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

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

FORM 10-Q/A
Amendment No. 2
to Form 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

[_] 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

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 the 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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |__| No |X|

There were 28,200,739 issued and outstanding shares of the registrant's common stock, par value $.001 per share, at May 5, 2003.

STONEPATH GROUP, INC.
INDEX

Explanatory Note

This Form 10-Q/A is being filed to restate our unaudited consolidated statements of operations for the three months ended March 31, 2003, 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 loss. A description of the restatement can be found under Footnote 2 to our unaudited consolidated financial statements. The "Financial Outlook" section within Item 2 of our Form 10-Q/A has been omitted as it has been superceded by subsequent guidance provided by us. Part II of the Form 10-Q/A has been subject to no modification as of and for the periods reflected. Except as otherwise specifically noted, all information contained herein is as of March 31, 2003 and does not reflect any events or changes in information that may have occurred subsequent to that date. This Form 10-Q/A is hereby amended as described above, and for convenience of reference is restated in its entirety as set forth herein (except that certain exhibits that were previously filed with the Form 10-Q/A have been omitted).

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

STONEPATH GROUP, INC.
Consolidated Balance Sheets
(UNAUDITED)

	March 31, 2003
Assets	
Current assets:	
Cash and cash equivalents	$ 2,669,053
Accounts receivable, net	19,411,377
Loans receivable from related parties	33,344
Prepaid expenses	1,254,482
Total current assets	23,368,256
Goodwill	20,311,150
Furniture and equipment, net	4,748,038
Acquired intangibles, net	4,748,882
Note receivable, related party	262,500
Other assets	965,135
	$ 54,403,961
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 8,663,265
Earn-out payable	1,060,706
Accrued payroll and related expenses	643,861
Accrued expenses	3,012,072
Total liabilities	13,379,904
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, $.001 par value, 10,000,000 shares authorized; Series D, convertible, issued and outstanding: 360,745 shares (liquidation preference: $21,644,700)	361

Common stock, $.001 par value, 100,000,000 shares authorized; issued and outstanding: 27,945,914 and 23,453,414 shares at 2003 and 2002, respectively	27,946
Additional paid-in capital	201,807,544
Accumulated deficit	(160,719,196)
Deferred compensation	(92,598)
Total stockholders' equity	41,024,057
	$ 54,403,961

See accompanying notes to unaudited consolidated financial statements.

1

STONEPATH GROUP, INC.
Consolidated Statements of Operations
(UNAUDITED)

	Three months
	2003
	Restated (See Note 2)
Total revenue	$38,572,441
Cost of transportation	26,388,801
Net revenue	12,183,640
Personnel costs	6,563,080
Other selling, general and administrative costs	4,302,373
Depreciation and amortization	589,778
Litigation settlement	750,000
Loss from operations	(21,591)
Other income	
Interest income	14,767
Other, net	14,740
Income (loss) before income taxes	7,916
Income taxes	15,221
Net loss	(7,305)
Preferred stock dividends	--
Net loss attributable to common stockholders	$ (7,305)

Basic loss per common share(1)	$ --
Diluted loss per common share(1)	$ --
Basic weighted average common shares outstanding	24,764,810
Diluted weighted average common shares outstanding	24,764,810

(1) Includes effect of preferred stock dividends in 2002.

See accompanying notes to unaudited consolidated financial statements.

STONEPATH GROUP, INC.
Consolidated Statements of Cash Flows
(UNAUDITED)

	Three month
	2003
Cash flow from operating activities:	
Net loss	$ (7,305)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	589,778
Stock-based compensation	23,808
Loss on disposal of furniture and equipment	--
Changes in assets and liabilities:	
Accounts receivable	2,388,606
Other assets	32,107
Accounts payable and accrued expenses	(3,697,654)
Net cash used in operating activities	(670,660)
Cash flows from investing activities:	
Purchases of furniture and equipment	(1,734,218)
Acquisition of business	(70,000)
Payment of earn-out	(2,819,150)
Net cash used in investing activities	(4,623,368)
Cash flows from financing activities:	
Issuance of common stock, net of costs	5,696,973

Net cash provided by financing activities	5,696,973
Net increase (decrease) in cash and cash equivalents	402,945
Cash and cash equivalents at beginning of year	2,266,108
Cash and cash equivalents at end of period	$ 2,669,053

See accompanying notes to unaudited consolidated financial statements.

Stonepath Group, Inc.
Notes to Unaudited Consolidated Financial Statements
March 31, 2003

(1) Nature of Operations and Basis of Presentation

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 the Company's Domestic Services platform, where the Company manages and arranges the movement of raw materials, supplies, components and finished goods for its customers. 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.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") relating to interim financial statements. These statements reflect all adjustments, consisting only of normal recurring accruals, necessary to present fairly the Company's financial position, operations and cash flows for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002. Interim operating results are not necessarily indicative of the results for a full year because our operating results are 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.

