of world trade.
- o Increased need for time-definite delivery. The need for just-in-time and other time-definite delivery has increased as a result of the globalization of manufacturing, greater implementation of demand-driven supply chains, the shortening of product cycles and the increasing value of individual shipments. Many businesses recognize that increased spending on time-definite supply chain management services can decrease overall manufacturing and distribution costs, reduce capital requirements and allow them to manage their working capital more efficiently by reducing inventory levels and inventory loss.
- o Consolidation of logistics function. As companies try to develop "partnering" relationships with fewer suppliers, they are consolidating the number of freight forwarders and supply chain management providers they use. This trend places greater pressure on

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

regional or local freight forwarders and supply chain management providers to grow or become aligned with a global network. Larger freight forwarders and supply chain management providers benefit from economies of scale which enable them to negotiate reduced transportation rates with the carriers actually providing the transportation services and to allocate their overhead over a larger volume of transactions. Globally-integrated freight forwarders and supply chain management providers are better situated to provide a full complement of services, including pick-up and delivery, shipment via air, sea and/or ground transport, warehousing and distribution, and customs brokerage.

- o Increased significance of technology. Advances in technology are placing a premium on decreased transaction times and increased business-to-business activity. Companies have recognized the benefits of being able to transact business electronically. Accordingly, businesses increasingly are seeking the assistance of supply chain service providers with sophisticated information technology systems which facilitate real-time transaction processing and Web-based shipment monitoring.

According to a survey led by Dr. C. John Langley, Georgia Institute of Technology, third-party logistics use among North American companies increased to 78% in 2002, from 68% to 73% usage rates reported in the previous six years.

We expect the strategic role of information technology and the demand for real-time information such as inventory visibility and order status updates to have a positive impact on our business. According to Dr. Langley's survey, of the top five information technologies which 3PLs provided to companies in 2002, 64% of the respondents utilized Web-enabled communications, a 33% increase over 2001, and 77% utilized warehouse/distribution center management technologies, a 7% increase from the previous year.

The growing emphasis on just-in-time inventory control processes has added to the complexity and need for time-definite and other value added supply-chain services. We believe that we can continue to differentiate ourselves by combining our time-definite transportation solutions with other complementary supply chain solutions. We expect to benefit from the intense corporate focus on lower-cost services, which will positively impact those providers who have the ability to leverage relationships with numerous carriers and shippers. We also believe that we are well positioned to take advantage of the growing trend toward international freight services and time-definite domestic ground services, which have both increased in demand during the most recent economic cycle.

Our Strategic Objectives

Our Business Strategy

Our objective is to provide customers with comprehensive value-added logistics solutions on a global scale. We plan to achieve this goal through a combination of growth through acquisition and accelerated organic growth. We intend to carry out the following strategies:

3

- o Enter New and Expand Existing Markets through Acquisitions. We are pursuing an aggressive acquisition strategy to enhance our position in our current markets and to acquire operations in new markets. We anticipate expanding into new and existing markets by acquiring well-established logistics organizations that are leaders in their

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

regional markets. In particular, we intend to focus our acquisition strategy on candidates that have historic levels of profitability, a proven record of delivering superior time-definite distribution and other value added services, an established customer base of large and mid-sized companies and the potential to benefit from the synergies offered by our acquisition strategy.

- o Accelerate Organic Growth. A key component of our strategy is to accelerate the organic growth of our existing business as well as the business of the companies we acquire. We expect that internal growth can be accelerated by cross-selling our domestic and international capabilities to our existing customer base and deploying supply chain technologies that will drive new customer acquisition.
- o Development of Identity. We are also developing the "Stonepath Logistics" brand and intend to leverage our broader set of capabilities with the goal of capturing business opportunities which would not normally be available to a regionally-oriented logistics company.

Our Acquisition Strategy

We believe there are many attractive acquisition candidates in our industry because of the highly fragmented composition of the marketplace, the industry participants' need for capital and their owners' desire for liquidity.

We will continue to expand our Domestic and International service platforms in the United States through a number of "add-on" acquisitions of other companies with complementary geographical and logistics service offerings. These "add-on" acquisitions are generally expected to have pre-tax operating earnings of \$1.0 to \$3.0 million. Companies in this range of earnings may be receptive to our acquisition program since they are often too small to be identified as acquisition targets by larger public companies or to independently attempt their own public offerings. In addition, we will continue to pursue "platform" acquisitions to expand in targeted markets in Asia, South America and Europe which will further enable our global supply-chain execution capabilities and improve our overall profitability. We believe that our combined domestic and international capabilities provide a significant competitive advantage in the marketplace.

A "platform" acquisition is defined by us as one that creates a significant new capability for the Company, or entry into a new global geography. When completing a platform acquisition, we would expect to retain the management as well as the operating, sales and technical personnel of the acquired company to maintain continuity of operations and customer service. The objective would be to increase an acquired company's revenues and improve its profitability by implementing our operating strategies for internal growth.

An "add-on" acquisition, on the other hand, will more likely be regional in nature, will be smaller than a platform acquisition and will enable us to offer additional services or expand into new regional markets, or serve new industries. When justified by the size and service offerings of an add-on acquisition, we expect to retain the management, along with the operating, sales and technical personnel of the acquired company, while seeking to improve that company's profitability by implementing our operating strategies. In most instances where there is overlap of geographic coverage, operations acquired by add-on acquisitions can be integrated into our existing operations in that market, resulting in the elimination of duplicative overhead and operating costs.

We believe we can successfully implement our acquisition strategy due to:
(i) the highly fragmented composition of the market; (ii) our strategy for

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

creating an organization with global reach, which should enhance an acquired company's ability to compete in its local and regional market through an expansion of offered services and lower operating costs; (iii) the potential for increased profitability as a result of our centralization of certain administrative functions, greater purchasing power, and economies of scale; (iv) our standing as a public corporation; (v) a decentralized management strategy, which should, in most cases, enable the acquired company's management to remain involved in the operation of the Company; and (vi) the ability to utilize our experienced management in identifying acquisition opportunities.

Our Operating Strategy

- o Foster a Decentralized Entrepreneurial Environment. A key element of our operating strategy is to foster a decentralized, entrepreneurial environment for our employees. We intend to foster this environment by continuing to build on the names, reputations and customer relationships of acquired companies and by sharing their operating policies, procedures and expertise across the organization to develop new ideas to best serve the prospects of the Company. An entrepreneurial business atmosphere is likely to allow our regional offices to quickly and creatively respond to local market demands and enhance our ability to motivate, attract and retain managers to maximize growth and profitability.

4

- o Develop and Maintain Strong Customer Relationships. We seek to develop and maintain strong, interactive customer relationships by anticipating and focusing on our customers' needs. We emphasize a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach used by many of our competitors. To develop close customer relationships, we regularly meet with both existing and prospective customers to help design solutions for, and identify the resources needed to execute, their supply chain strategies. We believe that this relationship-oriented approach results in greater customer satisfaction and reduced business development expense.
- o Centralize Administrative Functions. We seek to maximize our operational efficiencies by integrating general and administrative functions at the corporate level, and reducing or eliminating redundant functions and facilities at acquired companies. This enables us to quickly realize potential savings and synergies, efficiently control and monitor our operations and allows acquired companies to focus on growing their sales and operations.

Operations

Our primary business operations involve obtaining shipment or material orders from customers, creating and delivering a wide range of logistics solutions to meet customers' specific requirements for transportation and related services, and arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. These logistics solutions include domestic and international freight forwarding, customs brokerage and door-to-door delivery services using a wide range of transportation modes, including air, ocean and truck as well as customs brokerage, warehousing and other value-added services, such as inventory management, assembly, distribution and installation for manufacturers and retailers of commercial and consumer products.

As a non-asset-based logistics provider, we arrange for and subcontract

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

services on a non-committed basis to airlines, motor carriers, express companies, steamship lines and warehousing and distribution operators. By concentrating on network-based solutions, we avoid competition with logistics providers that offer dedicated outsourcing solutions for single elements of the supply chain. Such dedicated logistics companies typically provide expensive, customized infrastructure and systems for a customer's specific application and, as a result, dedicated solutions that are generally asset-intensive, inflexible and invariably localized to address only one or two steps in the supply chain. Our network-based services leverage common infrastructure and technology systems so that solutions are scalable, replicable and require a minimum amount of customization (typically only at the interface with the customer). This non-asset ownership approach maximizes our flexibility in creating and delivering a wide range of end-to-end logistics solutions on a global basis while simultaneously allowing us to exercise significant control over the quality and cost of the transportation services provided.

Within the logistics industry, we target specific markets in which we believe we can achieve a competitive advantage. For example, in the freight forwarding market, we arrange for the transportation of cargo that is generally larger and more complex than shipments handled by integrated carriers such as United Parcel Service and Federal Express Corporation. In addition, we provide specialized combinations of services that traditional freight forwarders cannot cost-effectively provide, including time-definite delivery requirements, direct-to-store distribution and merge-in-transit movement of products from various vendors in a single coordinated delivery to, and/or installation at, the end-user.

Our services can be broadly classified into the following categories:

- o Freight Forwarding Services. We offer domestic and international air, ocean and ground freight forwarding for shipments that are generally larger than shipments handled by integrated carriers of primarily small parcels such as Federal Express Corporation and United Parcel Service. Our basic freight forwarding business is complemented by customized and information technology-based options to meet customers' specific needs. Our Domestic Services organization offers same day, one, two and three to five day service along with expedited ground service within North America and Puerto Rico through our network of asset based carriers. On a limited basis, we also provide motor carrier services through one of our own affiliates.
- o Customs Brokerage Services. Our International Services organization provides customs brokerage services in the United States and will provide similar services in other countries in which we choose to operate. Within each country, the rules and regulations vary along with the level of expertise that is required to perform the customs brokerage services. Our customs brokers and support staff have substantial knowledge of the complex tariff laws and customs regulations governing the payment of duty, as well as valuation and import restrictions in their respective countries.
- o Warehousing and Other Value Added Services. Our warehousing services primarily relate to storing goods and materials to meet our customers' production or distribution schedules. Other value added services include receiving, deconsolidation and decontainerization, sorting, put away, consolidation, assembly, inspection services, cargo loading and unloading, assembly of freight, customer inventory management and protective packing and storage. We receive storage charges for use of our warehouses and fees for our other services.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Other value added services provided by the Company include:

- o Direct to store logistics for retail customers involving coordination of product received directly from manufacturers and dividing large shipments from manufacturers into numerous smaller shipments for delivery directly to retail outlets or distribution centers to meet time-definite product launch dates.
- o Merge-in-transit logistics involving movement of products from various vendors at multiple locations to a Company facility and the subsequent merger of the various deliveries into a single coordinated delivery to the final destination. For example, such services are useful to retailers where deliveries from diverse sources are organized and distributed to maximize efficiency of the customer's sales and marketing programs.
- o Web-based fulfillment solutions in which we provide order management as well as the subsequent pick, pack and shipment for our customers.
- o Value-added, high-speed, time-definite, total-destination programs that include packaging, transportation, unpacking and placement of new products and equipment.
- o Packaging, transportation, unpacking and stand installation for domestic trade shows and major expositions.
- o Reverse logistics involving the return of products from end users to manufacturers, retailers, resellers or remanufacturers, including verification of working order, defect analysis, serial number tracking, and inventory management.

Information Services

The regular enhancement of our information systems and ultimate migration of the information systems of our acquired companies to a common set of back-office and customer facing applications is a key component of our growth strategy. We believe that the ability to provide accurate real-time information on the status of shipments will become increasingly important and that our efforts in this area will result in competitive service advantages in winning new customers and growing business in existing accounts. In addition, through the process of centralizing our back-office operations and using our transportation management system to automate the rating, routing, tender and financial settlement processes for transportation movements, we believe we will drive significant productivity improvement across our Stonepath network.

To execute this strategy, we have and will continue to assess technologies obtained through our acquisition strategy in combination with commercially available supply chain technologies to launch our own "best-of-breed" solution set using a combination of owned and licensed technologies. We refer to this technology set as Tech-Logis™ (or Technology in Logistics). We intend to use Tech-Logis™ to provide: (1) a customer-facing portal that unifies the look and feel of how customers, employees and suppliers work with and connect to us; (2) a robust supply chain operating system including order, inventory, transportation, warehouse, and supply chain event management for use across the organization; and (3) a common data repository for analysis and reporting to provide advanced metrics to management and our customers.

This strategy will result in the investment of significant management and financial resources to deliver these enabling technologies and deliver financial and competitive advantage in the years ahead.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Sales and Marketing

We market services on a global basis supported by the sales efforts of senior management, sales executives, regional managers, terminal managers and our national service centers located strategically across the United States and in select international locations.

We seek to create long-term relationships with our customers and when achievable, to increase the quantity of business transacted with each customer over time. Additionally, we have increased our emphasis on obtaining high-revenue national accounts with multiple shipping locations. These accounts typically impose numerous requirements on those competing for their freight business, including electronic data interchange and proof of delivery capabilities, the ability to generate customized shipping reports and a nationwide network of terminals. These requirements often limit the competition for these accounts to a very small number of logistics providers, enabling us to more effectively compete for and obtain these accounts.

Our customers include large manufacturers and distributors of computers and other electronic and high-technology equipment, printed and publishing materials, automotive and aerospace components, trade show exhibit materials, telecommunications equipment, machinery and machine parts, apparel, entertainment products, and household goods. For the year ended December 31, 2002, our largest customer, Best Buy Co., Inc., accounted for approximately 29% of our revenues. Approximately 21% of our 2002 revenue was derived from our next five largest customers, none of which accounted for 10% or more of our 2002 revenue. As our current companies continue to diversify, and as we continue our acquisition strategy, our exposure to customer and industry concentrations should be significantly reduced.

6

We have begun to place an increased emphasis on the development of a global brand platform. Over the course of 2003, we will begin to operate all of our businesses under the single global brand "Stonepath Logistics," which we believe will help us reach our organic expansion goals.

Competition and Business Conditions

Our business is directly impacted by the volume of domestic and international trade. The volume of such 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 global logistics services and transportation industries are intensively competitive and are expected to remain so for the foreseeable future. We compete against other integrated logistics companies, as well as transportation services companies, consultants, information technology vendors and shippers' transportation departments. This competition is based primarily on rates, quality of service (such as damage-free shipments, on-time delivery and consistent transit times), reliable pickup and delivery and scope of operations.

As a provider of third-party logistics services, we encounter competition from a large number of firms, much of it coming from local or regional firms which have only one or a small number of offices and do not offer the breadth of services and integrated approach as we offer. 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. We believe that quality of service, including information systems capability, global network capacity,

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

reliability, responsiveness, expertise and convenience, scope of operations, customized program design and implementation and price are important competitive factors in our industry.

Competition within the domestic freight forwarding industry is also intense. Although the industry is highly fragmented with a large number of participants, we compete most often with a relatively small number of freight forwarders with nationwide networks and the capability to provide the breadth of services offered by us. We also encounter competition from passenger and cargo air carriers, trucking companies and others. As we expand our international operations, we expect to encounter increased competition from those freight forwarders that have a predominantly international focus, including Danzas AEI Intercontinental, Expeditors International of Washington, Inc., UPS Supply Chain Solutions (a unit of United Parcel Service) and Eagle Logistics, Inc. Many of our competitors have substantially greater financial resources than we do.

We also encounter competition from regional and local air freight forwarders, cargo sales agents and brokers, surface freight forwarders and carriers and associations of shippers organized for the purpose of consolidating their members' shipments to obtain lower freight rates from carriers. As an ocean freight forwarder, we will encounter strong competition in every country in which we choose to operate. This includes competition from steamship companies and both large forwarders with multiple offices and local and regional forwarders with one or a small number of offices. Quality of service, including reliability, responsiveness, expertise and convenience, scope of operations, information technology and price are the most important competitive factors in our industry.

Regulation

We do 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 our operating permits or authorities. We cannot give assurance as to the degree or cost of future regulations on our business. Some of the regulations affecting our operations are described below.

Our air freight forwarding business is subject to regulation, as an indirect air cargo carrier, under the U.S. Department of Transportation's Transportation Security Administration. The airfreight forwarding industry is subject to regulatory and legislative changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to customers.

Our surface freight forwarding operations are subject to various federal statutes and are regulated by the Surface Transportation Board. This federal agency has broad investigatory and regulatory powers, including the power to issue a certificate of authority or license to engage in the business, to approve specified mergers, consolidations and acquisitions, and to regulate the delivery of some types of domestic shipments and operations within particular geographic areas. 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 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 we use 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. Our property brokerage operations similarly subject us to various federal statutes and regulation as a property broker by the Surface Transportation Board, and we have obtained a property broker license and posted a surety bond as required by federal law. Our international operations are subject to regulation by the Federal Maritime Commission, or FMC, as it regulates and licenses ocean forwarding operations. Indirect ocean carriers (non-vessel operating common carriers) are subject to FMC regulation, under the FMC tariff filing and surety bond requirements, and under the Shipping Act of 1984, particularly those terms proscribing rebating practices.

Our customs brokerage operations are subject to the licensing requirements of the U.S. Treasury and are regulated by the U.S. Customs Service. Foreign customs brokerage operations are also licensed in and subject to the regulations of their respective countries.

In the United States, we are 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 we operate 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 we cannot predict what impact future environmental regulations may have on our business. We do not anticipate making any material capital expenditures for environmental control purposes during the remainder of the current or succeeding years.

Personnel

At December 31, 2002, we had approximately 510 total employees. Approximately 410 employees were engaged principally in operations, 30 in sales and marketing, and 70 in finance, administration and management functions.

None of our employees are covered by a collective bargaining agreement, and we believe that we have a good relationship with our employees.

Discontinued Operations

Prior to the first quarter of 2001, our principal business was developing early-stage technology businesses with significant Internet features and applications. Largely as a result of the significant correction in the global stock markets which began during 2000, and the corresponding decrease in the valuation of technology businesses and contraction in the availability of venture financing, we changed our business strategy to focus on the acquisition of operating businesses within a particular industry segment.

After having evaluated a number of different industries, during the second quarter of 2001 we focused our acquisition efforts specifically within the transportation and logistics industry as it:

- o demonstrates significant growth characteristics as an increasing number of businesses outsource their supply-chain management in order to achieve cost-effective logistics solutions;
- o is positioned for further consolidation as many sectors of the industry remain fragmented; and
- o is capable of achieving enhanced efficiencies through the adoption of e-commerce and other technologies.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

This decision occurred in conjunction with our June 21, 2001 appointment of Dennis L. Pelino as our Chairman and Chief Executive Officer. Mr. Pelino brings to us over 25 years of logistics experience, including as President and Chief Operating Officer of Fritz Companies, Inc., where he was employed from 1987 to 1999.

To reflect the change in business model, our financial statements have been presented in a manner in which the assets, liabilities, results of operations and cash flows related to our former business have been segregated from those of our continuing operations and are presented as discontinued operations.

Corporate Information

Stonepath Group, Inc. was incorporated in Delaware in 1998. Our principal executive offices are located at 1600 Market Street, Suite 1515, Philadelphia, Pennsylvania. Our telephone number is (215) 979-8370 and our Internet website address is www.stonepath.com. We make available free of charge on our web site all materials that we file with the Securities and Exchange Commission, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports as soon as reasonably practicable after such materials have been filed with, or furnished to, the Securities and Exchange Commission.

Segment Information

For additional information about our business segments, see the business segment information presented in Note 16 to our Consolidated Financial Statements.

8

Risks Particular to our Business

o If we are unable to profitably manage and integrate the companies we acquire or are unable to acquire additional companies, we will not achieve our growth and profit objectives.

Our goal is to build a global logistics services organization. Realizing this goal will require the acquisition of a number of diverse companies in the logistics industry covering a variety of geographic regions and specialized service offerings. There can be no assurance that we will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses without substantial costs, delays or other operational or financial problems. Further, acquisitions involve a number of risks, including possible adverse effects on our operating results, diversion of management resources, failure to retain key personnel, and risks associated with unanticipated liabilities, some or all of which could have a material adverse effect on our business, financial condition and results of operations.

o Additional financing will be required to implement our business strategy.

Through cash resources and our existing credit facility, we believe we have sufficient capital to implement our acquisition strategy in the short term. However, we will need additional financing to pursue our acquisition strategy in the longer term. We intend to obtain the additional financing through a combination of additional commercial debt financing or the placement of debt and equity securities. We may finance some portion of our future acquisitions by using shares of our common stock for all or a substantial portion of the purchase price. In the event that our common stock does not attain or maintain a

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

sufficient market value, or potential acquisition candidates are otherwise unwilling to accept common stock as part of the consideration for the sale of their businesses, we may be required to use more cash to maintain our acquisition program. If we do not have sufficient cash resources, our growth could be limited unless we are able to obtain additional capital through debt or equity financings.

- o Earn-out payments due in connection with our acquisitions could require us to incur additional indebtedness or issue additional equity securities.

We are required to make significant cash payments in the future when the earn-out installments for our acquisitions become due. While we believe that a material portion of the required cash will be generated by each of the acquired subsidiaries, we most likely will have to secure additional sources of capital to fund some portion of the earn-out payments as they become due. This may require us to incur additional indebtedness or issue additional equity securities. We cannot be certain that we will be able to borrow any funds for this purpose on terms acceptable to us, if at all, or that once we incur such indebtedness, that we will be able to operate profitably. Additional indebtedness could negatively impact our cash flow and ability to make further acquisitions. Issuing additional shares of common stock or common stock equivalents to generate the required financing would increase the number of shares outstanding and further dilute the interests of our existing stockholders.

- o Our credit facility places certain limits on the type and number of acquisitions we may make.

We have obtained a \$15.0 million credit facility from LaSalle Business Credit, Inc. to provide additional funding for acquisitions and for our on-going working capital requirements. Under the terms of the credit facility, we are permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the credit facility include the following: (1) the absence of an event of default under the credit facility; (2) the company to be acquired must be in the transportation and logistics industry; (3) the purchase price to be paid must be consistent with our historical business and acquisition model; (4) the undrawn availability under the credit facility must average \$5.0 million for the 60 days preceding the acquisition and must be at least \$5.0 million on the date of the acquisition; (5) the lender must be reasonably satisfied with projected financial statements we provide covering a 12 month period following the acquisition; (6) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender; (7) the aggregate cash consideration paid at the closing for foreign acquisitions must not exceed \$5.0 million; and (8) the number of such permitted acquisitions is limited to four per year (excluding any acquisitions for which the purchase price is payable solely in stock). In the event that we were not able to satisfy the conditions of the credit facility in connection with a proposed acquisition, we would have to forego the acquisition unless we either obtained the lender's consent or retired the credit facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

- o Since we are not obligated to follow any particular criteria or standards for acquisition candidates, stockholders must rely solely on our ability to identify, evaluate and complete acquisitions.

Even though we have developed general acquisition guidelines, we are not obligated to follow any particular operating, financial, geographic or other criteria in evaluating candidates for potential acquisitions or business combinations. We target companies which we believe will provide the best potential long-term financial return for our stockholders and we determine the

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

purchase price and other terms and conditions of acquisitions. Our stockholders will not have the opportunity to evaluate the relevant economic, financial and other information that we will use and consider in deciding whether or not to enter into a particular transaction.

9

- o The scarcity of and competition for acquisition opportunities makes it more difficult to complete acquisitions.

There are a limited number of operating companies available for acquisition which we consider desirable. In addition, there is a high level of competition among companies seeking to acquire these operating companies. A large number of established and well-financed entities are active in acquiring the type of companies we believe are desirable. Many of these entities have significantly greater financial resources than we have. Consequently, we are at a competitive disadvantage in negotiating and executing possible acquisitions of these businesses. Even if we are able to successfully compete with these entities, this competition may affect the terms of completed transactions and, as a result, we may pay more than we expected for potential acquisitions. We may find it difficult to identify operating companies that complement our strategy, and even if we identify a company that complements our strategy, we may be unable to complete an acquisition of such a company for many reasons, including:

- o a failure to agree on the terms necessary for a transaction, such as purchase price;
- o incompatibility of operating strategies and management philosophies;
- o competition from other acquirers of operating companies;
- o insufficient capital to acquire a profitable logistics company; and
- o the unwillingness of a potential acquiree to work with our management or our affiliated companies.

If we are unable to successfully compete with other entities in acquiring the companies we target, we will not be able to successfully implement our business plan.

- o The issuance of additional securities may cause additional dilution to the interests of our existing stockholders.

The additional financing required to fund our acquisition strategy may require us to issue additional shares of common stock or common stock equivalents to generate the required financing. For example, we recently issued 4,470,000 shares of our common stock in a private placement transaction that closed on March 6, 2003. This issuance, plus any subsequent issuances of securities, will further increase the number of shares outstanding and further dilute the interests of our existing stockholders. We may issue more shares of common stock for this purpose without prior notice to our stockholders.

We may also issue securities to, among other things, facilitate a business combination, acquire assets or stock of another business, compensate employees or consultants or for other valid business reasons in the discretion of our Board of Directors, which could further dilute the interests of our existing stockholders.

- o The exercise or conversion of our outstanding options, warrants or other convertible securities or any derivative securities we issue in the future will result in the dilution of the ownership interests of our existing stockholders and may create downward pressure on the trading price of our common stock.

We are currently authorized to issue 100,000,000 shares of common stock.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

As of March 17, 2003, we have 27,945,914 outstanding shares. We may in the future issue up to 16,828,043 additional shares of our common stock upon exercise or conversion of the following existing outstanding convertible securities:

	Number of Shares -----
Upon conversion of our Series D Preferred Stock	3,607,450
Options granted under our Stock Option Plan	8,145,600
Non-plan options	2,282,900
Warrants	2,792,093 -----
Total	16,828,043 =====

Even though the aggregate exercise of these securities could generate material proceeds for us, the issuance of these additional shares would result in the dilution of the ownership interests of our existing common stockholders and the market price of our common stock could be adversely affected.

o We rely on a small number of key customers, the loss of any of which would have a negative effect on our results of operations.

10

Even though our customer base will likely diversify as we grow through acquisitions, our customer base has been highly concentrated. For the year ended December 31, 2002 our largest customer, Best Buy Co., Inc., accounted for approximately 29% of our total revenues. Our next five largest customers accounted for approximately 21% of our total revenues, with none of these customers accounting for 10% or more of our total revenues. We believe the risk posed by this concentration is mitigated by our long standing and continuing relationships with these customers and we are confident that these relationships will remain ongoing for the foreseeable future. We intend to continue to provide superior service to all of our customers and have no expectation that revenues from any of these customers will be reduced as a result of any factors within our control. However, adverse conditions in the industries of our customers could cause us to lose a significant customer or experience a decrease in shipment volume. Either of these events could negatively impact us. Our immediate plans, however, are to reduce our dependence on any particular customer or customers by increasing our sales and customer base by, among other things, diversifying our service offerings and continuing with our growth strategy.

o The risks associated with international operations could adversely affect our operations and ability to grow outside of the United States.

