

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

STONEPATH GROUP INC
Form 8-K/A
August 28, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 1 TO CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 8, 2003

Stonepath Group, Inc.
(Exact Name of Registrant as Specified in Charter)

| | | |
|---|--------------------------|--------------------------------------|
| Delaware | 001-16105 | 65-0867684 |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|--|---------------------|
| 1600 Market Street, Suite 1515 Philadelphia, Pennsylvania (Address of Principal Executive Offices) | 19103 (Zip Code) |
|--|---------------------|

Registrant's telephone number, including area code: (215) 979-8370

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

General Explanation

This Amendment No. 1 on Form 8-K/A is being filed to amend the Company's Current Report on Form 8-K filed on August 13, 2003 relating to the Company's acquisition of the assets and operations of G-Link Express Pte. Ltd. and G-Link Express (Cambodia) Pte. Ltd. The purpose of this amendment is to restate the Pro Forma Financial Information included in Item 7(b).

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

RESTATED PRO FORMA FINANCIAL INFORMATION PROVIDED UNDER ITEM 7(b)

RESTATED UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

BASIS OF PRESENTATION

On August 8, 2003, through two international subsidiaries, Stonepath Group, Inc. (the "Company") acquired a seventy (70%) percent interest in the assets and operations of the Singapore and Cambodia offices of the G-Link Group. The G-Link Group is a non-asset based logistics business which provides a full range of international logistics services including international air and ocean transportation. The business services a customer base of manufacturers and distributors through a network of affiliated offices in Southeast Asia and agency relationships with partners located around the world.

The assets acquired from the G-Link Group consist primarily of the goodwill and other intangible assets, such as intellectual property, employee base, operating methods, systems and customer relationships, associated with the ongoing operations of its Singapore and Cambodia offices. Personal property consisting primarily of office equipment and eligible accounts receivable were also acquired. In addition accounts payable and certain leases were assumed as part of the acquisitions.

2

In consideration for a 70% interest in the assets and operations of the two G-Link offices, the Company paid \$3.7 million at closing through a combination of \$2.8 million in cash and \$900 thousand in value of the Company's common stock. The G-Link Group will also be entitled to an earn-out arrangement over a period of four years of up to \$2.5 million contingent upon the future financial performance of the acquired offices. The funds required for the cash payment at the closing were obtained by the Company from its credit facility with LaSalle Business Credit, Inc. As additional purchase price, on a post-closing basis the Company has also agreed to pay the G-Link Group for excess closing date working capital estimated at \$1.6 million through the issuance of additional Company stock. The consideration for the transaction was determined based on arms-length negotiations between the parties.

The acquisition was completed through two subsidiaries created by the Company which acquired 100% of the assets and operations of the Singapore and Cambodia offices of the G-Link Group. To give effect for the 70% interest intended to be acquired, the Company has agreed to issue the G-Link Group a 30%

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

interest in the subsidiaries. As part of the transaction, the Company also secured a five-year option to acquire the remaining 30% interest not acquired at the closing.

The contingent earn-out payments will be accounted for as additional cost of the acquired G-Link offices when the earnings contingency is resolved and the consideration is issued or becomes issuable. Accordingly, the purchase price allocation presented herein is preliminary and includes only the \$3.7 million paid at closing plus approximately \$436,000 of direct acquisition costs.

The following unaudited pro forma condensed consolidated balance sheet at March 31, 2003 presents the Company's acquisition of both G-Link offices on a combined basis as if it had occurred on March 31, 2003. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2002 and the three months ended March 31, 2003 presents the Company's acquisition of both G-Link offices on a combined basis as if it had occurred on January 1, 2002. The unaudited condensed consolidated pro forma financial information also reflects the recent acquisition of certain assets and operations of Regroup Express, LLC, which was acquired by the Company on June 20, 2003. Restated pro forma financial statements giving effect to the Regroup acquisition were included within a Current Report of Form 8-K/A filed with the SEC on August 28, 2003. The detailed assumptions used to prepare the unaudited pro forma condensed consolidated financial information are contained in the accompanying explanatory notes.

The unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the financial position or results of operations which would have actually been reported had the transactions been consummated at the dates mentioned above or which may be reported in the future. This unaudited pro forma condensed consolidated financial information is based upon the respective historical financial statements of the Company, Regroup and the two acquired G-Link offices and should be read in conjunction with those statements and the related notes.

