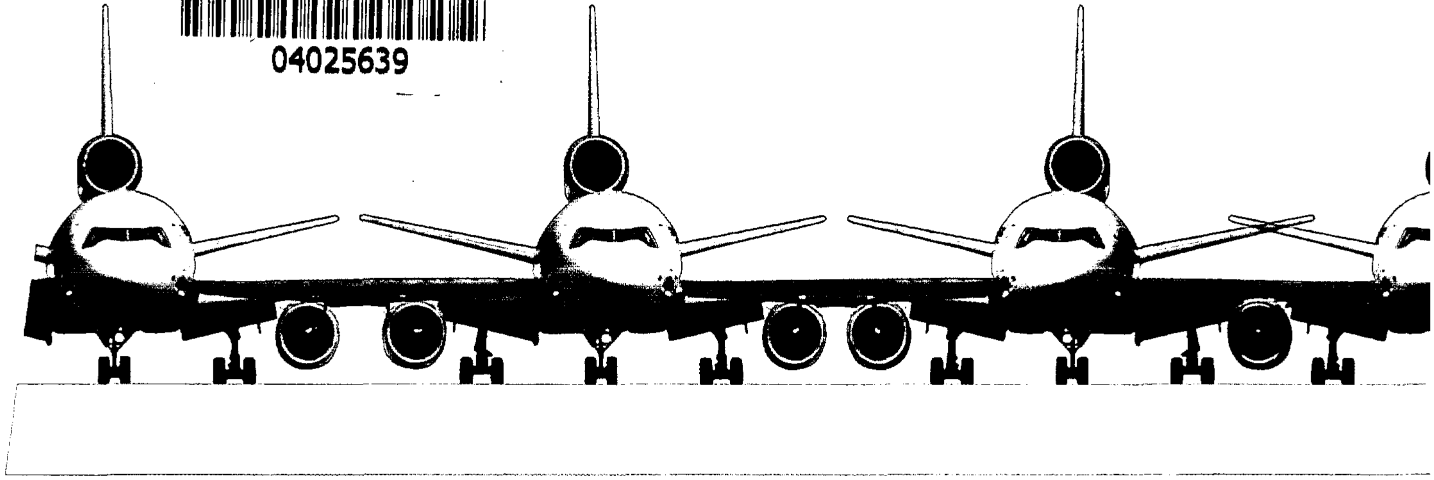

STONEPATH GROUP INC

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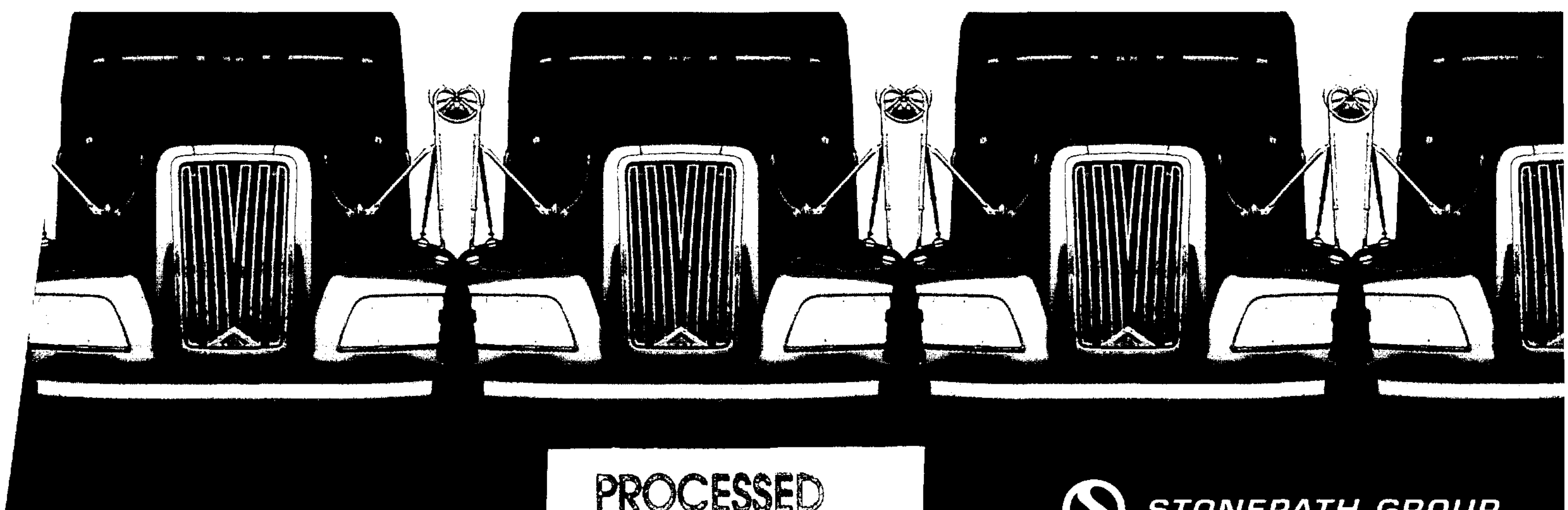


STONEPATH GROUP

ANNUAL REPORT 2003

Global Logistics For A New World

DEAR SHAREHOLDERS,

Less than three years ago, I laid out a clear plan to turn Stonepath into a leading provider of global logistics services. I am pleased to report that we are right on target. In 2003, we continued our global expansion, grew profitably and enhanced our logistics capabilities. We set ambitious goals and we delivered results.

Stonepath's revenues were up 79% in 2003. We reported an EBITDA increase of 87% year-over-year. Our organic growth was strong, margins continued to improve and our top and bottom-line growth across the business escalated impressively.

Now, we find ourselves in an exciting position, as a new, aggressive competitor in a thriving industry. With highly successful operations, headed by executives who have been competing – and winning – in the logistics services industry for decades, we boast the energy and momentum of a young company and the proven experience of a seasoned player. It's a powerful combination, and one that gives us a unique advantage as we continue to build a leading third-party logistics business.

SEIZING OPPORTUNITY

Stonepath set out to seize the opportunity existing in the rapidly growing but fragmented third-party logistics industry. As our clients continue to pursue cost savings and efficiencies in their supply chains, they are increasingly outsourcing worldwide logistics and supply chain activities. The demand for comprehensive, cutting-edge, global logistics services is higher than ever, and Stonepath is positioned to be the provider of choice.

Our mission has been straightforward: combine the best performing regional companies in key markets -- and therefore the best creative logistics expertise -- to build a leading company positioned to benefit from a truly global economy. The result: a client-driven organization that delivers smart, reliable logistics solutions to our customers worldwide and solid returns to our investors.

EXPANDING GLOBALLY

We made significant progress this year in building our worldwide network through an aggressive acquisition program targeting only profitable logistics companies with proven service records, deep customer relationships and entrepreneurial management teams.

In 2003, we set our sights on the phenomenal growth markets in Asia, where supply chain outsourcing and foreign trade have helped drive enormous opportunity. After acquiring top logistics companies in Hong Kong, Singapore, Malaysia and the People's Republic of China (PRC), Stonepath is extremely well-positioned to excel in this region.

Our new Asian partners enhance our ocean freight service and international airfreight capabilities, further diversify our international client relationships and allow us to tap into the tremendous demand for logistics services between the U.S., Europe and Asia -- as well as within the booming Asia sector itself.

Asia is only part of our 2003 growth story. We gained an important gateway to Central America, South America and the Caribbean by acquiring Miami-based Customs Services International. We also strengthened our position in the significant government services market through the acquisition of Virginia-based Regroup Express. In 2004, look for us to continue to acquire well-positioned companies in South America and in key European markets.

REVENUES
UP 79%
IN 2003

EBITDA
UP 87%

ACQUIRED TOP
LOGISTICS COMPANIES
IN ASIA

PROFITABLE
GROWTH

NEW OPERATING SYSTEM
IN 2003
TECH-LOGIS™

POWER OF
STONEPATH

We have successfully fueled organic growth throughout the organization by investing in sales, marketing and technology, by sharing experience and best practices and by realizing economies of scale and greater purchasing power.

Technology continues to play a starring role, both as a means of integrating our organization and as a chief way to manage sophisticated, time-sensitive supply chain activities. In 2003, we rolled out our new operating system, Tech-Logis™, which will enhance our operational capabilities and give customers immediate access to their entire supply chains through a single user interface.

Organic growth is also being driven by the development of the global Stonepath brand. During 2003, all of our US-based entities began operating under the Stonepath Logistics name, allowing the company to capitalize on our market recognition and the combined strength of our growing global network.

CREATING SHAREHOLDER VALUE

We plan to build on our success in 2004 with a continuing focus on profitable growth, integration and productivity improvement. With the recently completed acquisition of a controlling interest in Shaanxi, but before the benefit of any further acquisitions, our base 2004 plan calls for $14 million of EBITDA, or $0.28 per diluted share, on $300 million in revenues. This represents year-on-year revenue growth of 36%, EBITDA growth of 63% and growth in EBITDA per diluted share of 27%.

HARNESSING THE POWER OF STONEPATH

In this year's annual report, we are highlighting the energy and the growing sense of momentum throughout the Stonepath organization -- momentum that results when a group of highly-motivated, savvy entrepreneurs focus their energy on building a serious company committed to delivering serious results. I call it the Power of Stonepath.

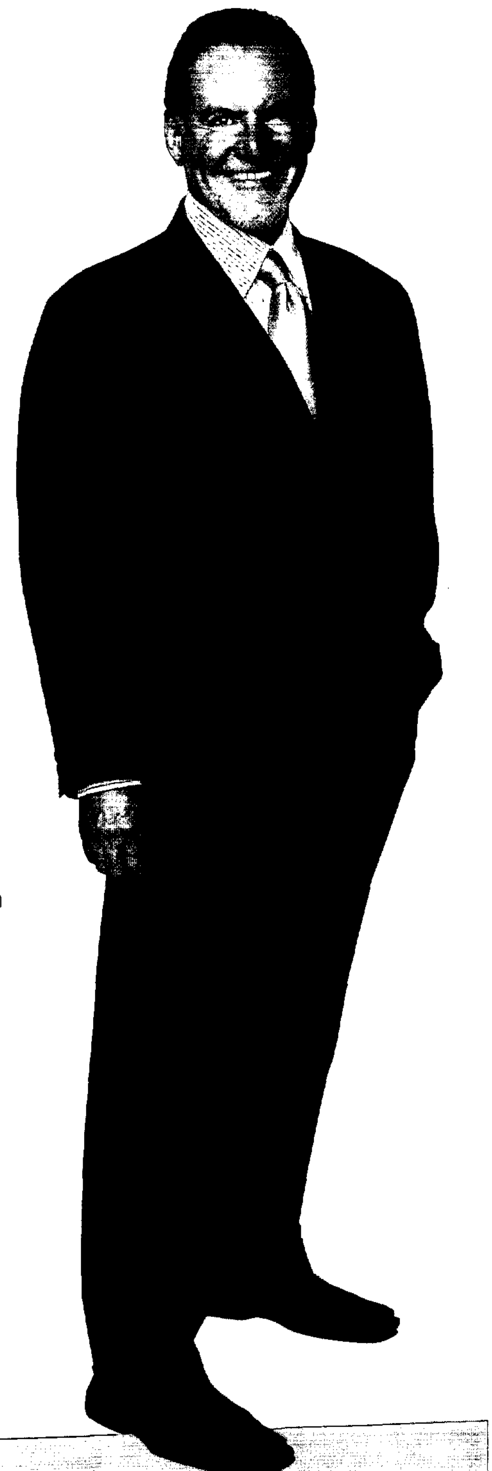
We are a new company, but we are very deeply experienced. Our acquisition strategy is aggressive, yet our financing plan is conservative. We are sophisticated in our approach to operations and services, but we are straightforward in our promises to customers and investors.

I am proud of what we have achieved in such a brief period of time, but we are still in the early stages of our development. We will not let up in the pursuit of our long-term objectives.

Thank you for joining us on this journey.

Sincerely,

Dennis L. Pelino
Chairman of the Board and Chief Executive Officer



DENNIS L. PELINO, CEO

EXPERIENCE
LEADERSHIP
CONSISTENCY
PROFIT
SERVICE
INNOVATION
TECHNOLOGY
GLOBAL
ACQUISITION
GROWTH

THE STONEPATH MISSION

To combine experienced, profitable logistics services companies with innovative technologies and take a leadership position in the industry

EXPERTISE
A third-party logistics provider, freight forwarder, customs broker, logistics specialist

OPERATIONS
Headquartered in Philadelphia, logistics centers throughout the United States,China, Malaysia, Hong Kong, Singapore, Cambodia and capabilities throughout Europe and Latin America

PEOPLE
Dennis Pelino, Chief Executive Officer
Bohn Crain, Chief Financial Officer
Neil O'Connell, Chief Technology Officer
Gary Koch, Chief Executive Officer, Domestic Services
Jason Totah, Chief Executive Officer, International Services
...and approaching 1,000 seasoned logistics experts worldwide

CLIENTS
A diverse mix of Fortune 20, midsize and small companies -- retail giants, automotive and technology concerns, government agencies and defense contractors

SERVICE PHILOSOPHY
To ensure that the products we handle get to market on time and undamaged, consistently and predictably

RESULTS
Stock price up 56% in 2003
Revenues up 79% in 2003
EBITDA increase of 87% year-over-year

STONEPATH
Global Logistics for a New World

STONEPATH GROUP, INC.
1600 Market Street, Suite 1515
Philadelphia, PA 19103

April 8, 2004

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (the "Meeting") of Stonepath Group, Inc. (the "Company") which will be held at the offices of Buchanan Ingersoll PC, 1835 Market Street, 15th Floor, Philadelphia, Pennsylvania 19103, on Wednesday, May 26, 2004 at 10:00 a.m. local time. Your Board of Directors and management look forward to personally greeting those stockholders able to attend.

At the Meeting, stockholders will be asked to:

(1) elect the Company's directors;

(2) approve an amendment to the Stonepath Group, Inc. Amended and Restated 2000 Stock Incentive Plan to increase the number of shares of the Company's Common Stock which may be issued thereunder;

(3) ratify the appointment of KPMG LLP as the Company's independent auditors for the year ending December 31, 2004; and

(4) consider such other matters as may be properly brought before the Meeting and at any adjournment(s) or postponement(s) thereof.

These matters are discussed in greater detail in the accompanying Proxy Statement.

Your Board of Directors recommends a vote FOR the election of the Company's directors nominated, FOR the amendment to the Stonepath Group, Inc. Amended and Restated 2000 Stock Incentive Plan and FOR the ratification of KPMG LLP as the Company's independent auditors.

Regardless of the number of shares you own or whether you plan to attend, it is important that your shares be represented and voted at the Meeting. **Please sign, date and mail the enclosed proxy promptly.**

A copy of the Company's Annual Report for the year ended December 31, 2003 is enclosed for your information. No material contained in the Annual Report is to be considered a part of the proxy solicitation material.

We wish to thank you for your loyal support of the Company and your participation in this process.

Sincerely,

Dennis L. Pelino
Chairman of the Board

STONEPATH GROUP, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 26, 2004

April 8, 2004

To the Stockholders of Stonepath Group, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Meeting") of Stonepath Group, Inc. (the "Company") will be held at the offices of Buchanan Ingersoll PC, 1835 Market Street, 15th Floor, Philadelphia, Pennsylvania 19103, on Wednesday, May 26, 2004 at 10:00 a.m. local time, for the following purposes:

(1) to elect the Company's directors;

(2) to approve an amendment to the Stonepath Group, Inc. Amended and Restated 2000 Stock Incentive Plan to increase the number of shares of the Company's Common Stock which may be issued thereunder;

(3) to ratify the appointment of KPMG LLP as the Company's independent auditors for the year ending December 31, 2004; and

(4) to consider such other matters as may be properly brought before the Meeting and at any adjournment(s) or postponement(s) thereof.

A copy of the Company's Annual Report for the year ended December 31, 2003 is enclosed for your information. No material contained in the Annual Report is to be considered a part of our proxy solicitation material.

Only stockholders of record as of the close of business on April 1, 2004 will be entitled to vote at the Meeting and any adjournment(s) or postponement(s) thereof.

All stockholders are cordially invited to attend the Meeting. However, to assure your representation at the Meeting, you are urged to complete, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the Meeting may vote in person even if he or she has returned a proxy.

By Order of the Board of Directors,

Stephen M. Cohen
Senior Vice President, General Counsel and
Secretary

STONEPATH GROUP, INC.
1600 Market Street, Suite 1515
Philadelphia, PA 19103

PROXY STATEMENT

The enclosed proxy is solicited on behalf of the Board of Directors of Stonepath Group, Inc. (the "Company") to be voted at the Annual Meeting of Stockholders (the "Meeting") of the Company to be held at the offices of Buchanan Ingersoll PC, 1835 Market Street, 15th Floor, Philadelphia, Pennsylvania 19103, on Wednesday, May 26, 2004 at 10:00 a.m. local time, and at any adjournment(s) or postponement(s) thereof for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. The proxy solicitation materials were mailed on or about April 8, 2004 to all stockholders entitled to vote at the Meeting.

Record Date and Stock Ownership

Stockholders of record at the close of business on April 1, 2004 (the "Record Date") are entitled to notice of and to vote at the Meeting, and at any adjournment(s) or postponement(s) thereof. At the Record Date, 40,519,392 shares of the Company's Common Stock, $.001 par value per share (the "Common Stock") were issued, outstanding and entitled to notice of and to vote on all matters at the Meeting and at any adjournment(s) or postponement(s) thereof.

Quorum and Voting Requirements

The Company's Bylaws provide that the stockholders holding a majority of the shares issued, outstanding and entitled to vote on the Record Date must be present in person or by proxy at the Meeting to constitute a quorum for the transaction of business at the Meeting.

All shares of Common Stock represented by valid proxies received by the Secretary of the Company prior to the Meeting will be voted as specified in the proxy. If no specification is made, the shares will be voted FOR the election of each of the Board's nominees to the Board of Directors and FOR each of the other matters submitted by the Board of Directors for vote by the stockholders. Unless otherwise indicated by the stockholder, the proxy card also confers discretionary authority on the Board-appointed proxies to vote the shares represented by the proxy on any matter that is properly presented for action at the Meeting. Abstentions and broker non-votes (which arise from proxies delivered by brokers and others, where the record holder has not received direction on voting and does not have discretionary authority to vote on one or more matters) are each included in the determination of the number of shares present for purposes of determining a quorum. At the Meeting, directors will be elected by a plurality vote and all other matters will be decided by the affirmative vote of a majority of the shares of Common Stock present at the meeting, in person or by proxy, and entitled to vote. Abstentions are counted as shares present at the meeting for purposes of determining the votes cast on any matter and have the effect of a vote against any matter as to which abstention is specified. Broker non-votes are not considered shares present for purposes of the vote on any matter as to which the broker non-vote is specified and will not affect the outcome of the vote.

The execution of a proxy will not affect a stockholder's right to attend the Meeting and vote in person. Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is used at the Meeting by filing with the Secretary of the Company either: (i) a written notice of revocation; (ii) a proxy bearing a later date than the most recently submitted proxy; or (iii) by attendance at the Meeting and voting in person. Attendance at the Meeting will not, by itself, revoke a proxy.

Registered stockholders (those who hold shares directly rather than through a bank or broker) can simplify their voting by voting via the internet at **www.votestock.com**. Internet voting information is provided on the Proxy Card. Use of a Control Number is designed to verify stockholders' identities and allow stockholders to vote their shares and confirm that their voting instructions have been properly recorded. The Control Number is identified and located on the Proxy Card. If a stockholder holds shares through a bank or broker, the stockholder will receive separate instructions on the form received from the bank or broker. Although most banks and brokers now offer Internet voting, availability and specific processes will depend on their voting arrangements.

Annual Report

A copy of the Company's Annual Report for the year ended December 31, 2003 accompanies this Proxy Statement. No material contained in the Annual Report is to be considered a part of our proxy solicitation material.

The mailing address of the Company's executive office is 1600 Market Street, Suite 1515, Philadelphia, PA 19103.

Solicitation

The cost of this proxy solicitation will be borne by the Company. The Company will reimburse brokers and other persons holding stock in their names or in the names of nominees for their expenses incurred in sending proxy materials to principals and obtaining their proxies.

Shareholder Proposals

Proposals of stockholders that are intended to be included within the proxy material for our 2005 Annual Meeting of Stockholders must comply with the requirements of SEC Rule 14a-8 and must be received no later than December 10, 2004 in order to be included in the Proxy Statement and proxy relating to that Annual Meeting.

PROPOSAL 1

ELECTION OF DIRECTORS

Nominees for Consideration at the Meeting

The Bylaws provide that the Board of Directors shall consist of such number of directors as is established from time to time by the affirmative vote of a majority of the Board of Directors. The Board has resolved to have six (6) directors. Each person who is appointed or elected to the Board of Directors will hold that position until the close of the next annual meeting of stockholders, until he or she ceases to be a director by operation of law or until he or she resigns.

The six (6) persons listed below have been nominated by the Board of Directors to serve as directors of the Company.

Unless otherwise specified, each properly executed proxy received will be voted for the election of the nominees named below to serve as directors until the end of their respective terms or until his/her successor is elected and qualified. The Company is not aware of any reason that any nominee will be unable to serve or will decline to serve as a director. In the event that any nominee is unable to serve or will not serve as a director, it is intended that the proxies solicited hereby will be voted for such other person or persons as shall be nominated by management.

INFORMATION ABOUT NOMINEES FOR DIRECTOR

The following table sets forth certain information with respect to each of the nominees for director and their current positions with the Company.

Director's Name and Age	Principal Occupation	Year in Which Service as a Director Began
Dennis L. Pelino, 56	Chairman of the Board of Directors and Chief Executive Officer	2001
J. Douglass Coates, 61	Principal-Manalytics International, Inc.	2001
Robert McCord, 45	Managing Director-PA Early Stage	2001
David R. Jones, 55	Private Consultant	2000
Aloysius T. Lawn, IV, 45	Executive Vice President and General Counsel-Talk America Holdings, Inc.	2001
John H. Springer, 47	Director of Global Operations - Golf Division, Nike, Inc.	2003

Dennis L. Pelino

Dennis L. Pelino has served as our Chairman of the Board of Directors and Chief Executive Officer since June 21, 2001. Mr. Pelino has over two decades of executive experience in the logistics industry. From 1986 to 1999, he was employed by Fritz Companies, Inc., initially as director of International Operations and Sales and Marketing, in 1993 as its Chief Operating Officer and commencing in 1996, also as its President. Mr. Pelino was also a member of the Board of Directors of Fritz Companies from 1991 to 1999. During Mr. Pelino's tenure, he acquired or started over 50 companies for Fritz as it became one of the leading global logistics companies. Prior to Fritz, Mr. Pelino held senior executive positions in the container shipping industry and in the domestic full-service truck leasing industry. Most recently, from 1999 through 2001, Mr. Pelino has been involved as a director and principal of a number of private ventures which explored opportunities in the logistics industry and which provided consulting services relative to business opportunities in Latin America, China and other Far Eastern regions.

J. Douglass Coates

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

David R. Jones

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

Aloysius T. Lawn, IV

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

Robert McCord

Robert McCord has served as a member of our Board of Directors since March 2001. He is also a Managing Director of PA Early Stage, a family of seed and early stage venture funds, which he co-founded in 1997. He also serves as Chairman of the Eastern Technology Council, a consortium of more than 800 technology-oriented companies. At the Technology Council he provides contacts, capital and information for senior executives. Mr. McCord previously served as Vice President of Safeguard Scientifics, Inc., a leader in identifying, developing and operating premier technology companies. Before joining Safeguard, Mr. McCord spent a decade on Capitol Hill where he served as Chief of Staff, Speechwriter and Budget Analyst in a variety of congressional offices. He specialized in budget and deregulatory issues and, as Chief Executive Officer of the bipartisan Congressional Institute for the Future, he ran a staff which tracked legislation and provided policy analyses and briefings. Mr. McCord earned his A.B., with high honors, from Harvard University and his MBA from the Wharton School.

John H. Springer

John H. Springer has served as a member of our Board of Directors since May 2003. Mr. Springer has extensive global supply chain management and logistics experience, having held both domestic U.S. and international logistics positions at IBM Corporation, Union Pacific Corporation's third party logistics unit, and at Dell Computer from 1995 to 2002. Mr. Springer joined Nike Inc. in 2002 and is its Director of Global Operations - Nike Golf. Mr. Springer has been active in the Council of Logistics Management throughout his career, including holding the position of President for the Central Texas region. He earned his B.S. at Syracuse University in Transportation & Distribution Management, and his MBA from St. Edwards University in Austin, Texas.

INFORMATION ABOUT EXECUTIVE OFFICERS

Our executive officers as of March 1, 2004 are as follows:

Officer's Name and Age	Office	Year in Which Service Began
Dennis L. Pelino, 56	Chairman of the Board of Directors and Chief Executive Officer	2001
Gary A. Koch, 45	Chief Executive Officer of Stonepath Logistics Domestic Services, Inc.	2001
Jason Totah, 44	Chief Executive Officer of Stonepath Logistics International Services, Inc.	2002
Stephen M. Cohen, 47	Senior Vice President, General Counsel and Secretary	2000
Bohn H. Crain, 40	Chief Financial Officer and Treasurer	2002
Thomas L. Scully, 54	Vice President - Controller and Principal Accounting Officer	2001

For biographical information regarding Mr. Pelino, please see his biography under "**Information about Nominees for Director**" set forth above.

Gary A. Koch

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

Jason Totah

Jason F. Totah serves as the Chief Executive Officer of Stonepath Logistics International Services, Inc. ("SLIS", f/k/a Global Transportation Services, Inc."). Mr. Totah joined SLIS in 1990 and has held several positions including Seattle Branch manager and Senior Vice President, Sales and Marketing, and Senior Vice President of Sales and Operations. Prior to joining SLIS, he worked in international logistics for Amoco Petroleum, stationed in various locations around the world. He graduated from Oregon State in 1983 with a degree in Agriculture Engineering.

Stephen M. Cohen

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

Bohn H. Crain

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

Thomas L. Scully

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

Board Meetings

During the year ended December 31, 2003, the Board of Directors held nine (9) meetings and acted by unanimous consent on five (5) occasions. Additionally, there were eight (8) Audit Committee meetings and six (6) Compensation Committee meetings held during 2003. During 2003, each Board member attended 75% or more of the meetings held by the Board and any committee upon which such director served.

It is the Company's policy that the directors who are up for election at an annual meeting of stockholders attend that meeting. All of the Company's directors attended last year's annual meeting of stockholders.

Board Committees

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements and reporting processes and systems of internal control regarding finance, accounting, and legal compliance and approving the engagement of its independent auditors. The Audit Committee held eight (8) meetings in 2003. The members of the Audit Committee are David R. Jones, Chairman, as well as Aloysius T. Lawn, IV, and Robert McCord. Each of these Audit Committee members is independent as defined in the listing standards of the American Stock Exchange and the rules of the Securities and Exchange Commission. The Board has determined that Mr. Jones qualifies as an "audit committee financial expert" as defined in the rules of the Securities and Exchange Commission by virtue of his education and experience in complex financial matters and the analysis and review of financial statements and has designated Mr. Jones as the "audit committee financial expert." For a description of Mr. Jones' relevant experience, see "**Information About Nominees for Director** - *David R. Jones.*"

Compensation Committee

The Compensation Committee is responsible for determining the compensation of the officers and employees of the Company and administering the Company's compensation plans. The Compensation Committee held six (6) meetings in 2003. The members of the Compensation Committee are Aloysius T. Lawn, IV, Chairman, as well as David R. Jones and John H. Springer. Each of these Compensation Committee members is independent as defined in the listing standards of the American Stock Exchange and the rules of the Securities and Exchange Commission.

Board Nominating Procedures

Given the relatively small size of the Board of Directors and the existence of other committees of the Board requiring substantial attention and effort, the Board has determined that it is appropriate not to establish a separate nominating committee. The Board has also determined that a nominating committee is not necessary in light of the written nominating procedures it has adopted and the fact that nominations are determined by the vote of a majority of the directors who are independent.

The Board will consider candidates for membership suggested by its members, as well as by the Company's management and stockholders. The Board may also from time to time retain a third-party executive search firm to identify candidates.

A stockholder who wishes to recommend a prospective nominee for the Board of Directors should notify the Company's Corporate Secretary in writing with whatever supporting material the stockholder considers appropriate.

Once the Board has identified a prospective nominee, it will make an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination will be based on the need for additional Board members to fill vacancies or to expand the size of the Board. If it is determined that there is a need for additional Board members, the Board will then evaluate the prospective nominee considering the following factors:

- the candidate's ability to represent the interests of the Company's stockholders;
- the candidate's skill, integrity, and independence of thought and judgment;
- the candidate's experience with businesses and other organizations of comparable size and stage of development;
- the relationship of the candidate's experience to the experience of other members of the Board and whether the candidate adds to the range of talent, skill and expertise possessed by the existing members of the Board; and
- the candidate's ability to dedicate sufficient time, energy and attention to the diligent performance of a director's duties, including the candidate's service on other boards of directors.

The Board will also consider such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for audit committee expertise and the evaluations of other prospective nominees.

As part of the evaluation, the Board will have the prospective nominee interviewed by one or more of its members, and others as appropriate, either in person or by telephone. After completing this evaluation and interview, the Board will then determine, by a vote of a majority of directors who are independent, whether to elect the prospective nominee to the Board in the case where stockholder approval is not required, or to nominate the candidate for election by the Company's stockholders.

Stockholder Communications to Directors

The Board of Directors has adopted a written process for stockholders to send communications to the Board of Directors. All correspondence which a stockholder desires to send to the members of the Board of Directors should be forwarded to the Corporate Secretary of the Company. The Corporate Secretary will review all correspondence to determine whether it deals with the functions of the Board of Directors or its committees and, if so, shall forward the correspondence to all directors. Concerns relating to accounting, internal controls or auditing matters shall be immediately brought to the attention of the Audit Committee.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE
FOR THE COMPANY'S DIRECTORS

PROPOSAL 2

APPROVAL OF AMENDMENT TO THE STONEPATH GROUP, INC. AMENDED AND RESTATED 2000 STOCK INCENTIVE PLAN

The Company's stockholders are being asked to approve an amendment to the Stonepath Group, Inc. Amended and Restated 2000 Stock Incentive Plan (the "Stock Incentive Plan") to increase the number of shares of the Company's Common Stock reserved for issuance under the Stock Incentive Plan by 2,000,000 shares. The Board of Directors unanimously adopted this amendment on March 11, 2004, subject to stockholder approval at the Meeting.

The proposed amendments will assure that a sufficient reserve of Common Stock remains available for issuance under the Stock Incentive Plan to allow the Company to continue to utilize equity incentives to attract and retain the services of officers, employees, directors and consultants (collectively, "covered persons") to the Company which the Company views as essential to its long-term growth and financial success. The Company relies significantly on equity incentives in the form of stock awards and stock option grants to attract and retain covered persons and believes such equity incentives are necessary for the Company to remain competitive in the marketplace for such talent. Stock and option grants made to newly-hired or continuing covered persons will be based on both competitive market conditions and individual performance. In addition, the Company has acquired other companies in the past, and anticipates future acquisitions. It is important that the Company be able to offer equity incentives to employees of the companies acquired so that they remain incentivized after the acquisition has been completed.

The Stock Incentive Plan was approved in September 2000 by the stockholders of the Company at that time, and subsequent amendments to the Stock Incentive Plan were approved by the stockholders of the Company on May 31, 2002 and May 30, 2003. A total of 13,000,000 shares of Common Stock of the Company currently are reserved for issuance under the Stock Incentive Plan. As of March 5, 2004, 10,313,634 shares were subject to awards currently outstanding under the Stock Incentive Plan (the "Plan Options") and 1,326,700 shares were subject to awards granted outside the Stock Incentive Plan (the "Non-Plan Options").

The following is a summary of the principal features of the Stock Incentive Plan. The summary, however, does not purport to be a complete description of all of the provisions of the Stock Incentive Plan. The complete text of the Stock Incentive Plan, as amended herein, appears as Exhibit A to this Proxy Statement and the following description is qualified in its entirety by reference to Exhibit A.

Purpose

The purposes of the Stock Incentive Plan are to: (i) better align the interests of stockholders with the interest of officers, directors, employees and consultants of the Company and its subsidiaries by creating a direct linkage between participants' rewards and the performance of the Company and its subsidiaries; (ii) encourage stock ownership and proprietary interests in the Company's stock; and (iii) assist the Company and its subsidiaries in attracting and retaining highly competent officers, directors, employees and consultants vital to its success.

Term

The Stock Incentive Plan became effective on June 1, 2000. The Stock Incentive Plan has no fixed expiration date.

Administration

The Stock Incentive Plan may be administered by the full Board of Directors or by a committee of the Board comprised of two or more "Non-Employee Directors" within the meaning of Rule 16b-3(b)(3) of the Securities Exchange Act of 1934, as amended (the Board of Directors or the committee shall hereinafter be referred to as the "Plan Administrator"). The Plan Administrator has, among other matters, the exclusive authority to make awards under the Stock Incentive Plan and to make interpretations and determinations involving the Stock Incentive Plan.

Participation and Types of Awards

Employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified stock options, restricted stock awards, and "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, advisors and consultants who perform services for the Company are eligible to receive non-qualified stock options and stock awards under the Stock Incentive Plan.

Shares Subject to the Stock Incentive Plan

The number of shares of Common Stock which may be issued under the Stock Incentive Plan is currently 13,000,000 and, upon approval of this Proposal by the stockholders, will be 15,000,000. All of the shares of Common Stock may be awarded in the form of stock options or stock awards. However, pursuant to Section 162(m) of the Code, currently, stock options with respect to no more than 2,500,000 shares of Common Stock may be granted to any one individual participant during any one calendar year period. In addition, the following shares may be added back to the Stock Incentive Plan and made available for issuance under the Stock Incentive Plan: (i) any shares of Common Stock that are forfeited, cancelled or re-acquired by the Company; (ii) any shares of Common Stock tendered in satisfaction of tax withholding or other obligations relating to proposed awards under the Stock Incentive Plan; and (iii) any shares of Common Stock underlying an award that is terminated (other than by exercise).

Performance-Based Compensation

Section 162(m) of the Code limits to $1,000,000 annually the deduction a public corporation may claim for compensation paid to any of its top five (5) executive officers, except in limited circumstances. One such exception is for "performance-based compensation," which is defined as compensation paid solely on account of the attainment of one or more performance goals, but only (i) if the goals are determined by a compensation committee of the board comprised of two (2) or more outside directors, (ii) the performance goals are disclosed to stockholders and approved by a majority vote before the remuneration is paid, and (iii) before the remuneration is paid, the compensation committee certifies that the performance goals and any other material terms were in fact satisfied.