A significant portion of our revenues is derived from our international operations, and the growth of those operations is an important part of our business strategy. Our current international operations are focused on the shipment of goods into and out of the United States and are dependent on the volume of international trade with the United States. Our strategic plan contemplates the growth of those operations, as well as the expansion into the transportation of goods wholly outside of the United States. The following factors could adversely affect our current international operations, as well as the growth of those operations:

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

- o the political and economic systems in certain international markets are less stable than in the United States;
- o wars, civil unrest, acts of terrorism and other conflicts exist in certain international markets;
- o export restrictions, tariffs, licenses and other trade barriers can adversely affect the international trade serviced by our international operations;
- o managing distant operations with different local market conditions and practices is more difficult than managing domestic operations;
- o differing technology standards in other countries present difficulties and expense in integrating our services across international markets;
- o complex foreign laws and treaties can adversely affect our ability to compete; and
- o our ability to repatriate funds may be limited by foreign exchange controls.

o Terrorist attacks and other acts of violence or war may affect any market on which our shares trade, the markets in which we operate, our operations and our profitability.

Terrorist acts or acts of war or armed conflict could negatively affect our operations in a number of ways. Primarily, any of these acts could result in increased volatility in or damage to the U.S. and worldwide financial markets and economy. They could also result in a continuation of the current economic uncertainty in the United States and abroad. Acts of terrorism or armed conflict, and the uncertainty caused by such conflicts, could cause an overall reduction in worldwide sales of goods and corresponding shipments of goods. This would have a corresponding negative effect on our operations. Also, terrorist activities similar to the type experienced on September 11, 2001 could result in another halt of trading of securities on the American Stock Exchange which could also have an adverse effect on the trading price of our shares and overall market capitalization.

o We depend on the continued service of certain executive officers. We can not assure you that we will be able to retain these persons.

For the foreseeable future, our success will depend largely on the continued services of our Chief Executive Officer, Dennis L. Pelino, as well as the heads of our domestic and international service organizations, Gary Koch and Jason Totah, because of their collective industry knowledge, marketing skills and relationships with major vendors and customers. We have employment agreements with each of these individuals which contain a non-competition covenant which survives their actual term of employment. Nevertheless, should any of these individuals leave the Company, it could have a material adverse effect on our future results of operations.

o We face intense competition in our industry.

The freight forwarding, logistics and supply chain management industry is intensely competitive and is expected to remain so for the foreseeable future. We face competition from a number of companies, including many that have significantly greater financial, technical and marketing resources. There are a large number of companies competing in one or more segments of the industry, although the number of firms with a global network that offer a full complement of freight forwarding and supply chain management services is more limited. Depending on the location of the customer and the scope of services requested, we must compete against both the niche players and larger entities. In addition, customers increasingly are turning to competitive bidding situations involving bids from a number of competitors, including competitors that are larger than we

are.

11

- o Our stock price may be volatile due to factors under, as well as beyond, our control.

The market price of our common stock could be highly volatile. Some factors that may affect the market price include:

- o actual or anticipated fluctuations in our operating results;
- o announcements of technological innovations or new commercial products or services by us or our competitors;
- o a continued weakening of general market conditions which in turn could have a depressive effect on the volume of goods shipped and shipments that we manage or arrange;
- o acts of global terrorism or armed conflicts; and
- o changes in recommendations or earnings estimates by us or by securities analysts.

Furthermore, the stock market has historically experienced volatility which has particularly affected the market prices of securities of many companies with small market capitalization and which sometimes has been unrelated to the operating performances of such companies.

- o Our cash flow may be adversely affected in the future once we fully utilize our consolidated net operating loss carryforward.

Due to losses we incurred in our former business model, we have accumulated a net operating loss carryforward for federal income tax purposes. As of December 31, 2002, we expect that approximately \$21.7 million of these losses will be available to offset our future taxable income until the losses are fully utilized. Once these losses have been fully utilized, our cash flows will be affected accordingly.

- o If we fail to improve our management information and financial reporting systems, we may experience an adverse effect on our operations and financial condition.

Our management information and financial reporting systems need to be improved at the consolidated level. We may experience delays, disruptions and unanticipated expenses in implementing, integrating and operating our consolidated management information and financial reporting systems. Failure to enhance these systems could delay our receipt of management and financial information at the consolidated level which could disrupt our operations or impair our ability to monitor our operations and have a negative effect on our financial condition.

- o Because we are a holding company, we depend on receiving distributions from our subsidiaries and we could be harmed if such distributions could not be made in the future.

We are a holding company and all of our operations are conducted through subsidiaries. Consequently, we rely on dividends or advances from our subsidiaries. The ability of such subsidiaries to pay dividends and our ability to receive distributions on our investments in other entities is subject to applicable local law and other restrictions including, but not limited to, applicable tax laws. Such laws and restrictions could limit the payment of dividends and distributions to us which would restrict our ability to continue operations.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

o We believe our industry is consolidating and if we cannot gain sufficient market presence, we may not be able to compete successfully against larger global companies.

We believe the marked trend within our industry is towards consolidation of the niche players into larger companies which are attempting to increase global operations through the acquisition of regional and local freight forwarders. If we cannot gain sufficient market presence or otherwise establish a successful strategy in our industry, we may not be able to compete successfully against larger companies in our industry with global operations.

o We may be required to incur material expenses in defending or resolving outstanding lawsuits which would adversely affect our results of operations.

We are a defendant in a number of legal proceedings. Although we believe that the claims asserted in these proceedings are without merit, and we intend to vigorously defend these matters, we could incur material expenses in the defense and resolution of these matters. Since we have not established any reserves in connection with these claims, any such liability would be recorded as an expense in the period incurred or estimated. This amount, even if not material to our overall financial condition, could adversely affect our results of operations in the period recorded. See Item 3, Legal Proceedings.

o We have a very limited operating history upon which you can evaluate our prospects.

During 2001, we discontinued our former business model of developing early-stage technology businesses, and adopted a new model of delivering non-asset based third-party logistics services. The first acquisition under our new business model occurred on October 5, 2001. Subsequent acquisitions were completed on April 4, 2002, May 30, 2002 and October 1, 2002. As a result, we have a very limited operating history under our current business model. Even though we are managed by senior executives with significant experience in the industry, our limited operating history makes it difficult to predict the longer-term success of our business model.

12

o Provisions of our charter and applicable Delaware law may make it more difficult to complete a contested takeover of our Company.

Certain provisions of our certificate of incorporation and the General Corporation Law of the State of Delaware (the "GCL") could deter a change in our management or render more difficult an attempt to obtain control of us, even if such a proposal is favored by a majority of our stockholders. For example, we are subject to the provisions of the GCL that prohibit a public Delaware corporation from engaging in a broad range of business combinations with a person who, together with affiliates and associates, owns 15% or more of the corporation's outstanding voting shares (an "interested shareholder") for three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Finally, our certificate of incorporation includes undesignated preferred stock, which may enable our Board of Directors to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise.

Item 2. Properties

The Company does not own any real estate and currently leases all of its facilities.

Our corporate headquarters is located at 1600 Market Street, Suite 1515,

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Philadelphia, Pennsylvania where we lease approximately 4,000 square feet of office space.

In addition, we lease and maintain logistics facilities in 18 locations throughout the United States plus two international locations. The majority of these locations are operating terminals that contain office space and warehouse or cross-dock facilities and range in size from approximately 1,200 square feet to 160,000 square feet. A few of these facilities are limited to a small sales and administrative office.

Lease terms for our principal properties are generally five years and terminate at various times through 2010, while a few of the smaller facilities are leased on a month-to-month basis. The Company believes that current leases can be extended and that suitable alternative facilities are available in the vicinity of existing facilities should extensions be unavailable or undesirable at the end of the current lease arrangements.

Our facilities are situated in the following locations:

- Philadelphia, Corporate Headquarters
- Minneapolis
- Seattle
- Chicago
- Detroit
- Dallas/Fort Worth
- St. Louis
- Atlanta
- Indianapolis
- Phoenix
- Salt Lake City
- Washington, D.C.
- Norfolk
- New York, NY
- Boston
- Portland
- Los Angeles
- San Francisco
- Miami
- St. Just, Puerto Rico
- Hong Kong

Item 3. Legal Proceedings

On October 12, 2000, Emergent Capital Investment Management, LLC ("Emergent") filed suit against the Company and two of its officers contending that it was misled by statements made by the defendants in connection with the offering of the Company's Series C Preferred Stock which closed in March 2000. Specifically, Emergent alleges that it is entitled to rescind the transaction because it was allegedly represented that the size of the offering would be \$20.0 million and the Company actually raised \$50.0 million. Emergent seeks a return of its \$2.0 million purchase price of Series C shares. In June of 2001, the Company moved for summary judgment in this case.

13

After the summary judgment motion was filed, Emergent filed a second action against the Company and two of its officers alleging different allegations of fraud in connection with the Series C offering. In the new complaint, Emergent alleges that oral statements and written promotional materials distributed by the Company at a meeting in connection with the Series C offering were materially inaccurate with respect to the Company's investment

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

in Net Value, Inc., a wholly owned subsidiary of the Company. Emergent also contends that the defendants failed to disclose certain allegedly material transactions in which an officer was involved prior to his affiliation with the Company. The Company filed a motion to dismiss this new action for failure to state a claim upon which relief can be granted.

On October 2, 2001, the Court entered an order granting summary judgment to the defendants in the first case filed by Emergent and dismissing Emergent's second complaint for failure to state a claim upon which relief can be granted. The Court allowed Emergent 20 days to file a second amended complaint as to the second action only. On October 21, 2001, Emergent did file a second amended complaint in the second action. The second amended complaint does not raise any new factual allegations regarding Emergent's participation in the offering.

The Company filed a motion to dismiss Emergent's second amended complaint. On April 15, 2002, the United States District Court for the Southern District of New York entered an order granting the motion to dismiss Emergent's second amended complaint against the Company and its former officers. The Court refused to grant Emergent an additional opportunity to re-plead its claims against the defendants and a final order dismissing the matter has been entered. Emergent thereafter filed a notice of appeal to the United States Court of Appeals for the Second Circuit, which is currently pending. The Company believes that it has substantial defenses to the plaintiff's claims and intends to vigorously defend this action.

On August 22, 2000, Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A., purchasers of the Company's convertible promissory notes, filed suit against the Company in the United States District Court for the District of Delaware. The plaintiffs allege that, contrary to the Company's covenant in the subscription agreement they executed, which required Stonepath to "use reasonable commercial efforts to register" the shares of its common stock underlying the convertible promissory notes "at some future date," the Company verbally agreed to register such shares in the first registration statement it filed with the Securities and Exchange Commission subsequent to the transaction. The plaintiffs assert claims for breach of contract and the duty of good faith and fair dealing, fraud, violation of federal securities laws, estoppel, and reformation and seek damages in excess of \$20.0 million, plus attorneys' fees and costs. In response to a motion to dismiss that was filed by the Company, the Court dismissed the federal securities law and estoppel claims and denied the motion as to all other claims. Discovery in this case has concluded, and the Company recently filed a motion for summary judgment as to all counts of the complaint. This motion has been briefed and is pending. The Company believes it has substantial defenses to the remaining claims and intends to defend the matter vigorously.

The Company is also involved in various other 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 and Related Stockholder Matters

Our common stock is traded on The American Stock Exchange under the symbol "STG." The table below sets forth the high and low prices for our common stock for the quarters included within 2002 and 2001.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

	High	Low
	----	---
Year ended December 31, 2001		
First quarter	\$1.13	\$0.38
Second quarter	1.33	0.57
Third quarter	1.88	0.97
Fourth quarter	2.10	0.90
Year ended December 31, 2002		
First quarter	2.15	1.20
Second quarter	2.95	1.10
Third quarter	1.70	0.95
Fourth quarter	1.74	1.01

14

Share Information

As of March 17, 2003, there were 27,945,914 shares of our common stock outstanding, owned by 276 registered holders of record. Management estimates there are approximately 3,700 additional stockholders holding their stock in nominee name. We have not paid cash dividends on our common stock and do not anticipate or contemplate paying cash dividends in the foreseeable future. We plan to retain any earnings for use in the operations of our business and to fund our acquisition strategy. Furthermore, we are limited in our ability to pay dividends pursuant to the terms of our outstanding credit facility.

Equity Compensation Plan Information

The following table sets forth information, as of December 31, 2002, 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.

Plan Category	(a)	(b)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights
Equity compensation plans approved by security holders	7,164,000	\$1.09
Equity compensation plans not approved by security holders	2,283,300	\$2.62

Total	9,447,300	\$1.46
	=====	=====

(1) Does not include exercised options to purchase 409,583 shares of our common stock under the Company's Stock Option Plan.

Recent Sales of Unregistered Securities

1. In May 2000, we issued 113,214 shares of our common stock to Webmodal, Inc. in conjunction with a cash investment, pursuant to which we purchased

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

563,000 shares of Series A Preferred Stock of Webmodal, Inc. We issued these shares of common stock in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

2. During 2001, we issued 77,916 shares of our common stock, cumulatively, to a group of 16 former employees as severance and in exchange for the cancellation of their options to purchase 1,309,917 shares of our common stock. We issued these shares of common stock in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

3. During 2001, we issued options to purchase 245,000 shares of our common stock in consideration for services provided. 50,000 options were issued on March 7, 2001 at an exercise price of \$0.70 per share, and 20,000 options were issued on June 21, 2001 at an exercise price of \$1.00 per share, to various outside attorneys for services rendered. 75,000 options were issued in March 2001 to PMG Capital at an exercise price of \$0.70 per share in consideration for investment banking services. 100,000 options were issued on June 30, 2001 to Brown Simpson Partners I, Ltd. at an exercise price of \$0.82 per share in consideration for advisory services. All of these options were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

4. On or about July 19, 2002, we completed a private exchange transaction resulting in the restructuring of our outstanding shares of Series C Preferred Stock. In the restructuring, all of the Company's shares of Series C Preferred Stock, representing approximately \$44.6 million in liquidation preferences, were surrendered and retired in exchange for a combination of securities consisting of: (i) 1,911,071 shares of our common stock upon conversion of the Series C Preferred Stock; (ii) warrants to purchase 1,543,413 shares of common stock at an exercise price of \$1.00 through July 18, 2005 (including an amendment to the 158,348 Series C warrants that were originally granted in March 2000 for the purpose of reducing the exercise price thereof from \$26.58 to \$1.00 per share and extending the exercise period from March 2003 to July 18, 2005); and (iii) 360,745 shares of a newly designated class of Series D Convertible Preferred Stock which in the future are convertible into 3,607,450 shares of our common stock.

15

Each holder of our Series D Convertible Preferred Stock has the right to convert at any time all or a portion of his Series D Convertible Preferred Stock into ten (10) shares of common stock for each share of Series D Convertible Preferred Stock converted, subject to certain anti-dilution adjustments. Any shares of Series D Convertible Preferred Stock that are outstanding after December 31, 2004 will automatically be converted into common stock. Automatic conversion will also occur: (i) once the average closing price of our common stock is over \$7.50 for thirty (30) consecutive trading days; (ii) upon a merger or sale transaction after December 31, 2003, unless the transaction otherwise provides for the exchange of the outstanding shares of Series D Convertible Preferred Stock for a like-kind preferred stock of the acquirer/surviving corporation; or (iii) upon the affirmative vote of holders of eighty (80%) percent of the Series D Convertible Preferred Stock.

The warrants and shares of the Series D Convertible Preferred Stock were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) and Rule 506 thereunder. The shares of our common stock issued upon conversion of our Series C Preferred Stock were issued in a transaction exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 3(a)(9) thereunder.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

5. On October 16, 2002, we issued warrants to purchase 150,000 shares of our common stock to affiliates of Stonegate Securities, Inc. at an exercise price of \$1.23 per share. The warrants were issued in connection with services to be rendered by Stonegate Securities, Inc. under a Placement Agency Agreement with the Company dated October 16, 2002. The warrants were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

6. On March 6, 2003, we issued 4,470,000 shares of our common stock consisting of the sale of 4,270,000 shares at \$1.35 per share and 200,000 shares at \$1.54 per share, to the accredited investors identified below in a private placement transaction exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) and Rule 506 thereunder as an issuer transaction not involving a public offering. In connection with this transaction, we realized gross proceeds of approximately \$6.1 million and paid a brokerage fee consisting of cash commissions of approximately \$364,000 and placement agent warrants to purchase 297,000 shares of our common stock to Stonegate Securities, Inc. at an exercise price of \$1.49 per share. The placement agent warrants were also issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

Name ----	Shares of Common Stock -----
George B. Clairmont 5-8-51 Trust	60,000
George B. Clairmont	60,000
Ponte Vedra Partners Ltd.	100,000
Ingleside Company	200,000
Oberweis Micro-Cap Portfolio	100,000
BFS US Special Opportunities Trust PLC	400,000
Renaissance US Growth Investment Trust PLC	200,000
Renaissance Capital Growth & Income Fund III, Inc.	200,000
Sherleigh Associates Inc. Profit Sharing Plan	400,000
SBL Fund Series V	520,000
Security Equity Fund - Mid Cap Value Series	480,000
MidSouth Investor Fund LP	100,000
Atlas Capital (Q.P.), L.P.	59,025
Atlas Capital Master Fund, Ltd.	190,975
A. Spector Capital, LLC	500,000
Crestview Capital Fund I, L.P.	185,000
Crestview Capital Fund II, L.P.	235,000
Crestview Capital Offshore Fund, Inc.	30,000
Gryphon Master Fund, LP	200,000
London Family Trust	50,000
London Family Trust	25,000
Scott R. Griffith SEP IRA	31,800
Stonegate Securities, Inc.	43,200
Dennis L. Pelino	100,000

7. Thirty-one employees of one of the Company's subsidiaries directed the plan administrator of its 401(k) plan to make open market purchases of, in the aggregate, 263,439 shares of the Company's common stock for allocation to their individual participant accounts from September 2001 through November 2002. The Company did not receive any of the proceeds from such transactions and it believes such sales are exempt from registration by Section 4(2) of the Securities Act of 1933, as amended.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Item 6. Selected Financial Data

The following selected financial data as of and for the dates indicated has been derived from our consolidated financial statements and the combined financial statements of our predecessor, Air Plus, and are not complete. You should read the following selected financial data together with the consolidated financial statements and related footnotes of the Company, the combined financial statements and related footnotes of Air Plus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The selected consolidated statement of operations data of the Company for each of the years in the three-year period ended December 31, 2002 and the balance sheet data of the Company as of December 31, 2002 and 2001 are derived from the Company's consolidated financial statements, revised to reflect the restatement thereof as more fully discussed in Note 2 to the consolidated financial statements, that have been audited by KPMG LLP and are included in this Annual Report on Form 10-K/A. The selected consolidated statement of operations data of the Company for each of the years in the two-year period ended December 31, 1999 and the balance sheet data of the Company as of December 31, 2000, 1999 and 1998 are derived from the Company's audited consolidated financial statements (after reclassification for discontinued operations, as discussed below) which are not included in this Annual Report on Form 10-K/A.

The selected combined statement of operations data of Air Plus for the year ended December 31, 2000 is derived from Air Plus' combined financial statements that have been audited by KPMG LLP and are included in this Annual Report on Form 10-K/A. The selected combined statement of operations data of Air Plus for the six months ended June 30, 2001 is derived from Air Plus' combined financial statements which are unaudited and are included in this Annual Report on Form 10-K/A.

From inception through the first quarter of 2001, our principal business strategy focused on the development of early-stage technology businesses with significant Internet features and applications. In June 2001, we adopted a new business strategy to build a global integrated logistics services organization by identifying, acquiring and managing controlling interests in profitable logistics businesses. On December 28, 2001, the Board of Directors approved a plan to dispose of all of the assets related to the former business, since the investments were incompatible with our new business strategy. Accordingly, for financial reporting purposes, the results of operations of our former line of business have been accounted for as a discontinued operation and have been reclassified and reported as a separate line item in the statements of operations.

17

Consolidated Statement of Operations Data:
(in thousands, except per share amounts)

Stonepath Group, Inc.				
Year ended December 31,				
Restated 2002	Restated 2001	2000	1999	1998
\$139,649	\$ 15,598	\$ -	\$ -	\$ -

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Revenues					
Cost of transportation	101,339	9,741	-	-	-
	-----	-----	-----	-----	-----
Net revenues	38,310	5,857	-	-	-
Operating expenses	35,956	10,409	7,420	2,761	-
	-----	-----	-----	-----	-----
Income (loss) from operations	2,354	(4,552)	(7,420)	(2,761)	-
Other income (expense)	128	1,295	2,065	(2,812)	-
	-----	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes	2,482	(3,257)	(5,355)	(5,573)	-
Income taxes	102	-	-	-	-
	-----	-----	-----	-----	-----
Income (loss) from continuing operations	2,380	(3,257)	(5,355)	(5,573)	-
Loss from discontinued operations	-	(13,863)	(30,816)	(18,258)	(12,737)
	-----	-----	-----	-----	-----
Net income (loss)	2,380	(17,120)	(36,171)	(23,831)	(12,737)
Preferred stock dividends	15,020	(4,151)	(45,751)	(6,605)	(15,251)
	-----	-----	-----	-----	-----
Net income (loss) attributable to common stockholders	\$ 17,400	\$ (21,271)	\$ (81,922)	\$ (30,436)	\$ (27,988)
	=====	=====	=====	=====	=====
Basic earnings (loss) per common share:					
Continuing operations	\$ 0.79	\$ (0.36)	\$ (2.89)	\$ (1.15)	\$ -
Discontinued operations	-	(0.68)	(1.75)	(1.73)	(5.94)
	-----	-----	-----	-----	-----
	\$ 0.79	\$ (1.04)	\$ (4.64)	\$ (2.88)	\$ (5.94)
	=====	=====	=====	=====	=====
Diluted earnings (loss) per common share: (1)					
Continuing operations	\$ 0.08	\$ (0.36)	\$ (2.89)	\$ (1.15)	\$ -
Discontinued operations	-	(0.68)	(1.75)	(1.73)	(5.94)
	-----	-----	-----	-----	-----
	\$ 0.08	\$ (1.04)	\$ (4.64)	\$ (2.88)	\$ (5.94)
	=====	=====	=====	=====	=====
Weighted average common shares:					
Basic	22,155	20,510	17,658	10,558	4,711
	=====	=====	=====	=====	=====
Diluted	29,233	20,510	17,658	10,558	4,711
	=====	=====	=====	=====	=====

Consolidated Balance Sheet Data:
(in thousands)

	Stonepath Group, Inc. December 31,				
	Restated 2002	Restated 2001	2000	1999	1998
	-----	-----	-----	-----	-----
Cash and cash equivalents	\$ 2,266	\$ 15,228	\$ 29,100	\$ 3,127	\$ 1
Working capital (deficit)	5,634	15,259	27,713	(4,213)	(8,750)
Total assets	55,166	40,803	44,911	13,989	372
Long-term debt and redeemable preferred stock	-	-	-	4,516	-
Stockholders' equity (deficit)	35,431	32,432	43,326	1,701	(8,750)

-
- (1) Diluted earnings per common share for 2002 excludes the impact of the July 18, 2002 exchange transaction with the holders of the Company's Series C Preferred Stock.

18

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

As noted above, our consolidated financial statements as of and for the years ended December 31, 2002 and 2001 have been restated in connection with a review of our Form 10-K for the year ended December 31, 2002 by the Staff of the Division of Corporation Finance of the Securities and Exchange Commission. The restatement of our consolidated financial statements relates to (i) allocating more value to the customer relationship intangible assets for some of our acquisitions and (ii) revising the amortization method and life used for such assets. The Financial Outlook section previously included in Item 7 of Part II of our Form 10-K has been omitted as it has been superseded by subsequent guidance provided by us. Except as otherwise specifically noted, all information contained herein is as of December 31, 2002 and does not reflect any events or changes in information that may have occurred subsequent to that date.

This discussion is intended to further the reader's understanding of our financial condition and results of operations and should be read in conjunction with our consolidated financial statements and related notes included elsewhere herein. This discussion also contains statements that are forward-looking. Our 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 our other SEC filings. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof.

Overview

We are a non-asset based third-party logistics services company providing supply chain solutions on a global basis. We offer a full range of time-definite transportation and distribution solutions through our Domestic Services platform where we manage and arrange the movement of raw materials, supplies, components and finished goods for our customers. These services are offered through our domestic air and ground freight forwarding business. We offer a full range of international logistics services including international air and ocean transportation as well as customs house brokerage services through our International Services platform. In addition to these core service offerings, we also provide a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management solutions. We service a customer base of manufacturers, distributors and national retail chains through a network of offices in 18 major metropolitan areas in North America, plus two international locations, using an extensive network of over 200 independent carriers and over 150 service partners strategically located around the world.

As a non-asset based provider of third-party logistics services, we seek to limit our investment in equipment, facilities and working capital through contracts and preferred provider arrangements with various transportation providers who generally provide us with favorable rates, minimum service levels, capacity assurances and priority handling status. The volume of our flow of freight enables us to negotiate attractive pricing with our transportation providers.

Our strategic objective is to build a leading global logistics services

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

organization that integrates established operating businesses and innovative technologies. We plan to achieve this objective by broadening our network through a combination of synergistic acquisitions and the organic expansion of our existing base of operations. We are currently pursuing an aggressive acquisition strategy to enhance our position in our current markets and to acquire operations in new markets. The focus of this strategy is on acquiring businesses that have demonstrated historic levels of profitability, have a proven record of delivering high quality services, have a customer base of large and mid-sized companies and which otherwise may benefit from our long term growth strategy and status as a public company.

19

Our acquisition strategy relies upon two primary factors: first, our ability to identify and acquire target businesses that fit within our general acquisition criteria and, second, the continued availability of capital and financing resources sufficient to complete these acquisitions. Our growth strategy relies upon a number of factors, including our ability to efficiently integrate the businesses of the companies we acquire, generate the anticipated economies of scale from the integration, and maintain the historic sales growth of the acquired businesses so as to generate continued organic growth. The business risks associated with these factors are discussed at Item 1 of this Report under the heading "Risks Particular to our Business."