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

(2) Restatement of Previously Reported Consolidated Financial Statements

In August 2003, the Company restated its consolidated financial statements for the years ended December 31, 2001 and 2002 and the first two quarters of 2003. That restatement related 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 amounts appearing in the accompanying consolidated balance sheets as of March 31, 2003 and December 31, 2002, and the related consolidated statements of operations and cash flows for the three months ended March 31, 2003 reflect the effect of that restatement and are considered "previously reported" for purposes of this Form 10-Q/A.

During the third week of December 2003, and in the course of conducting a regularly scheduled review of internal controls and centralization of the financial reporting process, the Company discovered an error in the legacy accounting process of its International Services division. Due to the error in the legacy accounting process, the division failed to eliminate in the consolidation process certain intercompany transactions between Stonepath Logistics International Services, Inc. (formerly known as "Global Transportation Systems, Inc.") and Global Container Line, Inc., its wholly-owned subsidiary which operates as a non-vessel operating common carrier. This resulted in an overstatement of revenues and a corresponding overstatement of the cost of transportation, with no resulting impact on net revenues, EBITDA or net loss. The Company has determined that this error had been embedded in 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 effects of this restatement on the previously reported consolidated statement of operations for the three months ended March 31, 2003 are summarized below.

	Three months ended March 31, 2003	
	As Previously Reported	As Restated
Selected Statement of Operations Data:		
Total revenue	$ 45,365,204	$ 38,572,441
Cost of transportation	33,181,564	26,388,801

(3) Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended the disclosure requirements of SFAS No. 123, "Accounting and Disclosure of Stock-Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company accounts for its employee stock option grants by applying the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

The table below illustrates the effect on net loss attributable to common stockholders and loss per common share as if the fair value of options granted had been recognized as compensation expense in accordance with the provisions of SFAS No. 123.

	Three mon
	2003
Net loss attributable to common stockholders:	
As reported	$ (7,305)
Add: stock-based employee compensation expense included in reported net loss	22,618
Deduct: total stock-based compensation expense determined under fair value method for all awards	(894,318)
Pro forma net loss attributable to common stockholders	$(879,005)
Basic loss per common share:	
As reported	$ --
Pro forma	(0.04)
Diluted loss per common share:	
As reported	$ --
Pro forma	(0.04)

(4) Revolving Credit Facility

To ensure adequate financial flexibility, in May 2002 the Company secured a $15.0 million revolving credit facility (the "Facility") 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 maintain certain financial covenants. Advances under the Facility may be used to finance future acquisitions, capital expenditures or for other corporate purposes. The Company expects that the cash flow from operations of the subsidiaries will be sufficient to support the corporate overhead of the Company and some portion, if not all, of the contingent earn-out payments and other cash requirements associated with the acquisitions. Therefore, the Company anticipates that the primary use of the Facility 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. At March 31, 2003, based on available collateral and outstanding letter of credit commitments, there was $14.8 million available for borrowing under the Facility.

(5) Commitments and Contingencies

On May 6, 2003, the Company elected to settle litigation instituted on August 20, 2000 by Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A. Although it was believed that the plaintiffs' claims were without merit, the Company chose to settle the matter in order to avoid future litigation costs

5

Stonepath Group, Inc.
Notes to Unaudited Consolidated Financial Statements
March 31, 2003

and to mitigate the diversion of management's attention from operations. The total settlement costs of $750,000, payable $400,000 in cash and $350,000 in shares of the Company's common stock, are included in the accompanying March 31, 2003 unaudited consolidated statement of operations and in accrued expenses in the accompanying March 31, 2003 unaudited consolidated balance sheet.

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.

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 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 meritorious defenses to the plaintiff's claims and intends to vigorously defend this action.

The Company may become 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.

Stonepath Group, Inc.
Notes to Unaudited Consolidated Financial Statements
March 31, 2003

(6) Stockholders' Equity

Common Stock

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 4,270,000 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, issued placement agent warrants to purchase 297,000 shares of common stock at an exercise price of $1.49 per share, and incurred other cash expenses of $33,677. In addition, the Company had previously paid the placement agent $25,000 in cash and had issued them warrants to purchase 150,000 shares of common stock at an exercise price of $1.23 per share.

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.

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 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 these 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 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:

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

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 73,981 additional shares of Series C Preferred Stock from payment of preferred stock dividends during the three months ended March 31, 2002. No further preferred stock dividends were payable on the Series C Preferred Stock after July 18, 2002.