Internal Revenue Service regulations provide that compensation attributable to a stock option will be deemed to satisfy the requirement that performance goals be pre-established if the grant of the option is made by the compensation committee; the plan under which the option is granted states the maximum number of shares with respect to which options or rights may be granted during a specified period to any employee; and, under the terms of the option, the amount of compensation the employee could receive is based solely on an increase in the value of the stock after the date of grant.

The Stock Incentive Plan includes features intended to permit the Plan Administrator to grant options and stock awards to employees that will qualify as performance-based compensation.

Stock Options

Options granted under the Stock Incentive Plan may be either incentive stock options or non-qualified stock options. The Plan Administrator will determine whether and to what extent options will be granted under the Stock Incentive Plan and whether such options granted will be incentive stock options or non-qualified stock options; provided, however, that: (i) incentive stock options may be granted only to employees of the Company or any of its subsidiaries, (ii) no incentive stock options may be granted following the tenth anniversary of the effective date of the Stock Incentive Plan, and (iii) the aggregate fair market value (determined as of the date of grant of the option) of the Common Stock with respect to which incentive stock options may become exercisable for the first time by any individual during any calendar year may not exceed $100,000 or, if it does, the portion of such options which exceeds such amount will be treated as non-qualified stock options. Unless otherwise specified in the agreement evidencing the option, options granted under the Stock Incentive Plan may be exercised for a period of up to ten (10) years from the date of grant.

The price at which each share covered by an option may be purchased will be determined in each case by the Plan Administrator; provided, however, that such price, in the case of incentive stock options, may not be less than the fair market value of Common Stock on the date of grant.

Options will be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as will be determined by the Plan Administrator and as set forth in the agreement relating thereto; provided, however, that: (i) no option will be exercisable after the expiration of ten (10) years after the date of grant of such option, (ii) no incentive stock option granted to a participant who owns more than 10% of the combined voting power of all classes of stock of the Company (or any parent or subsidiary of the Company) will be exercisable after the expiration of five (5) years after the date of grant of such option and the exercise price of an incentive stock option granted to such stockholder may not be less than 110% of the fair market value of the Common Stock on the date of grant, and (iii) no option granted to a prospective employee, prospective consultant, or prospective director may become exercisable prior to the date on which such person commenced service with the Company or its subsidiaries.

Stock Awards

The Plan Administrator may grant stock awards to any officer, director, employee or consultant of the Company or any of its subsidiaries. A stock award entitles the recipient to acquire shares of Common Stock subject to such restrictions and conditions as the Plan Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other business relationship) and/or achievement of pre-established performance goals and objectives.

Upon execution of a written instrument setting forth the stock award and paying any applicable purchase price, a participant shall have the rights of a stockholder with respect to the Common Stock subject to the stock award, including, but not limited to, the right to vote and receive dividends with respect thereto; provided, however, that shares of Common Stock subject to stock awards that have not vested shall be subject to restrictions on transferability. Unless the Plan Administrator otherwise determines, certificates evidencing the stock awards shall remain in the possession of the Company until such Common Stock is vested.

The Plan Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which Common Stock shall become vested, subject to such further rights of the Company or its assigns as may be specified in the instrument evidencing the stock award. If the participant or the Company, as the case may be, fails to achieve the designated goals or the participant's relationship with the Company is terminated prior to the expiration of the applicable vesting period, the participant shall forfeit all shares of Common Stock subject to the stock award which have not then vested. Unvested Common Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided in the Stock Incentive Plan or in the written instrument evidencing the stock award.

Termination of Service

If a participant ceases to perform service for the Company, all options which such participant is then entitled to exercise may be exercised until the earlier to occur of the three-month anniversary after termination of service or the expiration of the relevant option exercise period, unless otherwise provided for in the award agreement.

However, if a participant ceases to perform service for the Company or any of its subsidiaries due to death, disability or retirement, any options then exercisable will be exercisable until the earlier to occur of the one-year anniversary of termination of service or the expiration of the relevant option exercise period, unless otherwise provided for in the award agreement.

In addition, if the Company or any of its subsidiaries terminates a participant's service for "Cause" (as defined in the Stock Incentive Plan), then any and all options held by such person will terminate forthwith, unless otherwise provided for in the award agreement.

Stock Adjustments

If, as a result of any merger, consolidation, sale of all or substantially all of the assets of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar transaction, the outstanding shares of Common Stock are increased or decreased or are exchanged for a new, different or additional number or kind of shares or other securities of the Company, or other non-cash assets of the Company are distributed with respect to such shares of Common Stock or other securities, the Plan Administrator may make an appropriate or proportionate adjustment in (i) the number of options that can be granted to any one participant, (ii) the number and kind of shares or other securities subject to any then outstanding awards under the Stock Incentive Plan, and (iii) the price for each share subject to any then outstanding options under the Stock Incentive Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of shares as to which such options remain exercisable). The adjustment by the Plan Administrator will be final, binding and conclusive.

If, as a result of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Company's Board of Directors authorizes the issuance or assumption of options in a transaction to which Section 424(a) of the Code applies, then, notwithstanding any other provision of the Stock Incentive Plan, the Plan Administrator may grant options upon such terms and conditions as it may deem appropriate for the purpose of assuming the old option, or substitution of a new option for the old option.

In the case of (i) the dissolution or liquidation of the Company, (ii) merger, reorganization, or consolidation in which the Company is acquired by another person or entity (other than a holding company formed by the Company), (iii) the sale of all or substantially all of the assets of the Company to an unrelated person, or (iv) the sale of all or substantially all of the stock of the Company to an unrelated person (in each case, a "Fundamental Transaction"), the Stock Incentive Plan and all unvested awards granted thereunder will terminate, unless provision is made in connection with the Fundamental Transaction for the assumption of the awards or the substitution of such awards with new awards of the successor entity, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise price. In the event of such termination in which the Company's Board of Directors does not provide for a Cash Purchase Price (as defined below) in connection with the options, each participant will be notified of such proposed termination and permitted to exercise options which are then exercisable for a period of at least fifteen (15) days prior to the date of such termination.

In the event that the Company will be merged or consolidated with another corporation or entity, other than a corporation or entity which is an "affiliate" of the Company, under the terms of which the holder of Common Stock will receive upon consummation thereof a cash payment for each share of Common Stock of the Company surrendered pursuant to such transaction ("Cash Purchase Price"), the Company's Board of Directors may provide that all outstanding options will terminate upon consummation of that transaction and each participant will receive, in exchange therefor, a cash payment equal to the amount (if any) by which (i) the Cash Purchase Price multiplied by the number of shares of Common Stock subject to outstanding options held by such participant exceeds (ii) the aggregate exercise price of such participant's options.

Change in Control

Unless otherwise provided in a participant's option agreement or in a written employment or other agreement between the participant and the Company, the Stock Incentive Plan provides that, in the event the Stock Incentive Plan is terminated as a result of or following a "Change In Control" (as defined in the Stock Incentive Plan), all vested options then outstanding at the time of such termination may be exercised for a period of fifteen (15) days from the date of notice of the proposed termination. In such event, all participants shall be credited with an additional six (6) months of service for the purpose of any otherwise unvested options. Upon a Change In Control in which the Stock Incentive Plan is either assumed or otherwise not subject to termination, if during the remaining term of such participant's options or stock award, the participant is terminated other than for "Cause," the participant will also be credited with an additional six (6) months of service; provided, however, in the event of a termination for "Cause," all options will immediately terminate and all unvested portions of stock awards will immediately terminate.

Amendment and Termination

The Board of Directors may alter, amend, suspend or discontinue the Stock Incentive Plan, provided that no such action will deprive any person, without such person's consent, of any rights theretofor granted under the Stock Incentive Plan.

Tax Withholding

Whenever shares are to be issued or cash is to be paid under the Stock Incentive Plan, under circumstances in which the Plan Administrator believes that any federal, state or local tax withholding will be imposed, including FICA and Medicare withholding tax, the Company shall have the right to require the participant to remit to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements. Such withholding requirements may be paid (i) in cash; (ii) in the discretion of the Plan Administrator, through the delivery to the Company of previously-owned shares of Common Stock having an aggregate fair market value equal to the tax obligation (provided that the previously owned shares delivered in satisfaction of the withholding obligations must have been held by the participant for at least six (6) months); (iii) in the discretion of the Plan Administrator, through an election to have the Company withhold shares of Common Stock otherwise issuable to the participant having an aggregate fair market value equal to the tax obligation; or (iv) in the discretion of the Plan Administrator, through a combination of the procedures set forth in subsections (i)-(iii) above.

Awards Granted to Certain Individuals and Groups

As described above, the number of awards that may be granted to officers, employees, directors or consultants under the Stock Incentive Plan is at the discretion of the Plan Administrator and therefore future awards under the Stock Incentive Plan cannot be determined in advance. The following table sets forth (a) the total number of shares subject to options granted under the Stock Incentive Plan to the listed persons and groups through the fiscal year ended December 31, 2003 and (b) the market value or average per share exercise price of such options.

Amended and Restated 2000 Stock Incentive Plan

Name of Individual or Group	Number of Options Granted	Avg. per Share Exercise Price ($)
Dennis L. Pelino, Chairman and Chief Executive Officer	4,400,000[(1)]	$1.19
Stephen M. Cohen, Vice President, General Counsel and Secretary	910,000[(2)]	$0.78
Bohn H. Crain, Chief Financial Officer and Treasurer	675,000[(3)]	$1.63
Gary A. Koch, Chief Executive Officer of Stonepath Logistics Domestic Services, Inc.	200,000[(4)]	$1.30
Jason F. Totah, Chief Executive Officer of Stonepath Logistics International Services, Inc.	250,000[(5)]	$1.90
All current executive officers, as a group	6,518,300	$1.22
All current directors who are not employees, as a group	330,000	$0.99
All employees who are not current executive officers, as a group	2,026,134[(6)]	$1.65

(1) Does not include the grant to Mr. Pelino on January 23, 2004 of options to purchase 550,000 shares of the Company's common stock at an exercise price of $3.05 per share, the grant to Mr. Pelino on February 26, 2004 of options to purchase 125,600 shares of the Company's common stock at an exercise price of $3.38 per share, or the grant to Mr. Pelino on March 11, 2004 of options to purchase 359,000 shares of the Company's common stock at an exercise price of $3.75 per share.

(2) Does not include the grant to Mr. Cohen on January 9, 2004 of options to purchase 100,000 shares of the Company's common stock at an exercise price of $2.38 per share.

(3) Does not include the grant to Mr. Crain on January 9, 2004 of options to purchase 100,000 shares of the Company's common stock at an exercise price of $2.38 per share or the grant to Mr. Crain on February 26, 2004 of options to purchase 23,300 shares of the Company's common stock at an exercise price of $3.38 per share.

(4) Does not include the grant to Mr. Koch on January 9, 2004 of options to purchase 150,000 shares of the Company's common stock at an exercise price of $2.38 per share.

(5) Does not include the grant to Mr. Totah on January 9, 2004 of options to purchase 80,000 shares of the Company's common stock at an exercise price of $2.38 per share or the grant to Mr. Totah on February 26, 2004 of options to purchase 13,100 shares of the Company's common stock at an exercise price of $3.38 per share.

(6) Includes non-plan options associated with two current employees. Excludes plan options associated with former director.

Federal Income Tax Consequences

The following summary is based upon an interpretation of the present Code and applicable treasury regulations and may be inapplicable if such laws and regulations are changed. Additionally, the following summary is limited to the impact of the United States federal tax laws upon United States citizens residing in the United States.

Non-Qualified Stock Options

Under the current applicable provisions of the Code, the recipient of an option will not recognize income upon the receipt of a grant of non-qualified stock options and the Company will not be entitled to a tax deduction. When a non-qualified stock option is exercised, however, the excess of the fair market value of the shares received over the option price for those shares will be treated for federal tax purposes as ordinary income. Accordingly, the Company will be entitled to a corresponding tax deduction in the same amount. Any gain (or loss) realized on the sale or exchange of any shares actually received will be treated as long-term or short-term capital gain (or loss), depending on the applicable holding period.

Incentive Stock Options

With respect to incentive stock options ("ISOs"), no taxable income will be recognized when the option is granted or exercised; provided, however, that ISOs exercised more than three (3) months after termination of employment will be taxed in the same manner as non-qualified stock options described above. Additionally, when an ISO is exercised, the spread between the fair market value and the exercise price will be an item of tax preference for purposes of the alternative minimum tax.

If the shares acquired when an ISO is exercised are held for at least two (2) years from the grant of the options and one (1) year from the exercise of the options (the "ISO Holding Period"), any gain (or loss) realized upon their sale will be treated as long-term capital gain (or loss). In such a case, the Company will not be entitled to a deduction. If the shares are not held for the ISO Holding Period, then upon disposition ordinary income will be recognized in an amount equal to the difference between the exercise price and the fair market value of the Common Stock on the date the option was exercised, limited, however to the gain realized on the sale. Any additional gain will be taxed as capital gain. The Company will be entitled to a deduction equal to the amount of any ordinary income recognized in this manner.

Stock Awards

The recipient of a stock award will generally recognize ordinary income equal to the excess of (i) the fair market value of the shares received (determined as of the date on which the shares become transferable or not subject to a substantial risk of forfeiture, whichever occurs first) over (ii) the amount, if any, paid for the shares. Such person may, however, make an election (the "Tax Election"), within thirty (30) days following the grant of the stock award, to recognize income at the time of the award based on the fair market value of the shares on the transfer date. The Company will be entitled to a deduction in the same amount and at the same time that such person recognizes ordinary income. The ordinary income recognized by a recipient who is an employee will be subject to tax withholding by the Company. Upon the sale or other disposition (including any forfeiture) of the shares awarded, the recipient will realize capital gain (or loss) measured by the difference between the amount realized and the fair market value of the shares on the date the award vested (or on the date of grant if such person made the Tax Election).

Tax Effect for the Company

The Company generally will be entitled to receive a tax deduction in connection with an award under the Stock Incentive Plan in the amount equal to the ordinary income realized by the participant and at the time the participant recognizes such income. As described above, special rules limit the deductibility of compensation paid to certain executive officers. Under Section 162(m) of the Code, the annual compensation paid to any of the above specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, the Company can preserve the deductibility of compensation in excess of $1,000,000 if it complies with the conditions imposed by Section 162(m). These conditions include stockholder approval of the Stock Incentive Plan, setting limits on the number of awards that any individual may receive, and establishing performance criteria that must be met before the award actually will vest or be paid. The Stock Incentive Plan has been designed to permit the Plan Administrator to grant options and stock awards which satisfy the requirements of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such awards.

The foregoing discussion is not a complete description of the federal income tax aspects of options or stock awards under the Stock Incentive Plan. In addition, administrative and judicial interpretations of the application of the federal income tax laws are subject to change. Furthermore, no information is given with respect to state or local taxes that may be applicable to any awards. Participants in the Stock Incentive Plan who are residents of or are employed in a country other than the United States may be subject to taxation in accordance with the tax laws of that particular country in addition to or in lieu of United States federal income taxes.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE <u>FOR</u> APPROVAL OF THE AMENDMENT TO THE STONEPATH GROUP, INC. AMENDED AND RESTATED 2000 STOCK INCENTIVE PLAN

PROPOSAL 3

RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2004

KPMG LLP has been selected by the Audit Committee and the Board of Directors to serve as the independent auditors for the Company for the fiscal year ending December 31, 2004. Representatives of KPMG LLP are expected to be present at the Meeting to make a statement if they so desire and will be available to respond to appropriate questions.

The Audit Committee and the Board of Directors will consider the selection of another accounting firm to serve as the Company's independent auditors in the event that the stockholders do not approve the selection of KPMG LLP as the Company's independent auditors.

For the years ended December 31, 2003 and 2002, professional services were provided to the Company by KPMG LLP. The following table presents fees for professional services rendered by KPMG LLP for the audit of the Company's annual financial statements for the years ended December 31, 2003 and December 31, 2002, and fees billed for other services rendered by KPMG LLP during those periods.

	2003	2002
Audit fees (1)	$ 656,883	$299,000
Audit related fees (2)	125,000	24,400
Tax fees (3)	73,900	24,400
All other fees	--	--
Total	$ 855,783	$447,692

(1) Represents the aggregate fees billed for the audit of the Company's annual financial statements and for the reviews of the financial statements included in the Company's quarterly reports on Form 10-Q.

(2) Represents fees billed for acquisition related services

(3) Represents fees billed for tax consulting services, primarily related to international acquisitions

Our Audit Committee approves the engagement of our independent auditors to render audit and non-audit services before they are engaged. All of the services for which fees are listed above were pre-approved by our Audit Committee.

The Audit Committee has determined the rendering of non-audit services by KPMG LLP is compatible with maintaining the auditor's independence.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE <u>FOR</u> RATIFICATION OF KPMG LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE 2004 FISCAL YEAR

SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS AND BENEFICIAL OWNERS OF GREATER THAN 5% OF THE COMPANY'S VOTING SECURITIES

The following tables set forth information with respect to the beneficial ownership of Common Stock and Preferred Stock owned, as of March 1, 2004, by:

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

As of March 1, 2004, an aggregate of 39,004,242 shares of Common Stock and 309,397 shares of Series D Preferred Stock were issued and outstanding. Each share of Series D Preferred Stock is convertible into 10 shares of our Common Stock. For purposes of computing the percentages under the following tables, it is assumed that all options and warrants to acquire Common or Preferred Stock which have been issued to the directors, executive officers and the holders of more than 5% of Common or Preferred Stock and are fully vested or will become fully vested within 60 days from March 1, 2004 have been exercised by these individuals and the appropriate number of shares of Common Stock and Preferred Stock have been issued to these individuals.

COMMON STOCK

Name of Beneficial Owner	Position	Shares Owned Beneficially and of Record (1)	Percentage of Class
Dennis L. Pelino(2)	Officer, Director	3,581,824	8.49%
Stephen M. Cohen(3)	Officer	845,878	2.12%
Bohn H. Crain(4)	Officer	379,095	*
Thomas L. Scully(5)	Officer	46,462	*
Gary A. Koch(6)	(7)	595,579	1.52%
Jason F. Totah(8)	(9)	202,267	*
David R. Jones(10)	Director	142,500	*
Aloysius T. Lawn, IV(11)	Director	57,500	*
Robert McCord(12)	Director	100,000	*
J. Douglass Coates(13)	Director	50,000	*
John H. Springer(14)	Director	-	*
All directors and executive officers as a group (11 people)		6,001,105	13.63%

(*) Less than one percent.

(1) The securities "beneficially owned" by an individual are determined in accordance with the definition of "beneficial ownership" set forth in the regulations of the SEC under the Exchange Act. They may include securities owned by or for, among others, the spouse and/or minor children of an individual and any other relative who has the same home as such individual, as well as other securities as to which the individual has or shares voting or investment power. The number of shares beneficially owned by the individual may include options to purchase shares of our common stock exercisable as of, or within 60 days of, March 1, 2004. Beneficial ownership may be disclaimed as to certain of the securities.

(2) Includes 406,222 shares of common stock held by the Dennis L. Pelino and Meredith L. Pelino Declaration of Trust, of which Dennis L. Pelino and his spouse are trustees and beneficiaries, though beneficial ownership of which may be disclaimed. Also includes 3,175,602 shares of common stock issuable upon exercise of vested options. Does not include 1,899,998 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004. Also, does not include options to purchase 359,000 shares of common stock that were granted after March 1, 2004.

(3) Includes 11,850 shares of common stock. Also includes 834,028 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 175,972 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(4) Includes 17,600 shares of common stock. Also includes 361,495 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 436,805 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(5) Includes 46,462 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 67,838 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(6) Includes 458,079 shares of common stock held by the Revocable Trust of Gary A. Koch, of which Gary A. Koch is the trustee and a beneficiary, beneficial ownership of which may be disclaimed. Also includes 137,500 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 212,500 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(7) Chief Executive Officer of Stonepath Logistics Domestic Services, Inc., a wholly owned subsidiary of the Company.

(8) Includes 202,267 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 140,833 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(9) Chief Executive Officer of Stonepath Logistics International Services, Inc., a wholly owned subsidiary of the Company.

(10) Includes 85,000 shares of common stock. Also includes 57,500 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 32,500 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(11) Includes 57,500 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 32,500 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(12) Includes 100,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004.

(13) Includes 50,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004.

(14) Does not include 50,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

SERIES D PREFERRED STOCK

Name of Beneficial Owner	Shares of Series D Preferred Stock Owned Beneficially and of Record (1)(2)	Percentage of Class
Brown Simpson Partners I, Ltd. Carnegie Hall Tower 152 West 57th Street, 21st Fl. New York, NY 10019	201,184	65.0%
Schottenfeld Associates, L.P. 880 Third Avenue, 16th Floor New York, NY 10022	25,451	8.2%
CSL Associates LP 399 Park Avenue - 37th Floor New York, NY 10020	20,119	6.5%
Norton Herrick Irrevocable Securities Trust 20 Community Place, 2nd Floor Morristown, NY 07960	39,201	12.7%

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

(2) Each of the shares of Series D preferred stock converts into ten (10) shares of the Company's common stock. Shares of the Series D preferred stock have limited voting rights, on an as converted to common stock basis, in connection with a consolidation, sale or merger of the Company that could result in a change of control.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors (the "Compensation Committee") consists of three (3) directors who are not employees of the Company and who are considered "independent" under the rules of The American Stock Exchange.

Role of the Committee

The Compensation Committee establishes, oversees and directs the Company's executive compensation programs and policies and administers the Company's stock option and other long-term incentive plans. The Compensation Committee seeks to align executive compensation with Company objectives and strategies, business financial performance and enhanced stockholder value.

The Compensation Committee regularly reviews and approves generally all compensation and fringe benefit programs of the Company and also reviews and determines the actual compensation of the Company's executive officers, as well as all stock option grants and cash incentive awards to all key employees. The Compensation Committee reviews and administers the Company's Amended and Restated 2000 Stock Incentive Plan and the Company's 2003 Employee Stock Purchase Plan.

The Compensation Committee's objectives include (i) attracting and retaining exceptional individuals as executive officers and (ii) providing key executives with motivation to perform to the full extent of their abilities, to maximize Company performance and deliver enhanced value to the Company's stockholders. The Compensation Committee believes it is important to place a greater percentage of executive officers' total compensation, principally in the form of equity, at risk through the grant of stock options whose value is derived from the performance of the business and value of the Common Stock. Executive compensation consists primarily of an annual salary, annual bonuses linked to the performance of the Company and long-term equity-based compensation.

Compensation

Salary payments in 2003 were made to compensate the ongoing performance of the Company's executive officers. Bonuses in 2003 were made to recognize contributions to the Company's business strategy. The Committee's specific decisions concerning 2003 compensation for each executive officer were made in light of each officer's level of responsibility and the Committee's judgment with respect to whether that executive officer's compensation provides appropriate recognition for performance and an incentive for future performance.

The Compensation Committee took a variety of actions during 2003 to address the need to recruit and retain executives with relevant industry experience.

The actions taken by the Compensation Committee during 2003 were designed to reward the Company's senior management group for their efforts in successfully implementing the Company's business plan and to provide additional incentives to continue their efforts to continue to achieve significant growth in the Company's business and financial performance.

In determining the compensation to be provided to the Company's senior management group during 2003, the Compensation Committee took into account the following matters:

- The successful acquisition and integration of the Company's principal subsidiaries
- The recognition of revenue growth
- The organic growth of the businesses that have been acquired by the Company
- The success in obtaining additional capital to assist in the Company's further growth

The Compensation Committee granted to the Company's Chairman and Chief Executive Officer options to purchase 700,000 shares of Common Stock in March 2003 and 1,034,600 shares of Common Stock in March 2004.

The award of options in March 2003 reflected the philosophy of the Compensation Committee and Board of Directors that it was important to provide Mr. Pelino with the opportunity to acquire up to ten percent (10%) of the amount of the Company's outstanding Common Stock on a fully diluted basis. This objective was the result of the Compensation Committee's discussions with Mr. Pelino, its consideration of the advice of an independent compensation consultant and peer group compensation levels, and its view of Mr. Pelino's importance to the Company. Part of the options awarded to Mr. Pelino in March 2003 were also provided to him in lieu of a minimum $360,000 cash bonus the Compensation Committee would have otherwise provided to him under the terms of his employment agreement and in recognition of his willingness to purchase 100,000 shares of the Company's Common Stock in a private placement at the request of one of the lead investors.

However, the Compensation Committee and the Board of Directors decided earlier this year to change the basis for Mr. Pelino's compensation and abandoned the objective of continuing to provide him with the opportunity to acquire up to ten percent (10%) of the amount of the Company's outstanding Common Stock on a fully diluted basis. After reviewing the substantial contributions made by Mr. Pelino to the Company's growth and the benefits the Compensation Committee believes can result from his future contributions, the Compensation Committee extended the term of his employment period through June 2009, the date the earnout period from the Company's most recent acquisition expires, and increased his salary from its present level of $360,000 per year to $500,000 per year. This increase was provided to Mr. Pelino in the form of an award of options to purchase 359,000 shares of Common Stock that vest over the term of his employment. The Compensation Committee separately determined that Mr. Pelino was entitled to a bonus for 2003 based upon his performance, peer group compensation levels, and the advice of an independent financial consultant. This bonus was provided to Mr. Pelino by awarding him options to purchase an additional 675,600 shares of Common Stock in lieu of a $1,080,000 cash bonus the Compensation Committee would have otherwise provided to him. The decision to provide Mr. Pelino with options to purchase Common Stock instead of the cash payment of his performance bonus for 2003 and the increase in his annual salary was made after consultation with Mr. Pelino and in an effort to accommodate his desire to conserve the cash resources of the Company to fund its continued growth.

The Compensation Committee believes that the foregoing compensation actions have helped develop a senior management group dedicated to achieving significant improvement in both the short-term and long-term financial performance of the Company.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS
Aloysius T. Lawn, IV, Chairman
David R. Jones
John H. Springer

EXECUTIVE COMPENSATION
SUMMARY COMPENSATION TABLE

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

		Annual Compensation		Long-Term Compensation Awards		
Name and Principal Position		**Salary**	**Bonus**	**Restricted Stock Awards**	**Number of Options**[(1)]	**All Other Compensation**[(2)]
Dennis L. Pelino, Chairman and Chief Executive Officer	2003	$360,000	--	--	700,000[(3)]	--
	2002	$360,000	--	--	1,900,000[(4)]	--
	2001	$158,691	$180,000	--	1,800,000[(5)]	--
Stephen M. Cohen, Senior Vice President, General Counsel and Secretary	2003	$200,000	$40,000	--	60,000[(6)]	$62,000
	2002	$200,000	$15,000	--	100,000[(7)]	$62,000
	2001	$227,884	$50,000	--	750,000[(8)]	--
Bohn H. Crain, Chief Financial Officer and Treasurer	2003	$200,000	--	--	325,000[(9)]	--
	2002	$200,000	$37,500	--	350,000[(10)]	$44,000
Gary A. Koch, Chief Executive Officer of Stonepath Logistics Domestic Services, Inc.	2003	$270,509	--	--	--	--
	2002	$264,497	--	--	--	--
	2001	$69,950	--	--	--	--
Jason F. Totah, Chief Executive Officer of Stonepath Logistics International Services, Inc.	2003	$259,436	$150,000	--	--	--
	2002	$187,500	$131,250	--	--	--

(1) This table does not include options that were granted to the Named Executive Officers during the first quarter of 2004, as follows: 1,034,600 to Dennis L. Pelino; 100,000 to Stephen M. Cohen; 123,300 to Bohn H. Crain; 150,000 to Gary A. Koch and 93,100 to Jason F. Totah.

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

(3) These options were granted on March 10, 2003. The first grant of 300,000 options vested immediately. The second grant of 400,000 options vest to the extent of 133,334 on the first anniversary date of the award date and to the extent of 133,333 on the second and third anniversaries of the award date.

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

(5) These options were granted in conjunction with Mr. Pelino's employment by the Company on June 21, 2001 and are fully vested.

(6) The first grant of 10,000 options occurred on March 25, 2003. One-third of the options vested on the grant date with the remainder vesting over the following 24 months. The second grant of 50,000 options occurred on September 5, 2003. These options vest to the extent of 16,666.66 on the first, second and third anniversaries of the award date.

(7) These options were granted on July 3, 2002. Twenty-five percent of the options vest on July 3, 2003 and the remainder vest pro rata over the following 36 months, with 100% acceleration of vesting following a change of control transaction.

(8) These options were granted in conjunction with an amendment to Mr. Cohen's employment agreement during April 2001. They vest pro rata over the thirty-six (36) month period of his employment through April 2004, with 100% acceleration of vesting following change of control, or upon a termination of employment without cause. In the event of death or disability, the options which would have become vested within the next 12 months become vested.

(9) The first grant of 200,000 options occurred on February 24, 2003. Twenty-five percent of the options vested on the grant date with the remainder vesting over the following 36 months. The second grant of 25,000 options occurred on March 25, 2003. One-third of the options vested on the grant date with the remainder vesting over the following 24 months. The third grant of 100,000 occurred on September 5, 2003. These options vest to the extent of 33,333.33 on the first and second anniversaries of the award date and to the extent of 33,333.34 on the third anniversary of the award date.

(10) 150,000 of these options were granted on January 10, 2002, of which 50,000 vested on January 10, 2003, with the remainder vesting over the following 24 months and with 100% acceleration of vesting following a change of control transaction or upon a termination of employment without cause. 200,000 of these options were granted on July 3, 2002, of which 50,000 vested on July 3, 2003, with the remainder vesting pro rata over the following 36 months and with 100% acceleration of vesting following a change of control transaction, or upon a termination of employment without cause.

Employment Agreements

On March 11, 2004, we entered into an amended employment agreement with our Chief Executive Officer, Dennis L. Pelino. This agreement amended our prior agreements with Mr. Pelino dated February 22, 2002 and June 21, 2001. Pursuant to this amendment, we have agreed to extend the term of employment of Mr. Pelino as our Chief Executive Officer through June 2009. The amendment also increased the annual compensation payable to Mr. Pelino by granting him, in addition to his current base salary of $360,000, options to purchase 359,000 shares of our common stock which vest in equal installments over the term of his employment. This grant of options was intended to provide Mr. Pelino with incremental compensation of $700,000 over the term of his employment. In addition to his base salary, Mr. Pelino is entitled to bonus compensation based upon the achievement of certain target objectives, as well as discretionary merit bonuses that can be awarded at the discretion of our Board of Directors. Mr. Pelino is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to the employment agreement, Mr. Pelino is also entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

As of April 19, 2001, we entered into a three-year employment agreement with our General Counsel, Stephen M. Cohen. This was further modified effective December 27, 2001. This had the effect of amending and restating our prior employment agreement with Mr. Cohen entered into in April 2000. Pursuant to this Agreement, we have agreed to employ Mr. Cohen as our General Counsel through April 19, 2004 at an annual base salary of $200,000. In addition to his annual base salary, Mr. Cohen's employment agreement provides for bonus compensation based upon the achievement of certain target objectives, as well as discretionary merit bonuses that can be awarded at the discretion of our Board of Directors. Mr. Cohen is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to his employment agreement, Mr. Cohen is entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

Effective as of February 1, 2003, we entered into an Amended Employment Agreement with our Chief Financial Officer, Bohn H. Crain. This agreement amended and restated our prior Agreement with Mr. Crain dated January 10, 2002. Pursuant to this Agreement, we have agreed to employ Mr. Crain as our Chief Financial Officer through February 1, 2006 at an annual base salary of $200,000. In addition to his annual base salary, Mr. Crain's employment agreement provides for bonus compensation based upon the achievement of certain target objectives, as well as bonus compensation determined at the discretion of the Board of Directors. Mr. Crain is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to his employment agreement, Mr. Crain is entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

Change in Control Arrangements

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

- any "Person" (as the term "Person" is used in Section 13(d) and Section 14(d) of the Securities Exchange Act of 1934), except for the affected employee, becoming the beneficial owner, directly or indirectly, of our securities representing 50% or more of the combined voting power of our then outstanding securities;

- a contested proxy solicitation of our stockholders that results in the contesting party obtaining the ability to vote securities representing 50% or more of the combined voting power of our then-outstanding securities;

- a sale, exchange, transfer or other disposition of 50% or more in value of our assets to another Person or entity, except to an entity controlled directly or indirectly by us;

- a merger, consolidation or other reorganization involving us in which we are not the surviving entity and in which our stockholders prior to the transaction continue to own less than 50% of the outstanding securities of the acquiror immediately following the transaction, or a plan involving our liquidation or dissolution other than pursuant to bankruptcy or insolvency laws is adopted; or

- during any period of twelve (12) consecutive months, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors unless the election, or the nomination for election by our stockholders, of each new director was approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period.

Notwithstanding the foregoing, a "change of control" is not deemed to have occurred (i) in the event of a sale, exchange, transfer or other disposition of substantially all of our assets to, or a merger, consolidation or other reorganization involving, any entity in which the affected employee has, directly or indirectly, at least a 25% equity or ownership interest; or (ii) in a transaction otherwise commonly referred to as a "management leveraged buy-out."

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

Directors Compensation

Non-employee directors are paid $3,750 per quarter, provided that each member attends 75% of all meetings. In addition, a quarterly fee of $3,750 is paid to the chairman of the Audit and Compensation Committees. Upon joining our Board of Directors, each of our non-employee directors received an option to purchase 50,000 shares of our common stock with an exercise price equal to the closing price of our common stock on the trading day prior to the date of grant. One-half of these options vested on the first anniversary of the director's membership on the Board, and the balance vest on the second anniversary of Board membership. On November 5, 2002 each member of our Audit Committee received options to purchase 15,000 shares of our common stock at an exercise price of $1.45 per share (of which 50% vested on November 5, 2003 and the balance vest on November 5, 2004, contingent upon continued Board service). In addition, on January 23, 2004, the chairmen of each of our Audit Committee and Compensation Committee received options to purchase 25,000 shares of our common stock at an exercise price of $3.05 per share (of which 50% vest on January 23, 2005 and the balance vest on January 23, 2006, contingent upon continued Board service).

Stock Options and Warrants

The following table sets forth information on option grants in fiscal 2003 to the Named Executive Officers.