Our principal source of income is derived from freight forwarding services. As a freight forwarder, we arrange for the shipment of our customers' freight from point of origin to point of destination. Generally, we quote our customers a turnkey cost for the movement of their freight. Our price quote will often depend upon the customer's time-definite needs (first day through fifth day delivery), special handling needs (heavy equipment, delicate items, environmentally sensitive goods, electronic components, etc.) and the means of transport (truck, air, ocean or rail). In turn, we assume the responsibility for arranging and paying for the underlying means of transportation.

We also provide a range of other services including customs brokerage, warehousing and other services which include customized distribution and inventory management services, fulfillment services and other value added supply chain services.

Gross revenues represent the total dollar value of services we sell to our customers. Our cost of transportation includes direct costs of transportation, including motor carrier, air, ocean and rail services. We act principally as the service provider to add value in the execution and procurement of these services to our customers. Our net transportation revenues (gross transportation revenues less the direct cost of transportation) are the primary indicator of our ability to source, add value and resell services provided by third parties, and are considered by management to be a key performance measure. Management believes that net revenues are also an important measure of economic performance. Net revenues include transportation revenues and our fee-based activities, after giving effect to the cost of purchased transportation. In addition, management believes measuring its operating costs as a function of net revenues provides a useful metric as our ability to control costs as a function of net revenues directly impacts operating earnings. With respect to our services other than freight transportation, net revenues are identical to gross revenues.

Our operating results will be affected as acquisitions occur. Since all acquisitions are made using the purchase method of accounting for business combinations, our financial statements will only include the results of operations and cash flows of acquired companies for periods subsequent to the date of acquisition. Accordingly, our results of operations only reflect the operations of: Air Plus for periods subsequent to October 5, 2001; Global for periods subsequent to April 4, 2002; United American for periods subsequent to May 30, 2002, and TSI for periods subsequent to October 1, 2002.

Our operating results are also subject to seasonal trends when measured on a quarterly basis. Our first and second quarters are likely to be weaker as compared with our other fiscal quarters, which we believe is consistent with the operating results of other supply chain service providers. This trend is dependent on numerous factors, including the markets in which we operate, holiday seasons, consumer demand and economic conditions. Since our revenues are largely derived from customers whose shipments are dependent upon consumer demand and just-in-time production schedules, the timing of our revenues is often beyond our control. Factors such as shifting demand for retail goods and/or manufacturing production delays, could unexpectedly affect the timing of our revenues. As we increase the scale of our operations, seasonal trends in one area may be offset to an extent by opposite trends in another area. We cannot accurately predict the timing of these factors, nor can we accurately estimate the impact of any particular factor, and thus we can give no assurance that historical seasonal patterns will continue in future periods.

Critical Accounting Policies

Accounting policies, methods and estimates are an integral part of the consolidated financial statements prepared by us and are based upon our current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ from our current judgments. While there are a number of accounting policies, methods and estimates that affect our consolidated financial statements as described in Note 3 to the consolidated financial statements, areas that are particularly significant include the assessment of the recoverability of long-lived assets, specifically goodwill and acquired intangibles, the establishment of an allowance for doubtful accounts and the valuation allowance for deferred income tax assets.

In certain instances, accounting principles generally accepted in the United States of America allow for the selection of alternative accounting methods. Two alternative methods for accounting for stock options are available, the intrinsic value method and the fair value method. We use the intrinsic value method of accounting for stock options, and accordingly, no compensation expense has been recognized for options issued at an exercise price equal to or greater than the quoted market price on the date of grant to employees, officers and directors. Under the fair value method, the determination of the pro forma amounts involves several assumptions including option life and volatility. If the fair value method were used, basic earnings per share and diluted earnings per share would have decreased by \$0.09 and \$0.06, respectively, in 2002.

As discussed in Note 5 to the consolidated financial statements, the goodwill arising from our acquisitions is not amortized, but instead is tested for impairment at least annually in accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. The impairment test requires several estimates including future cash flows, growth rates and the selection of a discount rate. In addition, the acquired intangibles arising from those

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

transactions are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. We cannot guarantee that our assets will not be impaired in future periods.

We maintain reserves for specific and general allowances against accounts receivable. The specific reserves are established on a case-by-case basis by management. A general reserve is established for all other accounts receivable, based on a specified percentage of the accounts receivable balance. We continually assess the adequacy of the recorded allowance for doubtful accounts, based on our knowledge concerning the customer base. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Our discontinued operations, which focused on the development of early-stage technology businesses, generated significant net operating loss carryforwards (NOLs) which could have value in the future. After giving effect for certain annual limitations based on changes in ownership as defined in Section 382 of the Internal Revenue Code, we estimate that as much as \$21.7 million in NOLs may be available to offset current and future federal taxable income. Under SFAS No. 109, Accounting for Income Taxes, we are required to provide a valuation allowance to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Given our historical losses and our limited track record of profitability to date, we maintained a full valuation allowance against our deferred tax assets as of December 31, 2002 which is consistent with what was done in the prior year. If we continue to operate profitably in 2003, we believe that we may be able to demonstrate that it is more likely than not that we will be able to use some or all of the NOLs in the future. When, and if, we can cross the threshold of "more likely than not", we would reduce our valuation allowance against all or a portion of the deferred tax asset.

21

Discontinued Operations

Prior to the first quarter of 2001, our principal business was developing early-stage technology businesses with significant Internet features and applications. Largely as a result of the significant correction in the global stock markets which began during 2000, and the corresponding decrease in the valuation of technology businesses and contraction in the availability of venture financing during 2001, we elected to shift our business strategy to focus on the acquisition of operating businesses within a particular industry segment. Following a wind down of the technology business, during the second quarter of 2001 we focused our acquisition efforts specifically within the transportation and logistics industry. This decision occurred in conjunction with our June 21, 2001 appointment of Dennis L. Pelino as our Chairman and Chief Executive Officer. Mr. Pelino brings to us over 25 years of logistics experience, including most recently, as President and Chief Operating Officer of Fritz Companies, Inc., where he was employed from 1987 to 1999.

To reflect the change in business model, our financial statements have been presented in a manner in which the assets, liabilities, results of operations and cash flows related to our former business have been segregated from that of our continuing operations and are presented as discontinued operations.

Results of Operations

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Basis of Presentation

Our results of operations are presented in a manner that is intended to provide meaningful data with respect to our transition to and ongoing operations as a third-party logistics company. Since Global and United American were acquired in 2002, our historical results from continuing operations for 2001 reflect only the operations of Air Plus for the three months ended December 31, 2001. Accordingly, in addition to providing comparative analysis on a historical basis, we have also provided supplemental unaudited pro forma information that we believe is useful to an understanding of how our results of operations have performed on a year on year basis.

Year ended December 31, 2002 (historical) compared to year ended December 31, 2001 (historical)

The following table summarizes our historical total revenues, net transportation revenues and other revenues (in thousands):

	2002	2001	Change Amount	Percentage
	-----	-----	-----	-----
Total revenues	\$139,649	\$15,598	\$124,051	795.3%
	=====	=====	=====	=====
Transportation revenues	130,371	15,174	115,197	760.0%
Cost of transportation	101,339	9,741	91,598	933.3%
	-----	-----	-----	
Net transportation revenues	29,032	5,433	23,599	434.5%
Net transportation margins	22.3%	35.8%		
Customs brokerage	6,290	-	6,290	
Warehousing and other value added services	2,988	424	2,564	604.5%
	-----	-----	-----	
Total net revenues	\$ 38,310	\$ 5,857	\$ 32,453	553.0%
	=====	=====	=====	

Total revenues were \$139.6 million for the year ended December 31, 2002, an increase of \$124.1 million or 795.3% over total revenues of \$15.6 million for the comparable period in 2001. \$73.5 million or 59.3% of the increase in total revenues was attributable to the operations of the businesses we acquired in 2002; \$5.3 million or 4.3% was due to an increase in Air Plus' revenues for the fourth quarter of 2002 over the comparable period in 2001 ("organic growth"); and the remaining \$45.2 million or 36.4% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Net transportation revenues were \$29.0 million for the year ended December 31, 2002, an increase of \$23.6 million or 434.5% over net transportation revenues of \$5.4 million for the comparable period in 2001. \$8.5 million or 36.0% of the increase in net transportation revenues was attributable to acquisitions; \$1.0 million or 4.2% was due to organic growth; and the remaining \$14.1 million or 59.8% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Net revenues were \$38.3 million for the year ended December 31, 2002, an increase of \$32.5 million or 554.1% over net revenues of \$5.9 million for the comparable period in 2001. \$15.5 million or 47.8% of the increase in net revenues was attributable to the operations of the businesses we acquired in 2002; \$1.0 million or 3.1% was due to organic growth; and the remaining \$15.9 million or 49.1% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Net transportation margins decreased to 22.3% for the year ended December 31, 2002 from 35.8% for the comparable period in 2001. This decrease in net transportation margins is primarily the result of the addition of our international services, which traditionally have lower margins, in the second quarter of 2002.

The following table summarizes certain historical consolidated statement of operations data as a percentage of our net revenues (in thousands):

	Restated 2002		Restated 2001		
	Amount	Percent	Amount	Percent	
Net revenues	\$38,310	100.0%	\$ 5,857	100.0%	\$3
Personnel costs	19,089	49.8	5,997	102.4	1
Other selling, general and administrative costs	14,680	38.3	3,917	66.9	1
Depreciation and amortization	2,187	5.7	495	8.4	
Total operating costs	35,956	93.8	10,409	177.7	2
Income (loss) from operations	2,354	6.2	(4,552)	(77.7)	
Other income (expense)	128	0.3	1,295	22.1	(
Income (loss) from operations before income taxes	2,482	6.5	(3,257)	(55.6)	
Income taxes	102	0.3	--	--	
Income (loss) from continuing operations	2,380	6.2	(3,257)	(55.6)	
Loss from discontinued operations	--	--	(13,863)	(236.7)	1
Net income (loss)	2,380	6.2	(17,120)	(292.3)	1
Preferred stock dividends	15,020	39.2	(4,151)	(70.9)	1
Net income (loss) attributable to common stockholders	\$17,400	45.4%	\$(21,271)	(363.2)%	\$3

Personnel costs were \$19.1 million for the year ended December 31, 2002, an increase of \$13.1 million or 218.3% over personnel costs of \$6.0 million for the comparable period in 2001. \$5.7 million or 43.5% of the increase in personnel costs was attributable to the operations of the businesses we acquired in 2002; \$0.7 million or 5.4% was due to organic growth; and the remaining \$6.7 million or 51.1% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

The number of employees increased to 510 at December 31, 2002 from 219 at December 31, 2001, an increase of 291 employees or 132.9%. Of this increase, 240

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

or 82.5% of the employees are engaged in operations; 16 or 5.5% of the employees are engaged in sales and marketing; and 35 or 12.0% of the employees are engaged in finance, administration, and management functions. Additionally, 204 or 69.9% of the total increase in employees was attributable to acquisitions, while 88 employees or 30.1% were added to meet the demands of the increase in our business in 2002.

Other selling, general and administrative costs were \$14.7 million for the year ended December 31, 2002, an increase of \$10.8 million or 274.8% over other selling, general and administrative costs of \$3.9 million for the comparable period in 2001. \$3.0 million or 27.8% of the increase was attributable to the operations of the businesses we acquired in 2002; \$0.8 million or 7.4% was due to organic growth; and the remaining \$7.0 million or 64.8% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

23

Depreciation and amortization amounted to \$2.2 million for the year ended December 31, 2002, an increase of \$1.7 million or 341.8% over the comparable period in 2001 principally due to amortization of acquired intangible assets acquired in the Global and United American acquisitions and a full year of amortization of the Air Plus intangible assets acquired in October 2001. (See Note 2 to the Company's consolidated financial statements.)

Income from operations was \$2.4 million in 2002, compared to a loss of \$4.6 million for 2001.

Other income was \$0.1 million in 2002, a decrease from \$1.3 million in 2001.

As a result of historical losses related to investments in early-stage technology business, the Company has accumulated federal net operating loss carryforwards. Although a portion of this loss may be subject to certain limitations, the Company expects it will be able to use approximately \$21.7 million of the loss to offset current and future federal taxable income. As a result, the Company is currently only subject to certain state and local taxes which resulted in a state tax provision of \$0.1 million in 2002.

There were no losses from discontinued operations in 2002 as compared to losses from discontinued operations of \$13.9 million in 2001. These 2001 losses reflect the costs associated with our holdings in early-stage technology businesses for our previous business model, including investment losses, personnel and office costs.

Net income was \$2.4 million in 2002, compared to a net loss of \$17.1 million in 2001.

The Company recorded a net non-cash benefit of \$15.0 million associated with the restructuring of our Series C Preferred stock, after giving effect to \$1.9 million in preferred stock dividends, compared to preferred stock dividends of \$4.2 million in 2001. See Note 12 to the consolidated financial statements.

Net income attributable to common stockholders was \$17.4 million in 2002, compared to a net loss attributable to common stockholders of \$21.3 million in 2001. Basic earnings per share was \$0.79 for 2002 compared to a loss of \$1.04 per basic share for 2001. Diluted earnings per share for 2002 excludes the net effect of the Series C exchange transaction and was \$0.08 per diluted share for 2002 compared to a loss of \$1.04 per diluted share for 2001.

Year ended December 31, 2001 (historical) compared to year ended

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

December 31, 2000 (historical)

The following table summarizes our historical total revenues, net transportation revenues and other revenues (in thousands):

	2001 -----	2000 -----	Am -----
Total revenues	\$15,598 =====	\$ - =====	\$15 =====
Transportation revenues	15,174	-	15
Cost of transportation	9,741 -----	-	9 -----
Net transportation revenues	5,433	-	5
Net transportation margins	35.8%	-	
Customs brokerage	-	-	
Warehousing and other value added services	424 -----	-	
Total net revenues	\$ 5,857 =====	\$ - =====	\$ 5 =====

Total revenues were \$15.6 million for the year ended December 31, 2001 resulting from our transition to a third-party logistics business and represent the revenues from Air Plus for the period from October 5, 2001 to December 31, 2001. There were no revenues for the comparable period in 2000 under the Company's previous business model.

Net transportation revenues were \$5.4 million for the year ended December 31, 2001, while there were no net transportation revenues for the comparable period in 2000.

24

Net revenues were \$5.9 million for the year ended December 31, 2001, while there were no net revenues for the comparable period in 2000.

Net transportation margins were 35.8% for the year ended December 31, 2001, while there were no margins for the comparable period in 2000 due to a lack of both transportation revenues and any related costs.

The following table summarizes certain historical consolidated statement of operations data as a percentage of our net revenues (in thousands):

	Restated 2001		2000	
	Amount -----	Percent -----	Amount -----	Pe -----
Net revenues	\$ 5,857	100.0%	\$ --	
Personnel costs	5,997	102.4	4,263	
Other selling, general and administrative costs	3,917	66.9	3,126	
Depreciation and amortization	495	8.4	31	

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Total operating costs	10,409	177.7	7,420
Loss from operations	(4,552)	(77.7)	(7,420)
Other income	1,295	22.1	2,065
Loss from continuing operations before income taxes	(3,257)	(55.6)	(5,355)
Income taxes	--	--	--
Loss from continuing operations	(3,257)	(55.6)	(5,355)
Loss from discontinued operations	(13,863)	(236.7)	(30,816)
Net loss	(17,120)	(292.3)	(36,171)
Preferred stock dividends	(4,151)	(70.9)	(45,751)
Net loss attributable to common stockholders	\$ (21,271)	(363.2)%	\$ (81,922)

Personnel costs were \$6.0 million for the year ended December 31, 2001, an increase of \$1.7 million or 40.7% over personnel costs of \$4.3 million for the comparable period in 2000. The increase, primarily attributable to the acquisition of Air Plus in the fourth quarter of 2001, was offset by a reduction of approximately \$1.0 million in stock-based compensation.

The number of employees increased to 219 at December 31, 2001 from 10 at December 31, 2000, an increase of 209 employees. Of this increase, 169 or 80.9% of the employees are engaged in operations; 14 or 6.7% of the employees are engaged in sales and marketing; and 26 or 12.4% of the employees are engaged in finance, administration, and management functions.

Other selling, general and administrative costs were \$3.9 million for the year ended December 31, 2001, an increase of \$0.8 million or 25.3% over other selling, general and administrative costs of \$3.1 million for the comparable period in 2000. The increase was primarily attributable to the acquisition of Air Plus in the fourth quarter of 2001.

Depreciation and amortization amounted to \$0.5 million for the year ended December 31, 2001, an increase of \$0.5 million or 1,496.8% compared to the prior year, principally due to the increase in furniture and equipment and amortizable intangible assets acquired in the Air Plus transaction.

Loss from operations was \$4.6 million in 2001, compared to a loss of \$7.4 million in 2000.

Other income was \$1.3 million in 2001, a decrease from \$2.1 million in 2000, principally as a result of lower interest income, because previously invested funds were used to purchase Air Plus and to fund losses from operations.

There was a loss from discontinued operations in 2001 of \$13.9 million, as compared to a loss from discontinued operations of \$30.8 million in 2000. These losses reflect the costs associated with our holdings in early-stage technology businesses under our previous business model, including investment losses,

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

personnel and office costs.

Net loss was \$17.1 million in 2001, compared to a net loss of \$36.2 million in 2000.

Preferred stock dividends were \$4.2 million in 2001, compared to preferred stock dividends of \$45.8 million in 2000. The dividend in 2000 included \$42.6 million related to a beneficial conversion feature for the Series C Preferred Stock. See Note 12 to the consolidated financial statements.

Net loss attributable to common stockholders was \$21.3 million in 2001, compared to a net loss attributable to common stockholders of \$81.9 million in 2000. Basic and diluted loss per share was \$1.04 for 2001 compared to a loss of \$4.64 per basic and diluted share for 2000.

Supplemental Unaudited Pro Forma Information

The unaudited pro forma results of operations for 2002 and 2001 are presented as if we had discontinued our former business model and acquired Air Plus, Global and United American (collectively the "Material Acquisitions") as of January 1, 2001. The unaudited pro forma results reflect a consolidation of the historical results of operations of the Material Acquisitions, as adjusted to reflect contractual adjustments to officers' compensation at the companies comprising the Material Acquisitions, amortization of acquired intangibles and income taxes. The unaudited pro forma results also exclude losses associated with our discontinued operations as well as the impact of the July 18, 2002 exchange transaction with the holders of our Series C Preferred Stock.

Year ended December 31, 2002 (unaudited pro forma) compared to year ended December 31, 2001 (unaudited pro forma)

The following table summarizes our total revenues, net transportation revenues and other revenues on a pro forma basis (in thousands):

	2002	2001	Amo
	-----	-----	-----
Total revenues	\$165,853	\$133,193	\$3
	=====	=====	=====
Transportation revenues	154,261	124,925	2
Cost of transportation	120,699	95,791	2
	-----	-----	-----
Net transportation revenues	33,562	29,134	
Net transportation margins	21.8%	23.3%	
Customs brokerage	8,333	6,799	
Warehousing and other value added services	3,259	1,469	
	-----	-----	-----
Total net revenues	\$45,154	\$37,402	\$
	=====	=====	=====

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Despite 2002's sluggish economy, pro forma total revenues were \$165.9 million in 2002, an increase of 24.5% over pro forma total revenues of \$133.2 million in 2001.

Pro forma transportation revenues were \$154.3 million for the year ended December 31, 2002, an increase of 23.5% over pro forma transportation revenues of \$124.9 million for the comparable period in 2001. The increase is due to the opening of three Domestic terminals and four International terminals during 2002, the contribution for the full year from six Domestic terminals opened in 2001, as well as organic growth. \$88.7 million or 57.5% of the 2002 pro forma transportation revenues was attributable to our Domestic operations, while \$65.6 million or 42.5% was attributable to our International operations. \$76.3 million or 61.1% of the 2001 pro forma transportation revenues was attributable to our Domestic operations, while \$48.7 million or 38.9% was attributable to our International operations.

Pro forma net transportation revenues were \$33.6 million for the year ended December 31, 2002, an increase of \$4.4 million or 15.2% over pro forma net transportation revenues of \$29.1 million for the comparable period in 2001.

Pro forma net revenues were \$45.2 million in 2002, an increase of 20.7% over pro forma net revenues of \$37.4 million in 2001.

Pro forma net transportation margins decreased to 21.8% for the year ended December 31, 2002 from 23.3% for the comparable period in 2001. This decrease in pro forma net transportation margins is primarily the result of a larger proportionate increase in our international services, which traditionally have lower margins, in 2002. For 2002, pro forma net transportation margins were 30.5% and 10.0% for our Domestic and International operations, respectively. For 2001, pro forma net transportation margins were 32.0% and 9.8% for our Domestic and International operations, respectively.

26

The following table summarizes certain statement of operations data as a percentage of our net revenues on a pro forma basis (in thousands):

	Restated 2002		Restated 2001		
	Amount	Percent	Amount	Percent	
Net revenues	\$ 45,154	100.0%	\$ 37,402	100.0%	\$
Personnel costs	22,214	49.2	17,377	46.5	
Other selling, general and administrative	18,398	40.7	18,180	48.6	
Total operating costs	40,612	89.9	35,557	95.1	
Income from operations	4,542	10.1	1,845	4.9	
Other income (expense)	14	--	(13)	--	
Income from continuing operations before income taxes	4,556	10.1	1,832	4.9	
Income taxes	187	0.4	50	0.1	

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Income from continuing operations	\$ 4,369	9.7%	\$ 1,782	4.8%	\$
-----------------------------------	----------	------	----------	------	----

Personnel costs were \$22.2 million for 2002, an increase of 27.8% over \$17.4 million for 2001. Personnel costs as a percentage of net revenues increased to 49.2% from 46.5% in 2001. This increase is primarily attributable to the Company's efforts to position itself for continued growth through additional resources deployed in sales, technology and back-office operations.

The number of employees increased to 510 at December 31, 2002 from 409 at December 31, 2001, an increase of 101 employees or 24.7%. Of this increase, 90 or 89.1% of the employees are engaged in operations; 2 or 2.0% are engaged in sales and marketing; and 9 or 8.9% of the employees are engaged in finance, administration, and management functions.

Other selling, general and administrative expenses were \$18.4 million for 2002, relatively flat compared to \$18.2 million in 2001. As a percentage of net revenues, other selling, general and administrative expenses decreased to 40.7% from 48.6% in 2001 and is indicative of the scalability of our business model.

Income from operations was \$4.5 million in 2002, an increase of 146.2% over \$1.8 million for 2001. Income from operations as a percentage of net revenues increased to 10.1% from 4.9% in 2001.

As a result of historical losses related to investments in early-stage technology businesses, the Company has accumulated net operating loss carryforwards for federal and state income tax purposes amounting to approximately \$21.7 million and \$16.2 million, respectively. Although a portion of this loss may be subject to certain limitations, it appears that we may be able to use approximately \$21.7 million of the federal operating loss carryforward to offset current and future federal taxable income. As a result, the Company is currently only subject to certain state and local taxes which on a pro forma basis results in a tax provision of \$0.2 million for 2002 and \$0.1 million for 2001.

Net income was \$4.4 million in 2002, an increase of 146.7% compared to \$1.8 million in 2001. Pro forma net income per share in 2002 was \$0.20 per basic share (excludes the impact of the July 18, 2002 exchange transaction with the holders of the Series C Preferred Stock) and \$0.15 per diluted share.

In accordance with SEC Regulation S-K, we present the following tables, which reconcile our actual results of operations to our pro forma results of operations for the years ended December 31, 2002 and 2001 (in thousands).

27

Year ended December 31, 200

	Restated historical Stonepath Group	Global January 1- April 4, 2002	United American January 1- May 30, 2002
Total revenues	\$ 139,649	\$ 13,797	\$ 12,407

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Cost of transportation	101,339	10,139	9,221
	-----	-----	-----
Net revenues	38,310	3,658	3,186
Personnel costs	19,089	1,642	1,407
Other selling, general and administrative costs	16,867	763	880
	-----	-----	-----
Income from operations	2,354	1,253	899
Other income (expense)			
Interest income	91	--	--
Other, net	37	27	(68)
	-----	-----	-----
Income before income taxes			
	2,482	1,280	831
Income taxes	102	36	22
	-----	-----	-----
Net income	\$ 2,380	\$ 1,244	\$ 809
	=====	=====	=====

- (1) To reflect contractual changes to officers' compensation.
- (2) To reflect amortization of acquired identifiable intangibles under the declining balance method using a 25% rate.
- (3) To eliminate interest income as a result of a reduced cash balance due to the payment of approximately \$10.6 million for Global and United American.
- (4) To reflect state taxes on pro forma income before income taxes.

Year ended December 31, 2001

	Restated historical Stonepath Group	Air Plus January 1 - October 4, 2001	Global	United American
	-----	-----	-----	-----
Total revenues	\$ 15,598	\$ 41,224	\$ 54,934	\$ 21,437
Cost of transportation	9,741	26,527	43,884	15,639
	-----	-----	-----	-----
Net revenues	5,857	14,697	11,050	5,798
Personnel costs	5,997	5,985	6,571	2,557
Other selling, general and administrative costs	4,412	6,697	3,386	2,325
	-----	-----	-----	-----

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Income (loss) from operations	(4,552)	2,015	1,093	916
Other income (expense)				
Interest income	1,286	(43)	(89)	(23)
Other, net	9	(196)	--	--
	-----	-----	-----	-----
Income (loss) before income taxes	(3,257)	1,776	1,004	893
Income taxes	--	--	--	--
	-----	-----	-----	-----
	--	--	--	--
Net income (loss)	\$ (3,257)	\$ 1,776	\$ 1,004	\$ 893
	=====	=====	=====	=====

28

- (1) To reflect contractual changes to officers' compensation.
- (2) To reflect amortization of acquired identifiable intangibles under the declining balance method using a 25% rate.
- (3) To eliminate interest income as a result of a reduced cash balance due to the payment of approximately \$28.5 million for the Material Acquisitions.
- (4) To reflect state taxes on pro forma income before income taxes.