Series D Convertible Preferred Stock

The Series D Convertible Preferred Stock is convertible into 3,607,450 shares of common stock of the Company. 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. In addition, the Series D Convertible Preferred Stock will convert into 3,607,450 shares of our common stock no later than December 31, 2004.

Stock Options

On February 24, 2003, the Company issued to its Chief Financial Officer and one other employee options to purchase 210,000 shares of its common stock at an exercise price of $1.53 per share, which equaled the quoted market price on the date of grant.

On March 10, 2003, the Company issued to its Chairman and Chief Executive Officer options to purchase 300,000 shares of its common stock at an exercise price of $1.68 per share, which equaled the quoted market price on the date of grant. On that same day, the Company issued to its Chairman and Chief Executive Officer options to purchase 400,000 shares of its common stock at an exercise price of $2.00 per share, which represented a 19% premium over the quoted market price of $1.68 on the date of grant.

On March 25, 2003, the Company issued to certain officers and employees options to purchase 81,600 shares of its common stock at an exercise price of $1.81 per share, which equaled the quoted market price on the date of grant.

(7) Loss per Share

Basic loss per common share and diluted loss per common share are presented in accordance with SFAS No. 128, "Earnings per Share." Basic loss per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted 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 loss per common share are 13,230,593 and 13,892,061 at March 31, 2003 and 2002, respectively.

(8) 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 or group in deciding how to allocate resources and in assessing performance. The Company determined that it had one operating segment in the first quarter of 2002, Domestic Services, which provides a full range of logistics and transportation services throughout North America. In the second quarter of 2002, with the acquisition of Global Transportation Services, Inc., 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 segments are the same as described in our Annual Report

on Form 10-K/A for the year ended December 31, 2002. Segment information, in which corporate expenses other than the legal settlement have been fully allocated to the operating segments, is as follows (in thousands):

	Three months ended M		
	Domestic Services	Restated International Services	Cor
Revenue from external customers	$23,774	$14,798	
Intersegment revenue	34	28	
Revenue from significant customer	9,835	--	
Income (loss) from operations	262	466	
Segment assets	38,539	14,056	
Segment goodwill	15,309	5,002	
Depreciation and amortization	521	69	
Capital expenditures	344	37	

The revenue in the table below is allocated to geographic areas based upon the location of the customer.

	Three months ended Mar
	2003

	Restated (in thousands)
Total revenue:	
United States	$38,123
Hong Kong	449
Total	$38,572

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Explanatory Note

This Form 10-Q/A is being filed to restate our unaudited consolidated statements of operations for the three months ended March 31, 2003, 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 loss. A description of the restatement can be found under Footnote 2 to our unaudited consolidated financial statements. The "Financial Outlook" section within Item 2 of our Form 10-Q/A has been omitted as it has been superceded by subsequent guidance provided by us. Part II of the Form 10-Q/A has been subject to no modification as of and for the periods reflected. Except as otherwise specifically noted, all information contained herein is as of March 31, 2003 and does not reflect any events or changes in information that may have occurred subsequent to that date. This Form 10-Q/A is hereby amended as described above, and for convenience of reference is restated in its entirety as set forth herein (except that certain exhibits that were previously filed with the Form 10-Q/A have been omitted).

Cautionary Statement For Forward-Looking Statements

This Quarterly Report on Form 10-Q/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, regarding future results, levels of activity, events, trends or plans. We have based these forward-looking statements on our current expectations and projections about such future results, levels of activity, events, trends or plans. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, events, trends or plans to be materially different from any future results, levels of activity, events, trends or plans 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. While it is impossible to identify all of the factors that may cause our actual results, levels of activity, events, trends or plans to differ materially from those set forth in such forward-looking statements, such factors include the inherent risks associated with: (i) our ability to sustain an annual growth rate in revenue consistent with recent results, (ii) our ability to sustain our recent profitability by maintaining overall operating margins, (iii) our ability to identify, acquire, integrate and manage additional businesses in a manner which does not dilute our earnings per share; (iv) our ability to obtain the additional capital necessary to make additional cash acquisitions, (v) the uncertainty of future trading prices of our common stock and the impact such trading prices may have upon our ability to utilize common stock to facilitate our acquisition strategy, (vi) the uncertain effect on the future trading price of our common stock associated with the dilution upon the conversion of outstanding convertible securities or exercise of outstanding options and warrants, (vii) our dependence on certain large customers, (viii) our dependence upon certain key personnel, (ix) an unexpected adverse result in any legal proceeding, (x) the scarcity and competition for the operating companies we need to acquire to implement our business strategy, (xi) competition in the freight forwarding, logistics and supply chain management industry, (xii) the impact of current and future laws affecting the Company's operations, (xiii) adverse changes in general economic conditions as well as economic conditions affecting the specific industries and customers we serve, (xiv) regional disruptions in transportation, and (xv) other factors which are or may be identified from time to time in our Securities and Exchange Commission filings and other public announcements, including our Annual Report on Form 10-K/A for the year ended December 31, 2002. We have assumed, for the purpose of our forward-looking statements, that each of our operating companies will achieve, on a stand-alone basis, that level of net income necessary to fully achieve the earn-out payments under its acquisition agreement. With respect to our planned acquisitions, although management is confident that these transactions will be completed on a timely basis, they remain in preliminary stages of completion, subject to the production of audited financial statements, completion of due diligence analyses, securing bank and other third party approvals, and the like. Thus, there can be no assurances that these transactions will be completed in the expected time frame, if at all. Furthermore, our estimates as to the incremental additional pre-tax operating income that may be realized upon completion of such acquisitions has been developed based upon an analysis of unaudited internal financial statements produced by the respective target companies. Upon completion of audits of these companies' financial statements, we may be caused to adjust our forward-looking information, and such adjustments may be material.