Option Grants in Last Fiscal Year

Name	Number of Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price	Market Price on Date of Grant	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5%	10%
Dennis L. Pelino	300,000	16.79	$1.68	$1.68	March 2013	$316,963	$803,246
	400,000	22.38	$2.00	$1.68	March 2013	294,617	942,995
Stephen M. Cohen	10,000	0.56	$1.81	$1.81	March 2013	11,383	28,847
	50,000	2.80	$2.24	$2.24	September 2013	70,436	178,499
Bohn H. Crain	200,000	11.19	$1.53	$1.53	February 2013	192,442	487,685
	25,000	1.40	$1.81	$1.81	March 2013	28,457	72,117
	100,000	5.60	$2.24	$2.24	September 2013	140,872	356,998
Gary A. Koch	--	--	--	--	--	--	--
Jason F. Totah	--	--	--	--	--	--	--

The following table sets forth information concerning year-end option values for fiscal 2003 for the Named Executive Officers. The value of the options was based on the closing price of our common stock on December 31, 2003 of $2.26.

Fiscal Year End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Dennis L. Pelino(1)	--	--	2,733,334	1,666,666	$3,374,001	$1,319,999
Stephen M. Cohen(2)	--	--	707,917	202,083	1,143,292	203,208
Bohn H. Crain(3)	--	--	252,082	422,918	172,270	250,980
Gary A. Koch(4)	--	--	70,833	129,167	68,000	123,999
Jason F. Totah(5)	--	--	112,500	137,500	33,00	57,000

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(1) Does not include the grant to Mr. Pelino on January 23, 2004 of options to purchase 550,000 shares of the Company's common stock at an exercise price of $3.05 per share, or the grant to Mr. Pelino on February 26, 2004 of options to purchase 125,600 shares of the Company's common stock at an exercise price of $3.38 per share, or the grant to Mr. Pelino on March 11, 2004 of options to purchase 359,000 shares of the Company's common stock at an exercise price of $3.75 per share.

(2) Does not include the grant to Mr. Cohen on January 9, 2004 of options to purchase 100,000 shares of the Company's common stock at an exercise price of $2.38 per share.

(3) Does not include the grant to Mr. Crain on January 9, 2004 of options to purchase 100,000 shares of the Company's common stock at an exercise price of $2.38 per share, or the grant to Mr. Crain on February 26, 2004 of options to purchase 23,300 shares of the Company's common stock at an exercise price of $3.38 per share.

(4) Does not include the grant to Mr. Koch on January 9, 2004 of options to purchase 150,000 shares of the Company's common stock at an exercise price of $2.38 per share.

(5) Does not include the grant to Mr. Totah on January 9, 2004 of options to purchase 80,000 shares of the Company's common stock at an exercise price of $2.38 per share, or the grant to Mr. Totah on February 26, 2004 of options to purchase 13,100 shares of the Company's common stock at an exercise price of $3.38 per share.

Outstanding Stock Options

The Amended and Restated Stonepath Group, Inc. 2000 Stock Incentive Plan, (the "Stock Incentive Plan") presently covers 13,000,000 shares of common stock. Under its terms, employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified stock options, restricted stock awards and incentive stock options within the meaning of Section 422 of the Code. In addition, advisors and consultants who perform services for the Company or its subsidiaries are eligible to receive non-qualified stock options under the Stock Incentive Plan. The Stock Incentive Plan is administered by the Board of Directors or a committee designated by the Board of Directors.

All stock options granted under the Stock Incentive Plan are exercisable for a period of up to ten (10) years from the date of grant. The Company may not grant incentive stock options pursuant to the Stock Incentive Plan at exercise prices which are less than the fair market value of the common stock on the date of grant. The term of an incentive stock option granted under the Stock Incentive Plan to a stockholder owning more than 10% of the issued and outstanding common stock may not exceed five (5) years and the exercise price of an incentive stock option granted to such stockholder may not be less than 110% of the fair market value of the common stock on the date of grant. The Stock Incentive Plan contains certain limitations on the maximum number of shares of the common stock that may be awarded in any calendar year to any one individual for the purposes of Section 162(m) of the Code.

Generally, most of the options under the Stock Incentive Plan are granted subject to periodic vesting over a period of between three (3) and four (4) years, contingent upon continued employment with the Company. In addition to the stock options covered by the Stock Incentive Plan, the Company has outstanding options to purchase 1,326,700 shares of common stock. The following schedule identifies the vesting schedule associated with all of the Company's outstanding options:

	Plan	Non-Plan	Total
Vested as of 12/31/03	5,039,597	1,326,700	6,366,297
To vest in 2004	2,324,127	--	2,324,127
To vest in 2005	1,880,577	--	1,880,577
To vest in 2006	1,043,916	--	1,043,916
To vest in 2007	25,417	--	25,417
	10,313,634	1,326,700	11,640,334

At March 1, 2004, these options were outstanding at the following exercise prices

Number of Options			
Plan	**Non-Plan**	**Total**	**Range of Exercise Prices**
3,248,334	1,109,500	4,357,834	\$0.50 - \$1.00
4,567,100	--	4,567,100	\$1.01 - \$2.00
2,498,200	144,000	2,642,200	\$2.01 - \$4.00
--	73,200	73,200	\$6.38 - \$17.00
10,313,634	1,326,700	11,640,334	

Outstanding Warrants

As of March 1, 2004, warrants to purchase 1,487,563 shares of common stock were outstanding. Most of these warrants were granted in connection with investment related transactions. With the exception of warrants to purchase 50,000 shares at \$1.23 per share, and warrants to purchase 99,000 shares at \$1.49 per share, all of the remaining warrants are subject to an exercise price of \$1.00 per share and expire in July 2005.

Equity Compensation Plan Information At Fiscal Year End

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

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	8,769,434	$1.27	3,688,067[1]
Equity compensation plans not approved by security holders	1,834,700	$1.79	--
Total	10,604,134	$1.36	3,688,067

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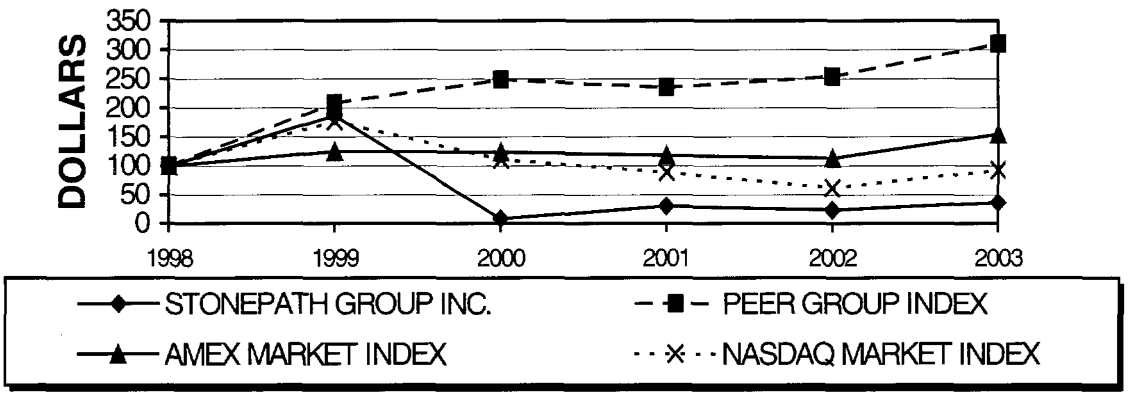
(1) Does not include options to purchase 542,499 shares of our common stock under the Company's stock option plan which have been exercised.

PERFORMANCE PRESENTATION

The following graph shows the total stockholder return of an investment of $100 in cash on December 31, 1998 for the Company's Common Stock and an investment of $100 in cash on that day for (i) the NASDAQ Market Index, (ii) the AMEX Market Index and (iii) a peer group consisting of C.H. Robinson Worldwide, Inc., EGL, Inc., Expeditors International of Washington, Inc., Forward Air Corporation, and UTi Worldwide Inc. weighted by their market capitalization. Historic stock performance is not necessarily indicative of future stock price performance. All values assume reinvestment of the full amount of any dividends and are calculated daily.

COMPARE CUMULATIVE TOTAL RETURN AMONG STONEPATH GROUP INC., NASDAQ MARKET INDEX, AMEX MARKET INDEX AND PEER GROUP INDEX



ASSUMES $100 INVESTED ON DEC. 31, 1998
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DEC. 31, 2003

	1998	1999	2000	2001	2002	2003
STONEPATH GROUP INC.	100.00	186.00	8.00	29.60	23.20	36.16
PEER GROUP INDEX	100.00	207.97	248.73	235.52	253.60	309.92
AMEX MARKET INDEX	100.00	124.67	123.14	117.47	112.78	153.50
NASDAQ MARKET INDEX	100.00	176.37	110.86	88.37	61.64	92.68

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF STONEPATH GROUP, INC.

The following is the report of the Audit Committee for the year ended December 31, 2003. The Audit Committee is composed of three (3) directors, each of whom meets The American Stock Exchange's independence standards. The Audit Committee had historically operated under a written charter adopted by the Board of Directors in 2000. At a meeting held on March 25, 2003, the Board of Directors adopted a new written charter for the Audit Committee. On January 28, 2004 the Board of Directors amended such written charter for the Audit Committee which is attached to this Proxy Statement as Exhibit B. The Audit Committee, which is composed of independent directors, as a whole meets regularly with the Company's management and independent auditors to discuss the adequacy of the Company's internal control environment and financial reporting, accounting matters, audit results, and compliance with its corporate responsibility program.

In carrying out its responsibilities and fulfilling obligations under its charter, the Audit Committee, among other things:

- reviewed with the independent auditors their audit plan, audit scope, and identified audit risks;
- discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, "Communications with Audit Committees," as modified or supplemented, including, among other items, matters related to the conduct of the audit of the Company's consolidated financial statements;
- obtained from the independent auditors a written statement describing all relationships between the independent auditors and the Company that might bear on the auditors' independence, consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees";
- discussed with the independent auditors any relationships that may impact their objectivity and independence, and generally satisfied itself that the auditors are independent;
- reviewed and discussed the Company's audited consolidated financial statements for the year ended December 31, 2003 with management and the independent auditors;
- obtained from management the representation that the Company's consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America; and
- discussed with management and the independent auditors the quality and adequacy of the Company's internal controls.

Based on its review, analysis and discussions with management and the independent auditors, the Audit Committee recommended to the Company's Board of Directors (and the Board approved) that the Company's audited consolidated financial statements for the three years ended December 31, 2003 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The Audit Committee and the Board, in recognition and consideration of the recommendation of management, have also recommended, subject to shareholder ratification, the selection of the Company's independent auditors for 2004.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
David R. Jones, Chairman
Aloysius T. Lawn, IV
Robert McCord

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Participation of Chief Executive Officer in Recent Private Placement Transaction

At the request of one of the lead investors, Dennis L. Pelino, our Chief Executive Officer, purchased 100,000 shares of our common stock at a price of $1.54 per share in the private placement transaction that was completed on March 7, 2003. Mr. Pelino's purchase price represented a 14.1% premium over the purchase price of $1.35 paid by the non-affiliated investors in the transaction.

Payments to Former Executive Officer

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

Amendment and Restatement of Employment Arrangements with Executive Officers

On March 11, 2004, we entered into an amended employment agreement with our Chief Executive Officer, Dennis L. Pelino. This agreement amended our prior agreements with Mr. Pelino dated February 22, 2002 and June 21, 2001 to extend the term of his employment through June 2009, and to award Mr. Pelino a salary increase in the form of additional options that vest over the period of the employment agreement. On October 18, 2001, we amended the terms of the options granted to Mr. Pelino under his original employment agreement dated June 21, 2001. We further amended the terms of Mr. Pelino's options on July 3, 2002, when we accelerated the vesting of his original options to purchase 1,800,000 shares of our common stock and granted him options to purchase an additional 1,900,000 shares of our common stock.

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

Loans to Executive Officers

In connection with our acquisition of Global on April 4, 2002, we advanced the sum of \$350,000 to Jason Totah. Mr. Totah was a former shareholder of Global and is an executive officer of the Company, serving as the Chief Executive Officer of Stonepath Logistics International Services, Inc. The advance to Mr. Totah is to be repaid through 2006 by offset against the earn-out amounts that are otherwise due to Mr. Totah under the Stock Purchase Agreement. The balance of Mr. Totah's advance was \$175,000 at December 31, 2003.

Under the terms of our employment agreement with Mr. Cohen, we provided him with a loan in the principal amount of \$100,000 in April 2001. The loan accrues interest at the rate of 8% per annum and is due on April 17, 2004, or such earlier date that Mr. Cohen shall have received aggregate proceeds of \$5,000,000 from the sale of his options or the shares of common stock underlying his options. However, Mr. Cohen is not required to repay the loan if by April 17, 2004, the sum of the proceeds which he has received from the sale of his options or the shares of common stock underlying his options and the remaining equity in the options as of April 17, 2004 does not equal or exceed \$5,000,000.

Related Party Lease

Air Plus leases certain of its office and warehouse facilities from Gary Koch. Mr. Koch was a former shareholder of Air Plus and is an executive officer of the Company, serving as the Chief Executive Officer of Air Plus and Stonepath Logistics Domestic Services, Inc. The Company paid \$187,000 to Mr. Koch in each of the years ended December 31, 2003 and 2002. Payments under the lease with Mr. Koch were determined by reference to comparable rents, and management believes the amounts payable thereunder represent fair market rates.

By Order of the Board of Directors,

Dennis L. Pelino
Chairman of the Board
Dated: April 8, 2004

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Exhibit A

STONEPATH GROUP, INC.
AMENDED AND RESTATED 2000 STOCK INCENTIVE PLAN

Section 1. General Purpose of the Plan; Definitions. The purpose of the Plan is to provide officers, employees, directors and consultants of Stonepath Group, Inc. (the "Company") and other members of the Participating Company Group the opportunity to receive stock options and stock awards and thereby acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company's stockholders, thereby encouraging the participants to contribute materially to the growth and development of the Company and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Award" or "Awards," except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options and Stock Awards.

"Board" means the Board of Directors of the Company.

"Cause" means (a) with respect to an individual who is party to a written agreement with a Participating Company which contains a definition of "cause" or "for cause" or words of similar import for purposes of termination of Service thereunder by the Participating Company, "cause" or "for cause" as defined in such agreement; (b) in all other cases (i) any violation of a law, rule or regulation other than minor traffic violations, including without limitation, any violation of the Foreign Corrupt Practices Act; (ii) a breach of fiduciary duty for personal profit; (iii) fraud, dishonesty or other acts of misconduct in the rendering of services on behalf of the Company or relating to the employee's employment; (iv) misconduct by the employee which would cause the Company to violate any state or federal law relating to sexual harassment or age, sex or other prohibited discrimination or any violation of written policy of the Company or any successor entity adopted in respect to such law; (v) failure to follow Company work rules or the lawful instructions (written or otherwise) of the Board of Directors of the Company or a responsible executive to whom the employee directly or indirectly reports, provided compliance with such directive was reasonably within the scope of the employee's duties and the employee was given notice that his or her conduct could give rise to termination and such conduct is not, or could not be, cured within ten (10) days thereafter; or (vi) any violation of a confidentiality or non-competition agreement or patent assignment agreement or any agreement relating to the Company's protection of intellectual property rights.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Effective Date" means the date on which the Plan is approved by the Board as set forth in Section 18.

"Fair Market Value" of the Stock on any given date means (i) if the Stock is listed on any established stock exchange or a national market system, including without limitation the National Market or SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; (ii) if the Stock is regularly traded on the Nasdaq OTC Bulletin Board Service, or a comparable automated quotation system, its Fair Market Value shall be the mean between the high bid and low asked prices for the Stock on the last market trading day prior to the day of determination; or (iii) in the absence of an established market for the Stock, the Fair Market Value thereof shall be determined in good faith by the Plan Administrator.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Option" or "Stock Option" means any Option to purchase shares of Stock granted pursuant to Section 6.

"Option Period" means the period commencing on the grant date of an Option and ending on the last day of the term of such Option as established pursuant to Section 8.2.

"Participating Company" means the Company or any or Subsidiary or any other member of the Participating Company Group.

"Participating Company Group" means, at any point in time, any Participating Company or all corporations collectively which are then Participating Companies.

"Service" means a participant's employment or service with any member of the Participating Company Group, whether in the capacity of an employee, officer, director or a consultant. The participant's Service shall not be deemed to have terminated merely because of a change in the Participating Company for which the participant renders such Service, provided that there is no interruption or termination of the participant's Service. Furthermore, a participant's Service with the Participating Company Group shall not be deemed to have terminated if the participant takes any military leave, sick leave, or other bona fide leave of absence approved by a Participating Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the participant's Service shall be deemed to have terminated unless the participant's right to return to Service with the Participating Company is guaranteed by statute or contract.

"Stock" means the Common Stock, par value $.001 per share, of the Company, subject to adjustments pursuant to Section 11.

"Stock Award" means any award granted pursuant to Section 9.

"Subsidiary" means any, whether now or hereafter existing, corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities, beginning with the Company, if each of the corporations or entities owns stock or other interests possessing 50% or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain, whether now or hereafter existing.

Section 2. Administration. The Plan shall be administered by the full Board of Directors of the Company or a committee of such Board of Directors comprised of two or more "Non-Employee Directors" within the meaning of Rule 16b-3(a)(3) promulgated under the Act (the "Plan Administrator"). Subject to the provisions of the Plan, the Plan Administrator is authorized to:

(a) construe the Plan and any Award under the Plan;

(b) select the directors, officers, employees and consultants of any Participating Company to whom Awards may be granted;

(c) determine the number of shares of Stock to be covered by any Award;

(d) determine and modify from time to time the terms and conditions, including restrictions, of any Award and to approve the form of written instrument evidencing Awards;

(e) accelerate at any time the exercisability or vesting of all or any portion of any Award and/or to include provisions in Awards providing for such acceleration;

(f) impose limitations on Awards, including limitations on transfer and repurchase provisions;

(g) extend the exercise period within which Stock Options may be exercised; and

(h) determine at any time whether, to what extent, and under what circumstances Stock and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the participant and whether and to what extent the Company shall pay or credit amounts constituting interest (at rates determined by the Plan Administrator) or dividends or deemed dividends on such deferrals.

The determination of the Plan Administrator on any such matters shall be conclusive.

Section 3. Delegation of Authority to Grant Awards. In accordance with applicable laws, the Plan Administrator, in its discretion, may delegate to one or more executive officers of the Company all or part of the Plan Administrator's authority and duties with respect to granting Awards and all references in the Plan to the "Plan Administrator" shall include such executive officers to the extent they are acting pursuant to such delegation. The Plan Administrator may revoke or amend the terms of such a delegation at any time, but such revocation shall not invalidate prior actions of the executive officers that were consistent with the terms of the Plan.

Section 4. Eligibility. Awards may only be granted to employees, directors, and consultants with any member of the Participating Company Group. For purposes of the foregoing sentence, "employees," "directors" and "consultants" shall include prospective employees, prospective directors and prospective consultants to whom Awards are granted in connection with written offers of an employment or other service relationship with a Participating Company.

Section 5. Shares Subject to the Plan. The number of shares of Stock which may be issued pursuant to the Plan shall be 15,000,000. For purposes of the foregoing limitation, the shares of Stock underlying any Awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the number of shares of Stock available for issuance under the Plan. Stock to be issued under the Plan may be either authorized and unissued shares or shares held in treasury by the Company. Notwithstanding the foregoing, on and after the date that the Plan is subject to Section 162(m) of the Code, Stock Options with respect to no more than 2,500,000 shares of Stock may be granted to any one individual participant during any one calendar year period.

Section 6. Stock Options. Options granted pursuant to the Plan may be either Options which are Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options and Non-Qualified Stock Options shall be granted separately hereunder. The Plan Administrator shall determine whether and to what extent Options shall be granted under the Plan and whether such Options granted shall be Incentive Stock Options or Non-Qualified Stock Options; provided, however, that: (i) Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code; and (ii) No Incentive Stock Option may be granted following the tenth anniversary of the Effective Date of the Plan. The provisions of the Plan and any Stock Option Agreement pursuant to which Incentive Stock Options shall be issued shall be construed in a manner consistent with Section 422 of the Code (or any successor provision) and rules and regulations promulgated thereunder.

Section 7. ISO Fair Market Value Limitation. To the extent that Options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a participant for the first time during any calendar year for Stock having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such Options which exceeds such amount shall be treated as Non-Qualified Stock Options. For purposes of this Section 7, Options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of Stock shall be determined as of the time the Option with respect to such Stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 7, such different limitation shall be deemed incorporated herein effective as of the amendment date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 7, the participant may designate which portion of such Option the participant is exercising. In the absence of such designation, the participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option.

Section 8. Terms of Options. Each Option granted under the Plan shall be evidenced by an agreement between the Company and the person to whom such Option is granted (the "Option Agreement") and shall be subject to the following terms and conditions:

8.1 Exercise Price. Subject to adjustment as provided in Section 11 of this Plan, the price at which each share covered by an Option may be purchased shall be determined in each case by the Plan Administrator; provided, however, that such price shall not, in the case of an Incentive Stock Option, be less than the Fair Market Value of the underlying Stock at the time the Option is granted. If a participant owns (or is deemed to own under applicable provisions of the Code and rules and regulations promulgated thereunder) more than ten percent (10%) of the combined voting power of all classes of the stock of the Company and an Option granted to such participant is intended to qualify as an Incentive Stock Option, the Option price shall be no less than 110% of the Fair Market Value of the Stock covered by the Option on the date the Option is granted.

8.2 Exercise Period. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as shall be determined by the Plan Administrator and set forth in the Option Agreement evidencing such Option; provided, however, that (i) no Option shall be exercisable after the expiration of ten (10) years after the date of grant of such Option, (ii) no Incentive Stock Option granted to a participant who owns more than 10% of the combined voting power of all classes of stock of the Company (or any parent or subsidiary of the Company) shall be exercisable after the expiration of five (5) years after the date of grant of such Option, and (iii) no Option granted to a prospective employee, prospective consultant or prospective director may become exercisable prior to the date on which such person commences Service with the Participating Company. Subject to the foregoing, unless otherwise specified by the Option Agreement evidencing the Option, any Option granted hereunder shall have a term of ten (10) years from the effective date of grant of the Option.

8.3 Effect of Termination of Service. Unless otherwise provided in such participant's Option Agreement:

(i) **<u>Death.</u>** If a participant shall cease to perform Service as a result of such participant's death, any Options then exercisable shall be exercisable until the earlier to occur of one year anniversary of the participant's death or the expiration of the Option Period and only by the participant's personal representative or persons entitled thereto under the participant's will or the laws of descent and distribution.

(ii) **<u>Termination of Service.</u>** If a participant shall cease to perform Service to any member of the Participating Company Group, all Options to which the participant is then entitled to exercise may be exercised until the earlier to occur of the three month anniversary of the participant's termination of Service or the expiration of the Option Period or, if such termination was due to disability or retirement (as hereinafter defined), until the earlier to occur of the one year anniversary of the participant's termination of Service or the expiration of the Option Period. Notwithstanding the foregoing, in the event that any termination of Service shall be for "Cause" (as defined herein) , then any and all Options held by such participant shall forthwith terminate upon such termination of Service. For purposes of the Plan, "retirement" shall mean the termination of employment with the Participating Company Group, other than for Cause, at any time under circumstances which would entitle such participant to other retirement benefits provided by the Participating Company to whom the participant was providing Service immediately prior to the termination of Service or such other circumstances that the Plan Administrator concludes should be deemed a retirement.

(iii) **Limitation on Shares.** The Option may not be exercised for more shares (subject to adjustment as provided in Section 11) after the termination of the participant's Service than the participant was entitled to purchase thereunder at the time of the termination of such relationship.

8.4 Payment of Exercise Price. The Option exercise price of each share purchased pursuant to an Option shall be paid in full at the time of each exercise (the "Payment Date") of the Option (i) in cash; (ii) by delivering to the Company a notice of exercise with an irrevocable direction to a broker-dealer registered under the Act to sell a sufficient portion of the shares and deliver the sale proceeds directly to the Company to pay the exercise price; (iii) in the discretion of the Plan Administrator, through the delivery to the Company of previously-owned shares of Common Stock having an aggregate Fair Market Value equal to the Option exercise price of the shares being purchased pursuant to the exercise of the Option; provided, however, that shares of Common Stock delivered in payment of the Option price must have been held by the participant for at least six (6) months in order to be utilized to pay the Option price; (iv) in the discretion of the Plan Administrator, by an election to have the Company withhold shares otherwise issuable to the participant having a Fair Market Value equal to the Option exercise price of the shares being purchased pursuant to the exercise of the Option; or (v) in the discretion of the Plan Administrator, through any combination of the payment procedures set forth in subsections (i)-(iv)

8.5 Nontransferability of Options. No Option shall be assignable or transferable other than by the laws of descent and distribution. During the lifetime of the participant, an Option shall be exercisable only by the participant or, in the event of the participant's incapacity, by the participant's legal guardian or legal representative.

Section 9. Stock Awards.

(a) The Plan Administrator may grant Stock Awards to any officer, employee or consultant with any member of the Participating Company Group. A Stock Award entitles the recipient to acquire shares of Stock subject to such restrictions and conditions as the Plan Administrator may determine at the time of grant ("Stock Award"). Conditions may be based on continuing employment (or other business relationship) and/or achievement of pre-established performance goals and objectives.

(b) Upon execution of a written instrument setting forth the Stock Award and paying any applicable purchase price, a participant shall have the rights of a shareholder with respect to the Stock subject to the Stock Award, including, but not limited to the right to vote and receive dividends with respect thereto; provided, however, that shares of Stock subject to Stock Awards that have not vested shall be subject to the restrictions on transferability described in Section 9(d) below. Unless the Plan Administrator shall otherwise determine, certificates evidencing the Stock Awards shall remain in the possession of the Company until such Stock is vested as provided in Section 9(c) below.

(c) The Plan Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which Stock shall become vested, subject to such further rights of the Company or its assigns as may be specified in the instrument evidencing the Stock Award. If the participant or the Company, as the case may be, fails to achieve the designated goals or the participant's relationship with the Company is terminated prior to the expiration of the vesting period, the participant shall forfeit all shares of Stock subject to the Stock Award which have not then vested.

(d) Unvested Stock may not be sold, assigned transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the written instrument evidencing the Stock Award.

Section 10. Tax Withholding.

(a) Whenever shares of Stock or Options are to be issued or cash is to be paid under the Plan, under circumstances in which the Plan Administrator believes that any federal, state or local tax withholding may be imposed, the Company or Subsidiary, as the case may be, shall have the right to require the participant to remit to the Company or Subsidiary, as the case may be, an amount sufficient to satisfy the minimum federal, state and local tax withholding requirements prior to the delivery of any certificate for shares or any proceeds; provided, however, that in the case of a participant who receives an Award of Stock under the Plan which is not fully vested, the participant shall remit such amount on the first business day following the Tax Date. The "Tax Date" for purposes of this Section 10 shall be the date on which the amount of tax to be withheld is determined. If a participant makes a disposition of Stock acquired upon the exercise of an Incentive Stock Option within either two years after the Option was granted or one year after its exercise by the participant, the participant shall promptly notify the Company and the Company shall have the right to require the participant to pay to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements.

(b) A participant who is obligated to pay the Company an amount required to be withheld under applicable tax withholding requirements may pay such amount (i) in cash; (ii) in the discretion of the Plan Administrator, through the delivery to the Company of previously-owned shares of Stock having an aggregate Fair Market Value on the Tax Date equal to the tax obligation provided that the previously owned shares delivered in satisfaction of the withholding obligations must have been held by the participant for at least six (6) months; (iii) in the discretion of the Plan Administrator, through an election to have the Company withhold shares of Stock otherwise issuable to the participant having a Fair Market Value on the Tax Date equal to the amount of tax required to be withheld, or (iv) in the discretion of the Plan Administrator, through a combination of the procedures set forth in subsections (i), (ii) and (iii) of this Section 10(b).

(c) An election by a participant to have shares of Stock withheld to satisfy federal, state and local tax withholding requirements pursuant to Section 10(b) must be in writing and delivered to the Company prior to the Tax Date.

Section 11. Adjustment of Number and Price of Shares.

Any other provision of the Plan notwithstanding:

(a) If, through or as a result of any merger, consolidation, sale of all or substantially all of the assets of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar transaction, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, the Plan Administrator shall make an appropriate or proportionate adjustment in (i) the number of Stock Options that can be granted to any one individual participant, (ii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, and (iii) the price for each share subject to any then outstanding Stock Options under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of shares) as to which such Stock Options remain exercisable. The adjustment by the Plan Administrator shall be final, binding and conclusive.

(b) In the event that, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board of Directors shall authorize the issuance or assumption of a stock Option or stock Options in a transaction to which Section 424(a) of the Code applies, then, notwithstanding any other provision of the Plan, the Plan Administrator may grant an Option or Options upon such terms and conditions as it may deem appropriate for the purpose of assumption of the old Option, or substitution of a new Option for the old Option, in conformity with the provisions of Code Section 424(a) and the rules and regulations thereunder, as they may be amended from time to time.

(c) No adjustment or substitution provided for in this Section 11 shall require the Company to issue or to sell a fractional share under any Option Agreement or share award agreement and the total adjustment or substitution with respect to each stock Option and share award agreement shall be limited accordingly.

(d) In the case of (i) the dissolution or liquidation of the Company, (ii) a merger, reorganization or consolidation in which the Company is acquired by another person or entity (other than a holding company formed by the Company), (iii) the sale of all or substantially all of the assets of the Company to an unrelated person or entity, or (iv) the sale of all of the stock of the Company to a unrelated person or entity (in each case, a "Fundamental Transaction"), the Plan and all Awards granted hereunder shall terminate, unless provision is made in connection with the Fundamental Transaction for the assumption of the Awards heretofore granted, or the substitution of such Awards with new awards of the successor entity, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise price as provided in Subsections (a) and (b) of this Section 11. In the event of such termination and in the event the Board does not provide for the Cash Payment described in Subsection (e) of this Section each participant shall be notified of such proposed termination and permitted to exercise for a period of at least 15 days prior to the date of such termination all Options held by such participant which are then exercisable.

(e) In the event that the Company shall be merged or consolidated with another corporation or entity, other than a corporation or entity which is an "affiliate" of the Company. under the terms of which holders of Stock of the Company will receive upon consummation thereof a cash payment for each share of Stock of the Company surrendered pursuant to such Business Combination (the "Cash Purchase Price"), the Board of Directors may provide that all outstanding Options shall terminate upon consummation of such transaction and each participant shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (i) the Cash Purchase Price multiplied by the number of shares of Stock of the Company subject to outstanding Options held by such participant exceeds (ii) the aggregate exercise price of such Options.

Section 12. Change in Control.

(a) Unless otherwise provided in such participant's Option Agreement, agreements relating to Stock Awards or in a written employment or other agreement directly addressing the same subject matter as addressed below, in the event that the Plan is terminated as a result of or following a Change in Control (as defined herein), all vested Options and Stock Awards then outstanding at the time of such Plan termination may be exercised for a period of thirty (30) days from the date of notice of the proposed termination. In such event, all participants shall be credited with an additional six (6) months of service for the purpose of any otherwise unvested Options and Stock Awards. Upon a Change in Control in which the Plan is either assumed or otherwise not subject to termination, if during the remaining term of such a participant's Options or Stock Awards, the participant is terminated other than for Cause, the participant will, at the time of such termination, be credited with an additional six (6) months of service for the purpose of any otherwise unvested Options and Stock Awards; however, in the event of a termination for Cause, all Options shall immediately terminate and all unvested portions of Stock Awards shall immediately terminate.

(b) As used herein, a "Change in Control" shall be deemed to have occurred if: (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act) acquires "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the voting power of the then outstanding securities of the Company except where the acquisition is approved by the Board; or (ii) if the Company is to be consolidated with or acquired by another entity in a merger or other reorganization in which the holders of the outstanding voting stock of the Company immediately preceding the consummation of such event, shall, immediately following such event, hold, as a group, less than a majority of the voting securities of the surviving or successor entity or in the event of a sale of all or substantially all of the Company's assets or otherwise.

(c) Notwithstanding anything in the Plan to the contrary, the acceleration of vesting and exercisability provided by Subsection (a) of this Section shall not occur in the event that such acceleration would make the transaction causing the Change in Control to be ineligible for pooling of interests accounting treatment, provided pooling of interest treatment is then still available and, in the absence of such acceleration, the transaction would qualify for such treatment and the Company intends to use such treatment with respect to such transaction.

Section 13. No Right to Future Employment. Nothing contained in the Plan nor in any Award agreement shall confer upon any participant any right with respect to the continuance of employment by the Company nor interfere in any way with the right of the Company to terminate his employment or change his compensation at any time.

Section 14. Amendment and Discontinuance. The Board of Directors may alter, amend, suspend or discontinue the Plan, provided that no such action shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto.

Section 15. Compliance with Section 16. With respect to persons subject to Section 16 of the Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 (or its successor rule and shall be construed to the fullest extent possible in a manner consistent with this intent). To the extent that any Award fails to so comply, it shall be deemed to be modified to the extent permitted by law and to the extent deemed advisable by the Plan Administrator in order to comply with Rule 16b-3.

Section 16. Compliance with Governmental Regulations. Notwithstanding any provision of the Plan or the terms of any agreement entered into pursuant to the Plan, the Company shall not be required to issue any shares of Stock hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933 or the Act, if such registration shall be necessary, or before compliance by the Company or any participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules any applicable exchange or of the Nasdaq Stock Market. The Company shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

Section 17. Participation by Foreign Nationals. The Plan Administrator may, in order to fulfill the purposes of the Plan and without amending the Plan, modify grants to foreign nationals or United States citizens employed abroad in order to recognize differences in local law, tax policy or custom.

Section 18. Effective Date of Plan - Shareholder Approval. The Plan was approved by the Board and became effective on June 1, 2000. Those provisions of the Plan that for federal tax purposes require approval of the stockholders of the Company (i.e., the granting of incentive stock options) shall not become effective until adopted by the stockholders, however, the Company reserves the right to grant Incentive Stock Options provided stockholder approval is secured within one (1) year from the date thereof. In the event Incentive Stock Options are granted and Stockholder approval is not timely secured, such Options shall remain in full force and effect, however, shall automatically convert to Non-Qualified Options.

Section 19. Governing Law. The Plan shall be governed by the internal laws of the State of Delaware without giving effect to its choice of law provisions. Unless otherwise provided in an Option Agreement or Award Agreement, Awards shall be governed by the same laws as the Plan.