Disclosures About Contractual Obligations

The following table aggregates all contractual commitments and commercial obligations that affect the Company's financial condition and liquidity position as of December 31, 2002:

Contractual Obligations	Payments Due By Period			
	Less than 1 year	1 - 3 years	3- 5 years	Mo 5
	-----	-----	-----	-----
Operating lease obligations	\$3,782,000	\$ 5,726,000	\$2,435,000	\$
Other long-term liabilities reflected on the Registrant's balance sheet under GAAP (a)	3,880,000	-	-	
Letter of credit	160,000	-	-	
	-----	-----	-----	-----
Total contractual obligations	7,822,000	5,726,000	2,435,000	
Contingent earn-out obligations (b)	-	14,900,000	7,450,000	
	-----	-----	-----	-----
Total contractual and contingent obligations	\$ 7,822,000	\$20,626,000	\$ 9,885,000	

- =====
=====
- (a) Consists of earn-out payments which are due in 2003 to the former owners of our existing subsidiaries.
 - (b) Consists of potential obligations related to earn-out payments to the former owners of our existing subsidiaries, as discussed under Liquidity and Capital Resources.

Liquidity and Capital Resources

Prior to the adoption of our current business model, our operations consisted of developing early-stage technology businesses. These operations did not generate sufficient operating funds to meet our cash needs, and, as a result, we funded our historic operations with the proceeds from a number of private placements of debt and equity securities. With the advent of our new business model, we expect to be able to fund our operations with the cash flow generated by the subsidiaries we acquire. We are also in an acquisition mode and expect to deploy material amounts of capital as we execute our business plan. Therefore, it is likely that we will need to raise additional capital in the future. There can be no assurance that we will be able to raise additional capital on terms acceptable to us, if at all.

Cash and cash equivalents totaled \$2.3 million and \$15.2 million as of December 31, 2002 and 2001. Working capital totaled \$5.6 million and \$15.3 million at December 31, 2002 and 2001.

Cash used in operating activities was \$0.6 million for 2002 compared to \$0.5 million used in 2001. Before growth in working capital accounts driven principally by the acquisition of new businesses, the Company generated cash from operations in 2002 of \$4.7 million compared to a net use of \$1.1 million in cash from operations in 2001.

Net cash used in investing activities was \$12.5 million in 2002 compared to \$12.1 million in 2001. Investing activities were driven principally by the acquisition of new businesses. The Company deployed \$10.5 million for the acquisition of new businesses in 2002 compared to \$18.0 million in 2001. The cash used in the acquisition of Air Plus in 2001 was partially offset by approximately \$7.0 million from the sale of our interest in Webmodal, Inc. (including \$1.0 million from the repayment of prior advances).

Cash from financing activities generated \$0.2 million in 2002 compared to a use of cash of \$1.2 million in 2001. The 2001 use of cash was primarily related to the repayment of short-term notes payable to the former shareholders of Air Plus.

29

We expect to pay approximately \$3.9 million in earn-outs on April 1, 2003, based on the performance of our acquired companies relative to their respective pre-tax earnings targets. Approximately \$3.5 million will be paid in cash with the balance payable through the issuance of shares of our common stock.

On July 18, 2002 we completed a private exchange transaction that eliminated approximately \$44.6 million of our Series C preferred stock. The terms of the Series C preferred stock would have significantly constrained our future growth opportunities. In return for eliminating the Series C preferred stock, we issued 1,911,071 shares of common stock, warrants to purchase 1,543,413 shares of common stock at an exercise price of \$1.00 per share for a

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

term of three (3) years, and a new class of Series D preferred stock that will convert into 3,607,450 shares of our common stock no later than December 31, 2004. The terms of the Series D preferred stock were structured to make it much like a common equity equivalent in that (1) it receives no dividend, (2) it is subordinated to new rounds of equity, and (3) it holds a limited liquidation preference (expiring at the end of 2003). In addition, the holders of the Series D preferred stock are restricted from selling the common stock received upon conversion of the Series D preferred stock until July 19, 2003 (or earlier if the stock trades at \$4.50) and are then permitted limited resale based on trading volume through July 19, 2004.

In March 2003, we completed a private placement of 4,470,000 shares of our common stock in exchange for gross proceeds of approximately \$6.1 million. This placement yielded net proceeds of \$5.7 million for the Company, after the payment of placement agent fees and other out-of-pocket costs associated with the placement.

We may also receive proceeds in the future from the exercise of existing options and warrants. As of March 17, 2003, approximately 13,220,000 options and warrants were outstanding. Of the outstanding securities, there are approximately 300,000 that have an exercise price of \$5.00 per share or higher. If we exclude those options and warrants from our fully diluted share count, our outstanding fully diluted shares, as adjusted, would be approximately 44,500,000 shares. Excluding options and warrants with an exercise price of \$5.00 or higher, the proceeds received by the Company, if all of the remaining options and warrants were exercised, would be approximately \$15.0 million.

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

To ensure that we have adequate near-term liquidity, we maintain a revolving credit facility of \$15.0 million (the "Facility") with LaSalle Business Credit, Inc. 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 to fund future acquisitions, capital expenditures or for other corporate purposes. There were no advances against the Facility at December 31, 2002. We expect that the cash flow from our existing operations and any other subsidiaries acquired during the year will be sufficient to support our corporate overhead and some portion, if not all, of the contingent earn-out payments or other cash requirements associated with our acquisitions. Therefore, we anticipate that our 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.

The acquisition of Air Plus was completed subject to an earn-out arrangement of \$17.0 million. We agreed to pay the former Air Plus shareholders installments of \$3.0 million in 2003, \$5.0 million in 2004, \$5.0 million in 2005 and \$4.0 million in 2006, with each installment payable in full if Air Plus achieves pre-tax income of \$6.0 million in each of the years preceding the year

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

of payment. In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the \$6.0 million level. Based upon 2002 performance, former Air Plus shareholders are entitled to receive \$3.0 million on April 1, 2003, and will have excess earnings of \$0.3 million as a carryforward to future earnings targets. Former Air Plus shareholders have elected to take \$2.6 million in cash with the balance payable in Company stock.

On April 4, 2002, we acquired Global, a Seattle-based privately held company that provides a full range of international air and ocean logistics services. The transaction was valued at up to \$12.0 million, consisting of cash of \$5.0 million paid at the closing and up to an additional \$7.0 million payable over a five year earn-out period based upon the future financial performance of Global. We agreed to pay the former Global shareholders a total of \$5.0 million base earn-out payments in installments of \$0.8 million in 2003, \$1.0 million in 2004 through 2007 and \$0.2 million in 2008, with each installment payable in full if Global achieves pre-tax income of \$2.0 million in each of the years preceding the year of payment (or the pro rata portion thereof in 2002 and 2007). In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a pro-rata basis. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the \$2.0 million level. The Company has also provided former Global shareholders with additional incentive to generate earnings in excess of the base \$2.0 million

30

annual earnings target ("tier-two earn-out"). Under Global's tier-two earn-out, former Global shareholders are also entitled to receive 40% of the cumulative pre-tax earnings in excess of \$10.0 million generated during the five year earn-out period subject to a maximum additional earn-out opportunity of \$2.0 million. Global would need to generate cumulative earnings of \$15.0 million over the five year earn-out period to receive the full \$7.0 million in contingent earn-out payments. Based upon 2002 performance, former Global shareholders will receive \$0.8 million on April 1, 2003, and will have excess earnings of \$2.5 million as a carryforward to future earnings targets.

On May 30, 2002 we acquired United American, a Detroit-based privately held provider of expedited transportation services. The United American transaction provided us with a new time-definite service offering focused on the automotive industry. The transaction is valued at up to \$16.1 million, consisting of cash of \$5.1 million paid at closing and a four-year earn-out arrangement based upon the future financial performance of United American. We agreed to pay the former United American shareholder a total of \$5.0 million base earn-out payments in installments of \$1.25 million in 2003 through 2006, with each installment payable in full if United American achieves pre-tax income of \$2.2 million in each of the years preceding the year of payment. In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the \$2.2 million level. The Company has also provided the former United American shareholder with additional incentive to generate earnings in excess of the base \$2.2 million annual earnings target ("tier-two earn-out"). Under United American's tier-two earn-out, the former United American shareholder is also entitled to receive 50% of the cumulative pre-tax earnings generated by a certain pre-acquisition customer in excess of \$8.8 million during the four year earn-out period subject to a maximum additional earn-out opportunity of \$6.0 million. United American would need to generate cumulative earnings of \$20.8 million over the four year earn-out period to receive the full \$11.0 million in contingent earn-out payments. Based upon 2002

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

performance, the former United American shareholder will receive \$0.2 million on April 1, 2003, and has an earnings shortfall of \$1.0 million. In future years, earnings in excess of the \$2.2 million earnings target would first be applied against the \$1.0 million shortfall.

On October 1, 2002 we acquired TSI, a Northern Virginia-based privately held provider of expedited domestic and international transportation services. The TSI transaction capitalized on TSI's existing base of government contract work in the Washington metropolitan area and served as a supplement to an existing Company-operated facility in that area. The transaction was valued at up to \$1.1 million, consisting of cash of \$0.5 million paid at closing, and a three-year earn-out arrangement. The Company agreed to pay the former TSI shareholder \$0.2 million for each year in the three year earn-out period ending December 31, 2005, based upon the annual net revenue targets of \$1.6 million. In the event there is a shortfall in net revenues, the earn-out payment will be reduced proportionally to the extent of the shortfall, provided no earn-out payment shall be made if net revenues for the year fall below \$1.0 million. Shortfalls may be carried over or carried back to the extent that net revenues in any other payout year exceeds the \$1.6 million level.

We are also in the process of closing a transaction that will significantly increase our presence in Asia. On March 12, 2003, we announced our agreement to acquire a 70.0% interest in Singapore-based G-Link Group ("G-Link"), a platform acquisition that will provide the foundation for our service offering in Southeast Asia. As currently structured, we are expected to pay at closing approximately \$2.4 million in cash and \$1.2 million of our common stock to the G-Link shareholders. We would also expect to pay the G-Link shareholders for working capital balances. The amount, estimated to be in the range of \$1.0 to \$2.0 million, would be paid using Company common stock. The G-Link shareholders would be entitled to a four year earn-out arrangement based upon the future financial performance of G-Link. The earn-out is expected to be \$2.4 million, payable in installments of \$0.6 million per year. The transaction is expected to close by no later than June 30, 2003, and is subject to customary closing conditions, including the securing of third-party and regulatory consents, as well as the completion of an audit of G-Link for the year ended December 31, 2002.

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

31

The following table summarizes our contingent base earn-out payments (in thousands) (1) (2)

	2004	2005	2006	2007	2008
Earn-out payments:					
Domestic	\$ 6,450	\$ 6,450	\$ 5,450	\$ -	\$ -
International	1,000	1,000	1,000	1,000	-

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Total earn-out payments	\$ 7,450	\$ 7,450	\$ 6,450	\$ 1,000	\$
	=====	=====	=====	=====	=====
Prior year pre-tax earnings targets (3):					
Domestic	\$ 8,686	\$ 8,686	\$ 8,686	\$ -	\$
International	2,000	2,000	2,000	2,000	
	-----	-----	-----	-----	-----
Total pre-tax earnings targets	\$ 10,686	\$ 10,686	\$ 10,686	\$ 2,000	\$
	=====	=====	=====	=====	=====

Earn-outs as a percentage of prior year pre-tax earnings targets:

Domestic	74.3%	74.3%	62.7%	--	
International	50.0%	50.0%	50.0%	50.0%	
Combined	69.7%	69.7%	60.4%	50.0%	

-
- (1) Excludes the impact of prior year's pre-tax earnings carryforwards (excess or shortfalls versus earnings targets).
 - (2) During the 2003-2007 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as \$8.0 million if the applicable acquired companies generate an incremental \$17.0 million in pre-tax earnings.
 - (3) Aggregate pre-tax earnings targets as presented here identify the uniquely defined earnings targets of each acquisition and should not be interpreted to be the consolidated pre-tax earnings of the Company which would give effect for, among other things, amortization or impairment of intangibles created in connection with each acquisition or various other expenses which may not be charged to the operating groups for purposes of calculating earn-outs.

The Company is a defendant in a number of legal proceedings. Although we believe that the claims asserted in these proceedings are without merit, and we intend 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

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes criteria and methodologies for the measurement, recognition and classification of long-lived assets. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, requiring companies to recognize liabilities and costs associated with exit or disposal activities initiated after December 31, 2002 when they are incurred, rather than when management commits to an exit or disposal plan. SFAS No. 146 also requires that such liabilities be measured at fair value. SFAS No. 146 had no impact on the Company's consolidated financial statements but may affect the measurement and recognition of any future restructuring activities.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure of Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which elaborates on the existing disclosure requirements for guarantees and provides clarification on when a company must measure and recognize a liability related to guarantees issued. The disclosure requirements of Interpretation No. 45 are effective for the Company's consolidated financial statements for the year ended December 31, 2002. The measurement and recognition provisions are to be applied on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 did not require additional disclosures and is not expected to impact the Company's consolidated financial statements as the Company does not typically issue guarantees related to third-party indebtedness or performance.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, which (i) amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes the fair value based method of accounting for stock-based employee compensation, (ii) amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and (iii) amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. Items (ii) and (iii) in the new requirements of SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002. The Company has included the requirements of item (ii) in Note 3 - *Summary of Significant Accounting Policies* and will include the requirements of item (iii) beginning with its first interim report as of and for the period ending March 31, 2003.

32

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which provides new guidance with respect to the consolidation of all unconsolidated entities, including special purpose entities. The adoption of Interpretation No. 46 in 2003 is not expected to impact the Company's consolidated financial statements as the Company does not have investments in any unconsolidated special purpose or variable interest entities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk relates primarily to changes in interest rates and the resulting impact on our invested cash. We place our cash with high credit quality financial institutions and invest that cash in money market funds and investment grade securities with maturities of less than 90 days. We are averse to principal loss and ensure the safety and preservation of our invested funds by investing in only highly rated investments and by limiting our exposure in any one issuance. If market interest rates were to increase immediately and uniformly by 10% from levels at December 31, 2002, the fair value of our portfolio would decline by an immaterial amount. We do not invest in derivative financial instruments.

Item 8. Financial Statements and Supplementary Data

Our financial statements as of December 31, 2002 and 2001 and for each of the years in the three-year period ended December 31, 2002 and footnotes related thereto, revised to reflect the restatement thereof as more fully discussed in Note 2 to the consolidated financial statements, are included within Item 15(a)

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

of this Report and may be found at pages 47 through 74. Predecessor combined financial statements for Air Plus for the year ended December 31, 2000 and footnotes related thereto are also included within Item 15(a) of this Report and may be found at pages 75 through 81. Schedule II - Valuation and Qualifying Accounts, may be found on page 82.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Our directors, executive officers and significant employees as of March 17, 2003 were as follows:

Name	Age	Position
----	---	-----
Dennis L. Pelino	55	Chairman of the Board of Directors and Chief Executive Officer
Gary Koch	44	Significant Employee - Chief Executive Officer
		Stonepath Logistics Domestic Services, Inc.
Jason Totah	43	Significant Employee - President of
		Stonepath Logistics International Services, Inc.
Bohn H. Crain	39	Chief Financial Officer and Treasurer
Stephen M. Cohen	46	Senior Vice President, General Counsel and Secretary
Thomas L. Scully	53	Vice President and Controller/Principal Accounting Officer
Douglass Coates	60	Director
Frank Palma (1) (2)	65	Director
David R. Jones (1) (2)	54	Director
Aloysius T. Lawn, IV (1) (2)	44	Director
Robert McCord	44	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, executive officers and significant employees.

Dennis L. Pelino has served as our Chairman of the Board of Directors and Chief Executive Officer since June 21, 2001. Mr. Pelino has over two decades of executive experience in the logistics industry. From 1986 to 1999, he was employed by Fritz Companies, Inc., initially as director of International Operations and Sales and Marketing, in 1993 as its Chief Operating Officer and commencing in 1996, also as its President. Mr. Pelino was also a member of the Board of Directors of Fritz Companies from 1991 to 1999. During Mr. Pelino's tenure, he acquired or started over 50 companies for Fritz as it became one of

the leading global logistics companies. Prior to Fritz, Mr. Pelino held senior executive positions in the container shipping industry and in the domestic full-service truck leasing industry. Most recently, from 1999 through 2001, Mr.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Pelino has been involved as a director and principal of a number of private ventures which explored opportunities in the logistics industry and which provided consulting services relative to business opportunities in Latin America, China and other Far Eastern regions.

Gary Koch is a significant employee of the Company and serves as the Chief Executive Officer of Air Plus and Stonepath Logistics Domestic Services, Inc. Mr. Koch co-founded Air Plus in May 1990. In ten years, he built Air Plus into a transportation logistics company serving a customer base of manufacturing distributors and national retail chains with close to \$60.0 million in annual revenues, over 200 employees and 16 offices in North American cities. Mr. Koch has over twenty years of logistics experience in the U.S. and Canadian markets with expertise in traditional air freight and distribution logistics. Mr. Koch received a B.S. in Marketing from Purdue University.

Jason Totah is a significant employee of the Company and serves as the President of Global and Stonepath Logistics International Services, Inc. Mr. Totah joined Global in 1990 and has held several positions including Seattle Branch manager and Senior Vice President, Sales and Marketing, and Senior Vice President of Sales and Operations. Prior to Global, he worked in international logistics for Amoco Petroleum, stationed in various locations around the world. He graduated from Oregon State in 1983 with a degree in Agriculture Engineering.

Bohn H. Crain has served as our Chief Financial Officer since January 10, 2002 and our Treasurer since May 30, 2002. Mr. Crain has over 15 years of experience in finance and accounting as well as extensive knowledge of transportation and logistics. Prior to joining Stonepath's executive team, he served from January 2001 to September 2001 as Executive Vice President and Chief Financial Officer for Schneider Logistics, Inc., a third-party logistics company. Before Schneider, Mr. Crain served from May 2000 to January 2001 as Vice President and Treasurer for Florida East Coast Industries, Inc., and from June 1989 to May 2000, he held various Vice-President and treasury positions with CSX and various of its subsidiaries. Mr. Crain holds a B.S. in Business Administration - Accounting from the University of Texas.

Stephen M. Cohen has served as the Company's Senior Vice President, General Counsel and Secretary since April 2000. Since 1980, Mr. Cohen has been engaged in the practice of law, having most recently been a shareholder of Buchanan Ingersoll Professional Corporation from March 1996 to April 2000 and a partner of Clark, Ladner, Fortenbaugh & Young from March 1990 to March 1996. Mr. Cohen's practice focused on corporate finance and federal securities matters. Mr. Cohen received a B.S. in Accounting from the School of Commerce and Finance of Villanova University, a J.D. from Temple University and a L.L.M. in Taxation from Villanova University School of Law.

Thomas L. Scully has served as our Vice President and Controller since November 19, 2001. Before joining Stonepath, Mr. Scully was a senior manager within the assurance and advisory services of Deloitte & Touche, LLP from December 1996 to November 2001. Prior to Deloitte & Touche, from October 1980 to June 1996, Mr. Scully was an audit partner at BDO Seidman, LLP where he led numerous accounting, auditing and tax engagements for publicly traded and privately-held local, national, and international clients. Prior to BDO, he held the position of audit supervisor at Coopers & Lybrand, LLP. Mr. Scully is a certified public accountant and earned a B.S. in Accounting from St. Joseph's University, Philadelphia.

J. Douglass Coates has served as a member of our Board of Directors since August 2001. He has been principal of Manalytics International, Inc., a transportation, logistics and supply chain consulting firm based in San Francisco, California, since 1992. He was previously President of ACS Logistics, a division of American President Lines, and President of Milne Truck Lines, then a subsidiary of the Sun Company. Mr. Coates holds a B.S. in Engineering from

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Pennsylvania State University and an MBA from the Wharton School of the University of Pennsylvania.

Frank Palma has served as a member of our Board of Directors since August 2001. Mr. Palma has significant experience in the field of executive search and human resources. Since August 2000, Mr. Palma has been the principal and Chief Executive Officer of Frank Palma Associates, LLC, an executive recruiting firm. Briefly before that, he was the Chief Operating Officer of Global Sources, Inc., a human resources firm, and from 1985 to 2000, he was an Executive Vice President with Goodrich & Sherwood Associates, Inc., a human resource consulting services firm. Mr. Palma holds a B.S. in Business Management from the City College of New York and has completed graduate course work at Cornell University and New York University.

David Jones has served as a member of our Board of Directors since September 2000. Mr. Jones has been President of DR Jones Financial, Inc., a privately-held consulting firm since its formation in September 1995. He is presently a director of Financial Asset Securities Corporation, an affiliate of Greenwich Capital Markets, Inc. Prior to forming DR Jones Financial, Inc., Mr. Jones was Senior Vice President-Asset Backed Finance of Greenwich Capital Markets, Inc. from 1989 to 1995. Mr. Jones served as a Vice President, and subsequently as a Managing Director of The First Boston Corporation, an investment banking firm, from 1982 to 1989 and as Manager-Product Development of General Electric Credit Corp., an asset-based lender and financial services company, from 1981 to 1982. Mr. Jones is a graduate of Harvard College and has an MBA from the Amos Tuck School of Business Administration.

34

Aloysius T. Lawn has served as a member of our Board of Directors since February 2001. Mr. Lawn is the Executive Vice President - General Counsel and Secretary of Talk America Holdings, Inc., an integrated communications service provider with programs designed to benefit the residential and small business markets. Prior to joining Talk America Holdings, Inc. in 1996, Mr. Lawn was an attorney in private practice with extensive experience in private and public financings, mergers and acquisitions, securities regulation and corporate governance from 1985 through 1995. Mr. Lawn graduated from Yale University and Temple University School of Law.

Robert McCord has served as a member of our Board of Directors since March 2001. He is also a Managing Director of PA Early Stage, an affiliated fund of Safeguard Scientifics, Inc. At PA Early Stage, which he co-founded in 1997, Mr. McCord specializes in business development for their portfolio companies. He also serves as President and Chief Executive Officer of the Eastern Technology Council, a consortium of more than 1,200 technology-oriented companies. At the Technology Council he provides contacts, capital and information for senior executives. Mr. McCord co-founded and also serves as a principal of the Eastern Technology Fund, which provides seed and early-stage funding for technology companies in the eastern corridor. Previously, he served as Vice President of Safeguard Scientifics, Inc., a leader in identifying, developing and operating premier technology companies. Before joining Safeguard, Mr. McCord spent a decade on Capitol Hill where he served as Chief of Staff, Speechwriter and Budget Analyst in a variety of congressional offices. He specialized in budget and deregulatory issues and, as Chief Executive Officer of the bipartisan Congressional Institute for the Future, he ran a staff which tracked legislation and provided policy analyses and briefings. Mr. McCord earned his B.S., with high honors, from Harvard University and his MBA from the Wharton School.

Compliance with Section 16(a) of the Securities Exchange Act

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Based solely on our 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, we believe that during 2002 all reporting persons timely complied with all filing requirements applicable to them.

Item 11. Executive Compensation

The following table sets forth a summary of the compensation paid or accrued for the three fiscal years ended December 31, 2002 to or for the benefit of our Chief Executive Officer and our other executive officers whose cash compensation exceeded \$100,000 (the "Named Executive Officers").

Summary Compensation Table					
Name and Principal Position -----	Salary -----	Annual Compensation		Long-Term Compensation Award	
		Bonus -----	Restricted Stock Awards -----	All Other Number of Options -----	Co -----
Dennis L. Pelino, Chairman and Chief Executive Officer	2002 2001	\$360,000 \$158,691	- \$180,000	- -	1,900,000 1,800,000
Stephen M. Cohen, Senior Vice President, General Counsel and Secretary	2002 2001 2000	\$200,000 \$227,884 \$103,927	\$15,000 \$50,000 -	- - -	100,000 750,000 300,000
Bohn H. Crain, Chief Financial Officer and Treasurer	2002	\$200,000	\$37,500	-	350,000
Thomas L. Scully, Vice President - Controller and Principal Accounting Officer	2002 2001	\$105,000 \$12,519	\$12,500 -	- -	25,000 25,000

(1) During the periods reflected, certain of the officers named in this table received perquisites and other personal benefits not reflected in the amounts of their respective annual salaries or bonuses. The dollar amount of these benefits did not, for any individual in any year, exceed the lesser of \$50,000 or 10% of the total annual salary and bonus reported for that individual in any year, unless otherwise noted.

(2) These options were granted on July 3, 2002 and vest to the extent of 633,334 on the first anniversary of the award date and to the extent of 633,333 on the second and third anniversaries of the award date, with 100% acceleration of vesting in the event of a change of control transaction. These options also vest fully upon death, disability, or termination of employment without cause.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

- (3) These options were granted in conjunction with Mr. Pelino's employment by the Company on June 21, 2001 and are fully vested.
- (4) These options were granted on July 3, 2002. Twenty five percent of the options vest on July 3, 2003 and the remainder vest pro rata over the following 36 months, with 100% acceleration of vesting following a change of control transaction.
- (5) These options were granted in conjunction with an amendment to Mr. Cohen's employment agreement during April 2001. They vest pro rata over the thirty-six (36) month period of his employment through April 2004, with 100% acceleration of vesting following change of control, or upon a termination of employment without cause. In the event of death or disability, the options which would have become vested within the next 12 months become vested.
- (6) These options were surrendered by Mr. Cohen during the fourth quarter of 2001.
- (7) 150,000 of these options were granted on January 10, 2002, of which 50,000 vested on January 10, 2003, with the remainder vesting over the following 24 months and with 100% acceleration of vesting following a change of control transaction or upon a termination of employment without cause. 200,000 of these options were granted on July 3, 2002, of which 50,000 vest on July 3, 2003, with the remainder vesting pro rata over the following 36 months and with 100% acceleration of vesting following a change of control transaction, or upon a termination of employment without cause.

