STONEPATH GROUP INC
Form 10-K/A
January 20, 2004

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

FORM 10-K/A

Amendment No. 2 to Form 10-K

[X] 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:	Name of each exchange on which registered:
Common Stock, par value $.001 per share	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 [X] 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 [X]

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 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 18 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.

==

Explanatory Note

This Form 10-K/A is being filed to restate the consolidated statement of operations of the Company for the year ended December 31, 2002 included under Item 8 of Part II, and to make certain conforming changes to the Selected Financial Data table included under Item 6 of Part II and to the narrative disclosures included within "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Items 7 and 7A of Part II. The restatement is to correct an overstatement of total revenue and cost of transportation, in like amounts, previously reported by our International Services division, with no resulting impact on our consolidated net revenue, EBITDA or net income. A description of the restatement can be found under Footnote 2 to our consolidated financial statements. The Financial Outlook section previously included in Item 7 of Part II of our Form 10-K/A 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.

This Form 10-K/A is being amended solely to reflect restated financial information. Accordingly, all other items that remain unaffected are omitted in this filing.

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

TABLE OF CONTENTS

[INCLUSIVE OF REVISED SECTIONS ONLY]

PART II

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.

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

	Stonepath Group, Inc.				
	Year ended December 31,				
	Restated 2002	2001	2000	1999	19
Revenues	$ 122,788	$ 15,598	$ -	$ -	$
Cost of transportation	84,478	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)	(1
Net income (loss)	2,380	(17,120)	(36,171)	(23,831)	(1
Preferred stock dividends	15,020	(4,151)	(45,751)	(6,605)	(1

Net income (loss) attributable to common stockholders	$ 17,400	$ (21,271)	$ (81,922)	$ (30,436)	$ (2
Basic earnings (loss) per common share:					
Continuing operations	$ 0.79	$ (0.36)	$ (2.89)	$ (1.15)	$
Discontinued operations	-	(0.68)	(1.75)	(1.73)	
	$ 0.79	$ (1.04)	$ (4.64)	$ (2.88)	$
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)	
	$ 0.08	$ (1.04)	$ (4.64)	$ (2.88)	$
Weighted average common shares:					
Basic	22,155	20,510	17,658	10,558	
Diluted	29,233	20,510	17,658	10,558	

Consolidated Balance Sheet Data:
(in thousands)

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

----

(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.

2

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

Explanatory Note

This Form 10-K/A is being filed to restate our consolidated statement of operations for the year ended December 31, 2002, and to make certain conforming changes to the narrative disclosures within "Management's Discussion and Analysis of Financial Condition and Results of Operations." The restatement is to correct an overstatement of total revenue and cost of transportation, in like amounts, previously reported by our International Services division, with no resulting impact on our consolidated net revenue, EBITDA or net income. A description of the restatement can be found under Footnote 2 to our consolidated financial statements. The "Financial Outlook" section contained therein 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.

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 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.

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.

3

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 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.

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

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 Restated	2001	Amount
Total revenues	$122,788	$ 15,598	$107,190
Transportation revenues	113,510	15,174	98,336
Cost of transportation	84,478	9,741	74,737
Net transportation revenues	29,032	5,433	23,599
Net transportation margins	25.6%	35.8%	

Customs brokerage	6,290	--	6,290
Warehousing and other value added services	2,988	424	2,564
Total net revenues	$ 38,310	$ 5,857	$ 32,453

Total revenues were $122.8 million for the year ended December 31, 2002, an increase of $107.2 million or 687.2% over total revenues of $15.6 million for the comparable period in 2001. $56.7 million or 52.9% of the increase in total revenues was attributable to the operations of the businesses we acquired in 2002; $5.3 million or 4.9% 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 42.2% 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.

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 25.6% 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 platform, which traditionally has 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):

	2002		2001	
	Amount	Percent	Amount	Per
Net revenues	$ 38,310	100.0%	$ 5,857	1
Personnel costs	19,089	49.8	5,997	1
Other selling, general and administrative costs	14,680	38.3	3,917	
Depreciation and amortization	2,187	5.7	495	
Total operating costs	35,956	93.8	10,409	1
Income (loss) from operations	2,354	6.2	(4,552)	(
Other income (expense)	128	0.3	1,295	
Income (loss) from operations before				

income taxes	2,482	6.5	(3,257)	(
Income taxes	102	0.3	--	
Income (loss) from continuing operations	2,380	6.2	(3,257)	(
Loss from discontinued operations	--	--	(13,863)	(2
Net income (loss)	2,380	6.2	(17,120)	(2
Preferred stock dividends	15,020	39.2	(4,151)	(
Net income (loss) attributable to common stockholders	$ 17,400	45.4%	$(21,271)	(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 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.

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 December 31, 2000 (historical)

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

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

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.

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):

	2001		2000	
	Amount	Percent	Amount	Per
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	
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, personnel and office costs.

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

8

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 Restated	2001 Restated	Amount
Total revenues	$145,902	$119,857	$26,045

Transportation revenues	134,310	111,589	22,721
Cost of transportation	100,748	82,455	18,293
Net transportation revenues	33,562	29,134	4,428
Net transportation margins	25.0%	26.1%	--
Customs brokerage	8,333	6,799	1,534
Warehousing and other value added services	3,259	1,469	1,790
Total net revenues	$ 45,154	$ 37,402	$ 7,752

Despite 2002's sluggish economy, pro forma total revenues were $145.9 million in 2002, an increase of 21.7% over pro forma total revenues of $119.9 million in 2001.