There can be no assurance that these and other factors will not affect the accuracy of such forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

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. 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 strategy has been 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, we believe the industry is positioned for further consolidation as it remains highly fragmented, and as customers are demanding the types of sophisticated and broad-reaching service offerings that can more effectively be handled by larger, more diverse organizations. As a non-asset based provider of third party logistics services, we can focus on optimizing the transportation solution for our customers, rather than on our own asset utilization. Our non-asset based approach allows us to maintain a high level of operating flexibility and leverage a cost structure that is highly variable in nature.

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 identified or referred to above under our "Cautionary Statement for Forward-Looking Statements."

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 turn key 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, fulfillment, and other value added supply chain services.

Total revenue represents 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 revenue (gross transportation revenue less the direct cost of transportation) is the primary indicator of our ability to source, add value and resell services provided by third parties, and is considered by management to be a key performance measure. We believe that net revenue is also an important measure of economic performance. Net revenue includes transportation revenue and our fee-based activities, after giving effect to the cost of transportation. In addition, management believes measuring its operating costs as a function of net revenue provides a useful metric, as our ability to control costs as a function of net revenue directly impacts operating earnings. With respect to our services other than freight transportation, net revenue is identical to total revenue.

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: M.G.R., Inc. d/b/a "Air Plus Limited" ("Air Plus") for periods subsequent to October 5, 2001; Global Transportation Services, Inc. ("Global") for periods subsequent to April 4, 2002; United American Freight Services, Inc. ("United American") for periods subsequent to May 30, 2002; and Transport Specialists, Inc. ("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 revenue is largely derived from customers whose shipments are dependent upon consumer demand and just-in-time production schedules, the timing of our revenue 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 revenue. 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

Our accounting policies, which we believe are in compliance with accounting principles generally accepted in the United States, require us to apply methodologies, estimates and judgments that have a significant impact on the results we report in our financial statements. In our Annual Report on Form 10-K/A for the year ended December 31, 2002 we have discussed those policies that we believe are critical and require the use of complex judgment in their application. Since the date of that Form 10-K/A, there have been no material changes to our critical accounting policies or the methodologies or assumptions applied under them.

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 the second quarter of 2002, our historical results for the first quarter of 2002 only reflect the operations of Air Plus. Accordingly, in addition to providing comparative analysis on a historical basis, we have also provided supplemental pro forma information that we believe is useful to an understanding of how our results of operations have performed on a quarter on quarter basis.

Quarter ended March 31, 2003 (Actual) compared to quarter ended March 31, 2002 (Actual)

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

	Quarter ended March 31,		
	2003 Restated	2002	Percent
Total revenue	$38,572	$13,066	195.2%
Transportation revenue	$35,780	$12,583	184.4
Cost of transportation	26,388	8,646	205.2
Net transportation revenue	9,392	3,937	138.6
Net transportation margins	26.2%	31.3%	
Customs brokerage	1,864	--	NM
Warehousing and other value added services	928	483	92.1
Total net revenue	$12,184	$ 4,420	175.7%

Total revenue was $38.6 million in the first quarter of 2003, an increase of 195.2% over total revenue of $13.1 million in the first quarter of 2002. $20.9 million or 82.0% of the increase in total revenue was attributable to acquisitions with $4.6 million or 18.0% of the increase attributable to organic growth. Net transportation revenue was $9.4 million in the first quarter of 2003, an increase of 138.6% over net transportation revenue of $3.9 million in the first quarter of 2002. $3.9 million or 72.6% of the increase in net transportation revenue was attributable to acquisitions with $1.6 million or 27.4% of the increase attributable to organic growth. Net revenue was $12.2 million in the first quarter of 2003, an increase of 175.7% over net revenue of $4.4 million in the first quarter of 2002. $6.0 million or 76.3% of the increase in net revenue was attributable to acquisitions with $1.8 million or 23.7% of the increase attributable to organic growth. Net transportation margins decreased to 26.2% for the first quarter of 2003 from 31.3% for the first quarter of 2002. This decrease in historical transportation margins is primarily the result of the acquisition of the International Services platform, which traditionally has lower margins.