Employment Agreements

Effective as of February 22, 2002, we entered into an amended employment agreement with our Chief Executive Officer, Dennis L. Pelino. This agreement amended and restated our prior agreement with Mr. Pelino dated June 21, 2001. Pursuant to this agreement, we have agreed to employ Mr. Pelino as our Chief Executive Officer through June 2006 at an annual base salary of \$360,000. In addition to his base salary, Mr. Pelino is entitled to bonus compensation based upon the achievement of certain target objectives, as well as discretionary merit bonuses that can be awarded at the discretion of our Board of Directors. Mr. Pelino is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to the employment agreement, Mr. Pelino is also entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

As of April 19, 2001, we entered into a three-year employment agreement with our General Counsel, Stephen M. Cohen. This was further modified effective December 27, 2001. This had the effect of amending and restating our prior employment agreement with Mr. Cohen entered into in April 2000. In addition to an annual salary of \$200,000, Mr. Cohen is entitled to bonus compensation based upon the achievement of certain target objectives, as well as discretionary merit bonuses that can be awarded at the discretion of our Board of Directors. Mr. Cohen is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to his employment agreement, Mr. Cohen is entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

Effective as of February 1, 2003 we entered into an Amended Employment Agreement with our Chief Financial Officer, Bohn H. Crain. This agreement amended and restated our prior Agreement with Mr. Crain dated January 10, 2002.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Pursuant to this Agreement, we have agreed to employ Mr. Crain as our Chief Financial Officer through February 1, 2006 at an annual base salary of \$200,000. In addition to his annual base salary, Mr. Crain's employment agreement provides for bonus compensation based upon the achievement of certain target objectives, as well as bonus compensation determined at the discretion of the Board of Directors. Mr. Crain is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to his employment agreement, Mr. Crain is entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

Change in Control Arrangements

Our Chief Executive Officer, Chief Financial Officer and General Counsel are each employed under agreements that contain change in control arrangements. If employment of any of these officers is terminated following a change in control (other than for cause), then we must pay such terminated employee a termination payment equal to 2.99 times his salary and bonus, based upon the average annual bonus paid to him prior to termination of his employment. In addition, all of their unvested stock options shall immediately vest as of the termination date of their employment due to a change in control. In each of their agreements, a change in control is generally defined as the occurrence of any one of the following:

- o any "Person" (as the term "Person" is used in Section 13(d) and Section 14(d) of the Securities Exchange Act of 1934), except for the effected employee, becoming the beneficial owner, directly or indirectly, of our securities representing 50% or more of the combined voting power of our then outstanding securities;
 - o a contested proxy solicitation of our stockholders that results in the contesting party obtaining the ability to vote securities representing 50% or more of the combined voting power of our then-outstanding securities;
- 36
- o a sale, exchange, transfer or other disposition of 50% or more in value of our assets to another Person or entity, except to an entity controlled directly or indirectly by us;
 - o a merger, consolidation or other reorganization involving us in which we are not the surviving entity and in which our stockholders prior to the transaction continue to own less than 50% of the outstanding securities of the acquirer immediately following the transaction, or a plan involving our liquidation or dissolution other than pursuant to bankruptcy or insolvency laws is adopted; or
 - o during any period of twelve consecutive months, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors unless the election, or the nomination for election by our stockholders, of each new director was approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period.

Notwithstanding the foregoing, a "change of control" is not deemed to have occurred (i) in the event of a sale, exchange, transfer or other disposition of substantially all of our assets to, or a merger, consolidation or other reorganization involving, us and any entity in which the effected employee has,

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

directly or indirectly, at least a 25% equity or ownership interest; or (ii) in a transaction otherwise commonly referred to as a "management leveraged buy-out."

In addition, the existing stock options granted to these executive officers fully vest upon a "change in control," as defined within our Stock Incentive Plan.

Directors Compensation

During 2002, Mr. Pelino received no compensation for serving on the Board except for reimbursement of reasonable expenses incurred in attending meetings. Non-employee directors are paid \$1,250 per month, provided that each member attends 75% of all meetings. In addition, an annual fee of \$10,000 is paid to the chairman of the audit and compensation committees. Upon joining our Board of Directors, each of our non-employee directors received an option to purchase 50,000 shares of our common stock with an exercise price equal to the closing price of our common stock on the trading day prior to the date of grant. One-half of these options vested on the first anniversary of the director's membership on the Board, and the balance vest on the second anniversary of Board membership. In addition, on November 5, 2002 each member of our Audit Committee received options to purchase 15,000 shares of our common stock at an exercise price of \$1.45 per share. One-half of these options vest on November 5, 2003, and the balance vest on November 5, 2004, contingent upon continued Board service.

Stock Options and Warrants

The following table sets forth information on option grants in fiscal 2002 to the Named Executive Officers.

Name	Number of Options Granted	% of Total Options Granted to Employees in Fiscal-Year	Exercise Price	Option Grants in Last Fiscal Year		Expiration Date	Pote Assu
				Market Price on Date of Grant	-----		
Dennis L. Pelino (1)	1,900,000	52.73%	\$1.30	\$1.09	July 2012	\$9	
Stephen M. Cohen	100,000	2.78%	\$1.30	\$1.09	July 2012		
Bohn H. Crain (2)	150,000	4.16%	\$1.78	\$1.78	January 2012	1	
	200,000	5.55%	\$1.30	\$1.09	July 2012		
Thomas L. Scully	25,000	0.69%	\$1.30	\$1.13	September 2012		

(1) Does not include the grant to Mr. Pelino on March 10, 2003 of options to purchase 300,000 and 400,000 shares of the Company's common stock at exercise prices of \$1.68 and \$2.00 per share, respectively.

(2) Does not include the grant to Mr. Crain on February 24, 2003 of options to purchase 200,000 shares of the Company's common stock at an exercise price of \$1.53 per share, or the grant to Mr. Crain on March 25, 2003 of options to purchase 25,000 shares of the Company's common stock at an exercise price of \$1.81 per share.

The following table sets forth information concerning year-end option values for fiscal 2002 for the Named Executive Officers. The value of the

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

options was based on the closing price of our common stock on December 31, 2002 of \$1.45.

37

	Fiscal Year End Option Values				
	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at Fiscal Year End		Value of Une
			Exercisable	Unexercisable	Options
Dennis L. Pelino	-	-	1,800,000	1,900,000 (1)	\$1,134,000
Stephen M. Cohen	-	-	437,500	412,500	372,000
Bohn H. Crain	-	-	-	350,000 (1)	-
Thomas L. Scully	-	-	8,948	41,052	-

(1) Does not include options to purchase 300,000 and 400,000 shares of the Company's common stock granted to Mr. Pelino on March 10, 2003 at exercise prices of \$1.68 and \$2.00 per share, respectively, or options to purchase 200,000 shares of the Company's common stock granted to Mr. Crain on February 24, 2003 at an exercise price of \$1.53 per share and options to purchase 25,000 shares of the Company's common stock granted to Mr. Crain on March 25, 2003 at an exercise price of \$1.81 per share.

Outstanding Stock Options

The Amended and Restated Stonepath Group, Inc. 2000 Stock Incentive Plan, (the "Stock Incentive Plan") covers 10,000,000 shares of common stock. Under its terms, employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified stock options, restricted stock awards, and, incentive stock options within the meaning of Section 422 of the Code. In addition, advisors and consultants who perform services for the Company or its subsidiaries are eligible to receive non-qualified stock options under the Stock Incentive Plan. The Stock Incentive Plan is administered by the Board of Directors or a committee designated by the Board of Directors.

All stock options granted under the Stock Incentive Plan are exercisable for a period of up to ten (10) years from the date of grant. The Company may not grant incentive stock options pursuant to the Stock Incentive Plan at exercise prices which are less than the fair market value of the common stock on the date of grant. The term of an incentive stock option granted under the Stock Incentive Plan to a stockholder owning more than 10% of the issued and outstanding common stock may not exceed five years and the exercise price of an incentive stock option granted to such stockholder may not be less than 110% of the fair market value of the common stock on the date of grant. The Stock Incentive Plan contains certain limitations on the maximum number of shares of the common stock that may be awarded in any calendar year to any one individual for the purposes of Section 162(m) of the Code.

As of March 17, 2003, options to purchase 8,145,600 shares of common stock were outstanding under the Stock Incentive Plan. With the exception of 271,000 options granted at exercise prices above \$2.00 per share, all of the options

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

granted under the Stock Incentive Plan are subject to exercise prices of between \$.50 and \$2.00 per share.

Generally, most of the options under the Stock Incentive Plan are granted subject to periodic vesting over a period of between three and four years, contingent upon continued employment with the Company. In addition to the stock options covered by the Stock Incentive Plan, the Company has outstanding options to purchase 2,282,900 shares of common stock. The following schedule identifies the vesting schedule associated with all of the Company's outstanding options:

	Plan	Non-Plan	Total
Vested as of 12/31/02	2,942,381	2,256,650	5,199,031
To vest in 2003	2,077,235	26,250	2,103,485
To vest in 2004	1,472,010	--	1,472,010
To vest in 2005	1,229,474	--	1,229,474
To vest in 2006	424,500	--	424,500
	8,145,600	2,282,900	10,428,500

38

At March 17, 2003, these options were outstanding at the following exercise prices:

Number of Options			
Plan	Non-Plan	Total	Range of Exercise Prices
3,315,000	1,792,500	5,107,500	\$0.50 - \$1.00
4,559,600	83,200	4,642,800	\$1.21 - \$2.00
271,000	144,000	415,000	\$2.05 - \$4.00
--	73,600	73,600	\$6.38 - \$10.00
--	189,600	189,600	\$12.50 - \$17.50
8,145,600	2,282,900	10,428,500	

Outstanding Warrants

As of March 17, 2003, warrants to purchase 2,792,093 shares of common stock were outstanding. Most of these warrants were granted in connection with investment related transactions. With the exception of warrants to purchase 8,157 shares at an exercise price of \$6.00, warrants to purchase 150,000 shares at \$1.23 per share, and warrants to purchase 297,000 shares at \$1.49 per share, all of the remaining warrants are subject to an exercise price of \$1.00 per share and expire in July 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following tables set forth information with respect to the beneficial ownership of common stock and Series D preferred stock owned, as of March 17, 2003, by:

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

- o the holders of more than 5% of any class of the Company's voting securities;
- o each of the directors;
- o each of the executive officers; and
- o all directors and executive officers of the Company as a group.

As of March 17, 2003, an aggregate of 27,945,914 shares of common stock and 360,745 shares of Series D Preferred Stock were issued and outstanding. Each share of Series D preferred stock is convertible into ten shares of our common stock. For purposes of computing the percentages under the following tables, it is assumed that all options and warrants to acquire common or preferred stock which have been issued to the directors, executive officers and the holders of more than 5% of common or preferred stock and are fully vested or will become fully vested within 60 days from March 17, 2003 have been exercised by these individuals and the appropriate number of shares of common stock and preferred stock have been issued to these individuals.

39

Name of Beneficial Owner -----	Position -----	COMMON STOCK -----	
		Shares Owned Beneficially and of Record (1) -----	Percentage of Class -----
Dennis L. Pelino(2)	Officer, Director	2,506,222	8.34%
Stephen M. Cohen(3)	Officer	556,851	1.95%
Bohn H. Crain(4)	Officer	92,601	*
Thomas L. Scully(5)	Officer	15,204	*
David R. Jones(6)	Director	130,000	*
Aloysius T. Lawn, IV(7)	Director	50,000	*
Robert McCord(8)	Director	100,000	*
J. Douglass Coates(9)	Director	25,000	*
Frank Palma(10)	Director	25,000	*
Brown Simpson Partners I, Ltd. Carnegie Hall Tower 152 West 57th Street, 21st Fl. New York, NY 10019(11)	Beneficial Owner	2,011,840	6.71%
Michael Karp University City Housing 1062 Lancaster Avenue Suite 30B Rosemont, PA 19010	Beneficial Owner	1,411,250	5.04%
All directors and executive officers as a group (9 people)		3,500,878	11.31%

(*) Less than one percent.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. Unless otherwise noted, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.
- (2) Includes 406,222 shares and 2,100,000 shares of common stock issuable upon exercise of vested options. Does not include 2,300,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (3) Includes 11,850 shares and 545,001 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 314,999 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (4) Includes 17,600 shares and 75,001 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 499,999 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (5) Includes 15,204 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 43,096 shares of Common Stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (6) Includes 80,000 shares and 50,000 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 15,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (7) Includes 50,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 15,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (8) Includes 100,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 17, 2003.
- (9) Includes 25,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 25,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (10) Includes 25,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 17, 2003. Does not include 40,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 17, 2003.
- (11) Represents shares of common stock issuable upon conversion of 201,184 shares of Series D preferred stock.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

SERIES D PREFERRED STOCK

Name of Beneficial Owner -----	Shares of Series D Preferred Stock Owned Beneficially and of Record (1) (2) -----	Percentage of -----
Brown Simpson Partners I, Ltd. Carnegie Hall Tower 152 West 57th Street, 21st Fl. New York, NY 10019	201,184	55%
Halifax Fund, LP 195 Maplewood Avenue Maplewood, NJ 07040	40,197	11%
Schottenfeld Associates, L.P. 880 Third Avenue, 16th Floor New York, NY 10022	25,451	7%
Bridgewater Partners, L.P. 880 Third Avenue, 16th Floor New York, NY 10022	20,119	6%
CSL Associates, LP 399 Park Avenue, 37th Floor New York, NY 10020	20,119	6%
Norton Herrick Irrevocable Securities Trust 20 Community Place, 2nd Floor Morristown, NY 07960	40,201	11%
Total	347,271	

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. Unless otherwise noted, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of Series D preferred stock beneficially owned by them.

(2) Each of the shares of Series D preferred stock converts into ten shares of the Company's common stock. Shares of the Series D preferred stock have limited voting rights, on an as converted to common stock basis, in connection with a consolidation, sale or merger of the Company that could result in a change of control.

Item 13. Certain Relationships and Related Transactions

Participation of Chief Executive Officer in Recent Private Placement Transaction

At the request of one of the lead investors, Dennis L. Pelino, our Chief Executive Officer, purchased 100,000 shares of our common stock at a price of \$1.54 per share in the recent private placement transaction that was completed on March 7, 2003. Mr. Pelino's purchase price represented a 14.1% premium over

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

the purchase price of \$1.35 paid by the non-affiliated investors in the transaction.

Payments to Former Executive Officer

During 2002 and 2003, we made aggregate severance payments of \$575,000 to Andrew Panzo, a former executive officer, in connection with a December 14, 2001 Separation Agreement in which Mr. Panzo resigned his position as an officer of the Company. In connection with the Separation Agreement we also agreed to cover Mr. Panzo and his family on our medical plan during 2002 and to accelerate the vesting of the balance of his options to purchase 1,270,000 shares of our common stock. As of December 14, 2001, Mr. Panzo had already vested in 1,102,500 of these options.

Payments to Significant Employees

In connection with our acquisition of Global on April 4, 2002, we advanced the sum of \$350,000 to Jason Totah. Mr. Totah was a former shareholder of Global and is a significant employee of the Company, serving as the President of Global and Stonepath Logistics International Services, Inc. The advance to Mr. Totah is to be repaid through 2006 by offset against the earn-out amounts that are otherwise due to Mr. Totah under the Stock Purchase Agreement.

Air Plus leases certain of its office and warehouse facilities from Gary Koch. Mr. Koch was a former shareholder of Air Plus and is a significant employee of the Company, serving as the Chief Executive Officer of Air Plus and Stonepath Logistics Domestic Services, Inc. Air Plus leased two of its facilities from Mr. Koch in 2001 for a total rental of \$110,000 for the period from October 5, 2001 to December 31, 2001. In 2002, one of the leases with

41

Mr. Koch expired. During 2002, the rental payments to Mr. Koch were \$187,000. Payments under the lease with Mr. Koch were determined by reference to comparable rents, and management believes the amounts payable thereunder represent fair market rates.

Private Exchange Transaction with the Former Holders of our Series C Preferred Stock

During the quarter ended September 30, 2002, we completed a private exchange transaction resulting in the restructuring of our outstanding shares of Series C preferred stock. In the restructuring, effective as of July 19, 2002, all of the Company's shares of Series C preferred stock, representing approximately \$44.6 million in liquidation preferences, were surrendered and retired in exchange for a combination of securities consisting of (i) 1,911,071 shares of our common stock upon conversion of the Series C preferred stock; (ii) warrants to purchase 1,543,413 shares of common stock at an exercise price of \$1.00 through July 18, 2005 (including an amendment to the 158,348 Series C warrants that were originally granted in March 2000 for the purpose of reducing the exercise price thereof from \$26.58 to \$1.00 per share and extending the exercise period from March 2003 to July 18, 2005); and (iii) 360,745 shares of a newly designated class of Series D convertible preferred stock which in the future are convertible into 3,607,450 shares of the our common stock.

Each holder of our Series D convertible preferred stock has the right to convert at any time all or a portion of his Series D convertible preferred stock into ten (10) shares of common stock for each share of Series D convertible preferred stock converted, subject to certain anti-dilution adjustments. Any shares of Series D convertible preferred stock that are outstanding after

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

December 31, 2004 will automatically be converted into common stock. Automatic conversion will also occur: (i) once the average closing price of our common stock is over \$7.50 for thirty (30) consecutive trading days; (ii) upon a merger or sale transaction after December 31, 2003, unless the transaction otherwise provides for the exchange of the outstanding shares of Series D convertible preferred stock for a like-kind preferred stock of the acquirer/surviving corporation; or (iii) upon the affirmative vote of holders of eighty (80%) percent of the Series D convertible preferred stock.

Amendment and Restatement of Employment Arrangements with Executive Officers

Effective as of February 22, 2002, we entered into an amended employment agreement with our Chief Executive Officer, Dennis L. Pelino. This agreement amended and restated our prior agreement with Mr. Pelino dated June 21, 2001. On October 18, 2001, we amended the terms of the options granted to Mr. Pelino under his original employment agreement dated June 21, 2001. We further amended the terms of Mr. Pelino's options on July 3, 2002, when we accelerated the vesting of his original options to purchase 1,800,000 shares of our common stock and granted him options to purchase an additional 1,900,000 shares of our common stock.

Effective as of February 1, 2003, we entered into an amended employment agreement with our Chief Financial Officer, Bohn H. Crain. This agreement amended and restated our prior agreement with Mr. Crain dated January 10, 2002.

Loan to Officer

Under the terms of our employment agreement with Mr. Cohen, we provided him with a loan in the principal amount of \$100,000. The loan accrues interest at the rate of 8% per annum and is due on April 17, 2004, or such earlier date that Mr. Cohen shall have received aggregate proceeds of \$5,000,000 from the sale of his options or the shares of common stock underlying his options. However, Mr. Cohen is not required to repay the loan if by April 17, 2004, the sum of the proceeds which he has received from the sale of his options or the shares of common stock underlying his options and the remaining equity in the options as of April 17, 2004 does not equal or exceed \$5,000,000.

Item 14. Controls and Procedures

Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements:

Independent Auditors' Report.....
 Consolidated Balance Sheets as of December 31, 2002 (As restated) and 2001 (As restated)
 Consolidated Statements of Operations for the Years Ended
 December 31, 2002 (As restated), 2001 (As restated) and 2000.....
 Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
 for the Years Ended December 31, 2002 (As restated), 2001 (As restated) and 2000...
 Consolidated Statements of Cash Flows for the Years Ended
 December 31, 2002 (As restated), 2001 (As restated) and 2000.....
 Notes to Consolidated Financial Statements.....

2. Predecessor Combined Financial Statements:

Independent Auditors' Report.....
 Combined Statements of Operations for the Year Ended
 December 31, 2000, and the Six Months Ended June 30, 2001 and 2000 (Unaudited).....
 Combined Statements of Changes in Shareholders' Equity and Comprehensive Income
 for the Year Ended December 31, 2000 and the Six Months Ended June 30, 2001
 (Unaudited).....
 Combined Statements of Cash Flows for the Year Ended
 December 31, 2000 and the Six Months Ended June 30, 2001 and 2000 (Unaudited).....
 Notes to Combined Financial Statements.....

3. Consolidated Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts.....

(b) Reports on Form 8-K:

We filed one report on Form 8-K during the fiscal quarter ended December 31, 2002:

- (i) Form 8-K dated October 16, 2002 providing information pursuant to Regulation FD relative to a series of meetings the Company intended to hold with private investors.

(c) Exhibit Listing:

Exhibit Number -----	Document -----
2.1(1)	Stock Purchase Agreement by and among Stonepath Logistics, Inc., Stonepath Group, Inc. and M.G.R., Inc, Distribution Services, Inc., Contract Air, Inc., the Shareholders of M.G.R., Inc., Distribution Services, Inc., Contract Air, Inc. and Gary A. Koch (as Shareholders' Agent)

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

- 2.2(1) First Amendment to Stock Purchase Agreement by and among Stonepath Logistics, Inc., Stonepath Group, Inc. and M.G.R., Inc, Distribution Services, Inc., Contract Air, Inc., the Shareholders of M.G.R., Inc., Distribution Services, Inc., Contract Air, Inc. and Gary A. Koch (as Shareholders' Agent)
- 2.3(2) Stock Purchase Agreement dated March 5, 2002 by and among Stonepath Group, Inc., Stonepath Logistics International Services, Inc. and Global Transportation Services, Inc. and the Shareholders of Global Transportation Services, Inc. and Jason F. Totah (as shareholders' agent)

43

Exhibit Number -----	Document -----
2.4(3)	Stock Purchase Agreement dated April 9, 2002 by and among Stonepath Logistics Domestic Services, Inc. and United American Acquisitions and Management, Inc., d/b/a United American Freight Services, Inc. and Douglas Burke
2.5(3)	Amendment to Stock Purchase Agreement dated May 30, 2002 by and among Stonepath Logistics Domestic Services, Inc., and United American Acquisitions and Management, Inc., d/b/a United Freight Services, Inc. and Douglas Burke
3.1(4)	Amended and Restated Certificate of Incorporation
3.2(5)	Certificate of Amendment to the Certificate of Incorporation
3.3(5)	Amended and Restated Bylaws
3.4(6)	Certificate of Designation of Series D Convertible Preferred Stock
4.1(4)	Specimen Common Stock Certificate for Stonepath Group, Inc.
4.2(7)	Form of Common Stock Purchase Warrant issued in connection with the Series C Convertible Preferred Stock
4.3(8)	Form of Amendment to Common Stock Purchase Warrant issued upon conversion of the Series C Convertible Preferred Stock effective as of July 19, 2002
4.4(8)	Form of Contingent Warrant issued upon conversion of the Series C Convertible Preferred Stock effective as of July 19, 2002
4.5(6)	Form of Exchange Agreement by and between the Company and certain holders of the Company's Series C Convertible Preferred Stock
4.6(9)	Stonepath Group, Inc. Amended and Restated 2000 Stock Incentive Plan (the "Plan")
4.7(9)	Form of Stock Option Agreement under the Plan

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

- 4.8(9) Form of Non-Plan Option to Purchase Common Stock of the Company
- 4.9(10) Amended and Restated Option Agreement between the Company and Dennis L. Pelino effective as of February 22, 2002 ("Pelino Options")
- 4.10(11) Amendment No. 1 to Amended and Restated Option to Purchase Common Stock of Stonepath Group, Inc. granted to Dennis L. Pelino, Effective as of July 3, 2002
- 4.11(11) Stock Option Agreement between the Company and Dennis L. Pelino dated July 3, 2002
- 4.12(9) Stock Option Agreement between the Company and Stephen M. Cohen dated April 19, 2001
- 4.13(14) Stock Option Agreement between the Company and Stephen M. Cohen dated July 3, 2002.
- 4.14(13) Stock Option Agreement between the Company and Bohn H. Crain dated January 10, 2002
- 4.15(14) Stock Option Agreement between the Company and Bohn H. Crain dated July 3, 2002
- 4.16(18) Stock Option Agreement between the Company and Bohn H. Crain dated February 24, 2003

44

Exhibit Number	Document
-----	-----
4.17(18)	Stock Option Agreement between the Company and Dennis L. Pelino (covering the grant of 300,000 Options) dated March 10, 2003
4.18(18)	Stock Option Agreement between the Company and Dennis L. Pelino (covering the grant of 400,000 Options) dated March 10, 2003
4.19(18)	Form of Subscription Agreement by and between the Company and certain purchasers of common shares (including exhibit providing for registration rights)
4.20(18)	Placement Agency Agreement between the Company and Stonegate Securities, Inc. dated October 16, 2002
4.21(9)	Stock Option Agreement between the Company and Andrew P. Panzo dated April 19, 2001
4.22(9)	Stock Option Agreement between Net Value, Inc. and Andrew P. Panzo dated December 4, 1999
4.23(12)	Option to Purchase Common Stock of the Company granted to Andrew P. Panzo effective as of June 1, 1999

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

10.1(10)	Amended and Restated Employment Agreement between the Company and Dennis L. Pelino dated February 22, 2002
10.2(12)	Amended and Restated Employment Agreement between the Company and Stephen M. Cohen dated April 19, 2001
10.3(10)	Letter Agreement between the Company and Stephen M. Cohen dated December 27, 2001 10.4(18) Amended and Restated Employment Agreement between the Company and Bohn H. Crain dated February 24, 2003
10.5(15)	Separation Agreement between the Company and Andrew P. Panzo dated December 11, 2001
10.6(1)	Executive Employment Agreement between M.G.R., Inc. and Gary Koch dated as of October 5, 2001
10.7(18)	Executive Employment Agreement between Global Transportation Services, Inc. and Jason F. Totah dated April 4, 2002
10.8(16)	Stonepath Group, Inc. 401(k) Profit Sharing Plan.
10.9(17)	Loan and Security Agreement dated as of May 15, 2002 between LaSalle Business Credit, Inc. and Stonepath Group, Inc., Contract Air, Inc., Distribution Services, Inc., Global Transportation Services, Inc., Global Container Line, Inc., M.G.R., Inc., d/b/a Air Plus Limited, Net Value, Inc., Stonepath Logistics Domestic Services, Inc., Stonepath Logistics International Services, Inc. and Stonepath Operations, Inc.
21.1(18)	Subsidiaries of Stonepath Group, Inc.
23.1(19)	Independent Auditors' Consent
23.2(19)	Independent Auditors' Consent

45

Exhibit Number	Document
-----	-----
31.1(19)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2(19)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1(19)	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(19)	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

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.)

-
- (1) Incorporated by reference to the Company's Current Report on Form 8-K dated October 5, 2001 filed October 19, 2001
 - (2) Incorporated by reference to the Company's Current Report on Form 8-K dated April 4, 2002 filed April 19, 2002
 - (3) Incorporated by reference to the Company's Current Report on Form 8-K dated May 30, 2002 filed June 12, 2002
 - (4) Incorporated by reference to the Company's Registration Statement on Form S-1 (Reg. No. 333-88629) filed October 8, 1999
 - (5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed April 2, 2001
 - (6) Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-3 filed July 31, 2002 (Registration No. 333-91240).
 - (7) Incorporated by reference to the Company's Current Report on Form 8-K dated March 3, 2000, filed March 17, 2000
 - (8) Incorporated by reference to the Company's Form 10-Q for the third quarter ended September 30, 2002, filed November 14, 2002.
 - (9) Incorporated by reference to the Company's Registration Statement on Form S-8 filed December 11, 2001
 - (10) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed March 29, 2002
 - (11) Incorporated by reference to the Company's Current Report on Form 8-K dated July 15, 2002, filed July 16, 2002
 - (12) Incorporated by reference to the Company's Form 10-Q for the second quarter ended June 30, 2001, filed August 13, 2001
 - (13) Incorporated by reference to the Company's Current Report on Form 8-K dated January 15, 2002, filed January 25, 2002
 - (14) Incorporated by reference to the Company's Form 10-Q for the second quarter ended June 30, 2002, filed August 14, 2002
 - (15) Incorporated by reference to the Company's Current Report on Form 8-K dated December 14, 2001, filed December 27, 2001
 - (16) Incorporated by reference to the Company's Registration Statement on Form S-8 filed on February 25, 2003 (Registration No. 10439).
 - (17) Incorporated by reference to the Company's Current Report on Form 8-K dated May 15, 2002, filed May 20, 2002
 - (18) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed March 31, 2003.