As amended by the Board of Directors on March 25, 2002, March 25, 2003 and March 11, 2004.

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Exhibit B

STONEPATH GROUP, INC.
AUDIT COMMITTEE CHARTER

I. Audit Committee Purpose

The Audit Committee is appointed annually by the Board of Directors of Stonepath Group, Inc. (including its subsidiaries and affiliates, the "Company") to assist the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee's primary purpose is to:

- Assist the Board of Directors in fulfilling its fiduciary and oversight responsibilities relating to the Company's financial reporting standards and practices and the integrity of the Company's financial statements.
- Oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company.
- Monitor the adequacy and integrity of the Company's financial statements and reporting processes and systems of internal controls regarding finance, accounting, and legal compliance.
- Monitor the independence and performance of the Company's independent auditor and internal auditing department and the independent auditor's qualifications and independence.
- Maintain open, direct, and continuing communication among the independent auditor, management, the internal auditing department, the Audit Committee, and the Board of Directors.
- Monitor the compliance by the Company with legal and regulatory requirements.
- Prepare the report required by the rules of the Securities and Exchange Commission (the "SEC") to be included in the Company's annual proxy statement.

II. Audit Committee Composition and Meetings

The Audit Committee shall be comprised of at least three directors, all of whom shall be independent of management, and independent of the Company. Audit Committee members shall meet the applicable independence and experience requirements, in effect from time to time, of the SEC and the NASDAQ Stock Market ("NASDAQ"), American Stock Exchange ("AMEX") or such other applicable stock exchange or association on which the Company's common stock is then listed. Director's fees for serving on the Company's Board of Directors and any board committee thereof shall be the only form of compensation that an Audit Committee member may receive from the Company.

All Audit Committee members shall be financially literate at the time of appointment by the Board of Directors to the Audit Committee. Financial literacy means being able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement.

The Audit Committee Chair shall have the financial sophistication and expertise required by the regulations of NASDAQ, AMEX or such other applicable stock exchange or association on which the Company's Common Stock is then listed. In accordance with the foregoing, if an Audit Committee Chair is not designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee membership.

Audit Committee members shall be appointed annually by the Board of Directors and shall serve until their successors are appointed and qualified. The Board of Directors shall have the power at any time to change the membership of the Audit Committee and to fill the vacancies in it, subject to such new member(s) satisfying the independence, experience and financial expertise requirements referred to above. Except as expressly provided in this Charter or the Company's by-laws, or as otherwise provided by the rules of NASDAQ, AMEX or such other applicable stock exchange or association on which the Company's Common Stock is then listed, the Audit Committee shall fix its own rules of procedure.

The Audit Committee shall meet on at least a quarterly basis, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. Audit Committee members may attend meetings in person, by telephone conference or similar communications equipment, or as otherwise permitted by law. The Audit Committee shall meet periodically with management, the internal auditor and the independent auditor in separate executive sessions. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

III. Audit Committee Responsibilities and Duties

In performing its functions, the Audit Committee shall undertake those tasks and responsibilities that, in its judgment, would most effectively contribute and implement the purposes of the Audit Committee. The following functions are some of the common recurring activities of the Audit Committee in carrying out its oversight responsibilities:

<u>Review Procedures and Disclosures</u>

1. Review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board of Directors for approval. Submit the Charter to the Board of Directors for approval and have the document published in accordance with applicable rules promulgated by the SEC, and the regulations of NASDAQ, AMEX, or such other applicable stock exchange or association on which the Company's common stock is then listed.

2. Meet periodically in separate sessions with management, the internal auditors and with the independent auditors.

3. Review and discuss with management and the independent auditor the Company's annual audited financial statements prior to filing or distribution, including disclosures made in management's discussion and analysis, and recommend to the Board of Directors whether the audited financial statements should be included in the Company's Form 10-K.

4. Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the release of earnings and the filing of its Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.

5. Review and discuss with the independent auditor the Company's annual and quarterly financial statements prior to filing, distribution or incorporation by reference into any registration statements and/or other periodic or current reports of the Company.

6. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's selection or application of accounting principles, any major issues as to adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.

7. Discuss with management and the independent auditor any material accounting adjustments that were noted or proposed by the independent auditor and that were not adopted by the Company.

8. Review and discuss quarterly and annual reports from the independent auditor on:

   (a) All critical accounting policies and practices to be used.

   (b) All alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.

   (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

9. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

10. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

11. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any significant changes to the Company's accounting principles, any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

12. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

13. Consider the integrity of the Company's financial reporting processes and controls in consultation with management, the independent auditor and the internal auditors. The Audit Committee shall discuss any significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures, including the Company's risk assessment and risk management policies. The Audit Committee shall review significant findings prepared by the independent auditor and the internal auditing department together with management's responses.

Pre-Approval

14. Pre-approve all auditing services, including attest and review services, and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit, including attest and review services, and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.

15. Review and pre-approve all related party transactions to be entered into by the Company.

Independent Auditors

16. Appoint, compensate, retain, terminate and oversee the work (including the resolution of any disagreements between management and the independent auditor regarding financial reporting) of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, subject (if applicable) to subsequent shareholder ratification. The independent auditor engaged for the purpose of preparing or issuing

an audit report or performing other audit, review or attest services for the Company shall be a "registered public accounting firm," as provided in the Sarbanes-Oxley Act of 2002 and the regulations thereunder, and shall report directly to the Audit Committee.

17. Obtain from the independent auditors a formal written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard No.1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committee) and obtain all other the written disclosures and letters from the independent auditor that may be required by Independence Standards Board Standard No.1, as it may be amended or supplemented and discuss with the independent auditor the independent auditor's independence, including any relationships or services that may impact the objectivity and independence of the independent auditor.

18. Take appropriate all other action appropriate to oversee the independence of the independent auditor.

19. The Audit Committee shall evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board of Directors.

20. Ensure the rotation of the independent audit partners as required by law.

21. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Compliance Oversight Responsibilities

22. Obtain from the independent auditor assurance that Section 10A(g) of the Exchange Act has not been implicated.

23. Obtain reports from management, the Company's senior internal auditing executive and the independent auditor that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Business Conduct and Ethics. The Audit Committee shall review reports and disclosures of insider and affiliated party transactions and advise the Board of Directors with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics.

24. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

25. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.

26. Review the fees and other significant compensation to be paid to the independent auditors.

27. To the extent the Audit Committee is notified by the independent auditor of special or extraordinary audit issues, review the independent auditor's audit plan and discuss scope, staffing, reliance upon management, and internal audit and general audit approach.

28. Conduct any investigation appropriate to fulfilling its responsibilities, and have direct access to the independent auditor as well as anyone in the Company.

Retention of Advisors

29. To the extent it deems necessary or appropriate, have the authority to retain independent legal, accounting or other advisors.

30. Receive from the Company appropriate funding, as determined by the Audit Committee, for (i) payment of compensation to the independent auditor for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company (ii) payment of compensation to any advisors employed by the Audit Committee, and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties

Internal Audit Department and Legal Compliance

31. Review the budget, plan, changes in plan (including scope of internal audit), activities, organizational structure, and qualifications of the internal audit department, as needed or appropriate.

32. Review the appointment and performance of, and any decision to replace, the senior internal audit executive, as needed or appropriate.

33. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports, as needed or appropriate.

34. On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's system for monitoring compliance with applicable laws and regulations, including response to any material inquiries received from regulators or governmental agencies.

Other Audit Committee Responsibilities

35. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

36. Periodically report to the Board of Directors on significant results of the foregoing activities.

IV. Scope of Duties

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan, direct or conduct audits, or to determine whether the Company's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the independent auditor.

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STONEPATH GROUP

2003 Form 10-K

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2003

OR

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

For the transition period from _________ to _________

Commission File Number: **001-16105**

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

Delaware	**65-0867684**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 Market Street, Suite 1515, Philadelphia, PA	**19103**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $.001 per share	American Stock Exchange

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

None

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

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

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

YES ☒ NO ☐

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of June 30, 2003 was $77,150,684 based upon the closing sale price of the Registrant's common stock on the American Stock Exchange of $2.72 on such date. See Footnote (1) below.

The number of shares outstanding of the Registrant's common stock as of March 1, 2004 was 39,004,242.

Documents Incorporated by Reference: None

Index to Exhibits appears at page 53 of this Report

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

STONEPATH GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003

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PART I

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and our subsidiaries that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue" or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed elsewhere in this Annual Report, including the section entitled "Risks Particular to Our Business" and the risks discussed in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our audited Consolidated Financial Statements and related Notes thereto included elsewhere in this report.

Item 1. Business

Overview

We are a non-asset based third-party logistics services company providing supply chain solutions on a global basis. We offer a full range of time-definite transportation and distribution solutions through our Domestic Services platform which manages and arranges the movement of raw materials, supplies, components and finished goods for our customers. These services are offered through our domestic air and ground freight forwarding business. We also 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 services, we 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 21 major metropolitan areas in North America, Puerto Rico and ten locations in Asia, as well as an extensive network of independent carriers and service partners strategically located throughout the world.

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

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

As we integrate these companies, we intend to create additional stockholder value by: (1) improving productivity by adopting enhanced technologies and business processes; (2) improving transportation margins by leveraging our growing purchasing power; and (3) enhancing the opportunity for organic growth by cross-selling and offering expanded services.

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

Through March 1, 2004, we have completed the acquisition of 16 logistics companies. The initial phase of our acquisition strategy was to develop a U.S.-based platform of service offerings. We accomplished this through the acquisition of M.G.R., Inc. (d/b/a "Air Plus") on October 5, 2001 and Global Transportation Services, Inc. ("Global") on April 4, 2002. Founded in 1990, Air Plus is a leading time-definite logistics company providing a full range of domestic transportation and distribution solutions including warehousing and order fulfillment. Air Plus services a customer base of manufacturers, distributors and national retail chains through its network of offices in North America and an extensive network of over 200 agents. Founded in 1985, Global provides a full range of international transportation and logistics solutions to a customer base of manufacturers and national retail chains. Global also provides customs brokerage, ocean forwarding, NVOCC services, consolidation and deconsolidation services, air import and export services and warehousing and distribution services.

The next phase of our acquisition strategy was to supplement the organic growth of our organization through targeted "add-on" acquisitions that were intended to fill a strategic industry niche and offer complementary services to our existing customer base. We accomplished this by acquiring United American Freight Services, Inc. ("United American") on May 30, 2002, Transport Specialists, Inc. ("TSI") on October 1, 2002, Transportation Rail Warehousing Logistics, Inc. ("TRWL") on January 31, 2003, Regroup Express LLC ("Regroup") on June 20, 2003 and Customs Services International, Inc. ("CSI") on July 16, 2003. United American, based in the Detroit, Michigan area, provides us with a division that supports the automotive industry, while both TSI and Regroup, based in Northern Virginia, and TRWL, based in Portland, Maine, service government agencies and the defense sector. CSI provides a full range of international freight forwarding and customs brokerage services out of its offices in Miami, Florida and El Paso, Texas, with a focus on Latin America, Europe and Asia.

Most recently, we completed a series of acquisitions that increased our presence in Asia with the goal of building Stonepath into a leading worldwide integrated logistics service organization. On August 8, 2003, we acquired a controlling interest in the Singapore and Cambodia based operations of the G-Link Group of companies, a regional logistics business headquartered in Singapore, with offices throughout Southeast Asia. We then acquired three Malaysian based offices of G-Link in December 2003. During December 2003, we also acquired controlling interests in East Ocean Logistics Ltd., a Hong Kong based company that specializes in international ocean freight services, Planet Logistics Pte. Ltd., a Singapore based company that focuses on international and intra-Asia air cargo services, and Group Logistics Pte. Ltd., a start-up providing air cargo services in Shanghai, PRC. On February 9, 2004, we increased our presence in Shanghai by acquiring a majority interest in Shaanxi Sunshine Cargo Services International Company, Ltd. ("Shaanxi"), a Class A licensed freight forwarder headquartered in Shanghai that has been operated by founder and President Andy Tsai since 1993. Shaanxi provides a wide range of customized transportation and logistics services and supply chain solutions, including global freight forwarding, warehousing and distribution services, shipping services and special freight handling.

We have identified a number of additional companies that may be suitable acquisition candidates and we are in preliminary discussions with a select number of them.

There are a variety of risks associated with our ability to achieve our strategic objectives, including our ability to acquire and profitably manage additional businesses, our current reliance on a small number of key customers, the risks inherent in international operations, and the intense competition in our industry for customers and for the acquisition of additional businesses. For a more detailed discussion of these risks, see the section of this Item 1 entitled "Risks Particular to our Business."

Industry Overview

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

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

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

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

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

- Outsourcing of Non-Core Activities. Companies are increasingly outsourcing freight forwarding, warehousing and other supply chain activities to allow them to focus on their core competencies. From managing purchase orders to the timely delivery of products, companies turn to 3PLs to manage these functions at a lower cost and more efficiently.

- Globalization of Trade. As barriers to international trade are reduced or eliminated, companies are increasingly sourcing their parts, supplies and raw materials from the most cost competitive suppliers throughout the world. This places a greater emphasis on international freight management and just-in-time delivery. Outsourcing of manufacturing functions to, or locating company-owned manufacturing facilities in, low cost areas of the world also results in increased volumes of world trade.

- Increased Need for Time-Definite Delivery. The need for just-in-time and other time-definite delivery has increased as a result of the globalization of manufacturing, greater implementation of demand-driven supply chains, the shortening of product cycles and the increasing value of individual shipments. Many businesses recognize that increased spending on time-definite supply chain management services can decrease overall manufacturing and distribution costs, reduce capital requirements and allow them to manage their working capital more efficiently by reducing inventory levels and inventory loss.

- Consolidation of Logistics Function. As companies try to develop "partnering" relationships with fewer suppliers, they are consolidating the number of freight forwarders and supply chain management providers they use. This trend places greater pressure on regional or local freight forwarders and supply chain management providers to grow or become aligned with a global network. Larger freight forwarders and supply chain management providers benefit from economies of scale which enable them to negotiate reduced transportation rates with the carriers actually providing the transportation services and to allocate their overhead over a larger volume of transactions. Globally-integrated freight forwarders and supply chain management providers are better situated to provide a full complement of services, including pick-up and delivery, shipment via air, sea and/or ground transport, warehousing and distribution, and customs brokerage.

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

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

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

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

Our Strategic Objectives

Our Business Strategy

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

- Enter New and Expand Existing Markets through Acquisitions. We are pursuing an aggressive acquisition strategy to enhance our position in our current markets and to acquire operations in new markets. We anticipate expanding into new and existing markets by acquiring well-established logistics organizations that are leaders in their regional markets. In particular, we intend to focus our acquisition strategy on candidates that have historic levels of profitability, a proven record of delivering superior time-definite distribution and other value added services, an established customer base of large and mid-sized companies and opportunities for significant growth within strategic segments of our business.

- Continue Organic Growth. A key component of our strategy is to continue the organic growth of our existing business as well as the business of the companies we acquire. We expect that we can continue to fuel internal growth by cross-selling our domestic and international capabilities to our existing customer base and deploying supply chain technologies that will drive new customer acquisitions.

- Development of Identity. We are also developing the "Stonepath Logistics" brand and intend to leverage our broader set of capabilities with the goal of capturing business opportunities which would not normally be available to a regionally-oriented logistics company.

Our Acquisition Strategy

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

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

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

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

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

Our Operating Strategy

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

- <u>Develop and Maintain Strong Customer Relationships</u>. We seek to develop and maintain strong, interactive customer relationships by anticipating and focusing on our customers' needs. We emphasize a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach used by many of our competitors. To develop close customer relationships, we regularly meet with both existing and prospective customers to help design solutions for, and identify the resources needed to execute, their supply chain strategies. We believe that this relationship-oriented approach results in greater customer satisfaction and reduced business development expense.

- Centralize Administrative Functions. We seek to maximize our operational efficiencies by integrating general and administrative functions at the corporate level, and reducing or eliminating redundant functions and facilities at acquired companies. This enables us to quickly realize potential savings and synergies, efficiently control and monitor our operations and allows acquired companies to focus on growing their sales and operations.

Operations

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

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

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

Our services are broadly classified into the following categories:

- Freight Forwarding Services. We offer domestic and international air, ocean and ground freight forwarding for shipments that are generally larger than shipments handled by integrated carriers of primarily small parcels such as Federal Express Corporation and United Parcel Service. Our basic freight forwarding business is complemented by customized and information technology-based options to meet customers' specific needs. Our Domestic Services organization offers same day, one, two and three to five day service along with expedited ground service within North America and Puerto Rico through our network of asset based carriers. On a limited basis, we also provide motor carrier services through one of our own affiliates.

- Customs Brokerage Services. Our International Services organization provides customs brokerage services. Within each country, the rules and regulations vary along with the level of expertise that is required to perform the customs brokerage services. Our customs brokers and support staff have substantial knowledge of the complex tariff laws and customs regulations governing the payment of duty, as well as valuation and import restrictions in their respective countries.

- Warehousing and Other Value Added Services. Our warehousing services primarily relate to storing goods and materials to meet our customers' production or distribution schedules. Other value added services include receiving, deconsolidation and decontainerization, sorting, put away, consolidation, assembly, inspection services, cargo loading and unloading, assembly of freight, customer inventory management and protective packing and storage. We receive storage charges for use of our warehouses and fees for our other services.

- Time Definite Transportation. We specialize in complex, time-definite delivery of product to North American destinations. These include high-volume, complex multi-destination consolidation programs for catalog, retail and other shippers. We have special programs focused on high value and breakable freight in all modes of transportation.

Other value added services provided by us include:

- Direct to store logistics for retail customers involving coordination of product received directly from manufacturers and dividing large shipments from manufacturers into numerous smaller shipments for delivery directly to retail outlets or distribution centers to meet time-definite product launch dates.

- Turn-key product management services for retailers – including comprehensive vendor compliance management, central delivery and distribution centers close to consumption, inventory forecasting, replenishment and management – all on the Web.

- Merge-in-transit logistics involving movement of products from various vendors at multiple locations to a Company facility and the subsequent merger of the various deliveries into a single coordinated delivery to the final destination. Such services are useful to retailers where deliveries from diverse sources are organized and distributed to maximize efficiency of their sales and marketing programs.

- Web-based fulfillment solutions providing order management as well as the subsequent pick, pack and shipment for our customers.

- Turn-key supply chain and logistics outsourcing projects where we operate one or more warehouses or the entire end-to-end supply chain. We provide sophisticated systems that supply global location, status and ownership of parts/SKUs and enable the timely cross border customs clearance and placement desired by the final consumer of the goods.

- Value-added, high-speed, time-definite, total-destination programs that include packaging, transportation, unpacking and placement of new products and equipment.

- Packaging, transportation, unpacking and stand installation for domestic trade shows and major expositions.

- Reverse logistics involving the return of products from end users to manufacturers, retailers, resellers or remanufacturers, including verification of working order, defect analysis, serial number tracking and inventory management.

Information Systems

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

To execute this strategy, we have and will continue to assess technologies obtained through our acquisition strategy in combination with commercially available supply chain technologies to launch our own "best-of-breed" solution set using a combination of owned and licensed technologies. We refer to this technology set as Tech-Logis™ (or Technology in Logistics). We are using Tech-Logis™ to provide: (1) a customer-facing portal that unifies the look and feel of how customers, employees and suppliers work with and connect to us; (2) a robust supply chain operating system including order, inventory optimization, transportation, warehouse and supply chain event management for use across the organization; and (3) a common data repository for analysis and reporting to provide advanced metrics to management and our customers. We expect to finish the delivery of the Tech-Logis™ platform in 2004 and to provide subsequent upgrades and new service areas over time.

In executing this strategy, we have and will continue to invest significant management and financial resources to deliver these technologies. We believe these technologies will provide financial and competitive advantages in the years ahead and will increase our competitive differentiation.

Sales and Marketing

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

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

Our customers include large manufacturers and distributors of computers and other electronic and high-technology equipment, printed and publishing materials, automotive and aerospace components, trade show exhibit materials, telecommunications equipment, machinery and machine parts, apparel, entertainment products, and household goods. For the year ended December 31, 2003, our largest customer, Best Buy Co., Inc., accounted for approximately 24% of our revenue, down from 33% in 2002. Approximately 22% of our 2003 revenue was derived from our next five largest customers, none of which accounted for 10% or more of our 2003 revenue. As our current companies continue to diversify, and as we continue our acquisition strategy, our exposure to customer and industry concentrations should be significantly reduced.

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

Competition and Business Conditions

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

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

As a provider of third-party logistics services, we encounter competition from a large number of firms, much of it coming from local or regional firms which have only one or a small number of offices and do not offer the breadth of services and integrated approach as we offer. However, some of this competition comes from major United States and foreign-owned firms which have networks of offices and offer a wide variety of services. We believe that quality of service, including information systems capability, global network capacity, reliability, responsiveness, expertise and convenience, scope of operations, customized program design and implementation and price are important competitive factors in our industry.

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

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

Regulation

We do not believe that transportation related regulatory compliance has had a material adverse impact on operations to date. However, failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of our operating permits or authorities. We cannot give assurance as to the degree or cost of future regulations on our business. Some of the regulations affecting our operations are described below.

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

Our surface freight forwarding operations are subject to various federal statutes and are regulated by the Surface Transportation Board. This federal agency has broad investigatory and regulatory powers, including the power to issue a certificate of authority or license to engage in the business, to approve specified mergers, consolidations and acquisitions, and to regulate the delivery of some types of domestic shipments and operations within particular geographic areas. The Surface Transportation Board and U.S. Department of Transportation also have the authority to regulate interstate motor carrier operations, including the regulation of certain rates, charges and accounting systems, to require periodic financial reporting, and to regulate insurance, driver qualifications, operation of motor vehicles, parts and accessories for motor vehicle equipment, hours of service of drivers, inspection, repair, maintenance standards and other safety related matters. The federal laws governing interstate motor carriers have both direct and indirect application to the Company. The breadth and scope of the federal regulations may affect the operations of the Company and the motor carriers which we use to provide transportation services. In certain locations, state or local permits or registrations may also be required to provide or obtain intrastate motor carrier services for the Company. Our property brokerage operations similarly subject us to various federal statutes and regulation as a property broker by the Surface Transportation Board, and we have obtained a property broker license and posted a surety bond as required by federal law. Our international operations are subject to regulation by the Federal Maritime Commission, or FMC, as it regulates and licenses ocean forwarding operations. Indirect ocean carriers (non-vessel operating common carriers) are subject to FMC regulation, under the FMC tariff filing and surety bond requirements, and under the Shipping Act of 1984, particularly those terms proscribing rebating practices.

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

In the United States, we are also subject to federal, state and local provisions relating to the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many foreign jurisdictions in which we operate or may operate in the future. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and we cannot predict what impact future environmental regulations may have on our business. We do not anticipate making any material capital expenditures for environmental control purposes.

Personnel

At December 31, 2003, we had 827 employees of which 622 employees were engaged in operations, 57 in sales and marketing, and 148 in finance, administration and management functions.

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

Discontinued Operations

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

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

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

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

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

Corporate Information

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

Segment Information

For additional information about our business segments, see the business segment information presented in Note 15 to our Consolidated Financial Statements.

Risks Particular to our Business

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

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

- **Additional financing will be required to implement our business strategy.**

We believe that our current working capital and anticipated cash flow from operations are adequate to fund existing operations. Our ability to complete further acquisitions, however, is limited until we raise additional capital, primarily due to limitations under our existing credit facility and in view of anticipated expenditures that will be required to satisfy acquisition related earn-out payments that will be due in April 2004 and beyond. We may finance acquisitions, however, using our securities for all or some portion of the consideration. 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.

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

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

- **Our credit facility places limitations on the type and number of acquisitions we may make.**

We have obtained a $20.0 million credit facility from LaSalle Business Credit, Inc. to provide additional funding for acquisitions and for our on-going working capital requirements. Under the terms of the credit facility, we are permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the credit facility include the following: (1) the absence of an event of default under the credit facility; (2) the company to be acquired must be in the transportation and logistics industry; (3) the purchase price to be paid must be consistent with our historical business and acquisition model; (4) the undrawn availability under the credit facility must average $5.0 million for the 60 days preceding the acquisition and must be at least $5.0 million after giving effect to the acquisition; (5) the lender must be reasonably satisfied with projected financial statements we provide covering a 12 month period following the acquisition; (6) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender; (7) as of March 1, 2004, the aggregate incremental cash that may be moved off-shore in support of foreign acquisitions or other general corporate purposes must not exceed $2.9 million (such amount may be increased in connection with subsequent equity offerings); and (8) the number of such permitted acquisitions is limited to four per year (excluding any acquisitions for which the purchase price is payable solely in stock). In the event that we were not able to satisfy the conditions of the credit facility in connection with a proposed acquisition, we would have to forego the acquisition unless we either obtained the lender's consent or retired the credit facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

- **Our credit facility contains financial covenants that may limit its current availability.**

The terms of our credit facility are subject to certain financial covenants which may limit the amount otherwise available under that facility. Principal among these are financial covenants that limit availability based upon measures of our cash flow, as well as a covenant that limits funded debt (the "Funded Debt Covenant") to a multiple of consolidated earnings before interest, taxes, depreciation and amortization generated from the operations of our United States subsidiaries ("Domestic EBITDA"). Under the Funded Debt Covenant, our funded debt is limited to a multiple of 2.75 of our Domestic EBITDA measured on a rolling four quarter basis. For the rolling four quarter period ending December 31, 2003, this financial covenant did not provide any limitation because our rolling four quarter Domestic EBITDA measured $8.2 million and the limitation on funded debt of approximately $22.6 million exceeded our current $20.0 million facility. However, our ability to continue to generate Domestic EBITDA will be critical to our ability to use the full amount of the credit facility.

- **Due to our acquisition strategy, our earnings will be adversely affected by non-cash charges relating to the amortization of intangibles.**

Under applicable accounting standards, purchasers are required to allocate the total consideration paid in a business combination to the identified acquired assets and liabilities based on their fair values at the time of acquisition. The excess of the consideration paid in a business combination over the fair value of the identifiable tangible assets acquired is to be allocated among identifiable intangible assets and goodwill. The amount allocated to goodwill is not subject to amortization. However, it is tested at least annually for impairment. The amount allocated to identifiable intangibles, such as customer relationships and the like, is amortized over the life of these intangible assets. This subjects us to periodic charges against our earnings to the extent of the amortization incurred for that period. Because our business strategy focuses on growth through acquisitions, our future earnings will be subject to greater non-cash amortization charges than a company whose earnings are derived organically. As a result, we will experience an increase in non-cash charges related to the amortization of intangible assets acquired in our acquisitions. This will create the appearance, based on our financial statements, that our intangible assets are diminishing in value, when in fact they may be increasing because we are growing the value of our intangible assets (e.g., customer relationships). Because of this discrepancy, we believe EBITDA provides a meaningful measure of our financial performance. However, the investment community generally measures a public company's performance by its net income. Thus, while we believe EBITDA provides a meaningful measure of our financial performance, should the investment community elect to place more emphasis on our net income, the future price of our common stock could be adversely affected.

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

Even though we have developed general acquisition guidelines, we are not obligated to follow any particular operating, financial, geographic or other criteria in evaluating candidates for potential acquisitions or business combinations. We target companies which we believe will provide the best potential for long-term financial return for our shareholders and we determine the purchase price and other terms and conditions of acquisitions. Our shareholders will not have the opportunity to evaluate the relevant economic, financial and other information that we will use and consider in deciding whether or not to enter into a particular transaction.

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

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

- A failure to agree on the terms necessary for a transaction, such as purchase price;

- incompatibility of operating strategies and management philosophies;

- competition from other acquirers of operating companies;

- insufficient capital to acquire a profitable logistics company; and

- the unwillingness of a potential acquiree to work with our management or our affiliated companies.

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

- **The issuance of additional securities may cause additional dilution to the interests of our existing shareholders.**

The additional financing required to fund our acquisition strategy may require us to issue additional shares of common stock or common stock equivalents to generate the required financing. For example, we issued 6,024,908 shares of our common stock in a private placement transaction that closed in October 2003. We could offer additional shares in private placements transactions or public offerings. We recently filed a "shelf" registration statement with the SEC that will enable us to publicly sell $50.0 million of securities in the near term. Any issuances of securities in the future will further increase the number of shares outstanding and further dilute the interests of our existing shareholders. We may issue more shares of common stock for this purpose without prior notice to our shareholders.

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

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

We are currently authorized to issue 100,000,000 shares of common stock. As of March 1, 2004, we had 39,004,242 outstanding shares of common stock. We may in the future issue up to 16,221,867 additional shares of our common stock upon conversion or exercise of existing outstanding convertible securities, options and warrants in accordance with the following schedule:

	Number of Shares	Proceeds
Shares issuable upon conversion of the Series D preferred stock	3,093,970	$ –
Options outstanding under our Stock Option Plan	10,313,634	15,522,126
Non-Plan Options	1,326,700	2,774,250
Warrants	1,487,563	1,547,573
Total	16,221,867	$ 19,843,949

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

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

Even though our customer base is diversifying as we grow through acquisitions, it remains highly concentrated. For the year ended December 31, 2003 our largest customer, Best Buy Co., Inc., a national retail chain, accounted for approximately 24% of our total revenue. Our next five largest customers accounted for approximately 22% of our total revenue, with none of these customers accounting for 10% or more of our total revenue. We believe the risk posed by this concentration is mitigated by our longstanding and continuing relationships with these customers and we are confident that these relationships will remain ongoing for the foreseeable future. We intend to continue to provide superior service to all of our customers and have no expectation that revenue from any of these customers will be reduced as a result of any factors within our control. However, adverse conditions in the industries of our customers could cause us to lose a significant customer or experience a decrease in shipment volume. Either of these events could negatively impact us. Our immediate plans, however, are to reduce our dependence on any particular customer or customers by increasing our sales and customer base by, among other things, diversifying our service offerings and continuing with our growth strategy.

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

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

– the political and economic systems in certain international markets are less stable than in the United States;

– Wars, civil unrest, acts of terrorism and other conflicts exist in certain international markets;

– export restrictions, tariffs, licenses and other trade barriers can adversely affect the international trade serviced by our international operations;

- managing distant operations with different local market conditions and practices is more difficult than managing domestic operations;

- differing technology standards in other countries present difficulties and incremental expense in integrating our services across international markets;

- complex foreign laws and treaties can adversely affect our ability to compete; and

- our ability to repatriate funds may be limited by tax ramifications and foreign exchange controls.

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

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

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

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

- **We face intense competition in our industry.**

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

- **Our stock price may be volatile due to factors under, as well as out of, our control.**

The market price of our common stock has been highly volatile. Some factors that may affect the market price in the future include:

- actual or anticipated fluctuations in our operating results;

- announcements of technological innovations or new commercial products or services by us or our competitors;

- a continued weakening of general market conditions which in turn could have a depressive effect on the volume of goods shipped and shipments that we manage or arrange;

- Acts of global terrorism or armed conflicts; and

- changes in recommendations or earnings estimates by us or by securities analysts.

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

- **Our cash flow will be adversely affected in the future once we make use of our consolidated net operating loss carryforward available to offset future earnings.**

Due to losses we incurred in our former business model, we have accumulated a net operating loss carryforward for federal income tax purposes. As of December 31, 2003, approximately $17.8 million of these losses were available to offset our taxable income until the losses are fully utilized. Once these available losses have been utilized, our cash flows will be affected accordingly. We do not anticipate paying federal income taxes during 2004 as we expect that our existing net operating loss carryforward should be sufficient to offset expected taxable income. However, additional sales of our securities could have the effect of significantly limiting our ability to utilize our existing net operating loss carryforward in the future.

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

Our management information and financial reporting systems need to be improved.

In January 2004, we restated our 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 to correct a process 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 error resulted in the failure to eliminate certain intercompany transactions in consolidation. This resulted in an overstatement of total revenue and a corresponding overstatement of the cost of transportation, with no resulting impact on net revenue, EBITDA or net income. 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.

We believe 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, we have commenced an overall review of our internal controls over financial reporting. As part of the assessment of our internal controls over financial reporting, we are focusing on our recent growth in terms of both size and complexity, coupled with the fact that our finance and accounting functions are largely decentralized. Although this review is not yet completed, we have initiated an immediate change in process to correct the process error that occurred and to reduce the likelihood that a similar error could occur in the future.

While we believe we have a plan that, when completed, will eliminate the reportable condition described above, we may experience delays, disruptions and unanticipated expenses in completing that plan and in otherwise implementing, integrating and operating our consolidated management information and financial reporting systems. Failure to enhance these systems could delay our receipt of management and financial information at the consolidated level which could disrupt our operations or impair our ability to monitor our operations and have a negative effect on our financial condition.

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

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

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

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

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

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

- **We have a limited operating history upon which you can evaluate our prospects.**

During 2001, we discontinued our former business model of developing early-stage technology businesses, and adopted a new model of delivering non-asset based third-party logistics services. The first acquisition under our new business model occurred on October 5, 2001. Subsequent acquisitions were completed during 2002, 2003 and 2004. As a result, we have a limited operating history under our current business model. Even though we are managed by senior executives with significant experience in the industry, our limited operating history makes it difficult to predict the longer-term success of our business model.

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

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

Item 2. Properties

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

Our corporate headquarters is located at 1600 Market Street, Suite 1515, Philadelphia, Pennsylvania where we lease approximately 4,000 square feet of office space.

As of March 1, 2004, we leased and maintained logistics facilities in 23 locations throughout the United States plus 11 international locations. The majority of these locations are operating terminals that contain office space and warehouse or cross-dock facilities and range in size from approximately 1,200 square feet to 160,000 square feet. A few of these facilities are limited to a small sales and administrative office.

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

Our facilities are situated in the following locations:

Philadelphia, Corporate headquarters	New York, NY
Minneapolis (2 locations)	El Paso
Seattle	Boston
Chicago	Portland, ME
Detroit	Los Angeles
Dallas/Fort Worth	San Francisco
St. Louis	Miami
Atlanta	Puerto Rico
Indianapolis	Hong Kong
Phoenix	Singapore (2 locations)
Salt Lake City	Malaysia (3 locations)
Washington, D.C. (2 locations)	Cambodia
Norfolk	Shanghai, PRC (2 locations)
Milwaukee	Nanjing, PRC

Item 3. Legal Proceedings

On October 12, 2000, Emergent Capital Investment Management, LLC ("Emergent") filed suit against the Company and two of its officers in the United States District Court for the Southern District of New York 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 District 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 District 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 did 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 District Court entered an order granting the motion to dismiss Emergent's second amended complaint against the Company and its former officers. The District 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. On September 4, 2003, the Second Circuit Court of Appeals entered an order affirming in part, vacating in part and remanding in part the matter to the District Court. The Court of Appeals affirmed the dismissal of some of the counts in the Second Amended Complaint and determined that Emergent had stated a claim on the other counts. The Company has filed an answer denying liability to Emergent and discovery on causation issues is proceeding. The Company intends to continue to vigorously defend this matter.