3

The historical information for the Company in the following unaudited pro forma condensed consolidated financial information has been restated from the financial information previously included within the Company's Current Report on 8-K/A by: (i) allocating more value to the customer relationship intangible assets acquired in some of the Company's earlier acquisitions; and (ii) revising the amortization method and life used for such assets; each in a manner consistent with Note 2 to the consolidated financial statements contained in the Company's Annual Report on Form 10-K/A, filed with the SEC on August 28, 2003. In addition, the pro forma adjustments in the Regroup and the G-Link transactions have been restated to (i) allocate more value to the customer relationship intangible assets related to those acquisition and (ii) revise the amortization method used for such assets.

This pro forma presentation incorporates the Company's preliminary allocation of purchase price of the acquired G-Link businesses which includes \$200,000 to covenants-not-to-compete (to be amortized on a straight line basis over four years), \$1,000,000 to the customer relationship intangible asset (anticipated to be amortized under the declining balance method using a rate of

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

25%) and \$2,800,000 to goodwill. These preliminary allocations will be refined and finalized over the next several months as the Company completes the appropriate valuation analysis.

STONEPATH GROUP, INC.
 Unaudited Pro Forma Condensed Consolidated Statement of Operations
 Year ended December 31, 2002
 (amounts in thousands, except share and per share information)

| | Historical Statements | | R P Ad |
|--|-----------------------|----------|--------------|
| | Restated Stonepath | Regroup | |
| Total revenues | \$ 139,649 | \$ 4,163 | |
| Cost of transportation | 101,339 | - | |
| | | | |
| Net revenue | 38,310 | 4,163 | |
| Selling, general and administrative costs | 35,956 | 2,310 | |
| | | | |
| Income from operations | 2,354 | 1,853 | |
| Other income (expense) | 128 | - | |
| | | | |
| Income before income taxes and minority interest | 2,482 | 1,853 | |
| Income taxes | 102 | - | |
| Minority interest | - | - | |
| | | | |
| Net income | 2,380 | 1,853 | |
| Preferred stock dividends | 15,020 | - | |
| | | | |
| Net income attributable to | \$ 17,400 | \$ 1,853 | |
| common stockholders | | | |
| Basic earnings per common share | \$ 0.79 | | |
| Diluted earnings per common share | \$ 0.08 | | |
| Basic weighted average common shares outstanding | 22,154,861 | | |
| Diluted weighted average common shares outstanding | 29,232,568 | | |

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

| | Combined Historical G-Link | Restated G-Link Pro Forma Adjustments | |
|---|----------------------------------|--|-----|
| | ----- | ----- | |
| Total revenues | \$ 15,522 | (130) | (v) |
| Cost of transportation | 12,139 | (130) | (v) |
| | ----- | ----- | |
| Net revenue | 3,383 | - | |
| Selling, general and administrative costs | 1,630 | 300 | (w) |
| | ----- | ----- | |
| Income from operations | 1,753 | (300) | |
| Other income (expense) | 11 | (112) | (x) |
| | ----- | ----- | |
| Income before income taxes and minority interest | 1,764 | (412) | |
| Income taxes | 352 | (3) | (y) |
| Minority interest | - | 424 | (z) |
| | ----- | ----- | |
| Net income | 1,412 | (833) | |
| Preferred stock dividends | - | - | |
| | ----- | ----- | |
| Net income attributable to common stockholders | \$ 1,412 | \$ (833) | |
| | ===== | ===== | |
| Basic earnings per common share | | | |
| Diluted earnings per common share | | | |
| Basic weighted average common shares outstanding | | | |
| Diluted weighted average common shares outstanding | | | |

Regroup Pro Forma Adjustments

- (a) To reflect revenues, cost of purchased transportation services and the accounting and factoring fees charged under an agency agreement with another logistics services organization on a gross basis.
- (b) To eliminate accounting and factoring fees associated with agent operations, net of incremental compensation to former owners and

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

additional personnel.

- (c) To reflect amortization of acquired identifiable intangibles under the declining balance method using a 25% rate.
- (d) To reflect incremental interest expense at 4.0% associated with borrowings for the \$3.7 million in cash paid at closing.
- (e) To reflect state income tax expense.