(19) Filed herewith.

46

Independent Auditors' Report

Board of Directors and Stockholders of
Stonepath Group, Inc.:

We have audited the accompanying consolidated balance sheets of Stonepath Group, Inc. and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as of and for the three years ended December 31, 2002. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of Stonepath Group, Inc. and subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its consolidated financial statements as of and for the years ended December 31, 2002 and 2001.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 25, 2003, except
as to Note 18, which is
as of March 10, 2003 and
Note 2, which is as of
August 25, 2003

47

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

STONEPATH GROUP, INC.
Consolidated Balance Sheets
December 31, 2002 and 2001

	Restated 2002 -----
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,266,10
Accounts receivable, less allowances for doubtful accounts of \$320,000 and \$167,000 at 2002 and 2001, respectively	21,799,98
Loans receivable from related parties	39,59
Prepaid expenses	963,10
Assets of discontinued operations	300,00

Total current assets	25,368,78
Goodwill	20,311,15
Furniture and equipment, net	3,233,67
Acquired intangibles, net	5,042,55
Note receivable, related party	262,50
Other assets	946,84

Total assets	\$55,165,51 =====
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	\$12,873,70
Earn-out payable	3,879,85
Accrued payroll and related expenses	1,195,27
Accrued expenses	1,786,10

Total current liabilities	19,734,93 -----
Commitments and contingencies (Notes 10 and 11)	
Stockholders' equity:	
Preferred stock, \$.001 par value, 10,000,000 shares authorized; Series C, convertible, issued and outstanding: 3,750,479 shares at 2001 Series D, convertible, issued and outstanding: 360,745 shares at 2002 (liquidation preference: \$21,644,700)	36
Common stock, \$.001 par value, 100,000,000 shares authorized; issued and outstanding: 23,453,414 shares and 20,903,110 shares at 2002 and 2001, respectively	23,45
Additional paid-in capital	196,235,06
Accumulated deficit	(160,711,89)
Deferred compensation	(116,40)

Total stockholders' equity	35,430,58 -----
Total liabilities and stockholders' equity	\$55,165,51

See accompanying notes to consolidated financial statements.

48

STONEPATH GROUP, INC.
Consolidated Statements of Operations
Years ended December 31, 2002, 2001 and 2000

	Restated 2002	Res 2
	-----	-----
Revenues	\$ 139,649,219	\$ 15
Cost of transportation	101,339,024	9
	-----	-----
Net revenues	38,310,195	5
Personnel costs	19,089,069	5
Other selling, general and administrative costs	14,679,960	3
Depreciation and amortization	2,186,951	
	-----	-----
Income (loss) from operations	2,354,215	(4
Other income (expense):		
Interest income	90,680	1
Interest expense	-	
Other income	37,311	
	-----	-----
Income (loss) from continuing operations before income taxes	2,482,206	(3
Income taxes	101,877	
	-----	-----
Income (loss) from continuing operations	2,380,329	(3
Discontinued operations:		
Loss from discontinued operations	-	(13
	-----	-----
Net income (loss)	2,380,329	(17
Preferred stock dividends and effect of redemption	15,020,148	(4
	-----	-----
Net income (loss) attributable to common stockholders	\$ 17,400,477	\$ (21
	=====	=====
Basic earnings (loss) per common share -		
Continuing operations	\$ 0.79	\$

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Discontinued operations	-	-----	-----
Earnings (loss) per common share	\$ 0.79	=====	=====
Diluted earnings (loss) per common share -			
Continuing operations	\$ 0.08		\$
Discontinued operations	-	-----	-----
Earnings (loss) per common share	\$ 0.08	=====	=====
Basic weighted average common shares outstanding	22,154,861	=====	=====
Diluted weighted average common shares outstanding	29,232,568	=====	=====

See accompanying notes to consolidated financial statements.

49

STONEPATH GROUP, INC.
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Years ended December 31, 2002, 2001 and 2000

	Preferred stock, Series C		Preferred stock, Series D	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balances at December 31, 1999	--	\$ --	--	\$ --
Net loss	--	--	--	--
Other comprehensive loss:				
Unrealized loss on				
available-for-sale securities	--	--	--	--
Comprehensive loss				
Issuance of warrants	--	--	--	--
Issuance of common stock, net of				
cancellations	--	--	--	--
Issuance of preferred stock, Series				
C, net	4,166,667	4,167	--	--
Completion of in-process merger with				

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Net Value, Inc.	--	--	--	--
Contributed capital	--	--	--	--
Series B preferred stock conversion	--	--	--	--
Series C preferred stock conversion	(779,793)	(779)	--	--
Preferred stock dividends	270,196	269	--	--
Treasury stock	--	--	--	--
Compensatory common stock, options and warrants issued, net of cancellations	--	--	--	--
Amortization of deferred stock-based compensation	--	--	--	--
	-----	-----	-----	-----
Balances at December 31, 2000	3,657,070	3,657	--	--
Net loss	--	--	--	--
Other comprehensive income:				
Unrealized gain on available-for-sale securities	--	--	--	--
Comprehensive loss				
Issuance of contingent warrants	--	--	--	--
Exercise of options and warrants	--	--	--	--
Series C preferred stock conversion	(205,660)	(206)	--	--
Preferred stock dividends	299,069	299	--	--
Compensatory common stock, options and warrants issued, net of cancellations	--	--	--	--
Amortization of deferred stock-based compensation	--	--	--	--
	-----	-----	-----	-----
Balances at December 31, 2001, restated	3,750,479	3,750	--	--
Net income	--	--	--	--
Exercise of options and warrants	--	--	--	--
Series C preferred stock conversion	(3,913,220)	(3,913)	360,745	361
Preferred stock dividends	162,741	163	--	--
Compensatory warrants issued	--	--	--	--
Amortization of deferred stock-based compensation	--	--	--	--
	-----	-----	-----	-----
Balances at December 31, 2002, restated	--	\$ --	360,745	\$ 361
	=====	=====	=====	=====

Common stock

	Net Value, Inc.		Stonepath Group, Inc.		Additio paid- capit
	Shares	Amount	Shares	Amount	
Balances at December 31, 1999	1,037,338	\$ 1,038	15,522,807	\$ 15,523	\$103,946

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Net loss	--	--	--	--	
Other comprehensive loss:					
Unrealized loss on					
available-for-sale securities	--	--	--	--	
Comprehensive loss					
Issuance of warrants	--	--	--	--	7,391
Issuance of common stock, net of					
cancellations	60,250	60	1,494,822	1,495	10,478
Issuance of preferred stock, Series					
C, net	--	--	--	--	40,878
Completion of in-process merger with					
Net Value, Inc.	(1,092,588)	(1,093)	1,754,132	1,754	
Contributed capital	--	--	--	--	853
Series B preferred stock conversion	--	--	1,180,180	1,180	4,304
Series C preferred stock conversion	--	--	779,793	779	
Preferred stock dividends	--	--	--	--	45,642
Treasury stock	(5,000)	(5)	(312,200)	(312)	(1,203)
Compensatory common stock, options					
and warrants issued, net of					
cancellations	--	--	--	--	(1,368)
Amortization of deferred stock-based					
compensation	--	--	--	--	
	-----	-----	-----	-----	-----
Balances at December 31, 2000	--	--	20,419,534	20,419	210,923
Net loss	--	--	--	--	
Other comprehensive income:					
Unrealized gain on					
available-for-sale securities	--	--	--	--	
Comprehensive loss					
Issuance of contingent warrants	--	--	--	--	562
Exercise of options and warrants	--	--	200,000	200	199
Series C preferred stock conversion	--	--	205,660	206	
Preferred stock dividends	--	--	--	--	3,588
Compensatory common stock, options					
and warrants issued, net of					
cancellations	--	--	77,916	78	(4,543)
Amortization of deferred stock-based					
compensation	--	--	--	--	
	-----	-----	-----	-----	-----
Balances at December 31, 2001,					
restated	--	--	20,903,110	20,903	210,730
Net income	--	--	--	--	
Exercise of options and warrants	--	--	440,808	441	424
Series C preferred stock conversion	--	--	2,109,496	2,109	(16,971)
Preferred stock dividends	--	--	--	--	1,952
Compensatory warrants issued	--	--	--	--	95
Amortization of deferred stock-based					
compensation	--	--	--	--	3
	-----	-----	-----	-----	-----
Balances at December 31, 2002,					
restated	--	\$ --	23,453,414	23,453	196,235

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

See accompanying notes to consolidated financial statements.

50

STONEPATH GROUP, INC.
 Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
 (continued)
 Years ended December 31, 2002, 2001 and 2000

	Accumulated deficit	Accumulated other comprehensive loss	Deferred stock-based compensation	Total
Balances at December 31, 1999	\$ (74,919,285)	--	\$ (27,342,172)	\$ 1,701,240
Net loss	(36,171,273)	--	--	(36,171,273)
Other comprehensive loss:				
Unrealized loss on available-for-sale securities	--	(8,688)	--	(8,688)
Comprehensive loss				
Issuance of warrants	--	--	--	7,391,691
Issuance of common stock, net of cancellations	--	--	--	10,480,048
Issuance of preferred stock, Series C, net	--	--	--	40,883,087
Completion of in-process merger with Net Value, Inc.	--	--	--	--
Contributed capital	--	--	--	853,319
Series B preferred stock conversion	--	--	--	4,305,914
Series C preferred stock conversion	--	--	--	--
Preferred stock dividends	(45,750,830)	--	--	(108,464)
Treasury stock	--	--	--	(1,203,361)
Compensatory common stock, options and warrants issued, net of cancellations	--	--	1,368,356	--
Amortization of deferred stock-based compensation	--	--	15,202,092	15,202,092
Balances at December 31, 2000	(156,841,388)	(8,688)	(10,771,724)	43,325,605
Net loss	(17,119,782)	--	--	(17,119,782)
Other comprehensive income:				
Unrealized gain on available-for-sale securities	--	8,688	--	8,688
Comprehensive loss				

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Issuance of contingent warrants	(562,370)	--	--	--
Exercise of options and warrants	--	--	--	200,000
Series C preferred stock conversion	--	--	--	--
Preferred stock dividends	(3,588,828)	--	--	--
Compensatory common stock, options and warrants issued, net of cancellations	--	--	4,845,297	302,346
Amortization of deferred stock-based compensation	--	--	5,714,789	5,714,789
	-----	-----	-----	-----
Balances at December 31, 2001, restated	(178,112,368)	--	(211,638)	32,431,646
Net income	2,380,329	--	--	2,380,329
Exercise of options and warrants	--	--	--	425,181
Series C preferred stock conversion	16,973,040	--	--	--
Preferred stock dividends	(1,952,892)	--	--	--
Compensatory warrants issued	--	--	--	95,000
Amortization of deferred stock-based compensation	--	--	95,232	98,425
	-----	-----	-----	-----
Balances at December 31, 2002, restated	\$ (160,711,891)	\$ --	\$ (116,406)	\$35,430,581
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

51

STONEPATH GROUP, INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2002, 2001 and 2000

	Restated 2002	Restated 2001
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 2,380,329	\$ (17,119,78)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,186,951	495,04
Stock-based compensation - continuing operations	98,425	2,394,10
Interest paid with common stock	-	
Loss from disposal of furniture and equipment	4,560	101,12
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(5,731,830)	1,205,80
Other assets	(160,903)	(133,49)
Accounts payable and accrued expenses	639,201	(470,87)
Discontinued operations - working capital changes		

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

and non-cash items	-	13,025,07
	-----	-----
Net cash used in operating activities	(583,267)	(502,99
	-----	-----
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(10,497,306)	(18,011,26
Purchases of furniture and equipment	(1,812,750)	(280,67
Proceeds from sale of furniture and equipment	-	32,92
Loans made	(350,000)	
Discontinued operations:		
Advances to affiliate companies	-	(552,00
Collections on advances to affiliate companies	-	1,000,00
Purchase of available for sale securities	-	(452,90
Proceeds from sale of available for sale securities	-	57,91
Acquisition of ownership interests in affiliate companies	-	(200,00
Proceeds from sale of ownership interests in affiliate companies	115,000	6,285,95
	-----	-----
Net cash used in investing activities	(12,545,056)	(12,120,04
	-----	-----
Cash flows from financing activities:		
Issuance of common stock	425,181	200,00
Payment of equity financing fees	(25,000)	
Payment of debt financing fees	(233,580)	
Net repayments on short-term debt	-	(1,448,78
Payment of long-term debt	-	
Issuance of preferred stock and warrants	-	
Purchase and retirement of treasury stock	-	
Payment of preferred stock dividend, Series B	-	
	-----	-----
Net cash provided by (used in) financing activities	166,601	(1,248,78
	-----	-----
Net increase (decrease) in cash and cash equivalents	(12,961,722)	(13,871,82
Cash and cash equivalents, beginning of year	15,227,830	29,099,65
	-----	-----
Cash and cash equivalents, end of year	\$ 2,266,108	\$15,227,83
	=====	=====
Cash paid for interest	\$ -	\$ 4,10
	=====	=====
Cash paid for income taxes	\$ 84,959	\$
	=====	=====
Supplemental disclosure of non-cash investing and financing activities:		
Increase in goodwill related to accrued earn-out payments	\$ 3,879,856	\$
	=====	=====
Issuance of warrants in connection with private placement	\$ 95,000	\$
	=====	=====

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

See accompanying notes to consolidated financial statements.

52

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

(1) Nature of Operations

Stonepath Group, Inc. and subsidiaries (the "Company") is a non-asset based third-party logistics services company providing supply chain solutions on a global basis. A full range of time-definite transportation and distribution solutions is offered through its Domestic Services platform, where the Company manages and arranges the movement of raw materials, supplies, components and finished goods for its customers. These services are offered through the Company's domestic air and ground freight forwarding business. A full range of international logistics services including international air and ocean transportation as well as customs house brokerage services is offered through the Company's International Services platform. In addition to these core service offerings, the Company also provides a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management. The Company services a customer base of manufacturers, distributors and national retail chains through a network of offices in 18 major metropolitan locations in North America plus two international locations, and an extensive network of over 200 independent carriers and over 150 service partners strategically located around the world.

(2) Restatement of Previously Reported Consolidated Financial Statements

The Company has been engaged in a dialogue with the staff of the Division of Corporation Finance of the U.S. Securities and Exchange Commission (the "Staff") as part of a review of one of the Company's filings. The results of our discussions with the Staff have led the Company to restate its consolidated financial statements for the quarters ended June 30, 2003 and March 31, 2003, and for the years ended December 31, 2002 and 2001.

The restatement relates to (i) allocating more value to the customer relationship intangible assets for the Company's acquisitions and (ii) revising the amortization method and life used for such assets. The restatements did not impact the amounts presented in the consolidated statements of cash flows for net cash used in operating activities, net cash used in investing activities or net cash provided by (used in) financing activities in any of the restated periods, although it did impact certain non-cash components of cash flows from operating activities.

Accordingly, the Company has restated its consolidated financial statements as of and for the years ended December 31, 2002 and 2001. The effects of this restatement on previously reported consolidated financial statements as of and for the years ended December 31, 2002 and 2001 are summarized below.

December 31, 2002

December 31, 2001

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

	As Previously Reported	As Restated	As Previously Reported	As Restated
Selected Balance Sheet Data:				
Goodwill	\$25,041,150	\$20,311,150	\$14,437,816	\$10,822,
Acquired intangibles, net	1,760,611	5,042,555	970,000	4,322,
Total assets	56,613,571	55,165,515	41,065,556	40,802,
Accumulated deficit	(159,263,835)	(160,711,891)	(177,849,701)	(178,112,
Total stockholders' equity	36,878,637	35,430,581	32,694,313	32,431,
Total liabilities and stockholders' equity	56,613,571	55,165,515	41,065,556	40,802,

53

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

	Year Ended December 31, 2002		Year Ended December 31, 2001	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Selected Statement of Operations Data:				
Depreciation and amortization	\$ 1,001,562	\$ 2,186,951	\$ 232,379	\$ 495,0
Income (loss) from operations	3,539,604	2,354,215	(4,289,110)	(4,551,7
Income (loss) from continuing operations before income taxes	3,667,595	2,482,206	(2,994,402)	(3,257,0
Income (loss) from continuing operations	3,565,718	2,380,329	(2,994,402)	(3,257,0
Net income (loss)	3,565,718	2,380,329	(16,857,115)	(17,119,7
Net income (loss) attributable to common stockholders	18,585,866	17,400,477	(21,008,313)	(21,270,9
Basic earnings (loss) per common share:				
Continuing operations	\$0.84	\$0.79	\$ (0.34)	\$ (0.
Earnings (loss) per common Share	0.84	0.79	(1.02)	(1.
Diluted earnings (loss) per common share				
Continuing operations	\$0.12	\$0.08	\$ (0.34)	\$ (0.
Earnings (loss) per common share	0.12	0.08	(1.02)	(1.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Selected Statement of Cash

Flows Data:

Net income (loss)	\$3,565,718	\$2,380,329	\$(16,857,115)	\$(17,119,7
Depreciation and amortization	1,001,562	2,186,951	232,379	495,0

(3) Summary of Significant Accounting Policies

a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Stonepath Group, Inc., a Delaware corporation, and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

b) Use of Estimates

The presentation of financial statements in accordance with accounting principles generally accepted in the United States of America requires 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. Such estimates include the assessment of the recoverability of long-lived assets, specifically goodwill and acquired intangibles, the establishment of an allowance for doubtful accounts and the valuation allowance for deferred income tax assets. Actual results could differ from those estimates.

c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and investments in money market funds and investment grade securities held with high quality financial institutions. The Company considers all highly liquid instruments with a remaining maturity of 90 days or less at the time of purchase to be cash equivalents.

54

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

d) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable.

The Company maintains its cash accounts with high quality financial institutions. With respect to accounts receivable, such receivables are primarily from manufacturers, distributors and major retailers located in the United States. Credit is granted to customers on an unsecured basis, and generally provides for 30-day payment terms. To reduce credit risk, the Company performs ongoing credit evaluations

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

of its customers' financial conditions. Credit losses have not been material.

For the years ended December 31, 2002 and 2001, our largest customer, a national retail chain, accounted for approximately 29% and 53% of our revenues, respectively, and approximately 27% and 48% of our accounts receivable balance as of December 31, 2002 and 2001, respectively. For the year ended December 31, 2002, our next five largest customers accounted for approximately 21% of our revenue, with no one of these customers accounting for greater than 10% of our revenue.

e) Furniture and Equipment

Furniture and equipment are stated at cost, less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the respective assets. Depreciation is computed using three- to ten-year lives for furniture and office equipment, a three-year life for computer software, the shorter of the lease term or useful life for leasehold improvements and a three-year life for vehicles. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in results of operations. Expenditures for maintenance, repairs, and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized.

f) Goodwill

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations accounted for as purchases (see Note 5).

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 performed its annual impairment test during the fourth quarter of 2002 and noted no impairment for either of its reporting units. In the future, the Company expects to perform the annual test during its fiscal fourth quarter unless events or circumstances indicate an impairment may have occurred before that time.

g) Long-Lived Assets

Acquired intangibles consist of customer bases and non-compete agreements arising from the Company's acquisitions.

The Company adopted the provisions of SFAS No. 144, Accounting for

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

the Impairment or Disposal of Long-Lived Assets, on January 1, 2002. SFAS No. 144 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

55

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

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. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

h) 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 carryforwards. Deferred tax assets and liabilities are measured using tax rates in effect for the years in which the differences are expected to reverse. 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.

i) Revenue Recognition

The Company derives its revenues from three principal sources: freight forwarding, customs brokerage, and warehousing and other value added services.

As a freight forwarder, the Company is primarily a non-asset based carrier that does not own or lease any significant transportation assets. The Company generates the majority of its revenues by purchasing transportation services from direct (asset-based) carriers and using those services to provide transportation of property for compensation to its customers. The Company is able to negotiate favorable buy rates from the direct carriers by consolidating shipments from multiple customers and concentrating its buying power, while at the same time offering lower sell rates than most customers would otherwise be able to negotiate themselves. When acting as an

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

indirect carrier, the Company will enter into a written agreement with its customers or issue a tariff and a house bill of lading to customers as the contract of carriage. When the freight is physically tendered to a direct carrier, the Company receives a separate contract of carriage, or master bill of lading. In order to claim for any loss associated with the freight, the customer is first obligated to pay the freight charges.

Based on the terms in the contract of carriage, revenues related to shipments where the Company issues a house bill of lading are recognized when the freight is delivered to the direct carrier at origin. Costs related to the shipment are also recognized at this same time.

All other revenues, including revenues for customs brokerage and warehousing and other value added services, are recognized upon completion of the service.

j) Stock-Based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, the Company has elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options granted to employees and members of the board of directors is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount the grantee must pay to acquire the stock. The Company accounts for stock-based compensation to non-employees (including directors who provide services outside their capacity as members of the board) in accordance with SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. The Company has implemented the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure.

The table below illustrates the effect on net income (loss) attributable to common stockholders and income (loss) per share as if the fair value of options granted had been recognized as compensation expense in accordance with the provisions of SFAS No. 123. See Notes 12 and 13 for additional information regarding options and warrants.

56

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

Year ended December 31:	Restated 2002	Restated 2001	-----
Net income (loss) attributable to common stockholders:			
As reported	\$ 17,400,477	\$ (21,270,980)	\$

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Add: stock-based employee compensation expense included in reported net income (loss), net of tax	92,566	5,713,168
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of tax	(1,922,051)	(10,040,316)
Pro forma	\$15,570,992	\$(25,598,128)
Basic earnings (loss) per common share:		
As reported	\$0.79	\$(1.04)
Pro forma	0.70	(1.25)
Diluted earnings (loss) per common share:		
As reported	\$0.08	\$(1.04)
Pro forma	0.02	(1.25)

k) Earnings (Loss) Per Share

Basic earnings (loss) per common share and diluted earnings (loss) per common share are presented in accordance with SFAS No. 128, Earnings per Share. Basic earnings (loss) per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share incorporates the incremental shares issuable upon the assumed exercise of stock options and warrants and upon the assumed conversion of the Company's preferred stock, if dilutive. Certain stock options, stock warrants, and convertible securities were excluded because their effect was antidilutive. The total numbers of such shares excluded from diluted earnings (loss) per common share are 1,336,825, 9,755,934 and 12,197,618 at December 31, 2002, 2001 and 2000, respectively.

During the years ended December 31, 2001 and 2000, the diluted loss per common share calculation was the same as the basic loss per common share calculation, as all potentially dilutive securities were anti-dilutive. The following table indicates the calculation of earnings per share for the year ended December 31, 2002:

	Restated Net Income

Net income	\$ 2,380,329
Less: Preferred stock dividend	(1,952,892)
Plus: Redemption of Series C Preferred Stock in exchange transaction (see Note 12)	16,973,040

Basic Earnings per Common Share	
Net income attributable to common stockholders	17,400,477
Effect of Dilutive Securities	
Options and warrants	--
Convertible preferred stock	(15,020,148)

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Diluted Earnings Per Common Share

Net income attributable to common stockholders plus assumed conversions

\$ 2,380,329

=====

57

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

1) New Accounting Pronouncements

On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes criteria and methodologies for the measurement, recognition and classification of long-lived assets. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, requiring companies to recognize liabilities and costs associated with exit or disposal activities initiated after December 31, 2002 when they are incurred, rather than when management commits to an exit or disposal plan. SFAS No. 146 also requires that such liabilities be measured at fair value. SFAS No. 146 had no impact on the Company's consolidated financial statements but may affect the measurement and recognition of any future restructuring activities.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure of Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which elaborates on the existing disclosure requirements for guarantees and provides clarification on when a company must measure and recognize a liability related to guarantees issued. The disclosure requirements of Interpretation No. 45 are effective for the Company's consolidated financial statements for the year ended December 31, 2002. The measurement and recognition provisions are to be applied on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 did not require additional disclosures in 2002 and is not expected to impact the Company's consolidated financial statements as the Company does not typically issue guarantees related to third-party indebtedness or performance.

In December 2002, the FASB issued SFAS No. 148, which (i) amends SFAS No. 123, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, (ii) amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and (iii) amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. Items (ii) and (iii) in the new requirements of SFAS No. 148 are effective for financial statements for fiscal years ending after

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

December 15, 2002. The Company intends to continue to account for its stock-based compensation in accordance with APB Opinion No. 25.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, which provides new guidance with respect to the consolidation of all unconsolidated entities, including special purpose entities. The adoption of Interpretation No. 46 in 2003 is not expected to impact the Company's consolidated financial statements as the Company does not have investments in any unconsolidated special purpose or variable interest entities.

m) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(4) Discontinued Operations

From inception through the first quarter of 2001, the Company's principal business strategy focused on the development of early-stage technology businesses with significant Internet features and applications. In October 1998, in the first stage of a two-step process the Company acquired a controlling interest in a developer and distributor of online promotional campaigns named Net Value, Inc. ("Net Value"). This acquisition was accounted for as a recapitalization of Net Value. In November 2000, the Company completed the merger with Net Value by issuing 1,754,140 shares of its common stock for the remaining minority interest in Net Value.

On December 28, 2001, the Board of Directors approved a plan to dispose of all of the assets related to the Company's former business of investing in early-stage technology companies, since these investments were incompatible with the Company's current strategy of building a global

58

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

integrated logistics services organization. Therefore, for financial reporting purposes, the assets, liabilities, results of operations and cash flows of the former business have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations. The consolidated financial statements of prior periods have been reclassified to reflect this presentation. The Company has never recognized any revenues from its former business model. Pre-tax operating losses amounting to \$13,862,713 and \$30,815,850 are reflected in the accompanying consolidated statements of operations as loss from discontinued operations for the years ended December 31, 2001 and 2000, respectively.

The net assets of discontinued operations relate primarily to investments in early-stage technology companies. The Company anticipates disposing of its remaining investment during 2003.