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

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

None

PART II

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

Our common stock is traded on the American Stock Exchange under the symbol "STG." The table below sets forth the high and low prices for our common stock for the quarters included within 2003 and 2002.

	High	Low
Year ended December 31, 2003		
First quarter	$1.84	$1.40
Second quarter	2.79	1.75
Third quarter	3.14	2.00
Fourth quarter	2.99	2.26
Year ended December 31, 2002		
First quarter	2.15	1.20
Second quarter	2.95	1.10
Third quarter	1.70	0.95
Fourth quarter	1.74	1.01

Share Information

As of March 1, 2004 there were 39,004,242 shares of our common stock outstanding, owned by 266 registered holders of record. Management estimates there are over 3,000 stockholders holding their stock in nominee name. We have not paid cash dividends on our common stock and do not anticipate or contemplate paying cash dividends in the foreseeable future. We plan to retain any earnings for use in the operations of our business and to fund our acquisition strategy. Furthermore, we are limited in our ability to pay dividends under the terms of our outstanding credit facility.

Equity Compensation Plan Information

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

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	8,769,434	$1.27	3,688,067[1]
Equity compensation plans not approved by security holders	1,834,700	$1.79	—
Total	10,604,134	$1.36	3,688,067

(1) Does not include options to purchase 542,499 shares of our common stock under the Company's stock option plan which have been exercised.

Recent Sales of Unregistered Securities

1. On November 26, 2003, we issued an aggregate of 592,273 shares of our common stock to G-Link Express Pte., Ltd. and G-Link Express (Cambodia) Pte., Ltd., in consideration for the excess working capital component associated with the acquisition of the assets and operations of the Singapore and Cambodia offices of the G-Link Group of companies. The shares were valued at $1,516,220 ($2.56 per share) and were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 thereunder, as an issuer transaction not involving a public offering, and pursuant to Regulation S.

2. On December 17, 2003, we issued 87,164 shares of our common stock to East Ocean Logistics Ltd. as partial consideration for the acquisition of the assets and operations associated with the Hong Kong-based business of East Ocean Logistics Ltd. The shares were valued, for purposes of the acquisition, at $227,500 ($2.61 per share), and were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 thereunder, as an issuer transaction not involving a public offering, and pursuant to Regulation S.

3. On December 22, 2003, we issued an aggregate of 48,676 shares of our common stock to GLE Transport Services Sdn. Bhd., GLE Shipping Penang Sdn. Bhd. and GLE Shipping (Johor Bahru) Sdn. Bhd. as partial consideration for the acquisition of the assets and operations of three Malaysian offices of the G-Link Group of companies. The shares were valued, for purposes of the acquisition, at $119,355 ($2.452 per share), and were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 thereunder, as an issuer transaction not involving a public offering, and pursuant to Regulation S.

4. On December 22, 2003, we issued 66,284 shares of our common stock to Planet Logistics Pte. Ltd. as partial consideration for the acquisition of the assets and operations associated with the Singapore-based business of Planet Logistics Pte. Ltd. The shares were valued, for purposes of the acquisition, at $173,000 ($2.61 per share), and were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 thereunder, as an issuer transaction not involving a public offering, and pursuant to Regulation S.

5. On February 9, 2004, we issued 630,915 shares of our common stock to Andy Tsai as partial consideration for the acquisition of an interest in the freight forwarding business formerly operated by Mr. Tsai as the Shanghai branch of Shaanxi Sunshine Express International Co., Ltd. The shares were valued, for purposes of the acquisition, at $2,000,000 ($3.17 per share), and were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 thereunder, as an issuer transaction not involving a public offering, and pursuant to Regulation S.

Item 6. Selected Financial Data

The following selected financial data as of and for the dates indicated have been derived from our consolidated financial statements and the combined financial statements of our predecessor, Air Plus. You should read the following selected financial data together with the consolidated financial statements and related footnotes of the Company, the combined financial statements and related footnotes of Air Plus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The selected consolidated statement of operations data of the Company for each of the years in the three-year period ended December 31, 2003 and the balance sheet data of the Company as of December 31, 2003 and 2002 are derived from the Company's consolidated financial statements that have been audited by KPMG LLP and are included in this Annual Report on Form 10-K. The selected consolidated statement of operations data of the Company for the years ended December 31, 2000 and 1999 and the balance sheet data of the Company as of December 31, 2001, 2000 and 1999 are derived from the Company's audited consolidated financial statements (after reclassification for discontinued operations, as discussed below) which are not included in this Annual Report on Form 10-K.

The selected combined statement of operations data of Air Plus for the six months ended June 30, 2001 is derived from Air Plus' combined financial statements which are unaudited and which are not included in this Annual Report on Form 10-K.

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

Consolidated Statement of Operations Data: (in thousands, except per share amounts)	Stonepath Group, Inc. Year ended December 31,					Air Plus
	2003	2002	2001	2000	1999	Six months ended June 30, 2001 (unaudited)
Total revenue	$ 220,304	$ 122,788	$ 15,598	$ —	$ —	$ 26,015
Cost of transportation	153,718	84,478	9,741	—	—	15,679
Net revenue	66,586	38,310	5,857	—	—	10,336
Operating expenses	60,300	35,956	10,409	7,420	2,761	9,660
Income (loss) from operations	6,286	2,354	(4,552)	(7,420)	(2,761)	676
Other income (expense)	(8)	128	1,295	2,065	(2,812)	(24)
Income (loss) from continuing operations before income taxes and minority interest	6,278	2,482	(3,257)	(5,355)	(5,573)	652
Income tax expense (benefit)	(1,311)	102	—	—	—	—
Income (loss) from continuing operations before minority interest	7,589	2,380	(3,257)	(5,355)	(5,573)	652
Minority interest	187	—	—	—	—	—
Income (loss) from continuing operations	7,402	2,380	(3,257)	(5,355)	(5,573)	652
Loss from discontinued operations	(263)	—	(13,863)	(30,816)	(18,258)	—
Net income (loss)	7,139	2,380	(17,120)	(36,171)	(23,831)	652
Preferred stock dividends	—	15,020	(4,151)	(45,751)	(6,605)	—
Net income (loss) attributable to common stockholders	$ 7,139	$ 17,400	$ (21,271)	$ (81,922)	$ (30,436)	$ 652
Basic earnings (loss) per common share:						
Continuing operations	$ 0.25	$ 0.79	$ (0.36)	$ (2.89)	$ (1.15)	
Discontinued operations	(0.01)	—	(0.68)	(1.75)	(1.73)	
	$ 0.24	$ 0.79	$ (1.04)	$ (4.64)	$ (2.88)	
Diluted earnings (loss) per common share (1)						
Continuing operations	$ 0.19	$ 0.08	$ (0.36)	$ (2.89)	$ (1.15)	
Discontinued operations	(0.01)	—	(0.68)	(1.75)	(1.73)	
	$ 0.18	$ 0.08	$ (1.04)	$ (4.64)	$ (2.88)	
Weighted average common shares:						
Basic	29,626	22,155	20,510	17,658	10,558	
Diluted	39,063	29,233	20,510	17,658	10,558	

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

Consolidated Balance Sheet Data: (in thousands)

	Stonepath Group, Inc. December 31,				
	2003	2002	2001	2000	1999
Cash and cash equivalents	$ 3,074	$ 2,266	$ 15,228	$ 29,100	$ 3,127
Working capital (deficit)	16,332	5,334	15,259	27,713	(4,213)
Total assets	96,439	55,166	40,803	44,911	13,989
Long-term debt and redeemable preferred stock	1,135	—	—	—	4,516
Stockholders' equity	66,514	35,431	32,432	43,326	1,701

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

This discussion is intended to further the reader's understanding of our financial condition and results of operations and should be read in conjunction with our consolidated financial statements and related notes included elsewhere herein. This discussion also contains statements that are forward-looking. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in this Annual Report and in our other SEC filings. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof.

Overview

We are a non-asset based third-party logistics services company providing supply chain solutions on a global basis. We offer a full range of time-definite transportation and distribution solutions through our Domestic Services platform where we manage and arrange the movement of raw materials, supplies, components and finished goods for our customers. These services are offered through our domestic air and ground freight forwarding business. We offer a full range of international logistics services including international air and ocean transportation as well as customs house brokerage services through our International Services platform. In addition to these core service offerings, we also provide a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management solutions. We service a customer base of manufacturers, distributors and national retail chains through a network of offices in 21 major metropolitan areas in North America, Puerto Rico and ten locations in Asia, using an extensive network of independent carriers and 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 dollar volume of our purchased transportation services enables us to negotiate attractive pricing with our transportation providers.

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

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

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

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

Gross 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. Management believes 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 purchased transportation. In addition, management believes measuring 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 gross 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: Air Plus for periods subsequent to October 5, 2001; SLIS (formerly known as Global) for periods subsequent to April 4, 2002; United American for periods subsequent to May 30, 2002; TSI for periods subsequent to October 1, 2002; TRWL for periods subsequent to January 31, 2003; Regroup for periods subsequent to June 20, 2003; and CSI for periods subsequent to July 16, 2003. Starting in the second half of 2003, we began a program to establish an offshore network of owned offices with an initial focus in Asia commencing with the acquisition of G-Link's Singapore and Cambodia operations on August 8, 2003. To help facilitate the consolidation, analysis and public reporting process, our offshore operations are included within our consolidated results on a one-month lag, or more specifically, our calendar year results will include results from offshore operations for the period December 1 though November 30. As a result, our 2003 results include the financial results for the G-Link Cambodia and Singapore operations for the period August 8, 2003 through November 30, 2003. We also closed a number of small transactions in December of 2003, the earnings impact of which will not be reflected in our results until 2004.

Our GAAP based net income will also be affected by non-cash charges relating to the amortization of customer related intangible assets and other intangible assets arising from our completed acquisitions. Under applicable accounting standards, purchasers are required to allocate the total consideration in a business combination to the identified assets acquired and liabilities assumed based on their fair values at the time of acquisition. The excess of the consideration paid over the fair value of the identifiable net assets acquired is to be allocated to goodwill, which is tested at least annually for impairment. Applicable accounting standards require the Company to separately account for and value certain identifiable intangible assets based on the unique facts and circumstances of each acquisition. As a result of the Company's acquisition strategy, our net income will include material non-cash charges relating to the amortization of customer related intangible assets and other intangible assets acquired in our acquisitions. Although these charges may increase as the Company completes more acquisitions, we believe we are actually growing the value of our intangible assets (e.g., customer relationships). Thus, we believe that earnings before interest, taxes, depreciation and amortization, or EBITDA, is a useful financial measure for investors because it eliminates the effect of these non-cash costs and provides an important metric of the economic reality of the business. Accordingly, we employ EBITDA as a measure of our historical financial performance and as a benchmark for future guidance.

A significant portion of our revenue is derived from our international operations, and the growth of those operations is an important part of our business strategy. Our current international operations are focused on the shipment of goods into and out of the United States and are dependent on the volume of international trade with the United States. Our strategic plan contemplates the growth of those operations, as well as the expansion into the transportation of goods wholly outside of the United States. A list of the factors that could adversely affect our current international operations has been included in Item 1 of this Annual Report on Form 10-K, under the heading "Risks Particular to our Business."

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

Accounting policies, methods and estimates are an integral part of the consolidated financial statements prepared by us and are based upon our current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ from our current judgments. While there are a number of accounting policies, methods and estimates that affect our consolidated financial statements as described in Note 2 to the consolidated financial statements, areas that are particularly significant include revenue recognition, accounting for stock options, the assessment of the recoverability of long-lived assets, specifically goodwill and acquired intangibles, the establishment of an allowance for doubtful accounts and the valuation allowance for deferred income tax assets.

The Company derives its revenue from three principal sources: freight forwarding, customs brokerage, and warehousing and other value added services. As a freight forwarder, the Company is primarily a non-asset based carrier that does not own or lease any significant transportation assets. The Company generates the majority of its revenue by purchasing transportation services from direct (asset-based) carriers and using those services to provide transportation of property for compensation to its customers. The Company is able to negotiate favorable buy rates from the direct carriers by consolidating shipments from multiple customers and concentrating its buying power, while at the same time offering lower sell rates than most customers would otherwise be able to negotiate themselves. When acting as an indirect carrier, the Company will enter into a written agreement with its customers or issue a tariff and a house bill of lading to customers as the contract of carriage. When the freight is physically tendered to a direct carrier, the Company receives a separate contract of carriage, or master bill of lading. In order to claim for any loss associated with the freight, the customer is first obligated to pay the freight charges. Based on the terms in the contract of carriage, revenue related to shipments where the Company issues a house bill of lading is recognized when the freight is delivered to the direct carrier at origin. Costs related to the shipment are also recognized at this same time. All other revenue, including revenue for customs brokerage and warehousing and other value added services, is recognized upon completion of the service.

In certain instances, accounting principles generally accepted in the United States of America allow for the selection of alternative accounting methods. Two alternative methods for accounting for stock options are available - the intrinsic value method and the fair value method. We use the intrinsic value method of accounting for stock options, and accordingly, no compensation expense has been recognized for options issued at an exercise price equal to or greater than the quoted market price on the date of grant to employees, officers and directors. Under the fair value method, the determination of the pro forma amounts involves several assumptions including option life and volatility. If the fair value method were used, basic earnings per share and diluted earnings per share would have decreased by $0.07 and $0.04, respectively, in 2003.

As discussed in Note 2 to the consolidated financial statements, the goodwill arising from our acquisitions is not amortized, but instead is tested for impairment at least annually in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. The impairment test requires several estimates including future cash flows, growth rates and the selection of a discount rate. In addition, the acquired intangibles arising from those transactions are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of long-lived assets to be held and used (including our identifiable intangible assets) is measured by comparing the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. In developing our future cash flow estimates, we incorporate assumptions that marketplace participants would use in their estimates, including, among other things, that (i) existing operations are evaluated on a stand-alone basis and, as such, achieve no revenue or cost synergies, (ii) no further acquisitions are made, (iii) formerly acquired companies achieve their earnings targets and their earn-outs are fully paid, (iv) future earnings are fully taxed and (v) no additional equity is raised. We cannot guarantee that our assets will not be impaired in future periods.

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

Our discontinued operations, which focused on the development of early-stage technology businesses, generated significant net operating loss carryforwards (NOLs) which could have value in the future. After giving effect for certain annual limitations based on changes in ownership as defined in Section 382 of the Internal Revenue Code, we estimate that as much as $17.8 million in NOLs may be available to offset future federal taxable income. Under SFAS No. 109, Accounting for Income Taxes, we are required to provide a valuation allowance to offset deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the fourth quarter of 2003, we reversed $3.0 million of the valuation allowance based on the Company's history of profitable operations for the past year and projected profitability in the near future. In addition we also recorded a deferred tax liability generated principally by the tax amortization of goodwill, which is deductible for tax purposes over a life of 15 years but is not amortized for book purposes. As a result, we recognized a net non-cash tax benefit of $1.7 million in 2003. In addition, as of December 31, 2003 we have an additional $6.7 million in valuation allowance which if removed in 2004 could give rise to another $6.7 million in non-cash tax benefits and be available to offset any tax expense arising in 2004. We do not anticipate paying federal income taxes during 2004 as we expect that our existing NOLs should be sufficient to offset current taxable income. However, additional sales of our securities could have the effect of significantly limiting our ability to utilize our existing NOLs in the future.

Discontinued Operations

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

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

Results of Operations

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

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

	2003	2002	Change Amount	Change Percent
Total revenue	$ 220,304	$ 122,788	$ 97,516	79.4%
Transportation revenue	203,407	113,510	89,897	79.2
Cost of transportation	153,718	84,478	69,240	82.0
Net transportation revenue	49,689	29,032	20,657	71.2
Net transportation margins	*24.4%*	*25.6%*		
Customs brokerage	10,027	6,290	3,737	59.4
Warehousing and other value added services	6,870	2,988	3,882	129.9
Net revenue	$ 66,586	$ 38,310	$ 28,276	73.8%
Net revenue margins	*30.2%*	*31.2%*		

Total revenue was $220.3 million for the year ended December 31, 2003, an increase of $97.5 million or 79.4% over total revenue of $122.8 million for the comparable period in 2002. $17.1 million or 17.6% of the increase in total revenue was attributable to the operations of the businesses we acquired in 2003; $24.3 million or 24.9% was due to an increase in Air Plus' revenue ("organic growth"); and the remaining $56.1 million or 57.5% of the increase was attributable to operations acquired or launched as new operations over the course of 2002 which included the SLIS and United American acquisitions as well as the newly opened office in Hong Kong.

Net transportation revenue was $49.7 million for the year ended December 31, 2003, an increase of $20.7 million or 71.2% over net transportation revenue of $29.0 million for the comparable period in 2002. $4.8 million or 23.2% of the increase in net transportation revenue was attributable to the operations of the businesses we acquired in 2003; $7.1 million or 34.3% was due to organic growth; and the remaining $8.8 million or 42.5% of the increase was attributable to operations acquired or launched as new operations over the course of 2002 which included the SLIS and United American acquisitions as well as the newly opened office in Hong Kong.

Net transportation margins decreased to 24.4% for the year ended December 31, 2003 from 25.6% for the comparable period in 2002. This decrease in net transportation margins is primarily the result of the addition in the second quarter of 2002 of our International Services platform, which traditionally has lower margins, and its expansion through our CSI and G-Link Singapore and Cambodia acquisitions.

Net revenue was $66.6 million for the year ended December 31, 2003, an increase of $28.3 million or 73.8% over net revenue of $38.3 million for the comparable period in 2002. $5.1 million or 17.8% of the increase in net revenue was attributable to the operations of the businesses we acquired in 2003; $10.2 million or 36.2% was due to organic growth; and the remaining $13.0 million or 46.0% of the increase was attributable to an incremental quarter of SLIS and United American results and an incremental three quarters of Hong Kong results in 2003 over 2002.

Net revenue margins decreased slightly to 30.2% for 2003 compared to 31.2% for 2002 driven primarily by the additional relative contribution of our International Services platform, which traditionally has lower margins.

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

	2003		2002		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Net revenue	$ 66,586	100.0%	$ 38,310	100.0%	$ 28,276	73.8%
Personnel costs	31,888	47.9	19,089	49.8	12,799	67.0
Other selling, general and administrative costs	24,583	36.9	14,680	38.3	9,903	67.5
Depreciation and amortization	2,660	4.0	2,187	5.7	473	21.6
Litigation settlement and nonrecurring Costs	1,169	1.8	—	—	1,169	NM
Total operating costs	60,300	90.6	35,956	93.8	24,344	67.7
Income from operations	6,286	9.4	2,354	6.2	3,932	167.0
Other income (expense)	(8)	0.0	128	0.3	(136)	NM
Income from operations before income taxes and minority interest	6,278	9.4	2,482	6.5	3,796	152.9
Income tax expense (benefit)	(1,311)	(2.0)	102	0.3	1,413	NM
Income from continuing operations Before minority interest	7,589	11.4	2,380	6.2	5,209	218.9
Minority interest	187	0.3	—	—	187	NM
Income from continuing operations	7,402	11.1	2,380	6.2	5,022	211.0
Loss from discontinued operations	(263)	(0.4)	—	—	(263)	NM
Net income	7,139	10.7	2,380	6.2	4,759	200.0
Preferred stock dividends	—	—	15,020	39.2	(15,020)	(100.0)
Net income attributable to common stockholders	$ 7,139	10.7%	$ 17,400	45.4%	$ (10,261)	(59.0)%

Personnel costs were $31.9 million for the year ended December 31, 2003, an increase of $12.8 million or 67.0% over personnel costs of $19.1 million for the comparable period in 2002. $1.4 million or 11.3% of the increase in personnel costs was attributable to the operations of the businesses we acquired in 2003; $4.2 million or 32.3% was due to same store growth; and $7.2 million or 56.4% of the increase was attributable to operations acquired or launched as new operations over the course of 2002 which included the SLIS and United American acquisitions as well as the newly opened office in Hong Kong. Personnel costs as a percentage of net revenue decreased to 47.9% from 49.8% year over year.

The number of employees increased to 827 at December 31, 2003 from 510 at December 31, 2002, an increase of 317 employees or 62.2%. Of the total number of employees, 622 or 75.2% of the employees are engaged in operations; 57 or 6.9% of the employees are engaged in sales and marketing; and 148 or 17.9% of the employees are engaged in finance, administration, and management functions. Additionally, approximately 185 or 58.4% of the total increase in employees was attributable to acquisitions, while approximately 130 employees or 41.6% were added to meet the demands of the increase in our business in 2003.

Other selling, general and administrative costs were $24.6 million for the year ended December 31, 2003, an increase of $9.9 million or 67.5% over other selling, general and administrative costs of $14.7 million for the comparable period in 2002. $1.7 million or 17.3% of the increase was attributable to the operations of the businesses we acquired in 2003; $5.4 million or 54.4% was due to same store growth; and $2.8 million or 28.3% of the increase was attributable to operations acquired or launched as new operations over the course of 2002 which included the SLIS and United American acquisitions as well as the newly opened office in Hong Kong. As a percentage of net revenue, other selling general and administrative costs decreased to 36.9% from 38.3% year over year.

Depreciation and amortization amounted to $2.7 million for the year ended December 31, 2003, an increase of $0.5 million or 21.6% over the comparable period in 2002 principally due to amortization of acquired intangible assets acquired in the Regroup and G-Link transactions. See Note 4 to the Company's consolidated financial statements.

Litigation and nonrecurring costs were $1.2 million for the year ended December 31, 2003 and are comprised of $0.8 million paid to settle litigation commenced against the Company in August 2000 in a combination of $0.4 million in cash and $0.4 million in Company stock and $0.4 million associated with the SEC review and delayed effectiveness of a registration statement filed in connection with a March 2003 private placement.

Income from operations before income taxes and minority interest was $6.3 million in 2003, compared to $2.4 million for 2002.

Other expense was nominal for the year ended December 31, 2003 compared to other income of $0.1 million in 2002. With year over year 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 year.

As a result of historical losses related to investments in early-stage technology businesses, the Company has accumulated federal NOLs. In the fourth quarter of 2003, we reversed $3.0 million of the valuation allowance based on the Company's history of profitable operations for the past year and projected profitability in the near future. In addition we also recorded a deferred tax liability generated principally by the tax amortization of goodwill, which is deductible for tax purposes over a life of 15 years but is not amortized for book purposes. As a result, we recognized a non-cash net tax benefit of $1.7 million in 2003. The Company has approximately $17.8 million of NOLs as of December 31, 2003 to offset future federal taxable income. Due to the NOLs, the Company was only subject to certain state and local taxes which resulted in a tax provision of $0.1 million in 2002.

Income from operations before minority interest was $7.6 million in 2003, compared to $2.4 million in 2002.

Minority interest for the year ended December 31, 2003 was $0.2 million and was primarily related to the G-Link operations acquired in August 2003, of which the Company owns a 70% interest.

The losses from discontinued operations in 2003 reflect the costs associated with the remaining lease liability of a property used in the Company's former internet business, as well as a payment made to a consultant for services provided in 2000.

Net income was $7.1 million in 2003, compared to net income of $2.4 million in 2002.

In 2002, the Company recorded a net non-cash benefit of $15.0 million associated with the restructuring of our Series C Preferred stock, after giving effect to $1.9 million in preferred stock dividends. See Note 11 to the consolidated financial statements.

Net income attributable to common stockholders was $7.1 million in 2003, compared to net income attributable to common stockholders of $17.4 million in 2002. Basic earnings per share was $0.24 for 2003 compared to $0.79 for 2002. Diluted earnings per share was $0.18 for 2003 compared to $0.08 for 2002. Diluted earnings per share for 2002 excludes the net effect of the Series C exchange transaction.

Year ended December 31, 2002 compared to year ended December 31, 2001

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

			Change	
	2002	2001	Amount	Percent
Total revenue	$ 122,788	$ 15,598	$ 107,190	687.2%
Transportation revenue	113,510	15,174	98,336	648.1
Cost of transportation	84,478	9,741	74,737	767.2
Net transportation revenue	29,032	5,433	23,599	434.4
Net transportation margins	*25.6%*	*35.8%*		
Customs brokerage	6,290	—	6,290	NM
Warehousing and other value added services	2,988	424	2,564	604.7
Net revenue	$ 38,310	$ 5,857	$ 32,453	554.1%
Net revenue margins	*31.2%*	*37.5%*		

Total revenue was $122.8 million for the year ended December 31, 2002, an increase of $107.2 million or 687.2% over total revenue of $15.6 million for the comparable period in 2001. $56.7 million or 52.9% of the increase in total revenue was attributable to the operations of the businesses we acquired in 2002; $5.3 million or 4.9% was due to an increase in Air Plus' revenue for the fourth quarter of 2002 over the comparable period in 2001 ("organic growth"); and the remaining $45.2 million or 42.2% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Net transportation revenue was $29.0 million for the year ended December 31, 2002, an increase of $23.6 million or 434.4% over net transportation revenue of $5.4 million for the comparable period in 2001. $8.5 million or 36.0% of the increase in net transportation revenue was attributable to acquisitions; $1.0 million or 4.2% was due to organic growth; and the remaining $14.1 million or 59.8% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Net transportation margins decreased to 25.6% for the year ended December 31, 2002 from 35.8% for the comparable period in 2001. This decrease in net transportation margins is primarily the result of the addition of our International Services platform, which traditionally has lower margins, in the second quarter of 2002.

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

Net revenue margins decreased to 31.2% for 2003 compared to 37.5% for 2002 driven primarily by the addition of our International Services platform.

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

	2002		2001		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Net revenue	$ 38,310	100.0%	$ 5,857	100.0%	$ 32,453	554.1%
Personnel costs	19,089	49.8	5,997	102.4	13,092	218.3
Other selling, general and administrative costs	14,680	38.3	3,917	66.9	10,763	274.8
Depreciation and amortization	2,187	5.7	495	8.4	1,692	341.8
Total operating costs	35,956	93.8	10,409	177.7	25,547	245.4
Income (loss) from operations	2,354	6.2	(4,552)	(77.7)	6,906	NM
Other income (expense)	128	0.3	1,295	22.1	(1,167)	(90.1)
Income (loss) from operations before Income taxes	2,482	6.5	(3,257)	(55.6)	5,739	NM
Income taxes	102	0.3	—	—	102	NM
Income (loss) from continuing operations	2,380	6.2	(3,257)	(55.6)	5,637	NM
Loss from discontinued operations	—	—	(13,863)	(236.7)	13,863	NM
Net income (loss)	2,380	6.2	(17,120)	(292.3)	19,500	NM
Preferred stock dividends	15,020	39.2	(4,151)	(70.9)	19,171	NM
Net income (loss) attributable to common stockholders	$ 17,400	45.4%	$ (21,271)	(363.2)%	$ 38,671	NM

Personnel costs were $19.1 million for the year ended December 31, 2002, an increase of $13.1 million or 218.3% over personnel costs of $6.0 million for the comparable period in 2001. $5.7 million or 43.5% of the increase in personnel costs was attributable to the operations of the businesses we acquired in 2002; $0.7 million or 5.4% was due to organic growth; and the remaining $6.7 million or 51.1% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001. Personnel costs as a percentage of net revenue decreased to 49.8% from 102.4% year over year.

The number of employees increased to 510 at December 31, 2002 from 219 at December 31, 2001, an increase of 291 employees or 132.9%. Of this increase, 240 or 82.5% of the employees are engaged in operations; 16 or 5.5% of the employees are engaged in sales and marketing; and 35 or 12.0% of the employees are engaged in finance, administration, and management functions. Additionally, 203 or 69.9% of the total increase in employees was attributable to acquisitions, while 88 employees or 30.1% were added to meet the demands of the increase in our business in 2002.

Other selling, general and administrative costs were $14.7 million for the year ended December 31, 2002, an increase of $10.8 million or 274.8% over other selling, general and administrative costs of $3.9 million for the comparable period in 2001. $3.0 million or 27.8% of the increase was attributable to the operations of the businesses we acquired in 2002; $0.8 million or 7.4% was due to organic growth; and the remaining $7.0 million or 64.8% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001. As a percentage of net revenue, other selling general and administrative costs decreased to 38.3% from 66.9% year over year.

Depreciation and amortization amounted to $2.2 million for the year ended December 31, 2002, an increase of $1.7 million or 341.8% over the comparable period in 2001 principally due to amortization of intangible assets acquired in the Global and United American acquisitions and a full year of amortization of the Air Plus intangible assets acquired in October 2001.

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

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

As a result of historical losses related to investments in early-stage technology businesses, the Company has accumulated federal NOLs which were offset by a tax valuation allowance. As a result, the Company was only subject to certain state and local taxes which resulted in a state tax provision of $0.1 million in 2002.

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

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

The Company recorded a net non-cash benefit of $15.0 million associated with the restructuring of our Series C Preferred stock, after giving effect to $1.9 million in preferred stock dividends, compared to preferred stock dividends of $4.2 million in 2001. See Note 11 to the consolidated financial statements.

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

Disclosures About Contractual Obligations

The following table aggregates all contractual commitments and commercial obligations that affect the Company's financial condition and liquidity position as of December 31, 2003 (in thousands):

Contractual Obligations	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Operating lease obligations	$ 5,977	$ 9,015	$ 4,336	$ 1,151	$ 20,479
Capital lease obligations	671	1,135	—	—	1,806
Other long-term liabilities reflected on the Registrant's balance sheet under GAAP **(a)**	6,624	—	—	—	6,624
Letter of credit	160	—	—	—	160
Total contractual obligations	13,432	10,150	4,336	1,151	29,069
Contingent earn-out obligations **(b) (c) (d)**	—	22,698	9,618	909	33,225
Total contractual and contingent obligations	$ 13,432	$ 32,848	$ 13,954	$ 2,060	$ 62,294

(a) Consists of earn-out payments that are due in 2004 to the former owners of our existing subsidiaries.

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

(c) Excludes $2.5 million contingent purchase price payable to the former members of Regroup in the third quarter of 2004 subject to the acquired operations achieving a $3.5 million earnings target for the twelve-month period commencing July 1, 2003.

(d) 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 $18.0 million if certain of the acquired companies generate an incremental $37.0 million in pre-tax earnings.

Financial Outlook

For 2004, we are forecasting $14.0 million of EBITDA on expected total revenue of $300.0 million and expect net earnings of $8.6 million, compared to $8.6 million of EBITDA on total revenue of $220.3 million and net earnings of $7.1 million for 2003. This guidance includes the earnings power of our most recently completed acquisitions up to and including the benefit of our acquisition of a 55% interest in the operations of Shaanxi. This guidance does not include the benefit of any further acquisitions we may complete over the course of 2004. We expect to deploy an incremental $10.0-$20.0 million in acquisition capital in 2004 acquiring businesses that are generally expected to follow the form and valuation of our previous transactions. With this general framework, we would expect to generate an additional $4.0 million of EBITDA for every $10.0 million of capital we deploy. The timing of transactions over the course of the year will affect our results for 2004.

Because of the potential discrepancy between our GAAP-based financials and the economic reality of our business resulting from the increased amortization of our customer related intangible assets, we believe EBITDA is a useful non-GAAP performance measure.

A reconciliation of EBITDA to the most directly comparable GAAP measure in accordance with SEC Regulation S-K follows (amounts in millions):

	2004	2003
Net income	$ 8.6	$ 7.1
Interest expense	0.4	0.1
Income tax benefit*	(0.0)	(1.3)
Depreciation and amortization	5.0	2.7
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 14.0	$ 8.6

* Prior to the fourth quarter of 2003, we maintained a valuation allowance to offset 100% of the net deferred tax assets associated with the tax losses generated prior to the Company's move into the logistics business. In the fourth quarter of 2003, a portion of the valuation allowance was reversed, resulting in the recognition of a deferred tax asset and related nonrecurring non-cash tax benefit of $1.7 million, resulting in an overall income tax benefit of $1.3 million for 2003. Although we do not anticipate paying federal taxes in 2004, our effective tax rate will increase to approximately 32-34% commencing with the first quarter of 2004. For purposes of developing our 2004 net earnings guidance, we have assumed that an additional portion of the valuation allowance will be reversed in 2004 that will result in additional tax benefits to offset any tax expense for the year.

Our revenue and net income estimates have been developed based on a number of principal assumptions including, among others: (i) that revenue and net income will continue to grow at an annual rate that is consistent with recent results; (ii) that operating margins will not decline from current levels; (iii) that no material economic or customer disruptions will occur; (iv) that we will not be required to repay some portion or all of the $1.3 million received by us as a payment of pre-petition indebtedness during the bankruptcy of a material customer; (v) that we will not be caused to incur additional charges as a result of the bankruptcy of FAO, Inc., a significant customer serviced by the recently acquired business of Regroup; (vi) that we continue to maintain existing relationships with key employees; (vii) that there are no unexpected adverse results in any legal proceedings; and (viii) that the risks otherwise identified in this Annual Report on Form 10-K under "Risks Particular to our Business" will not have an adverse effect on our operations. In prior forward-looking guidance, we had assumed that each of our operating companies, on a stand-alone basis, would deliver the level of pre-tax operating income necessary to fully achieve the earn-out payments under each of their acquisition agreements. Our present guidance no longer relies upon that assumption based upon expected performance of certain of our operating units, and since some of our most recent acquisitions establish earn-out levels based upon forecasted, rather than current levels of earnings. Furthermore, our estimates as to the expected financial results that may be realized from the acquisitions we made during 2003 have been developed based upon an analysis of the historic financial statements of such acquired businesses. We may need to adjust our 2004 guidance if the results of operations of the acquired businesses in 2004 are inconsistent with the historical results provided to us by the sellers of those businesses. These adjustments could materially affect our 2004 estimates.

Assuming we can continue to execute on our business plan and acquisition model without any material disruptions, and identify and close transactions similar to the transactions accomplished to date, it is our goal to generate $500.0 million in annualized total revenue by the end of 2006. Notwithstanding our expectations regarding our ability to deliver these results, we can never be certain that future revenue or earnings will be achieved at any particular level. Estimates of future financial performance are forward-looking statements and are subject to uncertainty created by the risk elements otherwise identified in Item 1 under "Risks Particular to our Business." Furthermore, even though we believe our current operations will achieve a certain level of earnings on an annual basis, our interim results are subject to seasonal trends.