15

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

Quarter ended March 31

	2003		2002	
	Amount	Percent	Amount	Percen
Net revenue	$12,184	100.0	$ 4,420	100.0
Personnel costs	6,563	53.9	2,593	58.
Other selling, general and administrative	4,303	35.3	2,666	60.
Depreciation and amortization	590	4.8	443	10.
Litigation settlement	750	6.2	--	-
Total operating costs	12,206	100.2	5,702	129.
Loss from operations	(22)	(0.2)	(1,282)	(29.
Other income, net	30	0.2	55	1.
Loss before income taxes	8	--	(1,227)	(27.
Income taxes	15	0.1	--	-
Net loss	(7)	(0.1)	(1,227)	(27.
Preferred stock dividends	--	--	(888)	(20.
Net loss attributable to common stockholders	$ (7)	(0.1)	$(2,115)	(47.

Personnel costs were $6.6 million for the first quarter of 2003, an increase of 153.1% over $2.6 million for the first quarter of 2002. $3.2 million or 80.1% of the increase in personnel costs is attributable to incremental costs assumed as part of our acquisition program with $0.8 million or 19.9% of the increase attributable to increased costs in the base business. Personnel costs as a percentage of net revenue decreased to 53.9% in the first quarter of 2003 from 58.7% in the first quarter of 2002.

Other selling, general and administrative costs were $4.3 million for the first quarter of 2003, an increase of 61.4% over $2.7 million for the first quarter of 2002. $1.1 million or 67.4% of the increase is attributable to incremental costs assumed as part of our acquisition program with $0.5 million or 32.6% of the increase attributable to increased costs of the base business. As a percentage of net revenue, other selling, general and administrative costs decreased to 35.3% in the first quarter of 2003 from 60.3% in the first quarter of 2002, which is indicative of the scalability of our business model.

Depreciation and amortization costs were $0.6 million for the first quarter of 2003, an increase of 33.2% over $0.4 million for the first quarter of 2002, driven principally by the increase in amortizable intangible assets resulting from our acquisition strategy. As discussed in Note 2 to the unaudited consolidated financial statements, amortization expense associated with the customer relationship intangible asset has been revised upward based on the outcome of our discussions with the SEC.

Litigation settlement charges resulted from the settlement of litigation that arose prior to our transition to a logistics business, payable $400,000 in cash and $350,000 in shares of the Company's common stock.

Loss from operations was $22,000 in the first quarter of 2003, as compared to a loss of $1.3 million for the first quarter of 2002. Loss from operations as a percentage of net revenue decreased to (0.2)% for the first quarter of 2003 from (29.0)% for the same period in 2002.

Other income, net decreased modestly in 2003 compared to 2002. With quarter over quarter cash balances being reduced as a result of our acquisition

program, interest income remained an insignificant component to the Company's overall financial performance for the first quarter of 2003 and 2002.

As a result of historical losses related to investments in early-stage technology businesses, the Company has accumulated federal net operating loss carryforwards ("NOLs"). 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 are immaterial to the Company's quarterly financial results.

Net loss was $7,000 in the first quarter of 2003, an improvement of $1.2 million over a loss of $1.2 million in the first quarter of 2002.

The Company recorded no preferred stock dividends in the first quarter of 2003 as compared to $0.9 million for the first quarter of 2002 as a result of the restructuring of our Series C Preferred Stock effective July 18, 2002. See Note 6 to the unaudited consolidated financial statements.

Net loss attributable to common stockholders was $7,000 in the first quarter of 2003, an improvement of $2.1 million over a net loss attributable to common stockholders of $2.1 million in the first quarter of 2002 due partially to the effect of the $0.9 million preferred stock dividend. Basic and diluted loss per common share were zero for the first quarter of 2003 compared to a loss of $0.10 per basic and diluted common share for the first quarter of 2002.

Supplemental Unaudited Pro Forma Information

The pro forma results of operations for the period ended March 31, 2002 are unaudited and presented as if we had acquired Global and United American (collectively the "Material Acquisitions") as of January 1, 2002. 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.