(5) Acquisitions

On October 5, 2001, the Company acquired all of the outstanding shares of M.G.R., Inc., d/b/a Air Plus Limited, and its operating affiliates (collectively, "Air Plus"), a group of Minneapolis-based privately held

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

companies. The results of Air Plus' operations have been included in the consolidated financial statements since that date. Air Plus provides a full range of logistics and transportation services throughout North America. As a result of the acquisition, the Company completed the first step in its plan to become a leading provider of logistics and transportation services.

The acquisition was accounted for as a purchase in accordance with SFAS No. 141, Business Combinations. As consideration for the stock of Air Plus, the Company paid \$17,500,000. In addition, contingent consideration in the amount of \$17,000,000, which is payable in installments of \$3,000,000 in 2003, \$5,000,000 in 2004, \$5,000,000 in 2005 and \$4,000,000 in 2006, will be paid if Air Plus achieves pre-tax income of \$6,000,000 in each of the years preceding the year of payment. Such payments, if made, will be reflected as additional goodwill. In the event that there is a shortfall in pre-tax income in any year, such shortfall may be carried over to the succeeding year or carried back to the preceding year to the extent that the pre-tax income in those years exceeds the \$6,000,000 level. Any remaining shortfall will reduce the contingent consideration on a dollar-for-dollar basis. The total purchase price, including acquisition costs of \$1,254,000 but excluding the contingent consideration described above, was \$18,754,000. The Company obtained an independent third-party appraisal of the fair value of the acquired intangible assets. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition:

	As of October 5, 2001 Restated ----- (in thousands)
Current assets	\$ 9,651
Furniture and equipment	1,538
Other assets	448
Intangible assets	4,615
Goodwill	10,823

Total assets acquired	27,075

Current liabilities	8,321

Total liabilities assumed	8,321

Net assets acquired	\$ 18,754
	=====

The acquired intangible assets have a weighted average useful life of ten years. The intangible assets include a customer relationship intangible of \$4,415,000 which is being amortized under the declining balance method using a 25% rate and a covenant-not-to-compete of \$200,000 with a three-year life. The \$10,823,000 of goodwill was assigned to the Company's domestic business unit and is deductible for income tax purposes.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

December 31, 2002 and 2001

On April 4, 2002, the Company acquired all of the issued and outstanding common shares of Global Transportation Services, Inc. ("Global"), a Seattle-based privately held company that provides a full range of international air and ocean logistics services, for \$5,000,000 in cash paid at the closing and up to an additional \$7,000,000 payable over a five year earn-out period based upon the future financial performance of Global. The Company agreed to pay the former Global shareholders a total of \$5,000,000 base earn-out payments in installments of \$745,000 in 2003, \$1,000,000 in 2004 through 2007 and \$255,000 in 2008, with each installment payable in full if Global achieves pre-tax income of \$2,000,000 in each of the years preceding the year of payment (or the pro rata portion thereof in 2002 and 2007). In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a pro-rata basis. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the \$2,000,000 level. The Company has also provided former Global shareholders with additional incentive to generate earnings in excess of the base \$2,000,000 annual earnings target ("tier-two earn-out"). Under Global's tier-two earn-out, former Global shareholders are also entitled to receive 40% of the cumulative pre-tax earnings in excess of \$10,000,000 generated during the five year earn-out period subject to a maximum additional earn-out opportunity of \$2,000,000. Global would need to generate cumulative earnings of \$15,000,000 over the five year earn-out period to receive the full \$7,000,000 in contingent earn-out payments. With the closing of the transaction, the Company established its international platform for services between the Far East, the United States and Europe.

The acquisition was accounted for as a purchase and accordingly, the results of operations and cash flows of Global are included in the accompanying consolidated financial statements prospectively from the date of acquisition. The total purchase price, including acquisition costs of \$466,000 but excluding the contingent consideration described above, was \$5,466,000. The Company obtained an independent third-party appraisal of the fair value of the acquired intangibles. The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of the acquisition:

	As of April 4, 2002 Restated

	(in thousands)
Current assets	\$ 3,664
Furniture and equipment	169
Other assets	149
Intangible asset	340
Goodwill	4,463

Total assets acquired	8,785

Current liabilities	3,319

Total liabilities assumed	3,319

Net assets acquired	\$ 5,466
	=====

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

The acquired intangible asset is a covenant-not-to-compete which has a useful life of five years. The \$4,463,000 of goodwill was assigned to the Company's international business unit and is deductible for income tax purposes.

On May 30, 2002, the Company acquired all of the issued and outstanding common shares of United American Acquisitions and Management, Inc. d/b/a United American Freight Services, Inc. ("United American"), a Detroit-based privately held provider of expedited transportation services. The United American transaction provided the Company with a new time-definite service offering focused on the automotive industry. The purchase price was \$5,100,000 in cash at closing and up to an additional \$11,000,000 payable over a four-year earn-out period based upon the future financial performance of United American. The Company agreed to pay the former United American shareholder a total of \$5,000,000 base earn-out payments in installments of \$1,250,000 in 2003 through 2006, with each installment payable in full if United American achieves pre-tax income of \$2,200,000 in each of the years preceding the year of payment. In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that pre-tax

60

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

income in any other payout year exceeds the \$2,200,000 level. The Company has also provided the former United American shareholder with additional incentive to generate earnings in excess of the base \$2,200,000 annual earnings target ("tier-two earn-out"). Under United American's tier-two earn-out, the former United American shareholder is also entitled to receive 50% of the cumulative pre-tax earnings generated from a certain pre-acquisition customer in excess of \$8,800,000 generated during the four year earn-out period subject to a maximum additional earn-out opportunity of \$6,000,000. United American would need to generate cumulative earnings of \$20,800,000 over the four year earn-out period to receive the full \$11,000,000 in contingent earn-out payments.

The acquisition was accounted for as a purchase and accordingly, the results of operations and cash flows of United American are included in the accompanying consolidated financial statements prospectively from the date of acquisition. The total purchase price, including acquisition costs of \$48,000 but excluding the contingent consideration described above, was \$5,148,000. The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of the acquisition:

	As of May 30, 2002 Restated ----- (in thousands)
Current assets	\$ 5,150
Furniture and equipment	161
Other assets	88
Intangible assets	1,625
Goodwill	1,235 -----

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Total assets acquired	8,259	-----
Current liabilities	3,111	-----
Total liabilities assumed	3,111	-----
Net assets acquired	\$ 5,148	=====

The acquired intangible assets have a weighted average useful life of ten years. The intangible assets include a customer relationship intangible of \$1,525,000, which is being amortized under the declining balance method using a 25% rate and a covenant-not-to-compete of \$100,000 with a three-year life. The \$1,235,000 of goodwill was assigned to the Company's domestic business unit and is deductible for income tax purposes.

On October 1, 2002, the Company acquired Transport Specialists, Inc. ("TSI"), a Northern Virginia-based privately held provider of expedited domestic and international transportation services. The TSI transaction is intended to capitalize on TSI's existing base of government contract work in the Washington metropolitan area and serve as a supplement to an existing Company-operated facility in that area. The purchase price consisted of cash of \$526,000 paid at closing, and a three-year earn-out arrangement based upon the future financial performance of TSI. The Company agreed to pay the former TSI shareholder \$200,000 for each year in the three-year earn-out period ending December 31, 2005 that TSI achieves its annual net revenue target of \$1,620,000. The acquisition was accounted for as a purchase and accordingly, the results of operations and cash flows of TSI are included in the accompanying consolidated financial statements prospectively from the date of acquisition. In connection with this transaction, the Company recorded intangible assets and tax-deductible goodwill amounting to \$160,000 and \$56,000, respectively.

The primary reasons for the acquisitions of Air Plus, Global and United American (the "material acquisitions") and the factors that contributed to the recognition of goodwill are that the acquired entities: 1) established or expanded the domestic and international platforms, 2) had experienced, well-trained workforces, 3) expanded the Company's time-definite service offerings, and 4) strategically broadened the geographical dispersion of the Company's service facilities. The Company expects, through cross-selling and other initiatives, to increase the acquired entities' revenues and profitability through an expansion of the value added services that it offers. In addition, the Company expects to reduce the operating expenses of the acquired entities through economies of scale and synergies, such as the centralization of certain administrative functions. By creating a larger, stronger organization, the Company expects to improve its access to, and the availability of, future capital.

61

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

The following unaudited pro forma information is presented as if the material acquisitions had occurred on January 1, 2001 (in thousands):

Years ended December 31,

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

	Restated 2002	Restated 2001
Total revenues	\$ 165,853	\$ 133,193
Net revenues	\$ 45,154	\$ 37,402
Net income	\$ 4,369	\$ 1,782
Net income (loss) attributable to common stockholders	\$ 19,389	\$ (2,369)
Basic earnings (loss) per common share	\$ 0.88	\$ (0.12)
Diluted earnings (loss) per common share	\$ 0.15	\$ (0.12)

For the year ended December 31, 2002, the former shareholders of Air Plus, Global and United American achieved earn-out payments of \$3,000,000, \$745,206 and \$222,150, respectively. Excess earnings (shortfalls) carried forward to 2003 amount to approximately \$338,000, \$2,324,000 and \$(1,028,000) for Air Plus, Global and United American, respectively.

(6) Acquired Intangible Assets

Information with respect to acquired intangible assets is as follows:

	December 31,		
	Restated 2002		R
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Amortizable intangible assets:			
Customer relationship	\$ 5,980,000	\$ 1,533,667	\$ 4,415,000
Covenants-not-to-compete	760,000	163,778	200,000
Total	\$ 6,740,000	\$ 1,697,445	\$ 4,615,000

Aggregate amortization expense:

For the year ended December 31, 2002 \$ 1,404,778

Estimated aggregate amortization expense:

For the year ended December 31, 2003	\$ 1,313,000
For the year ended December 31, 2004	1,020,000
For the year ended December 31, 2005	735,000
For the year ended December 31, 2006	535,000
For the year ended December 31, 2007	369,000

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

62

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

(7) Furniture and Equipment

Furniture and equipment consists of the following:

	December 31,	
	2002	2001
Furniture and office equipment	\$ 2,761,837	\$ 1,290,469
Computer software	986,942	512,593
Leasehold improvements	400,968	95,419
Vehicles	40,167	21,697
	-----	-----
	4,189,914	1,920,178
Less: accumulated depreciation	(956,237)	(182,575)
	-----	-----
	\$ 3,233,677	\$ 1,737,603
	=====	=====

(8) Revolving Credit Facility

To ensure adequate financial flexibility, the Company secured a \$15,000,000 revolving credit facility (the "Facility") in May 2002, which is collateralized by the accounts receivable and the other assets of the Company and its subsidiaries. The Facility requires the Company and its subsidiaries to meet certain financial objectives and comply with certain financial covenants and limits to four the number of acquisitions the Company may make per year. The Company may use advances under the Facility to finance future acquisitions, capital expenditures or other corporate purposes. At the time of borrowing, the Company has the option to elect to pay interest at a rate equal to LIBOR plus 2.25% or the prime rate. The Company also pays a commitment fee of 0.5% per annum on the average unused balance of the Facility. At December 31, 2002, based on available collateral and an outstanding \$160,000 letter of credit commitment, there was \$14,840,000 available for borrowing under the Facility.

(9) Income Taxes

Deferred income tax assets and liabilities are classified as current and noncurrent based on the financial reporting classification of the related assets and liabilities that give rise to the temporary difference. The tax effects of temporary differences that give rise to the Company's deferred tax accounts are as follows:

	December 31,	
	Restated 2002	Re
	-----	-----
Deferred tax assets:		
Accruals	\$	\$

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

	52,000	
Equity in losses of affiliate companies	432,000	
Amortization and depreciation	--	
Deferred compensation and warrants	11,066,000	
Capital loss carryforward	2,475,000	
Federal and state deferred tax benefits arising from net operating loss carryforwards	8,922,000	

Total	22,947,000	
Less: valuation allowance	(22,852,000)	

Net deferred tax assets	95,000	
Deferred tax liabilities:		
Amortization and depreciation	(95,000)	

Net deferred taxes	\$ -	\$
	=====	=====

Due to the uncertainty surrounding the realization of the Company's tax attributes in future income tax returns, the Company has placed a valuation allowance against its otherwise recognizable deferred tax assets. Management continually reassesses the realizability of the Company's deferred tax assets and, based on a number of factors, has concluded that it is more likely than not that the benefit of the Company's deferred tax assets would not be realized.

63

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

The net change in total valuation allowance for the years ended December 31, 2002 and 2001 was a decrease of \$1,298,000 and an increase of \$5,098,000, respectively. As of December 31, 2002, the Company had net operating loss carryforwards for federal and state income tax purposes amounting to approximately \$21,687,000 and \$16,233,000, respectively. For the year ended December 31, 2002 the Company had net income from continuing operations which resulted in the use of past net operating loss carryforwards for federal and state income tax purposes amounting to approximately \$900,000 each. The federal net operating loss carryforwards expire beginning 2018 through 2021, and the state net operating loss carryforwards expire beginning in 2004. The use of certain net operating losses may be subject to annual limitations based on changes in the ownership of the Company's common stock, as defined by Section 382 of the Internal Revenue Code.

Income tax expense is as follows:	Years ended December 31,	
	----- 2002	----- 2001
	-----	-----
Current:		
Federal	\$ --	\$ --
State	101,877	--
	-----	-----
	\$ 101,877	\$ --
	=====	=====

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

The difference between the statutory federal income tax rate and the Company's effective income tax rate is principally due to state income taxes, the utilization of net operating loss carryforwards and changes in the valuation allowance for all years presented.

(10) Commitments

Employment Agreements

At December 31, 2002, the Company had employment agreements with three of its officers for an aggregate annual base salary of \$760,000 plus bonus and increases in accordance with the terms of the agreements. The contracts are for three-year terms.

Leases

The Company leases equipment, office and warehouse space under operating leases expiring at various times through 2010. Total rent expense related to continuing operations for the years ended December 31, 2002, 2001 and 2000 was \$4,750,000, \$969,000 and \$72,000, respectively. Future minimum lease payments are as follows:

Year ending December 31, -----	Third-party -----	Related Party -----	Total -----	Subrentals -----
2003	\$ 3,778,000	\$144,000	\$ 3,922,000	\$ (140,000)
2004	3,055,000	144,000	3,199,000	(141,000)
2005	2,643,000	72,000	2,715,000	(47,000)
2006	1,390,000	-	1,390,000	-
2007	1,045,000	-	1,045,000	-
Thereafter	611,000	-	611,000	-
	-----	-----	-----	-----
Total	\$12,522,000	\$360,000	\$12,882,000	\$ (328,000)
	=====	=====	=====	=====

Employee Benefit Plan

The Company sponsors voluntary defined contribution savings plans covering all U.S. employees. Company contributions are discretionary. For the years ended December 31, 2002 and 2001, total Company contributions amounted to \$260,000 and \$37,500, respectively. No contributions were made in the year ended December 31, 2000.

64

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

(11) Contingencies

Purchase Agreements

Assuming minimum pre-tax income levels are achieved by Air Plus, Global, United American and TSI, the Company will be required to make future

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

contingent consideration payments by April 1 of the respective year as follows (in thousands):

	2004	2005	2006	2007	2008	To
	-----	-----	-----	-----	-----	-----
Air Plus	\$5,000	\$5,000	\$4,000	\$ -	\$ -	\$14,
Global	1,000	1,000	1,000	1,000	255	4,
United	1,250	1,250	1,250	-	-	3,
TSI	200	200	200	-	-	
	-----	-----	-----	-----	-----	-----
Total	\$7,450	\$7,450	\$6,450	\$1,000	\$255	\$22,
	=====	=====	=====	=====	=====	=====

In addition, during the 2003-2007 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as \$8,000,000 if the applicable acquired companies generate an incremental \$17,000,000 in pre-tax earnings.

Legal Proceedings

On October 12, 2000, Emergent Capital Investment Management, LLC ("Emergent") filed suit against the Company and two of its officers contending that it was misled by statements made by the defendants in connection with the offering of the Company's Series C Preferred Stock which closed in March 2000. Specifically, Emergent alleges that it is entitled to rescind the transaction because it was allegedly represented that the size of the offering would be \$20,000,000 and the Company actually raised \$50,000,000. Emergent seeks a return of its \$2,000,000 purchase price of Series C shares. In June of 2001, the Company moved for summary judgment in this case.

After the summary judgment motion was filed, Emergent filed a second action against the Company and two of its officers alleging different allegations of fraud in connection with the Series C offering. In the new complaint, Emergent alleges that oral statements and written promotional materials distributed by the Company at a meeting in connection with the Series C offering were materially inaccurate with respect to the Company's investment in Net Value, Inc., a wholly owned subsidiary of the Company. Emergent also contends that the defendants failed to disclose certain allegedly material transactions in which an officer was involved prior to his affiliation with the Company. The Company filed a motion to dismiss this new action for failure to state a claim upon which relief can be granted.

On October 2, 2001, the Court entered an order granting summary judgment to the defendants in the first case filed by Emergent and dismissing Emergent's second complaint for failure to state a claim upon which relief can be granted. The Court allowed Emergent 20 days to file a second amended complaint as to the second action only. On October 21, 2001, Emergent did file a second amended complaint in the second action. The second amended complaint does not raise any new factual allegations regarding Emergent's participation in the offering.

The Company filed a motion to dismiss Emergent's second amended complaint. On April 15, 2002, the United States District Court for the Southern District of New York entered an order granting the motion to dismiss Emergent's second amended complaint against the Company and its former officers. The Court refused to grant Emergent an additional opportunity to

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

re-plead its claims against the defendants and a final order dismissing the matter has been entered. Emergent thereafter filed a notice of appeal to the United States Court of Appeals for the Second Circuit, which is currently pending. The Company believes that it has substantial defenses to the plaintiff's claims and intends to vigorously defend this action. No accrual has been established for this proceeding since (i) the Company believes it has substantial defenses to the plaintiff's claims, and (ii) the amount of the loss, if any, cannot be reasonably estimated. Notwithstanding the Company's belief, there can be no assurances, however, that the Company will not incur material expenses in the defense and resolution of this matter.

65

STONEPATH GROUP, INC. Notes to Consolidated Financial Statements December 31, 2002 and 2001

On August 22, 2000, Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A., purchasers of the Company's convertible promissory notes, filed suit against the Company in the United States District Court for the District of Delaware. The plaintiffs allege that, contrary to the Company's covenant in the subscription agreement they executed, which required Stonepath to "use reasonable commercial efforts to register" the shares of its common stock underlying the convertible promissory notes "at some future date," the Company verbally agreed to register such shares in the first registration statement it filed with the Securities and Exchange Commission subsequent to the transaction. The plaintiffs assert claims for breach of contract and the duty of good faith and fair dealing, fraud, violation of federal securities laws, estoppel, and reformation and seek damages in excess of \$20,000,000, plus attorneys' fees and costs. In response to a motion to dismiss filed by the Company, the Court dismissed the federal securities law and estoppel claims and denied the motion as to all other claims. Discovery in this case has concluded, and the Company recently filed a motion for summary judgment as to all counts of the complaint. This motion has been briefed and is pending. The Company believes it has substantial defenses to the remaining claims and intends to defend the matter vigorously. No accrual has been established for this proceeding since (i) the Company believes it has substantial defenses to the plaintiffs' claims, and (ii) the amount of the loss, if any, cannot be reasonably estimated. Notwithstanding the Company's belief, there can be no assurances, however, that the Company will not incur material expenses in the defense and resolution of this matter.

The Company is also involved in various other 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.

(12) Stockholders' Equity

The Company has two classes of authorized stock: common stock and preferred stock.

(a) Common Stock

The Company is authorized to issue 100,000,000 shares of common stock, par value \$.001 per share. The holders of common stock are entitled to one

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

vote per share and are entitled to dividends as declared. Dividends are subject to the preferential rights of the holders of the Company's preferred stock. The Company has never declared dividends on its common stock.

(b) Preferred Stock

The Company's Board of Directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock, par value \$.001 per share, that may be issued in one or more series and with such terms as may be determined by the Board of Directors.

Series B Preferred Stock

In September 1999, the Company issued 4,824 shares of Series B Preferred Stock for aggregate proceeds of \$4,824,000. The Series B Preferred Stock was subsequently converted into 1,180,180 shares of common stock in February 2000 pursuant to the original terms of the issuance.

In connection with the issuance of the Series B Preferred Stock, the Company issued warrants to purchase 295,040 shares of common stock (Series B Warrants). These warrants were exercisable at prices ranging from 110% to 140% of the conversion price of the Series B Shares. The Company allocated \$650,000 of the net proceeds received from this offering to the cost of the Series B Warrants based on an independent valuation. During 2000, the warrant holders exercised 210,944 Series B Warrants, resulting in cash proceeds to the Company of \$1,077,792. The remaining 84,096 Series B Warrants expired on August 1, 2000.

Series C Preferred Stock

In March 2000, the Company completed a private placement transaction in which it issued 4,166,667 shares of Series C Preferred Stock and warrants to purchase 416,667 additional shares of common stock for aggregate gross proceeds of \$50,000,000.

66

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

The terms of the Series C Preferred Stock initially required the Company to use the proceeds from this offering solely for investments in early stage Internet companies. In February 2001, the Company received consents (the "Consents") from the holders of more than two-thirds of its issued and outstanding shares of Series C Preferred Stock to modify this restriction to permit it to use the proceeds to make any investments in the ordinary course of business, as from time-to-time determined by the Board of Directors, or for any other business purpose approved by the Board of Directors.

In exchange for the Consents, the Company agreed to a private exchange transaction (the "Exchange Transaction") in which it would issue to the holders of the Series C Preferred Stock as of July 18, 2002 (the "conversion date"), additional warrants to purchase up to a maximum of 2,692,194 shares of common stock at an exercise price of \$1.00 per share, and reduce the per share exercise price from \$26.58 to \$1.00 for 307,806 existing warrants owned by the holders of the Series C Preferred Stock. As a condition to receiving the additional warrants and having their existing

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

warrants re-priced, the holders of the Series C Preferred Stock agreed to convert their shares of preferred stock into shares of common stock on the conversion date.

At the request of the largest holder of Series C Preferred Stock (because of legal limitations in its governing instruments which prevent it from holding investments in common stock), the Company expanded the Exchange Transaction to include an additional alternative. Holders of the Series C Preferred Stock as of the conversion date were provided with the alternative of exchanging the common stock issuable upon conversion of the Series C Preferred Stock, the additional warrants and re-priced warrants, for shares of a newly designated Series D Convertible Preferred Stock.

As a result of the exercise of these rights by the holders of the Series C Preferred Stock, as of July 19, 2002, all of the Company's shares of Series C Preferred Stock, representing approximately \$44,600,000 in liquidation preferences, together with warrants to purchase 149,457 shares of the Company's common stock, were surrendered and retired in exchange for a combination of securities consisting of:

- o 1,911,071 shares of common stock;
- o 1,543,413 warrants to purchase common stock at an exercise price of \$1.00; and
- o 360,745 shares of Series D Convertible Preferred Stock.

The 1,911,071 shares of common stock and the 1,543,413 warrants to purchase shares of common stock at an exercise price of \$1.00 were issued in exchange for 1,911,071 shares of Series C Preferred Stock and warrants to purchase 158,348 shares of the Company's common stock at an exercise price of \$26.58 per share. The exchange of the common stock for the Series C Preferred Stock was accounted for as a conversion of the Series C Preferred Stock pursuant to its terms. The estimated fair value of the additional warrants and the re-priced warrants had been previously recorded by the Company in 2001 as a dividend, so no further amount was recorded in 2002.

The remaining 1,803,725 shares of Series C Preferred Stock were converted into 1,803,725 shares of common stock. In addition, the Company issued 1,307,130 additional warrants to purchase shares of common stock at an exercise price of \$1.00 per share and re-priced 149,457 warrants to purchase shares of the Company's common stock (the re-priced warrants were re-priced from an exercise price of \$26.58 per share to an exercise price of \$1.00 per share). The common stock, additional warrants and re-priced warrants were then immediately surrendered by the holders in exchange for 360,745 shares of Series D Convertible Preferred Stock.

EITF Topic D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock, indicates that the excess of the carrying amount of preferred stock over the fair value of the consideration transferred to the holders of the preferred stock should be added to net earnings. The Series C Preferred Stock which was converted into Series D Convertible Preferred Stock had a carrying value of approximately \$21,645,000. The Company obtained an independent appraisal which valued the Series D Convertible Preferred Stock at approximately \$4,672,000. The excess of the carrying value of the Series C Preferred Stock over the fair value of the Series D Convertible Preferred Stock was added to net income for purposes of computing net income attributable to common stockholders for the year ended December 31, 2002. The Exchange Transaction had no effect on the cash flows of the Company.

The holders of the Series C Preferred Stock earned 162,741, 299,069 and 270,196 additional shares of Series C Preferred Stock from payment of

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

preferred stock dividends during the years ended December 31, 2002, 2001 and 2000, respectively. No further preferred stock dividends are payable

67

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

on the Series C Preferred Stock after July 18, 2002. At December 31, 2002 no shares of Series C Preferred Stock were outstanding due to the completion of the Exchange Transaction.

Series D Convertible Preferred Stock

The Series D Convertible Preferred Stock is convertible into 3,607,450 shares of common stock of the Company. The conversion terms were negotiated to be similar to the terms of the Exchange Transaction. In the event of any liquidation, dissolution or winding-up of the Company prior to December 31, 2003 (which also includes certain mergers, consolidations and asset sale transactions), holders of the Series D Convertible Preferred Stock are entitled to a liquidation preference equal to \$60.00 per share, paid prior to and in preference to any payment made or set aside for holders of common stock, but subordinate and subject in preference to the prior payment in full of all amounts to which holders of other classes of preferred stock may be entitled to receive as a result of such liquidation, dissolution or winding-up. Subsequent to December 31, 2003, the holders of the Series D Convertible Preferred Stock are entitled to participate in all liquidation distributions made to the holders of the Company's common stock on an as-if converted basis. The Series D Convertible Preferred Stock carries no dividend, and, except under limited circumstances, has no voting rights except as required by law. By no later than December 31, 2004, the Series D Convertible Preferred Stock will convert into shares of the Company's common stock.