Sources of Growth

Management believes that a comparison of "same store" growth is critical in the evaluation of the quality and extent of the Company's internally generated growth. This "same store" analysis isolates the financial contributions from operations that have been included in the Company's operating results for the full comparable prior year period. The table below presents "same store" comparisons for the year ended December 31, 2003 (which is the measure of any increase from the same period of 2002).

	For the year ended December 31, 2003
Domestic	36.9%
International	N/A

Liquidity and Capital Resources

Cash and cash equivalents totaled $3.1 million and $2.3 million as of December 31, 2003 and 2002. Working capital totaled $16.3 million and $5.3 million at December 31, 2003 and 2002.

Cash used in operating activities was $2.7 million for 2003 compared to $0.6 million used in 2002, which included an increase of $11.0 million in working capital.

Net cash used in investing activities was $17.2 million in 2003 compared to $12.5 million in 2002. Investing activities were driven principally by the acquisition of new businesses. We deployed $9.4 million for the acquisition of new businesses in 2003 compared to $10.5 million in 2002 and $3.2 million in support of our web-based operating platform, Tech-Logis™, in 2003 compared to $0.2 million in 2002. In addition, we funded $3.5 million in earn-out payments in 2003.

Cash from financing activities generated $20.7 million in 2003 compared to cash provided by financing activities of $0.2 million in 2002, with the majority of the increase due to the Company's two private placements of equity.

We expect to pay approximately $6.6 million in cash for earn-outs on or around April 1, 2004, based on the performance of our acquired companies relative to their respective pre-tax earnings targets.

On July 18, 2002 we completed a private exchange transaction that eliminated approximately $44.6 million of our Series C preferred stock. The terms of the Series C preferred stock would have significantly constrained our future growth opportunities. In return for eliminating the Series C preferred stock, we issued 1,911,071 shares of common stock, warrants to purchase 1,543,413 shares of common stock at an exercise price of $1.00 per share for a term of three (3) years, and a new class of Series D preferred stock that would convert into 3,607,450 shares of our common stock no later than December 31, 2004. The terms of the Series D preferred stock were structured to make it much like a common equity equivalent in that (1) it receives no dividend, (2) it is subordinated to new rounds of equity, and (3) it held a limited liquidation preference which expired at the end of 2003. In addition, the holders of the Series D preferred stock were restricted from selling the common stock received upon conversion of the Series D preferred stock until July 19, 2003 and are now permitted limited resale based on trading volume through July 19, 2004. At March 1, 2004 there were 309,397 shares of the Series D preferred stock outstanding.

In March 2003, we completed a private placement of 4,470,000 shares of our common stock in exchange for gross proceeds of approximately $6.1 million. This placement yielded net proceeds of $5.5 million for the Company, after the payment of placement agent fees and other out-of-pocket costs associated with the placement.

On October 16, 2003, we completed the private placement of 5,983,500 shares of our common stock at a price of $2.20 per share. In connection with this transaction, we realized gross proceeds of $13.2 million and paid a brokerage fee of four (4%) percent, or $0.5 million.

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

	Number of Shares	Proceeds
Options outstanding under our Stock Option Plan	10,313,634	$ 15,522,126
Non-Plan Options	1,326,700	2,774,250
Warrants	1,487,563	1,547,573
Total	13,127,897	$ 19,843,949

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

To ensure that we have adequate near-term liquidity, we maintain a revolving credit facility of $20.0 million (the "Facility") with LaSalle Business Credit, Inc. that is collateralized by accounts receivable and other assets of the Company and its subsidiaries. The Facility requires the Company and its subsidiaries to comply with certain financial covenants. Advances under the Facility are available to fund future acquisitions, capital expenditures or for other corporate purposes. There were no advances against the Facility at December 31, 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 operations 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.

Below are descriptions of material acquisitions made since 2001 including a breakdown of consideration paid at closing and future potential earn-out payments. We define "material acquisitions" as those with aggregate potential consideration of $5.0 million or more.

On October 5, 2001, we acquired Air Plus, a group of Minneapolis-based privately held companies that provide a full range of logistics and transportation services. The total value of the transaction was $34.5 million, consisting of cash of $17.5 million paid at closing and a four-year earn-out arrangement of $17.0 million. In the earn-out, we agreed to pay the former Air Plus shareholders installments of $3.0 million in 2003, $5.0 million in 2004, $5.0 million in 2005 and $4.0 million in 2006, with each installment payable in full if Air Plus achieves pre-tax income of $6.0 million in each of the years preceding the year of payment. In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the $6.0 million level. Based upon 2003 performance, the former Air Plus shareholders are entitled to receive $5.0 million on April 1, 2004. On a cumulative basis, Air Plus has generated $12.8 million in adjusted earnings, providing its former shareholders with a total of $8.0 million in earn-out payments and excess earnings of $0.8 million to carryforward and apply to future earnings targets. In total, the former Air Plus shareholders have elected to receive $7.6 million in cash with the balance payable in Company common stock.

On April 4, 2002, we acquired SLIS (f/k/a Global Transportation Services, Inc.), 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 payable in installments of $0.8 million in 2003, $1.0 million in 2004 through 2007 and $0.2 million in 2008, with each installment payable in full if Global achieves pre-tax income of $2.0 million in each of the years preceding the year of payment (or the pro rata portion thereof in 2002 and 2007). In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a pro-rata basis. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the $2.0 million level. We also provided the former Global shareholders with an additional incentive to generate earnings in excess of the base $2.0 million annual earnings target ("Global's tier-two earn-out"). Under Global's tier-two earn-out, the 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 2003 performance, the former Global shareholders are entitled to receive $1.0 million on April 1, 2004. On a cumulative basis, Global has generated $9.3 million in adjusted earnings, providing its former shareholders with a total of $1.8 million in cash earn-out payments and excess earnings of $5.8 million to carryforward and apply 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 was 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 in base earn-out payments payable in installments of $1.25 million in 2003 through 2006, with each installment payable in full if United American achieves pre-tax income of $2.2 million in each of the years preceding the year of payment. In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the $2.2 million level. The Company has also provided the former United American shareholder with an additional incentive to generate earnings in excess of the base $2.2 million annual earnings target ("United American's 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 2003 performance, the former United American shareholder is entitled to receive $0.2 million on April 1, 2004. On a cumulative basis, United American has generated $2.4 million in adjusted earnings, providing its former shareholder with a total of $0.4 million in cash earn-out payments and a cumulative earnings shortfall of $2.0 million. In future years, earnings in excess of the $2.2 million target would first be applied against the $2.0 million shortfall.

On June 20, 2003, through our indirect wholly owned subsidiary, Stonepath Logistics Government Services, we acquired the business of Regroup, a Virginia limited liability company. The Regroup transaction enhanced our presence in the Washington, D.C. market and provided a platform to focus on the logistics needs of U.S. government agencies and contractors. The transaction was valued at up to $27.2 million, consisting of cash of $3.7 million and $1.0 million of Company stock paid at closing, and a five-year earn-out arrangement. The Company agreed to pay the members of Regroup a total of $10.0 million in base earn-out payments payable in equal installments of $2.5 million in 2005 through 2008, if Regroup achieves pre-tax income of $3.5 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. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the $3.5 million level. The Company has also agreed to pay the former members of Regroup an additional $2.5 million if Regroup earns $3.5 million in pre-tax income during the 12-month period commencing July 1, 2003. In addition, the Company has also provided the former members of Regroup with an additional incentive to generate earnings in excess of the base $3.5 million annual earnings target ("Regroup's tier-two earn-out"). Under Regroup's tier-two earn-out, the former members of Regroup are also entitled to receive 50% of the cumulative pre-tax earnings in excess of $17.5 million generated during the five-year earn-out period subject to a maximum additional earn-out opportunity of $10.0 million. Regroup would need to generate cumulative earnings of $37.5 million over the five-year earn-out period in order for the former members to receive the full $22.5 million in contingent earn-out payments.

On August 8, 2003, through two indirect international subsidiaries, we acquired a seventy (70%) percent interest in the assets and operations of the Singapore and Cambodia based operations of the G-Link Group, which provide a full range of international logistics services, including international air and ocean transportation, to a worldwide customer base of manufacturers and distributors. This transaction substantially increased our presence in Southeast Asia and expanded our network of owned offices through which to deliver global supply chain solutions. The transaction was valued at up to $6.2 million, consisting of cash of $2.8 million, $0.9 million of the Company's common stock paid at the closing and an additional $2.5 million payable over a four-year earn-out period based upon the future financial performance of the acquired operations. We agreed to pay $2.5 million in base earn-out payments payable in installments of $0.3 million in 2004, $0.6 million in 2005 through 2006 and $1.0 million in 2007, with each installment payable in full if the acquired operations achieve pre-tax income of $1.8 million in each of the years preceding the year of payment (or the pro rata portion thereof in 2003 and 2007). In the event there is a shortfall in pre-tax income, the earn-out payment will be reduced on a dollar-for-dollar basis. Shortfalls may be carried over or carried back to the extent that pre-tax income in any other payout year exceeds the $1.8 million level. As additional purchase price, the Company also agreed to pay G-Link for excess net assets amounting to $1.5 million through the issuance of Company common stock, on a post-closing basis. Based upon 2003 performance, G-Link is entitled to receive $0.2 million on April 1, 2004.

On February 9, 2004, through a wholly-owned subsidiary, we acquired a 55% interest in Shanghai-based Shaanxi. Shaanxi provides a wide range of customized transportation and logistics services and supply chain solutions. The transaction is valued at up to $11.0 million, consisting of cash of $3.5 million and $2.0 million of the Company's common stock paid at the closing, plus up to an additional $5.5 million payable over a five-year period based upon the future financial performance of Shaanxi. The earn-out payments are due in five installments of $1.1 million beginning in 2005, with each installment payable in full if Shaanxi achieves pre-tax income of at least $4.0 million in each of the earn-out years. In the event there is a shortfall in pre-tax income, the earn-out payment for that year will be reduced on a dollar-for-dollar basis by the amount of the shortfall. Shortfalls may be carried over or back to the extent that pre-tax income in any other payout year exceeds the $4.0 million level. As additional purchase price, on a post-closing basis the Company has agreed to pay Shaanxi for 55% of its closing date working capital.

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 for the years indicated based on results of the prior year (in thousands)(1)(2)(3):

	2005	2006	2007	2008	2009	Total
Earn-out payments:						
Domestic	$ 9,040	$ 8,050	$ 2,500	$ 2,500	$ —	$ 22,090
International	2,804	2,804	3,176	1,442	909	11,135
Total earn-out payments	$ 11,844	$ 10,854	$ 5,676	$ 3,942	$ 909	$ 33,225
Prior year pre-tax earnings targets (4)						
Domestic	$ 12,306	$ 12,306	$ 3,500	$ 3,500	$ —	$ 31,612
International	6,546	6,546	7,602	2,940	1,823	25,457
Total pre-tax earnings targets	$ 18,852	$ 18,852	$ 11,102	$ 6,440	$ 1,823	$ 57,069
Earn-outs as a percentage of prior year pre-tax earnings targets:						
Domestic	73.5%	65.4%	71.4%	71.4%	—	69.9%
International	42.8%	42.8%	41.8%	49.1%	49.9%	43.7%
Combined	62.8%	57.6%	51.1%	61.2%	49.9%	58.2%

(1) Excludes the impact of prior year's pre-tax earnings carryforwards (excess or shortfalls versus earnings targets).

(2) During the 2003-2007 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as $18.0 million if certain of the acquired companies generate an incremental $37.0 million in pre-tax earnings.

(3) Only transactions closed as of December 31, 2003 are included in this schedule.

(4) Aggregate pre-tax earnings targets as presented here identify the uniquely defined earnings targets of each acquisition and should not be interpreted to be the consolidated pre-tax earnings of the Company which would give effect for, among other things, amortization or impairment of intangible assets created in connection with each acquisition or various other expenses which may not be charged to the operating groups for purposes of calculating earn-outs.

The Company is a defendant in a number of legal proceedings. Although we believe that the claims asserted in these proceedings are without merit, and we intend to vigorously defend these matters, there is the possibility that the Company could incur material expenses in the defense and resolution of these matters. Furthermore, since the Company has not established any reserves in connection with such claims, any such liability, if at all, would be recorded as an expense in the period incurred or estimated. This amount, even if not material to the Company's overall financial condition, could adversely affect the Company's results of operations in the period recorded.

New Accounting Pronouncements

In January 2003 (and revised in December 2003), the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which provides new guidance with respect to the consolidation of certain previously unconsolidated entities, including special purpose entities. The adoption of Interpretation No. 46 in 2003 did not have a material impact on the Company's consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk relates primarily to changes in interest rates and the resulting impact on our interest incurred and our cash flows. We place our cash with high credit quality financial institutions and invest that cash in money market funds and investment grade securities with maturities of less than 90 days. We are averse to principal loss and ensure the safety and preservation of our invested funds by investing in only highly rated investments and by limiting our exposure in any one issuance. Our credit facility bears interest at a variable rate. If market interest rates had changed by 100 basis points, interest expense and our cash flows would have changed by approximately $35,500 and $47,300, respectively. We do not invest in derivative financial instruments.

Item 8. Financial Statements and Supplementary Data

Our financial statements as of December 31, 2003 and 2002 and for each of the years in the three-year period ended December 31, 2003 and footnotes related thereto are included within Item 15(a) of this Report and may be found at pages 60 through 87. Schedule II – Valuation and Qualifying Accounts, may be found on page 88.

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

None.

Item 9A. 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 fourth paragraph of this Item 9A, 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.

In January 2004, the Company restated its 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, 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 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 is focusing 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 III

Item 10. Directors and Executive Officers of the Registrant

Our directors and executive officers as of March 1, 2004 were as follows:

Name	Age	Position
Dennis L. Pelino	56	Chairman of the Board of Directors and Chief Executive Officer
Gary A. Koch	45	Chief Executive Officer of Stonepath Logistics Domestic Services, Inc.
Jason F. Totah	44	Chief Executive Officer of Stonepath Logistics International Services, Inc.
Bohn H. Crain	40	Chief Financial Officer and Treasurer
Stephen M. Cohen	47	Senior Vice President, General Counsel and Secretary
Thomas L. Scully	54	Vice President and Controller/Principal Accounting Officer
J. Douglass Coates	61	Director
John H. Springer (2)	47	Director
David R. Jones (1)(2)	55	Director
Aloysius T. Lawn, IV (1)(2)	45	Director
Robert McCord (1)	45	Director

(1) Member of Audit Committee
(2) Member of Compensation Committee

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

Dennis L. Pelino has served as our Chairman of the Board of Directors and Chief Executive Officer since June 21, 2001. Mr. Pelino has over two decades of executive experience in the logistics industry. From 1986 to 1999, he was employed by Fritz Companies, Inc., initially as director of International Operations and Sales and Marketing, in 1993 as its Chief Operating Officer and commencing in 1996, also as its President. Mr. Pelino was also a member of the Board of Directors of Fritz Companies from 1991 to 1999. During Mr. Pelino's tenure, he acquired or started over 50 companies for Fritz as it became one of the leading global logistics companies. Prior to Fritz, Mr. Pelino held senior executive positions in the container shipping industry and in the domestic full-service truck leasing industry. Most recently, from 1999 through 2001, Mr. Pelino has been involved as a director and principal of a number of private ventures which explored opportunities in the logistics industry and which provided consulting services relative to business opportunities in Latin America, China and other Far Eastern regions.

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

Jason F. Totah serves as the Chief Executive Officer of Stonepath Logistics International Services, Inc. (SLIS, f/k/a Global Transportation Services, Inc.). Mr. Totah joined Global in 1990 and has held several positions including Seattle Branch manager and Senior Vice President, Sales and Marketing, and Senior Vice President of Sales and Operations. Prior to joining Global, he worked in international logistics for Amoco Petroleum, stationed in various locations around the world. He graduated from Oregon State in 1983 with a degree in Agriculture Engineering.

Bohn H. Crain has served as our Chief Financial Officer since January 10, 2002 and our Treasurer since May 30, 2002. Mr. Crain has over 15 years of experience in finance and accounting as well as extensive knowledge of transportation and logistics. Prior to joining Stonepath's executive team, he served from January 2001 to

September 2001 as Executive Vice President and Chief Financial Officer for Schneider Logistics, Inc., a third-party logistics company. Before Schneider, Mr. Crain served from May 2000 to January 2001 as Vice President and Treasurer for Florida East Coast Industries, Inc., and from June 1989 to May 2000, he held various Vice President and treasury positions with CSX and various of its subsidiaries. Mr. Crain holds a B.S. in Business Administration – Accounting from the University of Texas.

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

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

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

John H. Springer has served as a member of our Board of Directors since May 2003. Mr. Springer has extensive global supply chain management and logistics experience, having held both domestic U.S. and international logistics positions at IBM Corporation, Union Pacific Corporation's third party logistics unit, and at Dell Computer from 1995 to 2002. Mr. Springer joined Nike Inc. in 2002 and is its Director of Global Operations – Nike Golf. Mr. Springer has been active in the Council of Logistics Management throughout his career, including holding the position of President for the Central Texas region. He earned his B.S. at Syracuse University in Transportation & Distribution Management, and his MBA from St. Edwards University in Austin, Texas.

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

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

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

Code of Ethics

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

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

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

Item 11. Executive Compensation

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

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation: Salary	Annual Compensation: Bonus	Long-Term Compensation Awards: Restricted Stock Awards	Long-Term Compensation Awards: Number of Options(1)	All Other Compensation(2)
Dennis L. Pelino, Chairman	2003	$ 360,000	—	—	700,000(3)	—
and Chief Executive Officer	2002	$ 360,000	—	—	1,900,000(4)	—
	2001	$ 158,691	$ 180,000	—	1,800,000(5)	—
Stephen M. Cohen, Senior	2003	$ 200,000	$ 40,000	—	60,000(6)	$ 62,000
Vice President, General	2002	$ 200,000	$ 15,000	—	100,000(7)	$ 62,000
Counsel and Secretary	2001	$ 227,884	$ 50,000	—	750,000(8)	—
Bohn H. Crain, Chief Financial	2003	$ 200,000	—	—	325,000(9)	—
Officer and Treasurer	2002	$ 200,000	$ 37,500	—	350,000(10)	$ 44,000
Gary A. Koch, Chief Executive Officer of	2003	$ 270,509	—	—	—	—
Stonepath Logistics Domestic	2002	$ 264,497	—	—	—	—
Services, Inc.	2001	$ 69,950	—	—	—	—
Jason F. Totah, Chief Executive Officer of	2003	$ 259,436	$ 150,000	—	—	—
Stonepath Logistics	2002	$ 187,500	$ 131,250	—	—	—
International Services, Inc.						

(1) This table does not include options that were granted to the Named Executive Officers during the first quarter of 2004, as follows: 1,034,600 to Dennis L. Pelino; 100,000 to Stephen M. Cohen; 123,300 to Bohn H. Crain; 150,000 to Gary A. Koch and 93,100 to Jason F. Totah.

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

(3) These options were granted on March 10, 2003. The first grant of 300,000 options vested immediately. The second grant of 400,000 options vest to the extent of 133,334 on the first anniversary date of the award date and to the extent of 133,333 on the second and third anniversaries of the award date.

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

(5) These options were granted in conjunction with Mr. Pelino's employment by the Company on June 21, 2001 and are fully vested.

(6) The first grant of 10,000 options occurred on March 25, 2003. One-third of the options vested on the grant date with the remainder vesting over the following 24 months. The second grant of 50,000 options occurred on September 5, 2003. These options vest to the extent of 16,666.66 on the first, second and third anniversaries of the award date.

(7) These options were granted on July 3, 2002. Twenty five percent of the options vest on July 3, 2003 and the remainder vest pro rata over the following 36 months, with 100% acceleration of vesting following a change of control transaction.

(8) These options were granted in conjunction with an amendment to Mr. Cohen's employment agreement during April 2001. They vest pro rata over the thirty-six (36) month period of his employment through April 2004, with 100% acceleration of vesting following change of control, or upon a termination of employment without cause. In the event of death or disability, the options which would have become vested within the next 12 months become vested.

(9) The first grant of 200,000 options occurred on February 24, 2003. Twenty-five percent of the options vested on the grant date with the remainder vesting over the following 36 months. The second grant of 25,000 options occurred on March 25, 2003. One-third of the options vested on the grant date with the remainder vesting over the following 24 months. The third grant of 100,000 occurred on September 5, 2003. These options vest to the extent of 33,333.33 on the first and second anniversaries of the award date and to the extent of 33,333.34 on the third anniversary of the award date.

(10) 150,000 of these options were granted on January 10, 2002, of which 50,000 vested on January 10, 2003, with the remainder vesting over the following 24 months and with 100% acceleration of vesting following a change of control transaction or upon a termination of employment without cause. 200,000 of these options were granted on July 3, 2002, of which 50,000 vested on July 3, 2003, with the remainder vesting pro rata over the following 36 months and with 100% acceleration of vesting following a change of control transaction, or upon a termination of employment without cause.

Employment Agreements

On March 11, 2004, effective as of January 1, 2004, we entered into an amended employment agreement with our Chief Executive Officer, Dennis L. Pelino. This agreement amended our prior agreements with Mr. Pelino dated February 22, 2002 and June 21, 2001. Pursuant to this amendment, we have agreed to extend the term of employment of Mr. Pelino as our Chief Executive Officer through June 2009. The amendment also increased the annual compensation payable to Mr. Pelino by granting him, in addition to his current base salary of $360,000, options to purchase 359,000 shares of our common stock which vest in equal installments over the term of his employment. This grant of options was intended to provide Mr. Pelino with incremental compensation of $700,000 over the term of his employment. In addition to his base salary, Mr. Pelino is entitled to bonus compensation based upon the achievement of certain target objectives, as well as discretionary merit bonuses that can be awarded at the discretion of our Board of Directors. Mr. Pelino is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to the employment agreement, Mr. Pelino is also entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

As of April 19, 2001, we entered into a three-year employment agreement with our General Counsel, Stephen M. Cohen. This was further modified effective December 27, 2001. This had the effect of amending and restating our prior employment agreement with Mr. Cohen entered into in April 2000. Pursuant to this Agreement, we have agreed to employ Mr. Cohen as our General Counsel through April 19, 2004 at an annual base salary of $200,000. In addition to his annual base salary, Mr. Cohen's employment agreement provides for bonus compensation based upon the achievement of certain target objectives, as well as discretionary merit bonuses that can be awarded at the discretion of our Board of Directors. Mr. Cohen is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to his employment agreement, Mr. Cohen is entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

Effective as of February 1, 2003, we entered into an Amended Employment Agreement with our Chief Financial Officer, Bohn H. Crain. This agreement amended and restated our prior Agreement with Mr. Crain dated January 10, 2002. Pursuant to this Agreement, we have agreed to employ Mr. Crain as our Chief Financial Officer through February 1, 2006 at an annual base salary of $200,000. In addition to his annual base salary, Mr. Crain's employment agreement provides for bonus compensation based upon the achievement of certain target objectives, as well as bonus compensation determined at the discretion of the Board of Directors. Mr. Crain is also entitled to certain severance benefits upon his death, disability or termination of employment. Pursuant to his employment agreement, Mr. Crain is entitled to fringe benefits including participation in pension, profit sharing and bonus plans, as applicable, and life insurance, hospitalization, major medical, paid vacation and expense reimbursement.

Change in Control Arrangements

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

- any "Person" (as the term "Person" is used in Section 13(d) and Section 14(d) of the Securities Exchange Act of 1934), except for the effected employee, becoming the beneficial owner, directly or indirectly, of our securities representing 50% or more of the combined voting power of our then outstanding securities;

- a contested proxy solicitation of our stockholders that results in the contesting party obtaining the ability to vote securities representing 50% or more of the combined voting power of our then-outstanding securities;

- a sale, exchange, transfer or other disposition of 50% or more in value of our assets to another Person or entity, except to an entity controlled directly or indirectly by us;

- a merger, consolidation or other reorganization involving us in which we are not the surviving entity and in which our stockholders prior to the transaction continue to own less than 50% of the outstanding securities of the acquirer immediately following the transaction, or if a plan involving our liquidation or dissolution other than pursuant to bankruptcy or insolvency laws is adopted; or

- during any period of twelve consecutive months, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors unless the election, or the nomination for election by our stockholders, of each new director was approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period.

Notwithstanding the foregoing, a "change of control" is not deemed to have occurred (i) in the event of a sale, exchange, transfer or other disposition of substantially all of our assets to, or a merger, consolidation or other reorganization involving, any entity in which the effected employee has, directly or indirectly, at least a 25% equity or ownership interest; or (ii) in a transaction otherwise commonly referred to as a "management leveraged buy-out."

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

Directors Compensation

Non-employee directors are paid $3,750 per quarter, provided that each member attends 75% of all meetings. In addition, a quarterly fee of $3,750 is paid to the chairman of the Audit and Compensation Committees. Upon joining our Board of Directors, each of our non-employee directors received an option to purchase 50,000 shares of our common stock with an exercise price equal to the closing price of our common stock on the trading day prior to the date of grant. One-half of these options vested on the first anniversary of the director's membership on the Board, and the balance vest on the second anniversary of Board membership. On November 5, 2002 each member of our Audit Committee received options to purchase 15,000 shares of our common stock at an exercise price of $1.45 per share (of which 50% vested on November 5, 2003 and the balance vest on November 5, 2004, contingent upon continued Board service). In addition, on January 23, 2004, the chairmen of each of our Audit Committee and Compensation Committee received options to purchase 25,000 shares of our common stock at an exercise price of $3.05 per share (of which 50% vest on January 23, 2005 and the balance vest on January 23, 2006, contingent upon continued Board service).

Stock Options and Warrants

The following table sets forth information on option grants in fiscal 2003 to the Named Executive Officers.

Option Grants in Last Fiscal Year

Name	Number of Options Granted	% of Total Options Granted to Employees in Fiscal-Year	Exercise Price	Market Price on Date of Grant	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5%	10%
Dennis L. Pelino	300,000	16.79 %	$ 1.68	$ 1.68	March 2013	$ 316,963	$ 803,246
	400,000	22.38	2.00	1.68	March 2013	294,617	942,995
Stephen M. Cohen	10,000	0.56	1.81	1.81	March 2013	11,383	28,847
	50,000	2.80	2.24	2.24	September 2013	70,436	178,499
Bohn H. Crain	200,000	11.19	1.53	1.53	February 2013	192,442	487,685
	25,000	1.40	1.81	1.81	March 2013	28,457	72,117
	100,000	5.60	2.24	2.24	September 2013	140,872	356,998
Gary A. Koch	—	—	—	—	—	—	—
Jason F. Totah	—	—	—	—	—	—	—

The following table sets forth information concerning year-end option values for fiscal 2003 for the Named Executive Officers. The value of the options was based on the closing price of our common stock on December 31, 2003 of $2.26.

Fiscal Year End Option Values

	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at Fiscal Year End: Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year End: Exercisable	Unexercisable
Dennis L. Pelino(1)	—	—	2,733,334	1,666,666	$ 3,374,001	$ 1,319,999
Stephen M. Cohen(2)	—	—	707,917	202,083	1,143,292	203,208
Bohn H. Crain(3)	—	—	252,082	422,918	172,270	250,980
Gary A. Koch(4)	—	—	70,833	129,167	68,000	123,999
Jason F. Totah(5)	—	—	112,500	137,500	33,000	57,000

(1) Does not include the grant to Mr. Pelino on January 23, 2004 of options to purchase 550,000 shares of the Company's common stock at an exercise price of $3.05 per share, or the grant to Mr. Pelino on February 26, 2004 of options to purchase 125,600 shares of the Company's common stock at an exercise price of $3.38 per share, or the grant to Mr. Pelino on March 11, 2004 of options to purchase 359,000 shares of the Company's common stock at an exercise price of $3.75 per share.

(2) Does not include the grant to Mr. Cohen on January 9, 2004 of options to purchase 100,000 shares of the Company's common stock at an exercise price of $2.38 per share.

(3) Does not include the grant to Mr. Crain on January 9, 2004 of options to purchase 100,000 shares of the Company's common stock at an exercise price of $2.38 per share, or the grant to Mr. Crain on February 26, 2004 of options to purchase 23,300 shares of the Company's common stock at an exercise price of $3.38 per share.

(4) Does not include the grant to Mr. Koch on January 9, 2004 of options to purchase 150,000 shares of the Company's common stock at an exercise price of $2.38 per share.

(5) Does not include the grant to Mr. Totah on January 9, 2004 of options to purchase 80,000 shares of the Company's common stock at an exercise price of $2.38 per share, or the grant to Mr. Totah on February 26, 2004 of options to purchase 13,100 shares of the Company's common stock at an exercise price of $3.38 per share.

Outstanding Stock Options

The Amended and Restated Stonepath Group, Inc. 2000 Stock Incentive Plan, (the "Stock Incentive Plan") covers 13,000,000 shares of common stock. Under its terms, employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified stock options, restricted stock awards and incentive stock options within the meaning of Section 422 of the Code. In addition, advisors and consultants who perform services for the Company or its subsidiaries are eligible to receive non-qualified stock options under the Stock Incentive Plan. The Stock Incentive Plan is administered by the Board of Directors or a committee designated by the Board of Directors.

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

	Plan	Non-Plan	Total
Vested as of 12/31/03	5,039,597	1,326,700	6,366,297
To vest in 2004	2,324,127	—	2,324,127
To vest in 2005	1,880,577	—	1,880,577
To vest in 2006	1,043,916	—	1,043,916
To vest in 2007	25,417	—	25,417
	10,313,634	1,326,700	11,640,334

Generally, most of the options under the Stock Incentive Plan are granted subject to periodic vesting over a period of between three and four years, contingent upon continued employment with the Company. In addition to the stock options covered by the Stock Incentive Plan, the Company has outstanding options to purchase 1,326,700 shares of common stock. The following schedule identifies the vesting schedule associated with all of the Company's outstanding options:

At March 1, 2004, these options were outstanding at the following exercise prices:

Number of Options			
Plan	Non-Plan	Total	Range of Exercise Prices
3,248,334	1,109,500	4,357,834	$0.50 to $1.00
4,567,100	—	4,567,100	$1.01 to $2.00
2,498,200	144,000	2,642,200	$2.01 to $4.00
—	73,200	73,200	$6.38 to $17.50
10,313,634	1,326,700	11,640,334	

Outstanding Warrants

As of March 1, 2004, warrants to purchase 1,487,563 shares of common stock were outstanding. Most of these warrants were granted in connection with investment related transactions. With the exception of warrants to purchase 50,000 shares at $1.23 per share, and warrants to purchase 99,000 shares at $1.49 per share, all of the remaining warrants are subject to an exercise price of $1.00 per share and expire in July 2005.

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

The following tables set forth information with respect to the beneficial ownership of common stock and Series D preferred stock owned, as of March 1, 2004, by:

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

As of March 1, 2004, an aggregate of 39,004,242 shares of common stock and 309,397 shares of Series D preferred stock were issued and outstanding. Each share of Series D preferred stock is convertible into ten shares of our common stock. For purposes of computing the percentages under the following tables, it is assumed that all options and warrants to acquire common stock which have been issued to the directors, executive officers and the holders of more than 5% of common stock and are fully vested or will become fully vested within 60 days from March 1, 2004 have been exercised by these individuals and the appropriate number of shares of common stock have been issued to these individuals.

COMMON STOCK

Name of Beneficial Owner	Position	Shares Owned Beneficially and of Record(1)	Percentage of Class
Dennis L. Pelino(2)	Officer, Director	3,581,824	8.49%
Stephen M. Cohen(3)	Officer	845,878	2.12%
Bohn H. Crain(4)	Officer	379,095	*
Thomas L. Scully(5)	Officer	46,462	*
Gary A. Koch(6)	(7)	595,579	1.52%
Jason F. Totah(8)	(9)	202,267	*
David R. Jones(10)	Director	142,500	*
Aloysius T. Lawn, IV(11)	Director	57,500	*
Robert McCord(12)	Director	100,000	*
J. Douglass Coates(13)	Director	50,000	*
John H. Springer(14)	Director	—	*
All directors and executive officers as a group (11 people)		6,001,105	13.63%

(*) Less than one percent.

(1) The securities "beneficially owned" by an individual are determined in accordance with the definition of "beneficial ownership" set forth in the regulations of the SEC under the Exchange Act. They may include securities owned by or for, among others, the spouse and/or minor children of an individual and any other relative who has the same home as such individual, as well as, other securities as to which the individual has or shares voting or investment power. The number of shares beneficially owned by the individual may include options to purchase shares of our common stock exercisable as of, or within 60 days of, the date of this prospectus. Beneficial ownership may be disclaimed as to certain of the securities.

(2) Includes 406,222 shares of common stock held by the Dennis L. Pelino and Meredith L. Pelino Declaration of Trust, of which Dennis L. Pelino and his spouse are trustees and beneficiaries, though beneficial ownership of which may be disclaimed. Also includes 3,175,602 shares of common stock issuable upon exercise of vested options. Does not include 1,899,998 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004. Also, does not include options to purchase 359,000 shares of common stock that were granted after March 1, 2004.

(3) Includes 11,850 shares of common stock. Also includes 834,028 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 175,972 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(4) Includes 17,600 shares of common stock. Also includes 361,495 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 436,805 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(5) Includes 46,462 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 67,838 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(6) Includes 458,079 shares of common stock held by the Revocable Trust of Gary A. Koch, of which Gary A. Koch is the trustee and a beneficiary, beneficial ownership of which may be disclaimed. Also includes 137,500 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 212,500 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(7) Chief Executive Officer of Stonepath Logistics Domestic Services, Inc., a wholly owned subsidiary of the Company.

(8) Includes 202,267 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 140,833 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(9) Chief Executive Officer of Stonepath Logistics International Services, Inc., a wholly owned subsidiary of the Company.

(10) Includes 85,000 shares of common stock. Also includes 57,500 shares of common stock issuable upon exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 32,500 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(11) Includes 57,500 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004. Does not include 32,500 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

(12) Includes 100,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004.

(13) Includes 50,000 shares of common stock issuable upon the exercise of vested options and options which vest within 60 days of March 1, 2004.

(14) Does not include 50,000 shares of common stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of March 1, 2004.