Quarter ended March 31, 2003 (Actual) compared to quarter ended March 31, 2002 (Pro forma)

In accordance with SEC Regulation S-K, we present the following table, which reconciles our actual results of operations to pro forma results of operations for the three months ended March 31, 2002.

	Three months ended March 31, 2002			
	Historical Stonepath Group	Restated Global	United American	Pro fo adjustm
Total revenue	$13,065,560	$9,469,178	$7,505,346	$
Cost of transportation	8,645,969	5,961,164	5,668,470	
Net revenue	4,419,591	3,508,014	1,836,876	
Personnel costs	2,593,076	1,511,120	620,278	57,
Other selling, general and administrative costs	2,665,579	772,196	809,601	
Depreciation and amortization	443,347	11,703	9,450	120,
Income (loss) from operations	(1,282,411)	1,212,995	397,547	(177,
Other income (expense)				
Interest income	55,457	281		(55,
Other, net	--	1,333	(39,337)	
Income (loss) before income taxes	(1,226,954)	1,214,609	358,210	(232,
Income taxes	--	--	--	12,
Net income (loss)	(1,226,954)	1,214,609	358,210	(245,
Preferred stock dividends	(887,772)	--	--	
Net income (loss) attributable to common stockholders	$(2,114,726)	$1,214,609	$ 358,210	$(245,

(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 the Material Acquisitions.

(4) To reflect state taxes on pro forma income (loss) before income taxes.

The following table compares our actual total revenue, net transportation revenue and other revenue for March 31, 2003 to our pro forma data for March 31, 2002 to provide comparable data as if the Material Acquisitions had been acquired effective January 1, 2002 (in thousands):

	Quarter ended March 31,		P
	2003	2002	C
	Restated	Restated	
Total revenue	$38,572	$30,040	
Transportation revenue	$35,780	$27,383	
Cost of transportation	26,388	20,276	
Net transportation revenue	9,392	7,107	
Net transportation margins	26.2%	26.0%	
Customs brokerage	1,864	1,939	
Warehousing and other value added services	928	718	
Total net revenue	$12,184	$ 9,764	

Total revenue was $38.6 million in the first quarter of 2003, an increase of 28.4% over total pro forma revenue of $30.0 million in the first quarter of 2002. This increase in total revenue was driven principally by growth in transportation revenue. Net transportation revenue was $9.4 million in the first quarter of 2003, an increase of 32.2% over pro forma net transportation revenue of $7.1 million in the first quarter of 2002. Net transportation margins were relatively flat quarter on quarter. Net revenue was $12.2 million in the first quarter of 2003, an increase of 24.8% over pro forma net revenue of $9.8 million in the first quarter of 2002, driven primarily by an increase in net transportation revenue.

19

The following table summarizes certain statement of operations data as a percentage of our net revenue on an actual basis for 2003 and on a pro forma basis in 2002 as if the Material Acquisitions had been acquired effective January 1, 2002 (in thousands):

			Quarter ended March 31	
	2003		2002	
	Amount	Percent	Amount	Percent
Net revenue	$12,184	100.0%	$9,765	100.0%
Personnel costs	6,563	53.9	4,782	49.0

Other selling, general and administrative	4,303	35.3	4,247	43.5
Depreciation and amortization	590	4.8	585	6.0
Litigation settlement	750	6.2	--	--
Total operating costs	12,206	100.2	9,614	98.5
Income (loss) from operations	(22)	(0.2)	151	1.5
Other income (expense)	30	0.2	(38)	(0.4)
Income before income taxes	8	--	113	1.1
Income taxes	15	0.1	13	0.1
Net income (loss)	$ (7)	(0.1)%	$ 100	1.0%

Personnel costs were $6.6 million for the first quarter of 2003, an increase of 37.2% over $4.8 million for the first quarter of 2002. Personnel costs as a percentage of net revenue increased to 53.9% in the first quarter of 2003 from 49.0% in the first quarter of 2002. 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. On a quarter on quarter basis, total employees increased from 424 in 2002 to 512 in 2003.

Other selling, general and administrative costs were $4.3 million for the first quarter of 2003, which were relatively flat compared to $4.2 million in the first quarter of 2002. As a percentage of net revenue, other selling, general and administrative costs decreased to 35.3% in the first quarter of 2003 from 43.5% in the first quarter of 2002, which is indicative of the scalability of our business model.

Depreciation and amortization costs were $0.6 million for the first quarter of 2003, remaining relatively flat as compared to the first quarter of 2002.

Litigation settlement charges resulted from the settlement of litigation that arose prior to our transition to a logistics business, payable $400,000 in cash and $350,000 in shares of the Company's common stock.