Preferred Stock Dividends

The components of the preferred stock dividends are as follows:

	2002	2001
Series B Preferred Stock cash dividend	\$ -	\$ -
Series C Preferred Stock dividend payable in kind	(1,952,892)	(3,588,828)
Non-cash credit: excess of carrying value of Series C Preferred Stock over the fair value of Series D Convertible Preferred Stock	16,973,040	-
Non-cash charge: issuance of contingent warrants	-	(562,370)
Non-cash charge: beneficial conversion feature on Series C Preferred Stock	-	-
	\$ 15,020,148	\$ (4,151,198)

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

The Company paid the Series B Preferred Stock dividend in cash as the holders converted their Series B Preferred Stock into shares of the Company's common stock. The Series C Preferred Stock dividend was payable in additional Series C Preferred Stock on a quarterly basis and therefore did not represent a cash obligation of the Company.

At the time of issuance of the Series C Preferred Stock, the quoted market value of the Company's common stock was higher than the Series C Preferred Stock sales price of \$12.00 per share. As the Series C Preferred Stock was immediately convertible into shares of the Company's common stock, the differential in price constituted a beneficial conversion feature as defined in EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios. Accordingly, the Company recorded \$42,608,327 as additional paid in capital for the deemed preferential dividend related to the beneficial conversion feature. In accordance with EITF Issue No. 98-5, this discount was limited to the proceeds allocated to the Series C Preferred Stock and was recognized immediately as a preferred stock dividend since the Series C Preferred Stock was immediately convertible.

(c) Deferred Stock-Based Compensation

The Company records deferred compensation when it makes restricted stock awards or compensatory stock option grants to employees, consultants or advisory board members. In the case of stock option grants to employees, the amount of deferred compensation initially recorded is the difference, if any, between the exercise price and quoted market value of the common

68

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

stock on the date of grant. Such deferred compensation is fixed and remains unchanged for subsequent increases or decreases in the market value of the Company's common stock. In the case of options granted to consultants or advisory board members, the amount of deferred compensation recorded is the fair value of the stock options on the grant date as determined using a Black-Scholes valuation model. The Company records deferred compensation as a reduction to stockholders' equity and an offsetting increase to additional paid-in capital. The Company then amortizes deferred compensation into stock-based compensation expense over the performance period, which typically coincides with the vesting period of the stock-based award of three to four years.

The components of deferred compensation are as follows:

	Employees	Consultants And Advisory Board	To
	-----	-----	-----
Balance at December 31, 1999	\$ 7,162,000	\$ 20,180,172	\$ 27
Deferred compensation recorded	20,325,684	4,195,356	24
Cancellations and fair value adjustments	(9,223,100)	(16,666,296)	(25)
Amortization to stock-based compensation	(7,584,654)	(7,617,438)	(15)
	-----	-----	-----

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Balance at December 31, 2000	10,679,930	91,794	10
Deferred compensation recorded	1,207	19,450	
Cancellations and fair value adjustments	(4,756,331)	(109,623)	(4)
Amortization to stock-based compensation	(5,713,168)	(1,621)	(5)
	-----	-----	-----
Balance at December 31, 2001	211,638	-	
Deferred compensation recorded	-	3,193	
Amortization to stock-based compensation	(95,232)	(3,193)	
	-----	-----	-----
Balance at December 31, 2002	\$ 116,406	\$ -	\$
	=====	=====	=====

For the year ended December 31, 2000, the Company also recorded stock-based compensation of \$709,375 relating to investment banking services that were paid via the issuance of 25,000 shares of its common stock, valued based on the closing stock market price of \$28.38 on the date of issuance.

Stock-based compensation is reflected in the accompanying consolidated statements of operations as follows:

	Years ended December 31,		
	2002	2001	
	----	----	
Personnel costs	\$98,425	\$2,394,106	\$
Loss from discontinued operations	-	3,320,683	1
	-----	-----	-----
Total	\$98,425	\$5,714,789	\$1
	=====	=====	=====

(13) Stock Options and Warrants

(a) Stock Options

The Amended and Restated Stonepath Group, Inc. 2000 Stock Incentive Plan, (the "Stock Incentive Plan") covers 10,000,000 shares of common stock. Under its terms, employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified and incentive stock options and restricted stock awards. Options granted generally vest over three to four years and expire ten years following the date of grant. The Board of Directors or a committee thereof determines the exercise price of options granted.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

options under the existing Net Value stock option plan into options to purchase the Company's common stock using a conversion ratio of 0.4 Company options for every one Net Value option. On an "as-converted" basis, Net Value had 490,900 options converted at the effective merger date in November 2000.

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

	Shares -----	Range of exercise prices -----
Outstanding at December 31, 1999	4,277,248	\$1.00 - 10.13
Granted	3,223,000	0.50 - 19.69
Net Value, Inc. options assumed	490,900	1.00 - 17.50
Cancelled	(3,440,318)	1.00 - 16.38

Outstanding at December 31, 2000	4,550,830	0.50 - 19.69
Granted	3,725,000	0.50 - 1.60
Cancelled	(1,992,947)	0.50 - 19.69

Outstanding at December 31, 2001	6,282,883	0.50 - 17.50
Granted	3,648,000	1.30 - 2.30
Exercised	(409,583)	0.50 - 1.00
Expired	(74,000)	0.70 - 1.58

Outstanding at December 31, 2002	9,447,300	\$0.50 - 17.50
	=====	

The following table summarizes information about options outstanding and exercisable as of December 31, 2002:

Outstanding Options				Exercisable O	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Wei Ex
\$0.50 - \$ 1.00	5,107,500	6.8 years	\$ 0.82	4,588,187	\$
\$1.21 - \$ 2.00	3,661,200	9.3 years	1.34	157,394	
\$2.05 - \$ 4.00	415,000	8.0 years	2.76	191,500	
\$6.38 - \$10.00	74,000	1.2 years	9.51	72,750	
\$12.50 - \$17.50	189,600	1.2 years	15.00	189,600	
	-----			-----	
Total	9,447,300	7.6 years	\$ 1.46	5,199,431	
	=====			=====	

The weighted average fair value of employee options granted during 2002, 2001 and 2000 was \$0.89, \$0.53 and \$6.58 per share, respectively. The fair value of options granted were estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Assumption -----	2002 ----	2001 ----	2000 ----
Dividend yield	None	None	None
Expected volatility	93.8%	106.7%	134.6%
Average risk free interest rate	1.36%	3.99%	4.99%
Average expected lives	6.8 years	4.3 years	5.0 years

70

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

In December 2001, vesting was accelerated on options held by the Company's former Chief Executive Officer. Since the acceleration of vesting occurred pursuant to the terms of the original option agreement, no new measurement date occurred and no additional expense was recorded in the accompanying consolidated statement of operations.

On October 5, 2001, February 28, 2002 and July 3, 2002, the Company modified the existing option arrangements with its Chief Executive Officer such that, effective as of July 3, 2002, vesting was fully accelerated on options to purchase 1,800,000 shares of the Company's common stock. Based on the excess of the trading price of the common stock on the dates of the modifications over the exercise price, the Company could incur a non-cash charge to its earnings of approximately \$870,000 if the Chief Executive Officer leaves the employment of the Company prior to the vesting dates specified in the original option grant.

(b) Warrants

The Company had outstanding the following warrants to purchase its securities as of December 31, 2002:

Description of series -----	Number of warrants issued -----	Exercise price per share -----
Common stock	2,947,406 =====	\$1.00 - \$26.58 =====

These warrants were issued primarily in connection with (a) former borrowing arrangements, (b) the Series C Preferred Stock issuance, (c) the receipt of consulting services and (d) services to be rendered in connection with a private placement of the Company's common stock. Additionally, as part of a merger with Net Value in 2000, the Company assumed the existing Net Value warrants totaling 675,089 on an "as-converted" basis. The Company recorded interest expense on warrants issued in connection with borrowing arrangements equal to the warrants' then fair value as determined by independent valuations. The Company allocated a portion of the net proceeds received from the Series C Preferred Stock issuance to the cost of the Series C Warrants as determined using the Black-Scholes valuation model. In 2000, the Company recorded stock-based compensation of \$2,799,028 on warrants issued to consultants equal to the warrants' then fair value as determined using the Black-Scholes valuation model. In 2002, the Company recorded \$95,000 of deferred offering costs for warrants that were issued in connection with an anticipated private placement of the Company's common stock.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

(14) Fair Value of Financial Instruments

At December 31, 2002 and 2001, the carrying values of cash and cash equivalents, accounts receivable, loans receivable and accounts payable approximated their fair values as they are short term and are generally receivable or payable on demand.

(15) Related Party Transactions

Included in operating leases is certain real estate leased from the former principal shareholder of Air Plus. The Company leased one building in 2002 and two buildings in 2001. Rent under this arrangement was determined by a survey of comparable building rents and totaled \$187,000 for the year ended December 31, 2002 and \$110,000 for the period from October 5, 2001 to December 31, 2001.

During 2002, the Company purchased certain computer equipment and peripherals for \$28,000 from a company owned by the Company's Chairman and Chief Executive Officer.

During 2002, the Company paid a total of \$60,000 to two of its directors as a placement fee related to the employment of the Company's Chief Financial Officer.

At December 31, 2002 and 2001, an officer was indebted to the Company for a loan with an aggregate unamortized balance of \$39,593 and \$64,589, respectively. This loan is generally forgivable over a three-year term and for accounting purposes is amortized evenly to expense over the term which ends in April 2004.

71

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

At December 31, 2002, a former principal shareholder of Global was indebted to the Company for a loan amounting to \$262,500. The loan is repayable in three equal installments by offset against his portion of the contingent consideration payment.

In March 2000, an officer contributed shares of an affiliated company to the Company. The Company recorded the shares as contributed capital equal to their estimated fair value of \$853,319.

(16) Segment Information

SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company determined that it had one operating segment in 2001, Domestic Services, which provides a full range of logistics and transportation services throughout North America. In 2002, with the acquisition of Global, the Company established its International Services platform, which provides international air and ocean logistics services. The Company identifies operating segments based on the principal service provided by the business unit. Each segment has a separate management structure. The accounting policies of the reportable

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

segments are the same as described in Note 3, Summary of Significant Accounting Policies. Segment information, in which corporate expenses have been fully allocated to the operating segments, is as follows (in thousands):

	Year ended December 31, 2002		
	Restated Domestic Services -----	Restated International Services -----	Corporat -----
Revenues from external customers	\$78,319	\$61,330	\$ --
Intersegment revenues	76	15	--
Revenues from significant customer	40,164	--	--
Segment operating income	584	1,770	--
Segment assets	41,863	13,867	(564)
Segment goodwill	15,103	5,208	--
Depreciation and amortization	2,036	151	--
Capital expenditures	788	349	676

Revenues, based on the location of the customer, are predominately attributed to the United States in 2002 and 2001.

72

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

(17) Quarterly Information (Unaudited)

The following is a summary of certain unaudited quarterly financial information for fiscal 2002 and 2001:

2002 (1)	Quarter ended		
	Restated March 31 -----	Restated June 30 -----	Restated September 30 -----
Revenues	\$ 13,065,560	\$ 32,689,603	\$ 43,860,000
Cost of transportation	8,645,969	23,903,884	31,863,900
Net revenues	\$ 4,419,591	\$ 8,785,719	\$ 11,996,000
Net income (loss)	\$ (1,226,954)	\$ 268,264	\$ 1,991,400
Preferred stock dividends	(887,772)	(892,116)	16,800,000
Net income (loss) attributable to common stockholders	\$ (2,114,726)	\$ (623,852)	\$ 18,791,500
Earnings (loss) per common share (2):			
Basic	\$ (0.10)	\$ (0.03)	\$ 0.00
Diluted	\$ (0.10)	\$ (0.03)	\$ 0.00

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

2001 (1) -----	Quarter ended		
	March 31 -----	June 30 -----	September 30 -----
Revenues	\$ --	\$ --	\$ --
Cost of transportation	--	--	--
Net revenues	\$ --	\$ --	\$ --
Income (loss) from continuing operations	\$ (1,241,281)	\$ (2,036,713)	\$ (677,000)
Loss from discontinued operations	(7,483,862)	(245,513)	(1,845,200)
Net loss	(8,725,143)	(2,282,226)	(2,522,200)
Preferred stock dividends and effect of redemption	(1,428,038)	(891,804)	(918,600)
Net loss attributable to common stockholders	\$ (10,153,181)	\$ (3,174,030)	\$ (3,440,800)
Loss per share - basic and diluted:			
Continuing operations (2)	\$ (0.13)	\$ (0.14)	\$ (0.01)
Discontinued operations	(0.37)	(0.01)	(0.01)
Net loss to common shareholders	\$ (0.50)	\$ (0.15)	\$ (0.02)

(1) Certain reclassifications have been made to conform to the 2002 annual presentation

(2) Includes effect of preferred stock dividends and effect of redemption

(18) Subsequent Events

On March 10, 2003, the Company issued to its Chairman and Chief Executive Officer options to purchase: 1) 300,000 shares of common stock at an exercise price of \$1.68 per share and 2) 400,000 shares of common stock at an exercise price of \$2.00 per share. The options to purchase 300,000 shares vest immediately and the balance vests annually over a three-year period.

73

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

On March 6, 2003, the Company completed a private placement of 4,470,000 shares of its common stock. The transaction consisted of the sale of 4,270,00 shares at \$1.35 per share and 200,000 shares at \$1.54 per share. In connection with this transaction, the Company realized gross proceeds of \$6,072,500, paid a brokerage fee consisting of cash commissions of \$364,350 and issued placement agent warrants to purchase 297,000 shares of common stock at an exercise price of \$1.49 per share. In addition, the Company had previously paid the placement agent \$25,000 in cash and had

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

issued them warrants to purchase 150,000 shares of common stock at an exercise price of \$1.23 per share. Also, in connection with this private placement, the Company issued to its Chief Financial Officer options to purchase 200,000 shares of common stock at an exercise price of \$1.53 per share. Options for 50,000 shares vest on July 3, 2003 and the balance vests ratably thereafter over 36 months.

74

Independent Auditors' Report

The Board of Directors and Shareholders of
M.G.R., Inc. d/b/a Air Plus Limited, Distribution Services, Inc.,
and Contract Air, Inc.:

We have audited the accompanying combined statements of operations, changes in shareholders' equity and comprehensive income, and cash flows of M.G.R., Inc. d/b/a Air Plus Limited, Distribution Services, Inc., and Contract Air, Inc. (the Companies) for the year ended December 31, 2000. These combined financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of M.G.R., Inc. d/b/a Air Plus Limited, Distribution Services, Inc., and Contract Air, Inc. for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Minneapolis, Minnesota
September 24, 2001

75

M.G.R., Inc. d/b/a AIR PLUS LIMITED, DISTRIBUTION
SERVICES, INC., and CONTRACT AIR, INC.
Combined Statements of Operations

	Year ended December 31, 2000 -----	Six months ended June 20, 2001 ----- (unaudited)	2000 ----- (unaudited)
Revenues	\$ 56,201,458	\$ 26,014,801	\$ 19,698,

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Operating expenses:			
Purchased transportation	(31,856,174)	(15,678,882)	(11,525,
Salaries, wages and benefits	(11,805,734)	(4,653,885)	(3,268,
Depreciation and amortization	(424,803)	(240,787)	(162,
Rent	(2,097,615)	(1,348,087)	(961,
Other selling, general and Administrative	(6,216,391)	(3,417,458)	(2,134,
	-----	-----	-----
Total operating expenses	(52,400,717)	(25,339,099)	(18,053,
	-----	-----	-----
Income from operations	3,800,741	675,702	1,645,
Other income (expense)			
Interest and dividend income	55,542	8,080	15,
Interest expense (affiliate)	(21,929)	(31,848)	(15,
Other net	(44,465)	--	66,
	-----	-----	-----
Total other income (expense)	(10,852)	(23,768)	66,
	-----	-----	-----
Net earnings	\$ 3,789,889	\$ 651,934	\$ 1,712,
	=====	=====	=====

See accompanying notes to combined financial statements.

76

M.G.R., Inc. d/b/a AIR PLUS LIMITED, DISTRIBUTION
SERVICES, INC., and CONTRACT AIR, INC.

Combined Statements of Changes in Shareholders' Equity and Comprehensive Income

	M.G.R., Inc., d/b/a Air Plus Limited common stock no par value		Distribution Services, Inc. common stock no par value	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balances at December 31, 1999	17,700	\$301,500	10,000	\$1,000
Comprehensive income				
Net earnings	--	--	--	--
Unrealized gain on marketing securities	--	--	--	--
Total comprehensive income				
Distributions to shareholders	--	--	--	--
	-----	-----	-----	-----
Balances at December 31, 2000	17,700	301,500	10,000	1,000
Comprehensive income:				

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Net earnings	--	--	--	--
Unrealized loss on marketable securities	--	--	--	--
Total comprehensive income				
Distributions to shareholders	--	--	--	--
Balances at June 30, 2001 (unaudited)	17,700	\$301,500	10,000	\$1,000
	=====	=====	=====	=====

	Accumulated other comprehensive income (loss)	Total
	-----	-----
Balances at December 31, 1999	\$ 85,951	\$ 3,508,240
Comprehensive income		
Net earnings	--	3,789,889
Unrealized loss on marketable securities	(70,339)	(70,339)
Total comprehensive income	-----	3,719,550
Distributions to shareholders	--	(3,350,732)
	-----	-----
Balances at December 31, 2000	15,612	3,877,058
Comprehensive income:		
Net earnings	--	651,934
Unrealized loss on marketable securities	(184,980)	(184,980)
Total comprehensive income	-----	466,954
Distributions to shareholders	--	(624,417)
	-----	-----
Balances at June 30, 2001	\$ (169,368)	\$ 3,719,595
	=====	=====

See accompanying notes to combined financial statements.

77

M.G.R., Inc. d/b/a AIR PLUS LIMITED, DISTRIBUTION
SERVICES, INC., and CONTRACT AIR, INC.
Combined Statements of Cash Flows

	Year ended December 31, 2000	Six mon 2001
	-----	-----
Cash flows from operating activities:		(unaudited)
Net earnings	\$ 3,789,889	\$ 651,9
Adjustments to reconcile net earnings to net cash provided by operating activities:		

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Depreciation and amortization	424,803	240,7
Bad debt provision	403,797	19,9
Loss (gain) on sale of marketable securities	44,465	
Changes in assets and liabilities		
Accounts receivable	(3,839,503)	3,097,0
Prepaid expenses	(127,140)	(102,0
Other assets	(45,398)	7,6
Accounts payable	3,204,764	(3,211,2
Accrued expenses	(25,282)	277,0
	-----	-----
Net cash provided by operating activities	3,830,395	981,2
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of property and equipment	21,434	
Purchase of property and equipment	(768,273)	(164,5
Purchase of marketable securities	(3,132)	(253,2
Proceeds from sale of marketable securities	146,445	25,0
	-----	-----
Net cash used in investing activities	(603,526)	(392,7
	-----	-----
Cash flows from financing activities:		
Short-term borrowings	--	250,0
Proceeds from notes to shareholders	452,773	
Repayments of notes to shareholders	--	(466,8
Distributions to shareholders	(3,350,732)	(624,4
	-----	-----
Net cash used in financing activities	(2,897,959)	(841,3
	-----	-----
Net increase (decrease) in cash and cash equivalents	328,910	(252,8
Cash and cash equivalents at beginning of period	510,755	839,6
	-----	-----
Cash and cash equivalents at end of period	\$ 839,665	\$ 586,8
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 21,929	\$ 29,6
	=====	=====

See accompanying notes to combined financial statements.

M.G.R., Inc. d/b/a AIR PLUS LIMITED, DISTRIBUTION
SERVICES, INC., and CONTRACT AIR, INC.
Notes to Combined Financial Statements

(1) Nature of Operations and Basis of Presentation

M.G.R., Inc. d/b/a Air Plus Limited, Distribution Services, Inc., and Contract Air, Inc. (the Companies) collectively constitute a national logistics company specializing in providing air and ground time definite freight distribution services to shippers and businesses. The Companies (through Contract Air, Inc.) also provide transportation services for a portion of the logistics business. The Companies are headquartered in

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Minneapolis, Minnesota and maintain offices in 13 major metropolitan areas in the United States and Puerto Rico. The three entities included in the accompanying combined financial statements are related businesses under common control and management. All significant intercompany accounts and transactions have been eliminated in the combination.

(2) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

The Companies consider all highly liquid instruments with a remaining maturity of 90 days or less at the time of purchase to be cash equivalents.

(b) Marketable Securities

Marketable securities are classified as available for sale and are reported at fair value, based on quoted market prices, with the unrealized gain or loss reported as a component of other comprehensive income or loss in shareholders' equity.

(c) Property and Equipment

Depreciation is computed on a straight-line basis using a three-year life for software, ten-year life for furniture and office equipment, three-year life for vehicles, and the shorter of the lease term or useful life for leasehold improvements. Expenditures for maintenance, repairs, and renewals of minor items are charged to earnings as incurred. Major renewals and improvements are capitalized.

(d) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(e) Income Taxes

The Companies have elected under Section 1362 of the Internal Revenue Code and similar provisions of the State of Minnesota tax laws, to be taxed as an S Corporation. Income or losses of the Companies are passed directly in the Companies' shareholders; therefore, no provision is reflected in these combined financial statements. On August 30, 2001, the Companies entered into a definitive sale agreement with a publicly held company (see note 6). As a result, the Companies' election to be treated as an S corporation will be terminated, and the Companies will account for income taxes pursuant to Financial Accounting Standards Board (FASB) Statement No. 109, effective on the date the Companies are sold.

(f) Revenue Recognition

Revenues related to shipments are recognized at the time the freight is delivered. All other revenues, including storage, are recognized upon performance.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

(g) Major Customer and Concentration of Credit Risk

A single customer accounted for approximately 58%, 50% and 57% of revenue in 2000 and the six months ended June 30, 2001 and 2000, respectively.

79

M.G.R., Inc. d/b/a AIR PLUS LIMITED, DISTRIBUTION
SERVICES, INC., and CONTRACT AIR, INC.
Notes to Combined Financial Statements

(h) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Comprehensive Income

Comprehensive income is calculated in accordance with FASB Statement No. 130, Reporting Comprehensive Income. Statement 130 requires that unrealized gains and losses on the Companies' marketable securities be included in accumulated other comprehensive income as a component of shareholders' equity.

(j) Impact of Recently Issued Accounting Standards

FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133), is effective January 1, 2001. The adoption of Statement 133 will not have a significant effect on the Companies' results of operations.

(k) Interim Financial Information (unaudited)

Information presented for the six month periods ended June 30, 2001 and 2000 is unaudited. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the audited financial statements, and reflect all adjustments necessary to present fairly the result of operations and cash flows for the six month periods ended June 30, 2001 and 2000. The results of operations for these interim periods are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole.

(3) Related Party Transactions

The Companies have entered into a series of notes payable with shareholders. These notes bear interest at 8%, and are payable in equal monthly installments of principal and interest. Interest under these notes totaled \$21,929, \$29,660 and \$15,948 in 2000 and the six months ended June 30, 2001 and 2000, respectively.

Included in operating leases are two buildings leased from the Companies' principal shareholder. Rent under these leases was determined by a survey of comparable building rents and totaled \$312,000 \$156,000 and \$156,000 in 2000 and the six months ended June 30, 2001 and 2000, respectively.

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

(4) Employee Benefit Plan

The Companies have an employee savings plan (the Plan) for eligible employees under Section 401(k) of the Internal Revenue Code. The Plan allows employees to defer up to 6% of their compensation on a pretax basis. The Companies may, at their discretion, match a portion of the employee deferrals. In 2000 and the six months ended June 30, 2001 and 2000, the Companies' contributions under the Plan were \$233,820, \$0 and \$0, respectively.

(5) Commitments and Contingencies

(a) Leases

The Companies occupy office and warehouse facilities under terms of operating leases expiring through 2006. Future minimum annual lease payments under noncancelable leases in excess of one year are as follows:

80

M.G.R., Inc. d/b/a AIR PLUS LIMITED, DISTRIBUTION
SERVICES, INC., and CONTRACT AIR, INC.
Notes to Combined Financial Statements

Year ending December 31,	Third Party	Related party
-----	-----	-----
2001	\$1,614,895	312,000
2002	1,432,104	312,000
2003	894,183	256,000
2004	789,353	144,000
2005	784,101	72,000
Thereafter	267,926	--
	-----	-----
	\$5,782,562	1,096,000
	=====	=====

(b) Litigation

The Companies are involved in claims and lawsuits which arise in the normal course of business, none of which currently, in management's opinion, will have a significant effect on the Companies' financial statements.

(6) Subsequent Event

On August 30, 2001, the Companies entered into a definitive agreement for sale of the Companies to Stonepath Group, Inc., a publicly traded corporation, for \$34.5 million consisting of cash of \$17.5 million at closing and a four-year earn-out arrangement based upon the future financial performance of the Companies. The acquisition is subject to customary closing conditions, including the completion of audited financial statements and the receipt of a fairness opinion.

81

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

STONEPATH GROUP, INC.

Column A - Description -----	Column B - Balance at beginning of period -----	(1) Charged to costs and expenses -----	Column C - Additions ----- (2) Charged to other accounts - describe -----	Col Ded de -----
Allowance for doubtful accounts:				
Year ended December 31, 2002	\$167,000 =====	\$153,000 =====	\$ -- =====	\$ =
Year ended December 31, 2001	\$ -- =====	\$167,000 =====	\$ -- =====	\$ =
Year ended December 31, 2000	\$ -- =====	\$ -- =====	\$ -- =====	\$ =

82

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-K/A to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Philadelphia, Commonwealth of Pennsylvania, on August 25, 2003.

STONEPATH GROUP, INC.

BY: /s/ Dennis L. Pelino

Dennis L. Pelino, (Chairman of the Board of
Directors and Chief Executive Officer)

BY: /s/ Bohn H. Crain

Bohn H. Crain (Chief Financial Officer)

BY: /s/ Thomas L. Scully

Thomas L. Scully (Principal Accounting Officer)

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

SIGNATURE

TITLE

DA

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

/s/ Dennis L. Pelino ----- Dennis L. Pelino	Chairman of the Board of Directors and Chief Executive Officer	Au
/s/ J. Douglass Coates ----- Douglass Coates	Director	Au
/s/John Springer ----- John Springer	Director	Au
/s/ David R. Jones ----- David R. Jones	Director	Au
/s/ Aloysius T. Lawn, IV ----- Aloysius T. Lawn, IV	Director	Au
/s/ Robert McCord ----- Robert McCord	Director	Au

83

Exhibit Index

Exhibit Index

Exhibit Number -----	Description -----
23.1	Independent Auditors' Consent
23.2	Independent Auditors' Consent
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

Edgar Filing: STONEPATH GROUP INC - Form 10-K/A

Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)