G-Link Pro Forma Adjustments

- (v) To eliminate intercompany forwarding services.
- (w) To reflect amortization of acquired identifiable intangibles under the declining balance method using a 25% rate.
- (x) To reflect incremental interest expense at 4.0% associated with borrowings for the \$2.8 million in cash paid at closing.
- (y) To reflect reduction of state income tax expense for interest expense associated with the \$2.8 million in borrowings.
- (z) To reflect income attributable to minority interests, calculated based on 30% of the combined historical G-Link results of operations.

5

STONEPATH GROUP, INC.
 Unaudited Pro Forma Condensed Consolidated Statement of Operations
 Three months ended March 31, 2003
 (amounts in thousands, except share and per share information)

| | Historical Statements | | R P Ad |
|---|-----------------------|---------|--------------|
| | Restated Stonepath | Regroup | |
| Net revenues | 12,183 | 397 | |
| Selling, general and administrative costs | 11,455 | 285 | |
| Litigation settlement | 750 | - | |
| Income from operations | (22) | 112 | |
| Other income (expense) | 30 | - | |

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

| | | |
|--|------------|--------|
| Income before income taxes and minority interest | 8 | 112 |
| Income taxes | 15 | - |
| Minority interest | - | - |
| | ----- | ----- |
| Net income | \$ (7) | \$ 112 |
| | ===== | ===== |
| Basic earnings per common share | \$ (0.00) | |
| Diluted earnings per common share | \$ (0.00) | |
| Basic weighted average common shares outstanding | 24,764,810 | |
| Diluted weighted average common shares outstanding | 24,764,810 | |

6

| | Combined Historical G-Link | Restated G-Link Pro Forma Adjustments | |
|--|----------------------------------|--|-----|
| | ----- | ----- | |
| Net revenues | 716 | - | |
| Selling, general and administrative costs | 436 | 59 | (w) |
| Litigation settlement | - | - | |
| | ----- | ----- | |
| Income from operations | 280 | (59) | |
| Other income (expense) | 1 | (28) | (x) |
| | ----- | ----- | |
| Income before income taxes and minority interest | 281 | (87) | |
| Income taxes | 53 | (1) | (y) |
| Minority interest | - | 68 | (z) |
| | ----- | ----- | |
| Net income | \$ 228 | \$ (154) | |
| | ===== | ===== | |
| Basic earnings per common share | | | |
| Diluted earnings per common share | | | |
| Basic weighted average common | | | |

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

shares outstanding

Diluted weighted average common
shares outstanding

Regroup Pro Forma Adjustments

- (a) To reflect revenues, cost of purchased transportation services and the accounting and factoring fees charged under an agency agreement with another logistics services organization on a gross basis.
- (b) To eliminate accounting and factoring fees associated with agent operations, net of incremental compensation to former owners and additional personnel.
- (c) To reflect amortization of acquired identifiable intangibles under the declining balance method using a 25% rate.
- (d) To reflect incremental interest expense at 4.0% associated with borrowings for the \$3.7 million in cash paid at closing.
- (e) To reflect state income tax expense.

G-Link Pro Forma Adjustments

- (v) To eliminate intercompany forwarding services.
- (w) To reflect amortization of acquired identifiable intangibles under the declining balance method using a 25% rate.
- (x) To reflect incremental interest expense at 4.0% associated with borrowings for the \$2.8 million in cash paid at closing.
- (y) To reflect reduction of state income tax expense for interest expense associated with the \$2.8 million in borrowings.
- (z) To reflect income attributable to minority interests, calculated based on 30% of the combined historical G-Link results of operations.

7

STONEPATH GROUP, INC.
Unaudited Pro Forma Condensed Consolidated Balance Sheet
March 31, 2003
(amounts in thousands)

Current assets:

| Historical Statements | |
|-----------------------|---------|
| Restated Stonepath | Regroup |
| | |