Loss from operations was $22,000 in the first quarter of 2003, a decrease of 114.6% from income of $0.2 million for the first quarter of 2002. Income (loss) from operations as a percentage of net revenue decreased to (0.2)% in 2003 from 1.5% in 2002.

Other income (expense) decreased modestly in 2003 compared to 2002, remaining an insignificant component of the Company's overall financial performance for the first quarter of 2003 and 2002.

As a result of historical losses related to investments in early-stage technology businesses, the Company has accumulated federal NOLs. Although a portion of these NOLs may be subject to certain limitations, the Company expects it will be able to use approximately $21.7 million of these NOLs to offset current and future federal taxable income. As a result, the Company is currently only subject to certain state and local taxes which are immaterial to the Company's quarterly financial results.

Net loss was $7,000 in the first quarter of 2003, a decrease of 107.0% compared to net income of $0.1 million for the first quarter of 2002. Net loss for the first quarter of 2003, however, includes $0.8 million in charges related to the settlement of litigation that arose in August of 2000 prior to the Company's transition to a logistics business.

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 acquisitive 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 $2.7 million and $2.3 million as of March 31, 2003 and December 31, 2002, respectively. Working capital totaled $10.0 million and $5.3 million at March 31, 2003 and December 31, 2002, respectively.

Cash used in operating activities was $0.7 million for the first quarter of 2003 compared to $2.6 million used in the first quarter of 2002. This quarter on quarter improvement was driven principally by the satisfaction of liabilities in the first quarter of 2002 related to our discontinued technology business that did not impact our use of cash in the first quarter of 2003.

Net cash used in investing activities during the first quarter of 2003 was $4.6 million compared to $0.1 million in the first quarter of 2002. Investing activities were driven principally by approximately $2.8 million in earn-out payments made in relation to 2002 performance targets and $1.0 million in the roll-out of Tech-Logis(TM), the Company's new web-based technology platform.

Cash from financing activities in the first quarter of 2003 related to 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.

On July 18, 2002 we completed a private exchange transaction that eliminated approximately $44.6 million in liquidation value 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 Convertible 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 Convertible 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 Convertible Preferred Stock are restricted from selling the common stock received upon conversion of the Series D Convertible Preferred Stock until July 19, 2003 (or earlier if the stock trades at or above $4.50) and then are permitted limited resale based on trading volume through July 19, 2004.

We may also receive proceeds in the future from the exercise of existing options and warrants. As of March 31, 2003, approximately 13,231,000 options and warrants were outstanding. Of these outstanding securities, there are approximately 271,000 that have an exercise price of $5.00 per share or higher. If we exclude those options and warrants from our diluted share count, our outstanding diluted shares, as adjusted, would be approximately 44,513,000 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.

We are currently working on a number of possible acquisition opportunities. These range in status from the stage of preliminary discussion to definitive agreement, pending closing. We continue to make progress on the acquisition of a 70% interest in Singapore-based G-Link. We are also making progress on the acquisition of a mid-Atlantic based company that specializes in providing transportation solutions for governmental agencies and associated projects. At the closing of these transactions, we expect to pay approximately $6.7 million in cash and between $3.2 to $4.2 million in shares of our common stock. Both acquisitions would also be subject to supplemental earn-out obligations based upon the acquired companies' post-acquisition results of operations. We expect both of these transactions to close during or before the third quarter of 2003, although closing remains subject to a number of conditions which have not yet been satisfied.

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 March 31, 2003. 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 pay-out year exceeds the $6.0 million level. Based upon 2002 performance, former Air Plus shareholders were entitled to receive $3.0 million, and will have excess earnings of $0.3 million as a carryforward to future earnings targets. Former Air Plus shareholders elected to receive $2.6 million in cash with the balance payable in shares of the Company's common stock in April 2003.

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 in base earn-out payments in installments of $0.7 million in 2003, $1.0 million in 2004 through 2007 and $0.3 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 pay-out year exceeds the $2.0 million level. The Company has also provided former Global shareholders with an 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 received $0.7 million on April 1, 2003, and will have excess earnings of $2.3 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 pay-out year exceeds the $2.2 million level. The

Company has also provided the former United American shareholder with an 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 was entitled to receive $0.2 million, which he received in the first quarter of 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 revenue, the earn-out payment will be reduced proportionally to the extent of the shortfall, provided no earn-out payment shall be made if net revenue for the year falls below $1.0 million. Shortfalls may be carried over or carried back to the extent that net revenue in any other pay-out year exceeds the $1.6 million level.