Pro forma transportation revenues were $134.3 million for the year ended December 31, 2002, an increase of 20.4% over pro forma transportation revenues of $111.6 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 66.0% of the 2002 pro forma transportation revenues was attributable to our Domestic operations, while $45.6 million or 34.0% was attributable to our International operations. $76.3 million or 68.4% of the 2001 pro forma transportation revenues was attributable to our Domestic operations, while $35.3 million or 31.6% 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 25.0% for the year ended December 31, 2002 from 26.1% 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 14.4% for our Domestic and International operations, respectively. For 2001, pro forma net transportation margins were 32.0% and 13.6% for our Domestic and International operations, respectively.

9

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	Per
Net revenues	$ 45,154	100.0%	$ 37,402	10
Personnel costs	22,214	49.2	17,377	

Other selling, general and administrative	18,398	40.7	18,180	
Total operating costs	40,612	89.9	35,557	
Income from operations	4,542	10.1	1,845	
Other income (expense)	14	--	(13)	
Income from continuing operations before income taxes	4,556	10.1	1,832	
Income taxes	187	0.4	50	
Income from continuing operations	$ 4,369	9.7%	$ 1,782	

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).

	Year ended December 31, 2		
	Restated historical Stonepath Group	Restated Global January 1- April 4, 2002	United American January 1- May 30, 2002
Total revenues	$ 122,788	$ 10,707	$ 12,407
Cost of transportation	84,478	7,049	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			
	Historical Stonepath Group	Air Plus January 1 - October 4, 2001	Restated Global	Unite Americ
Total revenues	$ 15,598	$ 41,224	$ 41,598	$ 21,4
Cost of transportation	9,741	26,527	30,548	15,6
Net revenues	5,857	14,697	11,050	5,7

Personnel costs	5,997	5,985	6,571	2,5
Other selling, general and administrative costs	4,412	6,697	3,386	2,3
Income (loss) from operations	(4,552)	2,015	1,093	9
Other income (expense)				
Interest income	1,286	(43)	(89)	(
Other, net	9	(196)	--	
Income (loss) before income taxes	(3,257)	1,776	1,004	8
Income taxes	--	--	--	
Net income (loss)	$ (3,257)	$ 1,776	$ 1,004	$ 8

11

(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	Mor 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).

12

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.

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 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 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 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 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.

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

	2004	2005	2006	2007	2
Earn-out payments:					
Domestic	$ 6,450	$ 6,450	$ 5,450	$ --	$
International	1,000	1,000	1,000	1,000	
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 intangible 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.

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.

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) of this Report and may be found at pages 22 through 49. 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 50 through 56. Schedule II - Valuation and Qualifying Accounts, may be found on page 57.

PART III

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. Other than as discussed in the third paragraph of this Item 14, 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.

At the end of December 2003, it was determined that the Company's consolidated statements of operations for the last three quarters of fiscal 2002, the first three quarters of fiscal 2003, and for the year ended December 31, 2002 would need to be restated, as a result of an error discovered in the legacy accounting processes of Stonepath Logistics International Services, Inc. (f/k/a "Global Transportation Systems, Inc.") and Global Container Line, Inc, its wholly owned subsidiary. The Company determined that a process error existed which resulted in the failure to eliminate certain intercompany transactions in consolidation. This process error had been embedded within the legacy accounting processes of Global Transportation Systems, Inc. for a period which began substantially before its acquisition by the Company in April 2002.

The Company believes that the presence of this error, in and of itself, constitutes a reportable condition as defined under standards established by the American Institute of Certified Public Accountants. A reportable condition is a significant deficiency in the design or operation of internal controls, which could adversely affect an organization's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. To specifically respond to this matter, and in general to meet our obligations under Section 404 of the Sarbanes-Oxley Act of 2002, the Company has commenced an overall review of its internal controls over financial reporting. As part of the assessment of its internal controls over financial reporting, the Company will focus on its recent growth in terms of both size and complexity, coupled with the fact that its finance and accounting functions are largely decentralized. Although this review is not yet completed, the Company has initiated an immediate change in process to correct the error that occurred and to reduce the likelihood that a similar error could occur in the future.

As of the date of this Report, the Company believes it has a plan that, when completed, will eliminate the reportable condition described above. There were no other changes during the fourth quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures.

PART IV

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

(a) Documents filed as part of this Report:

(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)
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)

18

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
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

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
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

20

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 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.

21

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 statement of operations for the year ended December 31, 2002.

/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
January 7, 2004

22

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

	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	(116,406
Total stockholders' equity	35,430,58
Total liabilities and stockholders' equity	$55,165,51

See accompanying notes to consolidated financial statements.

23

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

	Restated 2002	2
Total revenue	$ 122,787,625	$ 15
Cost of transportation	84,477,430	9
Net revenue	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	$
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	20
Diluted weighted average common shares outstanding	29,232,568	20

See accompanying notes to consolidated financial statements.

24

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		Common s		
					Net Value, Inc.		
	Shares	Amount	Shares	Amount	Shares	Amount	
Balances at December 31, 1999	--	$ --	--	$ --	1,037,338	$ 1,038	1
Net loss	--	--	--	--	--	--	
Other comprehensive loss:							
Unrealized loss on available-for-sale securities	--	--	--	--	--	--	
Comprehensive loss							
Issuance of warrants	--	--	--	--	--	--	
Issuance of common stock, net of cancellations	--	--	--	--	60,250	60	
Issuance of preferred stock,							

Series C, net	4,166,667	4,167	--	--	--	--
Completion of in-process merger with Net Value, Inc.	--	--	--	--	(1,092,588)	(1,093)
Contributed capital	--	--	--	--	--	--
Series B preferred stock conversion	--	--	--			