P
Ad

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

| | | |
|--|-----------|----------|
| Cash and cash equivalents | \$ 2,669 | \$ 52 |
| Accounts receivable, net | 19,411 | 1,578 |
| Other current assets | 1,288 | 96 |
| | ----- | ----- |
| Total current assets | 23,368 | 1,726 |
| Goodwill and acquired intangibles, net | 25,060 | - |
| Furniture and equipment, net | 4,748 | 100 |
| Other assets | 1,228 | 7 |
| | ----- | ----- |
| | \$ 54,404 | \$ 1,833 |
| | ===== | ===== |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 12,319 | \$ 78 |
| Earn-out payable | 1,061 | - |
| Other current liabilities | - | 31 |
| | ----- | ----- |
| Total current liabilities | 13,380 | 109 |
| Long-term debt | - | 36 |
| Deferred taxes | - | - |
| | ----- | ----- |
| Total liabilities | 13,380 | 145 |
| Minority interest | - | - |
| Stockholders' equity | | |
| Common stock | 28 | - |
| Additional paid in capital | 201,808 | - |
| Members' equity | - | 1,688 |
| Accumulated deficit | (160,719) | - |
| Deferred compensation | (93) | - |
| | ----- | ----- |
| Total stockholders' equity | 41,024 | 1,688 |
| | ----- | ----- |
| | \$ 54,404 | \$ 1,833 |
| | ===== | ===== |

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

| | G-Link | Adjustments | |
|--|----------|-------------|-----|
| | ----- | ----- | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,874 | (2,791) | (u) |
| | | 2,791 | (x) |
| Accounts receivable, net | 2,400 | - | |
| Other current assets | 2,499 | (2,174) | (v) |
| | ----- | ----- | |
| Total current assets | 6,773 | (2,174) | |
| Goodwill and acquired intangibles, net | - | 4,000 | (w) |
| Furniture and equipment, net | 94 | - | |
| Other assets | 19 | (19) | (v) |
| | ----- | ----- | |
| | \$ 6,886 | \$ 1,807 | |
| | ===== | ===== | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 2,223 | 436 | (y) |
| Earn-out payable | - | - | |
| Other current liabilities | 2,563 | (2,563) | (v) |
| | | 2,791 | (x) |
| | ----- | ----- | |
| Total current liabilities | 4,786 | 664 | |
| Long-term debt | - | - | |
| Deferred taxes | 1 | (1) | (v) |
| | ----- | ----- | |
| Total liabilities | 4,787 | 663 | |
| Minority interest | - | 741 | (z) |
| Stockholders' equity | | | |
| Common stock | - | 1 | (u) |
| Additional paid in capital | 73 | (73) | (v) |
| | | 2,501 | (u) |
| Members' equity | - | - | |
| Accumulated deficit | 2,026 | (2,026) | (v) |
| Deferred compensation | - | - | |
| | ----- | ----- | |
| Total stockholders' equity | 2,099 | 403 | |
| | ----- | ----- | |
| | \$ 6,886 | \$ 1,807 | |
| | ===== | ===== | |

9

Regroup Pro Forma Adjustments

(a) To reflect payment of \$3.7 million in cash and \$1.0 million in

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

Company stock paid at closing.

- (b) To reflect the elimination of assets, liabilities and equity balances not acquired in the asset purchase.
- (c) To reflect goodwill and other acquired intangibles. Purchase price allocated as follows:

Furniture and equipment
Covenant-not-to-compete (preliminary)
Customer relationship intangible (preliminary)
Goodwill (preliminary)

Net assets acquired

- (d) To reflect \$3.7 million of incremental borrowings in connection with the transaction.
- (e) To reflect approximately \$300 thousand of capitalized direct acquisition costs.

G-Link Pro Forma Adjustments

- (u) To reflect payment of \$2.8 million in cash and \$0.9 million in Company stock paid at closing and \$1.6 million in Company stock paid on a post-closing basis for excess working capital.
- (v) To reflect the elimination of assets, liabilities and equity balances not acquired in the asset purchase.
- (w) To reflect goodwill and other acquired intangibles. Purchase price allocated as follows:

Current assets
Furniture and equipment
Covenant-not-to-compete (preliminary)
Customer relationship intangible (preliminary)
Goodwill (preliminary)

Total acquired assets

Current liabilities
Minority Interest

Net assets acquired

Edgar Filing: STONEPATH GROUP INC - Form 8-K/A

- (x) To reflect \$2.8 million of incremental borrowings in connection with the transaction.
- (y) To reflect approximately \$436 thousand of capitalized direct acquisition costs.
- (z) To reflect 30% minority interest in \$2.5 million of net acquired assets (historical cost basis).

10

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STONEPATH GROUP, INC.

Date: August 25, 2003

By: Dennis L. Pelino

Name: Dennis L. Pelino
Title: Chairman and Chief Executive Officer