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	20
Earn-out payments:					
Domestic	$ 6,540	$ 6,540	$ 5,550	$ --	$
International	1,000	1,000	1,000	1,000	

Total earn-out payments	$ 7,540	$ 7,540	$ 6,550	$1,000	$
Prior year pre-tax earnings targets(3):					
Domestic	$ 8,806	$ 8,806	$ 8,806	$ -	$
International	2,000	2,000	2,000	2,000	
Total pre-tax earnings targets	$10,806	$10,806	$10,806	$2,000	$
Earn-outs as a percentage of prior year pre-tax earnings targets:					
Domestic	74.3%	74.3%	63.0%	--	
International	50.0%	50.0%	50.0%	50.0%	5
Combined	69.8%	69.8%	60.6%	50.0%	5

(1) Includes 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.

On May 6, 2003, we elected to settle litigation instituted on August 20, 2000 by Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A. Although we believed that the Plaintiffs' claims were without merit, we chose to settle the matter at that time in order to remove any cloud of uncertainty created by nominal claims in excess of $20 million, to avoid future litigation costs and to mitigate the diversion of management attention from operations.

Notwithstanding the settlement, the Company remains subject to one remaining material legal proceeding that arose prior to our transition to a logistics business. That proceeding has been identified in our Annual Report on Form 10-K for the year ended December 31, 2002. Although we believe that the claims asserted in this proceeding are without merit, and we intend to vigorously defend this matter, there is the possibility that the Company could incur material expenses in the defense and resolution of this matter. Furthermore, since the Company has not established any reserves in connection with such claims, any such liability, if at all, would be recorded as an expense in the period incurred or estimated. This amount, even if not material to the Company's overall financial condition, could adversely affect the Company's results of operations in the period recorded.

New Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 adopted the disclosure requirements described in items (ii) and (iii).

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 3. Quantitative and Qualitative Disclosures About Market Risk

We do not use derivative financial instruments in our investment portfolio. We invest our excess cash in institutional money market accounts.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or it may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. If market interest rates were to change by 10% from the levels at March 31, 2003, the fair value of our portfolio would be impacted by an immaterial amount.

Item 4. 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 4, 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 II. OTHER INFORMATION

Item 1. Legal Proceedings

Other than as described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002, there have been no material developments in any of the reported legal proceedings, except as described below.

With respect to the litigation instituted on August 20, 2000 by Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A., the parties have entered into a Settlement Agreement with the Company on May 6, 2003, pursuant to which the controversy has been settled, the litigation withdrawn and mutual releases executed.

The Company is 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 overall consolidated financial position, results of operations or liquidity.

Item 2. Changes in Securities and Use of Proceeds

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 to Stonegate Securities, Inc. a brokerage fee consisting of cash commissions of approximately $364,000 and placement agent warrants to purchase 297,000 shares of our common stock 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.

28

Name	Shares of Com
George B. Clairmont 5-8-51 Trust	60,00
George B. Clairmont	60,00
Ponte Vedra Partners Ltd.	100,00
Ingleside Company	200,00
Oberweis Micro-Cap Portfolio	100,00
BFS US Special Opportunities Trust PLC	400,00
Renaissance US Growth Investment Trust PLC	200,00
Renaissance Capital Growth & Income Fund III, Inc.	200,00
Sherleigh Associates Inc. Profit Sharing Plan	400,00
SBL Fund Series V	520,00
Security Equity Fund - Mid Cap Value Series	480,00
MidSouth Investor Fund LP	100,00
Atlas Capital (Q.P.), L.P.	59,02
Atlas Capital Master Fund, Ltd.	190,97
A. Spector Capital, LLC	500,00
Crestview Capital Fund I, L.P.	185,00
Crestview Capital Fund II, L.P.	235,00
Crestview Capital Offshore Fund, Inc.	30,00
Gryphon Master Fund, LP	200,00
London Family Trust	50,00
London Family Trust	25,00
Scott R. Griffith SEP IRA	31,80
Stonegate Securities, Inc.	43,20
Dennis L. Pelino	100,00

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

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 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.)

(b) The Company filed the following Current Report on Form 8-K during the three-month period ended March 31, 2003:

(i) Current Report on Form 8-K, dated February 4, 2003. The Company filed the foregoing Current Report on Form 8-K reporting under Item 9 that members of the Company's senior management were scheduled to participate in conferences with certain institutional investors in connection with a proposed private placement transaction. The Report also identified information that was to be provided by the Company to the prospective investors, including certain forward-looking information and earnings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

STONEPATH GROUP, INC.

Date: January 16, 2004	Dennis L. Pelino -------------------------------------- Dennis L. Pelino Chief Executive Officer and Chairman of the Board of Directors
Date: January 16, 2004	Bohn H. Crain -------------------------------------- Bohn H. Crain Chief Financial Officer and Treasurer
Date: January 16, 2004	Thomas L. Scully -------------------------------------- Thomas L. Scully Vice President and Controller and Principal Accounting Officer