Name of Beneficial Owner	SERIES D PREFERRED STOCK Shares of Series D Preferred Stock Owned Beneficially and of Record (1)(2)	Percentage of Class
Brown Simpson Partners I, Ltd. Carnegie Hall Tower 152 West 57th Street, 21st Floor New York, NY 10019	201,184	65.0%
Schottenfeld Associates, L.P. 880 Third Avenue, 16th Floor New York, NY 10022	25,451	8.2%
CSL Associates LP 399 Park Avenue – 37th Floor New York, NY 10020	20,119	6.5%
Norton Herrick Irrevocable Securities Trust 20 Community Place, 2nd Floor Morristown, NY 07960	39,201	12.7%

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

For information on the securities authorized for issuance under our equity compensation plans, see "Equity Compensation Plan Information" in Item 5 of this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions

Participation of Chief Executive Officer in Recent Private Placement Transaction

At the request of one of the lead investors, Dennis L. Pelino, our Chief Executive Officer, purchased 100,000 shares of our common stock at a price of $1.54 per share in the private placement transaction that was completed on March 7, 2003. Mr. Pelino's purchase price represented a 14.1% premium over the purchase price of $1.35 paid by the non-affiliated investors in the transaction.

Payments to Former Executive Officer

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

Loans to Officers

In connection with our acquisition of Global on April 4, 2002, we advanced the sum of $350,000 to Jason Totah. Mr. Totah was a former shareholder of Global and is a significant employee of the Company, serving as the President of Stonepath Logistics International Services, Inc. The advance to Mr. Totah is to be repaid through 2006 by offset against the earn-out amounts that are otherwise due to Mr. Totah under the Stock Purchase Agreement. The balance of Mr. Totah's advance was $175,000 at December 31, 2003.

Under the terms of our employment agreement with Mr. Cohen, we provided him with a loan in the principal amount of $100,000 in April 2001. The loan accrues interest at the rate of 8% per annum and is due on April 17, 2004, or such earlier date that Mr. Cohen shall have received aggregate proceeds of $5,000,000 from the sale of his options or the shares of common stock underlying his options. However, Mr. Cohen is not required to repay the loan if by April 17, 2004, the sum of the proceeds which he has received from the sale of his options or the shares of common stock underlying his options and the remaining equity in the options as of April 17, 2004 does not equal or exceed $5,000,000.

Related Party Lease

Air Plus leases certain of its office and warehouse facilities from Gary Koch. Mr. Koch was a former shareholder of Air Plus and is a significant employee of the Company, serving as the Chief Executive Officer of Air Plus and Stonepath Logistics Domestic Services, Inc. The Company paid $187,000 to Mr. Koch in each of the years ended December 31, 2003 and 2002. Payments under the lease with Mr. Koch were determined by reference to comparable rents, and management believes the amounts payable thereunder represent fair market rates.

Amendment and Restatement of Employment Arrangements with Executive Officers

On March 11, 2004, we entered into an amended employment agreement with our Chief Executive Officer, Dennis L. Pelino. This agreement amended our prior agreements with Mr. Pelino dated February 22, 2002 and June 21, 2001 to extend the term of his employment through June 2009, and to award Mr. Pelino a salary increase in the form of additional options that vest over the period of the employment agreement. On October 18, 2001, we amended the terms of the options granted to Mr. Pelino under his original employment agreement dated June 21, 2001. We further amended the terms of Mr. Pelino's options on July 3, 2002, when we accelerated the vesting of his original options to purchase 1,800,000 shares of our common stock and granted him options to purchase an additional 1,900,000 shares of our common stock.

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

Item 14. Principal Accountant Fees and Services

For the years ended December 31, 2003 and 2002, professional services were provided to the Company by KPMG LLP. The following table presents fees for professional services rendered by KPMG LLP for the audit of the Company's annual financial statements for the years ended December 31, 2003 and December 31, 2002, and fees billed for other services rendered by KPMG LLP during those periods.

	2003	2002
Audit fees(1)	$ 656,883	$ 299,000
Audit related fees(2)	125,000	124,292
Tax fees(3)	73,900	24,400
All other fees	—	—
Total	$ 855,783	$ 447,692

(1) Represents the aggregate fees billed for the audit of the Company's annual financial statements, the reviews of the financial statements included in the Company's quarterly reports on Form 10-Q, and services rendered in connection with SEC registration statements and filings

(2) Represents fees billed for acquisition related services

(3) Represents fees billed for tax consulting services, primarily related to international acquisitions

Our Audit Committee approves the engagement of our independent auditors to render audit and non-audit services before they are engaged. All of the services for which fees are listed above were pre-approved by our Audit Committee.

PART IV

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

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements:

2. Financial Statement Schedule:

(b) Reports on Form 8-K:

We filed two reports on Form 8-K during the fiscal quarter ended December 31, 2003:

(i) Form 8-K dated November 11, 2003 providing information pursuant to Regulation FD relative to the Company's results for the quarterly period ended September 30, 2003.

(ii) Form 8-K dated December 29, 2003 providing information pursuant to Regulation FD relative to the completion of several acquisitions, 2004 forecasted results of operations, and revisions to the Company's 2003 forecasted revenue.

(c) Exhibit Listing:

Exhibit Number	Document
2.1[(1)]	Stock Purchase Agreement by and among Stonepath Logistics, Inc., Stonepath Group, Inc. and M.G.R., Inc, Distribution Services, Inc., Contract Air, Inc., the Shareholders of M.G.R., Inc., Distribution Services, Inc., Contract Air, Inc. and Gary A. Koch (as shareholders' agent)
2.2[(1)]	First Amendment to Stock Purchase Agreement by and among Stonepath Logistics, Inc., Stonepath Group, Inc. and M.G.R., Inc, Distribution Services, Inc., Contract Air, Inc., the Shareholders of M.G.R., Inc., Distribution Services, Inc., Contract Air, Inc. and Gary A. Koch (as shareholders' agent)

Exhibit Number	Document
2.3[(2)]	Stock Purchase Agreement dated March 5, 2002 by and among Stonepath Group, Inc., Stonepath Logistics International Services, Inc. and Global Transportation Services, Inc. and the Shareholders of Global Transportation Services, Inc. and Jason F. Totah (as shareholders' agent)
2.4[(3)]	Stock Purchase Agreement dated April 9, 2002 by and among Stonepath Logistics Domestic Services, Inc. and United American Acquisitions and Management, Inc., d/b/a United American Freight Services, Inc. and Douglas Burke
2.5[(3)]	Amendment to Stock Purchase Agreement dated May 30, 2002 by and among Stonepath Logistics Domestic Services, Inc., and United American Acquisitions and Management, Inc., d/b/a United Freight Services, Inc. and Douglas Burke
2.6[(4)]	Asset Purchase Agreement by and among Stonepath Logistics Government Services, Inc. (f/k/a "Transport Specialists, Inc."), Regroup Express L.L.C. and Jed J. Shapiro and Charles R. Cain, the sole members of Regroup Express LLC, dated June 4, 2003
2.7[(5)]	Asset Purchase Agreement by and among Stonepath Holdings (Hong Kong) Limited, G Link Express Logistics (Singapore) Pte. Ltd, G Link Express Pte. Ltd and the shareholders of G Link Express Pre. Ltd, dated August 8, 2003
2.8[(5)]	Asset Purchase Agreement by and among Stonepath Holdings (Hong Kong) Limited, G Link Express (Cambodia) Pte. Ltd and the shareholders of G Link Express (Cambodia) Pte. Ltd. dated August 8, 2003
3.1[(6)]	Amended and Restated Certificate of Incorporation
3.2[(7)]	Certificate of Amendment to the Certificate of Incorporation
3.3[(7)]	Amended and Restated Bylaws
3.4[(8)]	Certificate of Designation of Series D Convertible Preferred Stock
4.1[(6)]	Specimen Common Stock Certificate for Stonepath Group, Inc.
4.2[(9)]	Form of Common Stock Purchase Warrant issued in connection with the Series C Convertible Preferred Stock
4.3[(10)]	Form of Amendment to Common Stock Purchase Warrant issued upon conversion of the Series C Convertible Preferred Stock effective as of July 19, 2002
4.4[(10)]	Form of Contingent Warrant issued upon conversion of the Series C Convertible Preferred Stock effective as of July 19, 2002
4.5[(8)]	Form of Exchange Agreement by and between the Company and certain holders of the Company's Series C Convertible Preferred Stock
4.6[(11)]	Stonepath Group, Inc. Amended and Restated 2000 Stock Incentive Plan (the "Plan")

Exhibit Number	Document
4.7[12]	Form of Stock Option Agreement under the Plan
4.8 [12]	Form of Non-Plan Option to Purchase Common Stock of the Company
4.9[13]	Form of Subscription Agreement by and between the Company and certain purchasers of common shares (including exhibit providing for registration rights)
4.10[13]	Placement Agency Agreement between the Company and Stonegate Securities, Inc. dated October 16, 2002
4.11[9]	2003 Employee Stock Purchase Plan
4.12[13]	Form of Initial Warrants issued to Stonegate Securities, Inc as of October 16,2002
4.13[13]	Form of Representative's Warrants issued to Stonegate Securities as of March 6, 2003
4.14[14]	Form of subscription agreement by and between the Company and certain holders of common stock (including the exhibit providing for registration rights)
4.15[14]	Amendment to Placement Agency Agreement between the Company and Stonegate Securities, Inc. dated as of July 29, 2003
10.1[15]	Amended and Restated Employment Agreement between the Company and Dennis L. Pelino dated February 22, 2002
10.2[16]	Amended and Restated Employment Agreement between the Company and Stephen M. Cohen dated April 19, 2001
10.3[15]	Letter Agreement between the Company and Stephen M. Cohen dated December 27, 2001
10.4[13]	Amended and Restated Employment Agreement between the Company and Bohn H. Crain dated February 24, 2003
10.5[17]	Separation Agreement between the Company and Andrew P. Panzo dated December 11, 2001
10.6[1]	Executive Employment Agreement between M.G.R. Inc. and Gary Koch dated as of October 5, 2001
10.7[13]	Executive Employment Agreement between Global Transportation Services, Inc. and Jason F. Totah dated April 4, 2002
10.8[18]	Stonepath Group, Inc. 401(k) Profit Sharing Plan.
10.9[19]	Loan and Security Agreement dated as of May 15, 2002 between LaSalle Business Credit, Inc. and Stonepath Group, Inc., Contract Air, Inc., Distribution Services, Inc., Global Transportation Services, Inc., Global Container Line, Inc., M.G.R., Inc., d/b/a Air Plus Limited, Net Value, Inc., Stonepath Logistics Domestic Services, Inc., Stonepath Logistics International Services, Inc. and Stonepath Operations, Inc.

Exhibit Number	Document
10.10[11]	Amendment to Loan and Security Agreement dated May 15, 2003 by and among LaSalle Business Credit, LLC, Stonepath Group, Inc., Contract Air, Inc., Distribution Services, Inc., Global Container Line, Inc., M.G.R., Inc., Net Value, Inc., Stonepath Logistics Domestic Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Operations Inc., and United American Acquisitions and Management, Inc., and Transport Specialists, Inc.
10.11[20]	Second Amendment to Loan and Security Agreement dated September 5, 2003 by and among LaSalle Business Credit, LLC, Stonepath Group, Inc., Contract Air, Inc., Distribution Services, Inc., Global Container Line, Inc., M.G.R., Inc., Net Value, Inc., Stonepath Logistics Domestic Services, Inc., Stonepath Logistics Government Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Operations Inc., and United American Acquisitions and Management, Inc.
10.12[11]	Third Amendment to Loan and Security Agreement dated December 23, 2003 by and among LaSalle Business Credit, LLC, Stonepath Group, Inc., Contract Air, Inc., Distribution Services, Inc., Global Container Line, Inc., M.G.R., Inc., Net Value, Inc., Stonepath Logistics Domestic Services, Inc., Stonepath Logistics Government Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Operations Inc., and United American Acquisitions and Management, Inc.
10.13[11]	Fourth Amendment and Consent Agreement to Loan and Security Agreement dated January 30, 2004 by and among LaSalle Business Credit, LLC, Stonepath Group, Inc., Contract Air, Inc., Distribution Services, Inc., Global Container Line, Inc., M.G.R., Inc., Net Value, Inc., Stonepath Logistics Domestic Services, Inc., Stonepath Logistics Government Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Logistics International Services, Inc., Stonepath Operations Inc., and United American Acquisitions and Management, Inc.
10.14[11]	Modification to Employment Agreement of Dennis L. Pelino dated March 11, 2004
11[11]	Code of Ethics
12[11]	Calculation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
21.1[11]	Subsidiaries of Stonepath Group, Inc.
23.1[11]	Independent Auditors' Consent
31.1[11]	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2[11]	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1[11]	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.)

Exhibit Number	Document
32.2[11]	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)

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(1) Incorporated by reference to the Company's Current Report on Form 8-K dated October 5, 2001, filed October 19, 2001

(2). Incorporated by reference to the Company's Current Report on Form 8-K dated April 4, 2002, filed April 19, 2002

(3) Incorporated by reference to the Company's Current Report on Form 8-K dated May 30, 2002, filed June 12, 2002

(4) Incorporated by reference to the Company's Current Report on Form 8-K dated June 20, 2003, filed July 7, 2003

(5) Incorporated by reference to the Company's Current Report on Form 8-K dated August 8, 2003, filed August 13, 2003

(6) Incorporated by reference to the Company's Registration Statement on Form S-1 (Reg. No. 333-88629) filed October 8, 1999

(7) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed April 2, 2001

(8) Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-3 filed July 31, 2002 (Registration No. 333-91240)

(9) Incorporated by reference to the Company's Current Report on Form 8-K dated March 3, 2000, filed March 17, 2000

(10) Incorporated by reference to the Company's Form 10-Q for the third quarter ended September 30, 2002, filed November 14, 2002

(11) Filed herewith

(12) Incorporated by reference to the Company's Registration Statement on Form S-8 filed December 11, 2001 (Registration No. 333-74918)

(13) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed March 31, 2003

(14) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-110231) filed November 4, 2003

(15) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed March 29, 2002

(16) Incorporated by reference to the Company's Form 10-Q for the second quarter ended June 30, 2001, filed August 13, 2001

(17) Incorporated by reference to the Company's Current Report on Form 8-K dated December 14, 2001, filed December 27, 2001

(18) Incorporated by reference to the Company's Registration Statement on Form S-8 filed on February 25, 2003 (Registration No. 333-103439)

(19) Incorporated by reference to the Company's Current Report on Form 8-K dated May 15, 2002, filed May 20, 2002

(20) Incorporated by reference to the Company's Current Report on Form 8-K dated September 5, 2003, filed September 9, 2003

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Stonepath Group, Inc. and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as of and for the three years ended December 31, 2003. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stonepath Group, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 24, 2004

STONEPATH GROUP, INC.
Consolidated Balance Sheets
December 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 3,074,151	$ 2,266,108
Accounts receivable, less allowances for doubtful accounts of $1,055,000 and $320,000 at 2003 and 2002, respectively	38,470,386	21,799,983
Loans receivable from related parties	14,597	39,593
Prepaid expenses and other current assets	2,216,700	963,102
Total current assets	43,775,834	25,068,786
Goodwill	35,764,211	20,311,150
Furniture and equipment, net	7,062,956	3,233,677
Acquired intangibles, net	6,775,893	5,042,555
Note receivable, related party	175,000	262,500
Other assets	1,189,917	1,246,847
Deferred income taxes	1,695,000	—
Total assets	$ 96,438,811	$ 55,165,515
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 16,119,014	$ 12,873,703
Earn-out payable	6,623,724	3,879,856
Accrued payroll and related expenses	1,975,859	1,195,275
Capital lease obligation – current	671,197	—
Accrued expenses	2,054,333	1,786,100
Total current liabilities	27,444,127	19,734,934
Capital lease obligation – long term	1,134, 815	—
Total liabilities	28,578,942	19,734,934
Minority interest	1,345,790	—
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity:		
Preferred stock, $.001 par value, 10,000,000 shares authorized; Series D, convertible, issued and outstanding: 310,480 shares and 360,745 shares at 2003 and 2002, respectively	310	361
Common stock, $.001 par value, 100,000,000 shares authorized; issued and outstanding: 37,449,944 shares and 23,453,414 shares at 2003 and 2002, respectively	37,450	23,453
Additional paid-in capital	220,067,956	196,235,064
Accumulated deficit	(153,572,460)	(160,711,891)
Accumulated other comprehensive income	1,997	—
Deferred compensation	(21,174)	(116,406)
Total stockholders' equity	66,514,079	35,430,581
Total liabilities and stockholders' equity	$ 96,438,811	$ 55,165,515

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.
Consolidated Statements of Operations
Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Total revenue	$ 220,303,966	$ 122,787,625	$ 15,597,889
Cost of transportation	153,717,616	84,477,430	9,740,774
Net revenue	66,586,350	38,310,195	5,857,115
Personnel costs	31,887,773	19,089,069	5,997,245
Other selling, general and administrative costs	24,583,040	14,679,960	3,916,601
Depreciation and amortization	2,659,882	2,186,951	495,046
Litigation settlement and nonrecurring costs	1,169,035	—	—
Income (loss) from operations	6,286,620	2,354,215	(4,551,777)
Other income (expense):			
Interest income	48,909	90,680	1,285,657
Interest expense	(141,859)	—	(4,102)
Other income	84,850	37,311	13,153
Income (loss) from continuing operations before income taxes and minority interest	6,278,520	2,482,206	(3,257,069)
Income tax expense (benefit)	(1,311,252)	101,877	—
Income (loss) from continuing operations before minority interest	7,589,772	2,380,329	(3,257,069)
Minority interest	187,310	—	—
Income from continuing operations	7,402,462	2,380,329	(3,257,069)
Loss from discontinued operations, net of tax	(263,031)	—	(13,862,713)
Net income (loss)	7,139,431	2,380,329	(17,119,782)
Preferred stock dividends and effect of redemption	—	15,020,148	(4,151,198)
Net income (loss) attributable to common stockholders	$ 7,139,431	$ 17,400,477	$ (21,270,980)
Basic earnings (loss) per common share -			
Continuing operations	$ 0.25	$ 0.79	$ (0.36)
Discontinued operations	(0.01)	—	(0.68)
Earnings (loss) per common share	$ 0.24	$ 0.79	$ (1.04)
Diluted earnings (loss) per common share -			
Continuing operations	$ 0.19	$ 0.08	$ (0.36)
Discontinued operations	(0.01)	—	(0.68)
Earnings (loss) per common share	$ 0.18	$ 0.08	$ (1.04)
Basic weighted average common shares outstanding	29,625,585	22,154,861	20,510,345
Diluted weighted average common shares outstanding	39,063,311	29,232,568	20,510,345

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Years ended December 31, 2003, 2002 and 2001

	Preferred stock						
	Series C		Series D		Common stock		Additiona
	Shares	Amount	Shares	Amount	Shares	Amount	paid-in capital
Balances at January 1, 2001	3,657,070	$ 3,657	—	$ —	20,419,534	$ 20,419	$ 210,923,32
Net loss	—	—	—	—	—	—	—
Other comprehensive income:							
Unrealized gain on available- for-sale Securities	—	—	—	—	—	—	—
Comprehensive loss							
Issuance of contingent warrants	—	—	—	—	—	—	562,37
Exercise of options and warrants	—	—	—	—	200,000	200	199,80
Series C preferred stock conversion	(205,660)	(206)	—	—	205,660	206	—
Preferred stock dividends	299,069	299	—	—	—	—	3,588,52
Compensatory common stock, options and warrants issued, net of cancellations	—	—	—	—	77,916	78	(4,543,02
Amortization of deferred stock based compensation	—	—	—	—	—	—	—
Balances at December 31, 2001	3,750,479	3,750	—	—	20,903,110	20,903	210,730,99
Net income	—	—	—	—	—	—	—
Exercise of options and warrants	—	—	—	—	440,808	441	424,74
Series C preferred stock conversion	(3,913,220)	(3,913)	360,745	361	2,109,496	2,109	(16,971,59
Preferred stock dividends	162,741	163	—	—	—	—	1,952,72
Compensatory common stock, options and warrants issued, net of cancellations	—	—	—	—	—	—	95,00
Amortization of deferred stock Based compensation	—	—	—	—	—	—	3,19
Balances at December 31, 2002	—	—	360,745	361	23,453,414	23,453	196,235,06
Net income	—	—	—	—	—	—	—
Other comprehensive income:							
Foreign currency translation adjustment	—	—	—	—	—	—	—
Comprehensive income							
Issuance of common stock, net of issuance costs	—	—	—	—	10,453,500	10,454	18,054,96
Exercise of options and warrants	—	—	—	—	920,739	921	649,85
Series D preferred stock conversion	—	—	(50,265)	(51)	502,650	503	(45
Issuance of common stock in lieu of cash for earn-out	—	—	—	—	254,825	255	402,74
Issuance of common stock in lieu of cash for legal settlement	—	—	—	—	271,339	271	583,27
Issuance of common stock for acquisitions	—	—	—	—	1,593,477	1,593	4,142,50
Amortization of deferred stock based compensation	—	—	—	—	—	—	—
Balances at December 31, 2003	—	$ —	310,480	$ 310	37,449,944	$ 37,450	$ 220,067,95

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) (continued)
Years ended December 31, 2003, 2002 and 2001

	Accumulated deficit	Accumulated other comprehensive income (loss)	Deferred stock-based compensation	Total	Total comprehensive income (loss)
Balances at January 1, 2001	$ (156,841,388)	$ (8,688)	$ (10,771,724)	$ 43,325,605	
Net loss	(17,119,782)	—	—	(17,119,782)	$ (17,119,782)
Other comprehensive income:					
Unrealized gain on available-for-sale securities	—	8,688	—	8,688	8,688
Comprehensive loss					$ (17,111,084)
Issuance of contingent warrants	(562,370)	—	—	—	
Exercise of options and warrants	—	—	—	200,000	
Series C preferred stock conversion	—	—	—	—	
Preferred stock dividends	(3,588,828)	—	—	—	
Compensatory common stock, options and warrants issued, net of cancellations	—	—	4,845,297	302,346	
Amortization of deferred stock based compensation	—	—	5,714,789	5,714,789	
Balances at December 31, 2001	(178,112,368)		(211,638)	32,431,646	
Net income	2,380,329	—	—	2,380,329	$ 2,380,329
Exercise of options and warrants	—	—	—	425,181	
Series C preferred stock conversion	16,973,040	—	—	—	
Preferred stock dividends	(1,952,892)	—	—	—	
Compensatory common stock, options and warrants issued, net of cancellations	—	—	—	95,000	
Amortization of deferred stock based compensation	—	—	95,232	98,425	
Balances at December 31, 2002	(160,711,891)	—	(116,406)	35,430,581	
Net income	7,139,431	—	—	7,139,431	$ 7,139,431
Other comprehensive income:					
Foreign currency translation adjustment	—	1,997	—	1,997	1,997
Comprehensive income					$ 7,141,428
Issuance of common stock, net of issuance costs	—	—	—	18,065,415	
Exercise of options and warrants	—	—	—	650,779	
Series D preferred stock conversion	—	—	—	—	
Issuance of common stock in lieu of cash for earn-out	—	—	—	403,000	
Issuance of common stock in lieu of cash for legal settlement	—	—	—	583,550	
Issuance of common stock for acquisitions	—	—	—	4,144,094	
Amortization of deferred stock based compensation	—	—	95,232	95,232	
Balances at December 31, 2003	$ (153,572,460)	$ 1,997	$ (21,174)	$ 66,514,079	

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Cash flows from operating activities:			
Net income (loss)	$ 7,139,431	$ 2,380,329	$ (17,119,782)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Deferred income taxes	(1,695,000)	—	—
Depreciation and amortization	2,659,882	2,186,951	495,046
Stock-based compensation – continuing operations	95,232	98,425	2,394,106
Minority interest in income of subsidiaries	187,310	—	—
Loss from disposal of furniture and equipment	—	4,560	101,126
Issuance of common stock in litigation settlement	350,000	—	—
Issuance of common stock to vendor of former business	135,000	—	—
Issuance of common stock in offering penalty	98,550	—	—
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(11,407,314)	(5,731,830)	1,205,807
Other assets	(887,891)	(160,903)	(133,499)
Accounts payable and accrued expenses	606,336	639,201	(470,871)
Discontinued operations –working capital changes and non-cash items	—	—	13,025,075
Net cash used in operating activities	(2,718,464)	(583,267)	(502,992)
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(9,385,908)	(10,497,306)	(18,011,262)
Purchases of furniture and equipment	(4,183,201)	(1,812,750)	(280,670)
Proceeds from sale of furniture and equipment	—	—	32,926
Loans made	(130,000)	(350,000)	—
Payment of earn-out	(3,476,856)	—	—
Discontinued operations:			
Investment in and advances to affiliate companies	—	—	(752,000)
Collections on advances to affiliate companies	—	—	1,000,000
Purchase of available for sale securities	—	—	(452,900)
Proceeds from sale of available for sale securities	—	—	57,910
Proceeds from sale of ownership interests in affiliate companies	—	115,000	6,285,953
Net cash used in investing activities	(17,175,965)	(12,545,056)	(12,120,043)
Cash flows from financing activities:			
Issuance of common stock	18,185,415	—	—
Payment of equity financing fees	—	(25,000)	—
Payment of debt financing fees	—	(233,580)	—
Net repayments on short-term debt	—	—	(1,448,786)
Proceeds from financing of equipment	2,049,638	—	—
Principal payments on capital lease	(265,178)	—	—
Proceeds related to minority interest in subsidiary	81,818	—	—
Proceeds from issuance of common stock upon exercise of options and Warrants	650,779	425,181	200,000
Net cash provided by (used in) financing activities	20,702,472	166,601	(1,248,786)
Net increase (decrease) in cash and cash equivalents	808,043	(12,961,722)	(13,871,821)
Cash and cash equivalents, beginning of year	2,266,108	15,227,830	29,099,651
Cash and cash equivalents, end of year	$ 3,074,151	$ 2,266,108	$ 15,227,830
Cash paid for interest	$ 189,359	$ —	$ 4,102
Cash paid for income taxes	$ 373,832	$ 84,959	$ —
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of common stock in satisfaction of earn-out	$ 403,000	—	—
Increase in goodwill related to accrued earn-out payments	$ 6,711,224	$ 3,879,856	$ —
Issuance of warrants in connection with private placement	$ —	$ 95,000	$ —
Offset of related party loan against earn-out	$ 87,500	$ 87,500	$ —
Issuance of common stock in connection with acquisitions	$ 4,144,094	$ —	$ —

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2003, 2002 and 2001

(1) Nature of Operations

Stonepath Group, Inc. and subsidiaries (the "Company") is a non-asset based third-party logistics services company providing supply chain solutions on a global basis. A full range of time-definite transportation and distribution solutions is offered through its Domestic Services platform, where the Company manages and arranges the movement of raw materials, supplies, components and finished goods for its customers. These services are offered through the Company's domestic air and ground freight forwarding business. A full range of international logistics services including international air and ocean transportation as well as customs house brokerage services is offered through the Company's International Services platform. In addition to these core service offerings, the Company also provides a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management. The Company services a customer base of manufacturers, distributors and national retail chains through a network of offices in 21 major metropolitan areas in North America, Puerto Rico and ten strategic locations in Asia, as well as an extensive network of independent carriers and service partners strategically located around the world.

(2) Summary of Significant Accounting Policies

a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Stonepath Group, Inc., a Delaware corporation, and its wholly and majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company's foreign subsidiaries are included in the consolidated financial statements on a one month lag to facilitate timely reporting. The Company does not have any variable interest entities whose financial results are not included in the consolidated financial statements.

b) Use of Estimates

The presentation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include the assessment of the recoverability of long-lived assets, specifically goodwill and acquired intangibles, the establishment of an allowance for doubtful accounts and the valuation allowance for deferred income tax assets. Actual results could differ from those estimates.

c) Cash and Cash Equivalents

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

d) Concentrations of Credit Risk

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

The Company maintains its cash accounts with high quality financial institutions. With respect to accounts receivable, such receivables are primarily from manufacturers, distributors and major retailers located in the United States. Credit is granted to customers on an unsecured basis, and generally provides for 30-day payment terms. To reduce credit risk, the Company performs ongoing credit evaluations of its customers' financial conditions. Credit losses have not been material.

For the years ended December 31, 2003, 2002 and 2001, the Company's largest customer, a national retail chain, accounted for approximately 24%, 33% and 53% of revenue, respectively, and approximately 16% and 27% of the accounts receivable balance as of December 31, 2003 and 2002, respectively. No other customer accounted for greater than 10% of revenue.

e) Furniture and Equipment

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

Under the provisions of Statement of Position SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* the Company capitalizes costs associated with internally developed and/or purchased software systems that have reached the application development stage and meet recoverability tests. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software, payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project and capitalized interest, if appropriate. Capitalization of such costs begins when the preliminary project stage is complete and ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

f) Goodwill

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations accounted for as purchases (see Note 4).

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires an annual impairment test for goodwill and intangible assets with indefinite lives. Under the provisions of SFAS No. 142, the first step of the impairment test requires that the Company determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. The Company performed its annual impairment test during the fourth quarter of 2003 and noted no impairment for either of its reporting units. In the future, the Company expects to perform the annual test during its fiscal fourth quarter unless events or circumstances indicate an impairment may have occurred before that time.

g) Long-Lived Assets

Acquired intangibles consist of customer related intangibles and non-compete agreements arising from the Company's acquisitions. Customer related intangibles are amortized using accelerated methods over five to seven years and non-compete agreements are amortized using the straight line method over periods of three to five years.

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

h) Income Taxes

Taxes on income are provided in accordance with SFAS No. 109, *Accounting for Income Taxes.* Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax bases of particular assets and liabilities and the tax effects of net operating loss and capital loss carryforwards. Deferred tax assets and liabilities are measured using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset the net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

i) Revenue Recognition

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

As a freight forwarder, the Company is primarily a non-asset based carrier that does not own or lease any significant transportation assets. The Company generates the majority of its revenue by purchasing transportation services from direct (asset-based) carriers and using those services to provide transportation of property for compensation to its customers. The Company is able to negotiate favorable buy rates from the direct carriers by consolidating shipments from multiple customers and concentrating its buying power, while at the same time offering lower sell rates than most customers would otherwise be able to negotiate themselves. When acting as an indirect carrier, the Company will enter into a written agreement with its customers or issue a tariff and a house bill of lading to customers as the contract of carriage. When the freight is physically tendered to a direct carrier, the Company receives a separate contract of carriage, or master bill of lading. In order to claim for any loss associated with the freight, the customer is first obligated to pay the freight charges.

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

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

j) Stock-Based Compensation

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

The table below illustrates the effect on net income (loss) attributable to common stockholders and income (loss) per share as if the fair value of options granted had been recognized as compensation expense in accordance with the provisions of SFAS No. 123. See Notes 11 and 12 for additional information regarding options and warrants.

Year ended December 31:		2003		2002		2001
Net income (loss) attributable to common stockholders:						
As reported	$	7,139,431	$	17,400,477	$	(21,270,980)
Add: stock-based employee compensation expense included in reported net income (loss), net of tax		88,851		92,566		5,713,168
Deduct: total stock-based compensation expense determined under fair value method for all awards, net of tax		(2,152,185)		(1,922,051)		(10,040,316)
Pro forma	$	5,076,097	$	15,570,992	$	(25,598,128)
Basic earnings (loss) per common share:						
As reported	$	0.24	$	0.79	$	(1.04)
Pro forma		0.17		0.70		(1.25)
Diluted earnings (loss) per common share:						
As reported	$	0.18	$	0.08	$	(1.04)
Pro forma		0.14		0.02		(1.25)

The weighted average fair value of employee options granted during 2003, 2002 and 2001 was $1.05, $0.89 and, $0.53 per share, respectively. The fair value of options granted were estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

Assumption	**2003**	**2002**	**2001**
Dividend yield	None	None	None
Expected volatility	55.8%	93.8%	106.7%
Average risk free interest rate	1.56%	1.36%	3.99%
Average expected lives	6.9 years	6.8 years	4.3 years

k) Earnings (Loss) Per Share

Basic earnings (loss) per common share and diluted earnings (loss) per common share are presented in accordance with SFAS No. 128, *Earnings per Share.* Basic earnings (loss) per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share incorporates the incremental shares issuable upon the assumed exercise of stock options and warrants and upon the assumed conversion of the Company's preferred stock, if dilutive. Certain stock options, stock warrants, and convertible securities were excluded because their effect was antidilutive. The total numbers of such shares excluded from diluted earnings (loss) per common share are 365,592, 1,336,825 and 9,755,934 for the years ended December 31, 2003, 2002 and 2001, respectively.

During the year ended December 31, 2001, the diluted loss per common share calculation was the same as the basic loss per common share calculation, as all potentially dilutive securities were anti-dilutive. The following table indicates the calculation of earnings per share for the years ended December 31, 2003 and 2002:

	Net Income	Shares	Per Share Amount
Year ended December 31, 2003:			
Basic Earnings per Common Share			
Income from continuing operations	$ 7,402,462	29,625,585	$ 0.25
Effect of Dilutive Securities			
Options and warrants	—	5,966,296	
Convertible preferred stock	—	3,471,430	
Diluted Earnings per Common Share			
Net income attributable to common stockholders plus assumed conversions	$ 7,402,462	39,063,311	$ 0.19
Year ended December 31, 2002:			
Income from continuing operations	$ 2,380,329		
Less: preferred stock dividend	(1,952,892)		
Plus: redemption of Series C Preferred Stock in exchange transaction (see Note 12)	16,973,040		
Basic Earnings per Common Share			
Net income attributable to common stockholders	17,400,477	22,154,861	$ 0.79
Effect of Dilutive Securities			
Options and warrants	—	3,331,275	
Convertible preferred stock	(15,020,148)	3,746,432	
Diluted Earnings Per Common Share			
Net income attributable to common stockholders plus assumed conversions	$ 2,380,329	29,232,568	$ 0.08

l) New Accounting Pronouncements

In January 2003 (and revised in December 2003), the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which provides new guidance with respect to the consolidation of certain previously unconsolidated entities, including special purpose entities. The adoption of Interpretation No. 46 in 2003 did not have a material impact on the Company's consolidated financial statements.

m) Reclassifications

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

(3) Discontinued Operations

On December 28, 2001, the Board of Directors approved a plan to dispose of all of the assets related to the Company's former business of investing in early-stage technology companies, since these investments were incompatible with the Company's current strategy of building a global integrated logistics services organization. Therefore, for financial reporting purposes, the assets, liabilities, results of operations and cash flows of the former business have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations. The Company never recognized any revenue from its former business model. During the second quarter of 2003, the Company accrued a liability for $135,000 related to services rendered in 2000 by a consultant. The liability was satisfied in the third quarter of 2003 through the issuance of common stock. Also during the second quarter of 2003, a subtenant defaulted on the payment of sublease rentals related to a property occupied by the Company's former business. The Company accrued a liability for the remaining rental payments and recognized a loss of approximately $239,000. During the fourth quarter of 2003, the Company entered into a new sublease agreement and reduced the rental liability by approximately $92,000, which represents the amount of rentals to be received under the new agreement. The total loss recognized related to discontinued operations in 2003, net of income taxes, amounts to approximately $263,000, and is reflected as loss from discontinued operations in the accompanying consolidated statement of operations for the year ended December 31, 2003. Pre-tax operating losses amounting to $13,862,713 are reflected in the accompanying consolidated statements of operations as loss from discontinued operations for the year ended December 31, 2001.

(4) Acquisitions

On June 20, 2003, the Company acquired, through its indirect wholly owned subsidiary, Stonepath Logistics Government Services, Inc. ("SLGS"), the business of Regroup Express LLC, a Virginia limited liability company ("Regroup") for $3,700,000 in cash and $1,000,000 of the Company's common stock paid at closing, plus contingent consideration of up to an additional $12,500,000 payable over a period of five years based on the future financial performance of SLGS following the acquisition. The members of Regroup may also be entitled to an additional earn-out payment to the extent its pre-tax earnings exceed $17,500,000 during the earn-out period. The Company used funds from its credit facility with LaSalle Business Credit, Inc. for the cash payment at the closing. The business acquired from Regroup provides time-definite domestic and international transportation services including air and ground freight forwarding, ocean freight forwarding, major project logistics as well as local pick up and delivery services. The customers of the acquired business include U.S. government agencies and contractors, select companies in the retail industry and other commercial businesses. The acquisition, which significantly enhances the Company's presence in the Washington, D.C. market, was accounted for as a purchase and accordingly, the results of operations and cash flows of the business acquired from Regroup are included in the accompanying consolidated financial statements prospectively from the date of acquisition. The total purchase price, including acquisition costs of $243,000, but excluding the contingent consideration, was $4,943,000. The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired at June 20, 2003 (in thousands):

Furniture and equipment	$	50
Other intangible assets		1,513
Goodwill		3,380
Net assets acquired	$	4,943

The acquired intangible assets have a weighted average useful life of five years. The intangible assets include a customer related intangible of $1,433,000 with a five year life and a covenant-not-to-compete of $80,000 with a five year life. The $3,380,000 of goodwill was assigned to the Company's domestic business unit and is deductible for income tax purposes.

On August 8, 2003, through newly formed subsidiaries, the Company acquired a 70% interest in the Singapore and Cambodia based operations of the G-Link Group ("G-Link"), a regional logistics business headquartered in Singapore with offices throughout Southeast Asia. As consideration for the purchase, the Company paid $3,704,000 at closing through a combination of $2,792,000 in cash, which was provided from funds available under its credit facility, and $912,000 of the Company's common stock and agreed to issue to G-Link a thirty percent interest in the newly formed subsidiaries which acquired the operations. As additional purchase price, on a post-closing basis, the Company paid G-Link for 70% of its excess net assets in the amount of $1,516,000 through the issuance of additional common stock of the Company. G-Link will also be entitled to an earn-out arrangement over a period of four years of up to $2,500,000 contingent upon the future financial performance of the business. The acquisition was accounted for as a purchase and accordingly, the results of operations and cash flows of G-Link are reflected in the Company's consolidated financial statements for periods subsequent to the date of the transaction. The G-Link acquisition facilitates the Company's expansion into a rapidly growing region where most of the Company's customers have significant supplier relationships. The total purchase price, including acquisition costs of $495,000, but excluding the contingent consideration, was $5,715,000. The following table summarizes the allocation of the purchase price based on management's estimate of the fair value of assets acquired and liabilities assumed at August 8, 2003 (in thousands):

Current assets	$	4,095
Furniture and equipment		81
Other intangible assets		994
Goodwill		3,065
Total assets acquired		8,235
Current liabilities assumed		(1,810)
Minority interest		(710)
Net assets acquired	$	5,715

The acquired intangible assets have a weighted average life of 6.2 years. The intangible assets include a customer related intangible of $917,000 with a 6.5 year life and a covenant-not-to-compete of $77,000 with a four year life. The $3,065,000 of goodwill was assigned to the Company's international business unit and is deductible for income tax purposes.

During 2003, the Company made several smaller acquisitions. The total consideration for these acquisitions amounted to $3,826,000 consisting of approximately $3,306,000 in cash and approximately $520,000 of the Company's common stock paid at closing, plus contingent consideration of up to an additional $6,157,000 payable over a period ending in 2009 based on the future financial performance of the acquired companies following their acquisition. These companies, situated in Portland, Maine, Miami, Florida, El Paso, Texas, Malaysia, Shanghai and Hong Kong complement the Company's existing operations or expand its operations into new geographical locations. The acquisitions were accounted for as purchase transactions and accordingly, the results of operations and cash flows of the acquired U. S. – based company is included in the consolidated financial statements prospectively from the date of acquisition; the foreign based companies will be included in the consolidated financial statements prospectively from the ate of acquisition on a one month delay in accordance with the Company's consolidation policies. In connection with these transactions, the Company recorded intangible assets amounting to $780,000 and goodwill amounting to $2,100,000 of which $886,000 is expected to be deductible for income tax purposes.

The following unaudited pro forma information is presented as if the two material acquisitions (Regroup and G-Link) had occurred on January 1, 2002 (in thousands):

	Year ended December 31,			
		2003		2002
Total revenue	$	240,538	$	156,640
Income from continuing operations		8,110		4,785
Net income		7,847		4,785
Earnings per share:				
Basic	$	0.26	$	0.84
Diluted	$	0.20	$	0.16

(5) Acquired Intangible Assets

Information with respect to acquired intangible assets is as follows:

	December 31,							
	2003				2002			
		Gross Carrying Amount		Accumulated Amortization		Gross Carrying Amount		Accumulated Amortization
Amortizable intangible assets:								
Customer related	$	8,970,000	$	2,923,033	$	5,980,000	$	1,533,667
Covenants-not-to-compete		1,119,000		390,074		760,000		163,778
Total	$	10,089,000	$	3,313,107	$	6,740,000	$	1,697,445

Aggregate amortization expense:

For the year ended December 31, 2003	$ 1,615,662

Estimated aggregate amortization expense:

For the year ended December 31, 2004	$ 1,782,053
For the year ended December 31, 2005	1,313,692
For the year ended December 31, 2006	1,100,666
For the year ended December 31, 2007	916,770
For the year ended December 31, 2008	727,845

(6) Furniture and Equipment

Furniture and equipment consists of the following:

	December 31,	
	2003	2002
Furniture and office equipment	$ 3,396,048	$ 2,761,837
Computer software	5,006,495	986,942
Leasehold improvements	593,425	400,968
Vehicles	62,334	40,167
	9,058,302	4,189,914
Less: accumulated depreciation	(1,995,346)	(956,237)
	$ 7,062,956	$ 3,233,677

(7) Revolving Credit Facility

In May 2002, the Company secured a $15,000,000 revolving credit facility (the "Facility") which was increased to $20,000,000 during 2003. The Facility is collateralized by accounts receivable and other assets of the Company and its subsidiaries. At the time of borrowing, the Company has the option to elect to pay interest at a rate equal to LIBOR plus 2.25% or the prime rate. The Company also pays a commitment fee of 0.5% per annum on the average unused balance of the Facility. The Company may use advances under the Facility to finance future acquisitions, capital expenditures or other corporate purposes. Under the terms of the Facility, the Company is permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the credit facility include the following: (1) the absence of an event of default under the credit facility; (2) the company to be acquired must be in the transportation and logistics industry; (3) the purchase price to be paid must be consistent with the Company's historical business and acquisition model; (4) the undrawn availability under the credit facility must average $5,000,000 for the 60 days preceding the acquisition and must be at least $5,000,000 million after giving effect to the acquisition; (5) the lender must be reasonably satisfied with projected financial statements covering a 12 month period following the acquisition; (6) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender; (7) through May 2005, the aggregate cash consideration paid at the closing for foreign acquisitions must not exceed $11,300,000 (such amount may be increased up to $20,000,000 based on the results of subsequent equity offerings); and (8) the number of such permitted acquisitions is limited to four per year (excluding any acquisitions for which the purchase price is payable solely in stock). Borrowings under the Facility may be limited based upon measures of the Company's cash flow, as well as a covenant that limits funded debt (the "Funded Debt Covenant") to a multiple of consolidated earnings before interest, taxes, depreciation and amortization generated from the operations of the United States subsidiaries ("Domestic EBITDA"). Under the Funded Debt Covenant, the funded debt is limited to a multiple of 2.75 of the Domestic EBITDA measured on a rolling four quarter basis. As the rolling four quarter Domestic EBITDA increases or decreases, the availability under the Facility will increase or decrease. At December 31, 2003, based on available collateral, $4,687,300 earmarked for foreign acquisitions, and an outstanding $160,000 letter of credit commitment, there was $15,152,700 available for borrowing under the Facility.

During the year ended December 31, 2003, the Company incurred interest costs of $189,359 of which $47,500 was capitalized.

(8) Income Taxes

Deferred tax assets and liabilities are determined based upon the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as well as for operating and capital loss carryforwards, using the current enacted tax rates. Deferred income tax assets and liabilities are classified as current and noncurrent based on the financial reporting classification of the related assets and liabilities that give rise to the temporary difference. The tax effects of temporary differences that give rise to the Company's deferred tax accounts are as follows:

	December 31, 2003	December 31, 2002
Deferred tax assets:		
Accruals	$ 191,000	$ 52,000
Equity in losses of affiliate companies	384,000	432,000
Amortization and depreciation	828,000	—
Deferred compensation and warrants	3,044,000	11,066,000
Capital loss carryforward	2,201,000	2,475,000
Federal and state deferred tax benefits arising from net operating loss carryforwards	6,674,000	8,922,000
Total	13,322,000	22,947,000
Less: valuation allowance	(10,327,000)	(22,852,000)
Net deferred tax assets	2,995,000	95,000
Deferred tax liabilities:		
Amortization and depreciation – goodwill and intangibles	(1,250,000)	(95,000)
Foreign taxes	(50,000)	—
Total	(1,300,000)	(95,000)
Net deferred taxes	$ 1,695,000	$ —

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because it is management's intention to reinvest such earnings for the foreseeable future. At December 31, 2003, the undistributed earnings of the foreign subsidiaries amounted to approximately $784,000. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management reversed $2,995,000 of the valuation allowance which was partially offset by $1,300,000 of deferred tax liabilities for foreign taxes and amortization of intangibles resulting in a net deferred tax asset of $1,695,000.

The net change in the valuation allowance for the years ended December 31, 2003 and 2002 was a decrease of $12,575,000 and $1,298,000, respectively. The decrease in 2003 was principally due to utilization of net operating loss carryforwards, a change in the amount of net operating losses estimated to be realizable in the future and a reduction in the amount of the deferred tax asset related to deferred stock-based compensation. As of December 31, 2003, the Company had net operating loss carryforwards for federal and state income tax purposes amounting to approximately $17,772,000 and $16,676,000, respectively. The federal net operating loss carryforwards expire beginning 2018 through 2021, and the state net operating loss carryforwards expire beginning in 2004. The use of certain net operating losses may be subject to annual limitations based on changes in the ownership of the Company's common stock, as defined by Section 382 of the Internal Revenue Code.

Income tax expense is as follows:

	Year ended December 31,		
	2003	2002	2001
Current:			
Federal	$ —	$ —	$ —
State	262,662	101,877	—
Foreign	121,086	—	—
	383,748	101,877	—
Deferred			—
Federal	(1,432,000)	—	—
State	(313,000)	—	—
Foreign	50,000	—	—
	(1,695,000)	—	—
	$ (1,311,252)	$ 101,877	$ —

In addition to the amounts reflected above, an income tax benefit of approximately $19,000 has been allocated to discontinued operations for the year ended December 31, 2003.

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income tax expense (benefit) related to continuing operations.

	Year ended December 31, 2003	2002	2001
Tax at statutory rate	34.0%	34.0%	(34.0)%
Change in valuation allowance	(27.8)	—	33.8
State taxes, net of federal effect	2.8	4.1	—
Effect of tax rates of foreign subsidiaries	(2.5)	—	—
Utilization of net operating losses	(29.0)	(30.2)	—
Non-deductible items	1.6	3.8	0.2
Income tax expense (benefit)	(20.9)%	4.1%	0.0%

(9) Commitments

Employment Agreements

At December 31, 2003, the Company had employment agreements with three of its officers for an aggregate annual base salary of $760,000 plus bonus and increases in accordance with the terms of the agreements. The contracts are for three-year terms.

Leases

The Company leases equipment, office and warehouse space under operating leases expiring at various times through 2010. During 2003, the Company entered into a capital lease for certain technology and hardware related to its Tech-Logis™ project. Total rent expense related to continuing operations for the years ended December 31, 2003, 2002 and 2001 was $7,451,000, $4,750,000 and $969,000, respectively. Future minimum lease payments are as follows:

Year ending December 31,	Operating Leases: Third-party	Operating Leases: Related Party	Operating Leases: Total	Capital Lease
2004	$ 5,790,000	$ 187,000	$ 5,977,000	$ 749,703
2005	5,214,000	94,000	5,308,000	749,178
2006	3,708,000	—	3,708,000	435,715
2007	2,614,000	—	2,614,000	—
2008	1,722,000		1,722,000	—
Thereafter	1,151,000	—	1,151,000	—
Total minimum lease payments	$ 20,199,000	$ 281,000	$ 20,480,000	1,934,596
Less: Amount representing interest				128,584
Present value of minimum lease payments				1,806,012
Less: Current portion of capital lease obligation				671,197
Long term portion of capital lease obligation				$ 1,134,815

Employee Benefit Plan

The Company sponsors voluntary defined contribution savings plans covering all U.S. employees. Company contributions are discretionary. For the years ended December 31, 2003, 2002 and 2001, total Company contributions amounted to $547,000, $260,000 and $37,500, respectively.

(10) Contingencies

Acquisition Agreements

Assuming minimum pre-tax income levels are achieved by the acquired companies, the Company will be required to make future contingent consideration payments by April 1 of the respective year as follows (in thousands):

	2005	2006	2007	2008	2009	Total
Domestic	$ 9,040	$ 8,050	$ 2,500	$ 2,500	$ —	$ 22,090
International	2,804	2,804	3,176	1,442	909	11,135
Total	$ 11,844	$ 10,854	$ 5,676	$ 3,942	$ 909	$ 33,225

In addition, during the 2003-2007 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as $18,000,000 if certain of the acquired companies generate an incremental $37,000,000 in pre-tax earnings. The above also excludes $2,500,000 of contingent purchase price payable to the former members of Regroup in the third quarter of 2004 subject to the acquired operations achieving a $3,500,000 earnings target for the twelve-month period commencing July 1, 2003.

Legal Proceedings

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

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

On October 2, 2001, the Court entered an order granting summary judgment to the defendants in the first case filed by Emergent and dismissing Emergent's second complaint for failure to state a claim upon which relief can be granted. The Court allowed Emergent 20 days to file a second amended complaint as to the second action only. On October 21, 2001, Emergent did file a second amended complaint in the second action. The second amended complaint did 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 District Court entered an order granting the motion to dismiss Emergent's second amended complaint against the Company and its former officers. The District 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. On September 4, 2003, the Second Circuit Court of Appeals entered an order affirming in part, vacating in part and remanding in part the matter to the District Court. The Court affirmed the dismissal of some of the counts in the Second Amended Complaint and determined that Emergent had stated a claim on the other counts. The Company has filed an answer denying liability to Emergent and discovery on causation issues is proceeding. The Company believes it has meritorious defenses to this action and intends to continue to vigorously defend this matter. No accrual has been established for this proceeding since (i) the Company believes it has substantial defenses to the plaintiff's claims, and (ii) the amount of the loss, if any, cannot be reasonably estimated. Notwithstanding the Company's belief, there can be no assurances, however, that the Company will not incur material expenses in the defense and resolution of this matter.

On May 6, 2003, the Company settled 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 and to mitigate the diversion of management's attention from operations. The total settlement costs of $787,500, paid $437,500 in cash and $350,000 in shares of the Company's common stock, are included in litigation and nonrecurring costs in the accompanying consolidated statement of operations for the year ended December 31, 2003.

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

One of the Company's customers which is the subject of a Chapter 11 proceeding under the Bankruptcy Code paid to the Company approximately $1,300,000 of pre-petition indebtedness for shipping and delivery charges pursuant to an order of a United States Bankruptcy Court authorizing the payment of such charges. One of the creditors in the Chapter 11 proceeding appealed other orders of the Bankruptcy Court authorizing the payment of pre-petition indebtedness to other creditors for other charges, and those orders have been reversed by a United States District Court. The Company's customer has appealed the District Court's reversal and that appeal is pending. While no action has been taken in the Bankruptcy Court to challenge the payments made to the Company, if such action were taken in the future and that action were successful, the Company could be required to return all or a substantial portion of the payments made by the customer.

(11) Stockholders' Equity

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

a) Common Stock

The Company is authorized to issue 100,000,000 shares of common stock, par value $.001 per share. The holders of common stock are entitled to one vote per share and are entitled to dividends as declared. Dividends are subject to the preferential rights of the holders of the Company's preferred stock. The Company has never declared dividends on its common stock.

In March 2003, the Company completed a private placement of 4,470,000 shares of its common stock at a price of approximately $1.35 per share realizing gross proceeds of $6,072,500. This placement yielded net proceeds of $5,512,468 for the Company, after the payment of placement agent fees and other out-of-pocket costs associated with the placement.

In October 2003, the Company completed a private placement of 5,983,500 shares of its common stock at a price of $2.20 per share realizing gross proceeds of $13,163,700. This placement yielded net proceeds of $12,552,947 for the Company, after the payment of placement agent fees and other out-of-pocket costs associated with the placement.

b) Preferred Stock

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

Series 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 (the "Consents") from the holders of more than two-thirds of its issued and outstanding shares of Series C Preferred Stock to modify this restriction to permit it to use the proceeds to make any investments in the ordinary course of business, as from time-to-time determined by the Board of Directors, or for any other business purpose approved by the Board of Directors.

In exchange for the Consents, the Company agreed to a private exchange transaction (the "Exchange Transaction") in which it would issue to the holders of the Series C Preferred Stock as of July 18, 2002 (the "conversion date"), additional warrants to purchase up to a maximum of 2,692,195 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 307,805 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 307,805 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 1,911,071 shares of common stock and the 1,543,413 warrants to purchase shares of common stock at an exercise price of $1.00 were issued in exchange for 1,911,071 shares of Series C Preferred Stock and warrants to purchase 158,349 shares of the Company's common stock at an exercise price of $26.58 per share. The exchange of the common stock for the Series C Preferred Stock was accounted for as a conversion of the Series C Preferred Stock pursuant to its terms. The estimated fair value of the additional warrants and the re-priced warrants had been previously recorded by the Company in 2001 as a dividend, so no further amount was recorded in 2002.

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

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

The holders of the Series C Preferred Stock earned 162,741 and 299,069 additional shares of Series C Preferred Stock from payment of preferred stock dividends during the years ended December 31, 2002 and 2001, respectively.

Series D Convertible Preferred Stock

Each share of the Series D Convertible Preferred Stock is convertible into ten shares of common stock of the Company. The conversion terms were negotiated to be similar to the terms of the Exchange Transaction. During the year ended December 31, 2003, 50,265 shares of Series D Convertible Preferred Stock were converted into 502,650 shares of common stock of the Company.

Subsequent to December 31, 2003, the holders of the Series D Convertible Preferred Stock are entitled to participate in all liquidation distributions made to the holders of the Company's common stock on an as-if converted basis. The Series D Convertible Preferred Stock carries no dividend, and, except under limited circumstances, has no voting rights except as required by law. By no later than December 31, 2004, the Series D Convertible Preferred Stock will convert into shares of the Company's common stock.

Preferred Stock Dividends

The components of the preferred stock dividends are as follows:

	Year ended, December 31	
	2002	2001
Series C Preferred Stock dividend payable in kind	$ (1,952,892)	$ (3,588,828)
Non-cash credit: excess of carrying value of Series C Preferred Stock over the fair value of Series D Convertible Preferred Stock	16,973,040	—
Non-cash charge: issuance of contingent warrants	—	(562,370)
	$ 15,020,148	$ (4,151,198)

c) Deferred Stock-Based Compensation

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

The components of deferred compensation are as follows:

	Employees	Consultants And Advisory Board	Total
Balance at January 1, 2001	$ 10,679,930	$ 91,794	$ 10,771,724
Deferred compensation recorded	1,207	19,450	20,657
Cancellations and fair value adjustments	(4,756,331)	(109,623)	(4,865,954)
Amortization to stock-based compensation	(5,713,168)	(1,621)	(5,714,789)
Balance at December 31, 2001	211,638	—	211,638
Deferred compensation recorded	—	3,193	3,193
Amortization to stock-based compensation	(95,232)	(3,193)	(98,425)
Balance at December 31, 2002	116,406	—	116,406
Amortization to stock-based compensation	(95,232)	—	(95,232)
Balance at December 31, 2003	$ 21,174	$ —	$ 21,174

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

	Year ended December 31,		
	2003	2002	2001
Personnel costs	$ 95,232	$ 98,425	$ 2,394,106
Loss from discontinued operations	–	–	3,320,683
Total	$ 95,232	$ 98,425	$ 5,714,789

(12) Stock Options and Warrants

a) Stock Options

The Amended and Restated Stonepath Group, Inc. 2000 Stock Incentive Plan, (the "Stock Incentive Plan") covers 13,000,000 shares of common stock. Under its terms, employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified and incentive stock options and restricted stock awards. Options granted generally vest over three to four years and expire ten years following the date of grant. The Board of Directors or a committee thereof determines the exercise price of options granted.

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

	Shares	Range of exercise prices	Weighted average exercise price
Outstanding at January 1, 2001	4,550,830	$ 0.50 – 19.69	$ 4.03
Granted	3,725,000	0.50 – 1.60	0.76
Cancelled	(1,992,947)	0.50 – 19.69	5.99
Outstanding at December 31, 2001	6,282,883	0.50 – 17.50	1.47
Granted	3,648,000	1.30 – 2.30	1.37
Exercised	(409,583)	0.50 – 1.00	0.96
Expired	(74,000)	0.70 – 1.58	0.98
Outstanding at December 31, 2002	9,447,300	0.50 – 17.50	1.46
Granted	1,862,100	1.53 – 2.85	1.95
Exercised	(307,916)	0.70 – 1.30	1.04
Expired	(273,600)	9.27 – 10.00	9.27
Cancelled	(123,750)	1.21 – 2.00	1.34
Outstanding at December 31, 2003	10,604,134	$ 0.50 – 17.50	$ 1.36

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

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.50 – $1.00	4,865,834	6.8 years	$ 0.82	4,726,605	$ 0.82
$1.01 – $2.00	4,602,100	8.7 years	1.46	1,624,270	1.45
$2.01 – $4.00	1,063,000	8.5 years	2.40	450,222	2.67
$6.38	10,000	5.5 years	6.38	10,000	6.38
$17.50	63,200	3.7 years	17.50	63,200	17.50
Total	10,604,134	7.8 years	$ 1.36	6,874,297	$ 1.25

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

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

b) Warrants

The Company had outstanding the following warrants to purchase its securities as of December 31, 2003:

Description of series	Number of warrants issued	Exercise price per share
Common stock	1,883,396	$1.00 – $1.49

These warrants were issued primarily in connection with former borrowing arrangements, the Series C Preferred Stock issuance, the receipt of consulting services and services to be rendered in connection with a private placement of the Company's common stock. In 2002, the Company recorded $95,000 of deferred offering costs for warrants that were issued in connection with an anticipated private placement of the Company's common stock.

(13) Fair Value of Financial Instruments

At December 31, 2003 and 2002, the carrying values of cash and cash equivalents, accounts receivable, loans receivable and accounts payable approximated their fair values as they are short term and are generally receivable or payable on demand. At December 31, 2003, the carrying value of the capital lease approximated its fair value, which was determined using the interest rate currently available to the Company for issuance of debt with similar terms and remaining maturities.

(14) Related Party Transactions

Certain real estate is leased from the former principal shareholder of Air Plus under an operating lease. The Company leased one building in 2003 and 2002 and two buildings in 2001. Rent under this arrangement was determined by a survey of comparable building rents and totaled $187,000 for each of the years ended December 31, 2003 and 2002 and $110,000 for the period from October 5, 2001 to December 31, 2001.

During 2003, the Company paid $25,872 for consulting services received from a company owned by a director.

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

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

At December 31, 2003 and 2002, an officer was indebted to the Company for a loan with an aggregate unamortized balance of $14,597 and $39,593, respectively. This loan is generally forgivable over a three-year term and for accounting purposes is amortized evenly to expense over the term which ends in April 2004.

At December 31, 2003, a former principal shareholder of Global was indebted to the Company for a loan amounting to $175,000. The loan is repayable in two equal installments by offset against his portion of the contingent consideration payment.

(15) Segment Information

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company identifies operating segments based on the principal service provided by the business unit. The Company determined that it has two operating segments: the Domestic Services platform, which provides a full range of logistics and transportation services throughout North America, and its International Services platform, which provides international air and ocean logistics services. Each segment has a separate management structure. The accounting policies of the reportable segments are the same as described in Note 2. Segment information, in which corporate expenses (other than the legal settlement and non-recurring costs) have been fully allocated to the operating segments, is as follows (in thousands):

STONEPATH GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 2003, 2002 and 2001

	Year Ended December 31, 2003			
	Domestic Services	International Services	Corporate	Total
Revenue from external customers	$ 129,694	$ 90,610	$ —	$ 220,304
Inter-segment revenue	56	124	—	180
Revenue from significant customer	53,852	—	—	53,852
Segment operating income (loss)	3,143	4,312	(1,169)	6,286
Segment assets	54,255	36,577	5,607	96,439
Segment goodwill	23,896	11,868	—	35,764
Depreciation and amortization	2,259	401	—	2,660
Capital expenditures	643	140	3,400	4,183

	Year Ended December 31, 2002			
	Domestic Services	International Services	Corporate	Total
Revenue from external customers	$ 78,319	$ 44,469	$ —	$ 122,788
Inter-segment revenue	76	15	—	91
Revenue from significant customer	40,164	—	—	40,164
Segment operating income	584	1,770	—	2,354
Segment assets	41,863	13,867	(564)	55,166
Segment goodwill	15,103	5,208	—	20,311
Depreciation and amortization	2,036	151	—	2,187
Capital expenditures	788	349	676	1,813

The revenue in the table below is allocated to geographic areas based upon the location of the customer (in thousands):

	Year Ended December 31,		
	2003	2002	2001
Total revenue:			
United States	$ 208,811	$ 121,111	$ 15,598
Asia	8,003	1,076	—
North America (excluding the United States)	1,360	55	—
Europe	1,287	344	—
Other	843	202	—
Total	$ 220,304	$ 122,788	$ 15,598

(16) Quarterly Information (Unaudited)

The following is a summary of certain unaudited quarterly financial information for fiscal 2003 and 2002:

	Quarter ended			
2003	**March 31**	**June 30**	**September 30**	**December 31[2]**
Total revenue	$ 38,572,441	$ 46,333,898	$ 65,514,731	$ 69,882,896
Cost of transportation	26,388,804	32,228,800	46,858,613	48,241,399
Net revenue	$ 12,183,637	$ 14,105,098	$ 18,656,118	$ 21,641,497
Income (loss) from continuing operations	$ (7,305)	$ 484,434	$ 2,075,103	$ 4,850,230
Gain (loss) from discontinued operations	—	(354,991)	—	91,960
Net income (loss) attributable to common stockholders	$ (7,305)	$ 129,443	$ 2,075,103	$ 4,942,190
Earnings (loss) per common share:				
Basic				
Continuing operations	$ —	$ 0.02	$ 0.07	$ 0.14
Discontinued operations	—	(0.02)	—	—
Earnings per common share	$ —	$ —	$ 0.07	$ 0.14
Diluted				
Continuing operations	$ —	$ 0.01	$ 0.05	$ 0.11
Discontinued operations	—	(0.01)	—	—
Earnings per common share	$ —	$ —	$ 0.05	$ 0.11

	Quarter ended			
2002	**March 31**	**June 30**	**September 30**	**December 31**
Total revenue	$ 13,065,560	$ 28,524,745	$ 37,881,049	$ 43,316,271
Cost of transportation	8,645,969	19,739,026	25,884,973	30,207,462
Net revenue	$ 4,419,591	$ 8,785,719	$ 11,996,076	$ 13,108,809
Net income (loss)	$ (1,226,954)	$ 268,264	$ 1,991,482	$ 1,347,537
Preferred stock dividends and effect of redemption	(887,772)	(892,116)	16,800,036	—
Net income (loss) attributable to common stockholders	$ (2,114,726)	$ (623,852)	$ 18,791,518	$ 1,347,537
Earnings (loss) per common share[1]:				
Basic	$ (0.10)	$ (0.03)	$ 0.82	$ 0.06
Diluted	$ (0.10)	$ (0.03)	$ 0.07	$ 0.04

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

(2) Income from continuing operations and net income attributable to common stockholders for the quarter ended December 31, 2003 reflect the reversal of a portion of the deferred income tax asset valuation allowance in the amount of $2,995,000 which was partially offset by $1,300,000 of deferred tax liabilities for foreign taxes and amortization of intangible assets resulting in a net deferred income tax benefit of $1,695,000 in the fourth quarter of 2003.

(17) Subsequent Events

On February 9, 2004 the Company filed a shelf registration statement with the Securities and Exchange Commission. This registration statement, filed on Form S-3, has been declared effective, and permits the Company to sell, in one or more public offerings, shares of common stock, preferred stock, or warrants for proceeds of up to an aggregate amount of $50,000,000.

On February 9, 2004, the Company entered into a definitive agreement to acquire a 55% interest in Shanghai-based Shaanxi Sunshine Cargo Services International Co. Ltd. ("Shaanxi"). This transaction is scheduled to take effect as of March 1, 2004. Shaanxi is a Class A freight forwarder which provides its clients with a wide range of customized transportation and logistics services and supply chain solutions including global freight forwarding, warehousing and distribution, shipping services and special freight handling. With this and other recent acquisitions in Hong Kong, Singapore and Malaysia, the Company is in a position to deliver a broad range of supply-chain strategies to its clients on a global basis and to take advantage of the increasing demand for integrated logistics services between the U.S. and Asia and other key markets. This acquisition will be accounted for as a purchase. Shaanxi reported revenue of $55,000,000 for the ten-month period ended October 31, 2003. The transaction is valued at up to $11,000,000, consisting of cash of $3,500,000 and stock of $2,000,000 at closing, and a five-year earn-out arrangement based upon the future financial performance of Shaanxi. The earn-out payments due will be up to $5,500,000 ($1,100,000 per year) contingent upon Shaanxi realizing pre-tax income of at least $4,000,000 per year during the earn-out period. As additional purchase price, on a post-closing basis, the Company has also agreed to pay for excess closing date working capital estimated at between $1,000,000 and $2,000,000. The following table summarizes the allocation of the purchase price, which is preliminary pending the finalization of the valuation of certain intangible assets and the completion of the final balance sheet as of the transaction date (in thousands).

Current assets	$	16,691
Furniture and equipment		89
Goodwill and intangible assets		5,650
Total assets acquired		22,430
Current liabilities assumed		(14,844)
Minority interest		(871)
Net assets acquired	$	6,715

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

STONEPATH GROUP, INC. AND SUBSIDIARIES

Column A - Description	Column B - Balance at beginning of period	Column C – Additions (1) Charged to costs and expenses	Column C – Additions (2) Charged to other accounts - describe	Column D Deductions- describe(a)	Column E - Balance at end of period
Allowance for doubtful accounts:					
Year ended December 31, 2003	$ 320,000	$ 771,000	$ —	$ (36,000)	$ 1,055,000
Year ended December 31, 2002	$ 167,000	$ 153,000	$ —	$ —	$ 320,000
Year ended December 31, 2001	$ —	$ 167,000	$ —	$ —	$ 167,000

(a) Represents writeoff of uncollectible accounts receivable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Philadelphia, Commonwealth of Pennsylvania, on March 15, 2004.

STONEPATH GROUP, INC.

BY: /s/Dennis L. Pelino
Dennis L. Pelino (Chairman of the Board of Directors and Chief Executive Officer)

BY: /s/Bohn H. Crain
Bohn H. Crain (Chief Financial Officer)

BY: /s/Thomas L. Scully
Thomas L. Scully (Principal Accounting Officer)

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

SIGNATURE	TITLE	DATE
/s/ Dennis L. Pelino Dennis L. Pelino	Chairman of the Board of Directors and Chief Executive Officer	March 15, 2004
/s/ J. Douglass Coates Douglass Coates	Director	March 15, 2004
/s/John Springer John Springer	Director	March 15, 2004
/s/ David R. Jones David R. Jones	Director	March 15, 2004
/s/ Aloysius T. Lawn, IV Aloysius T. Lawn, IV	Director	March 15, 2004
/s/ Robert McCord Robert McCord	Director	March 15, 2004

Exhibit 31.1

CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dennis L. Pelino, certify that:

1. I have reviewed this annual report on Form 10-K of Stonepath Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

    c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: March 15, 2004

BY: /s/ Dennis L. Pelino
Dennis L. Pelino
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bohn H. Crain, certify that:

1. I have reviewed this annual report on Form 10-K of Stonepath Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

    c. Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: March 15, 2004

BY: /s/ Bohn H. Crain
Bohn H. Crain
Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Stonepath Group, Inc. (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the period ending December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2004

By: /s/ Dennis L. Pelino

Dennis L. Pelino
Chairman and Chief Executive Officer

This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard set forth therein, and not for any other purpose. It is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Stonepath Group, Inc. and will be retained by Stonepath Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Stonepath Group, Inc. (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the period ending December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2004

By: /s/ Bohn H. Crain

Bohn H. Crain
Chief Financial Officer and Treasurer

This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard set forth therein, and not for any other purpose. It is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Stonepath Group, Inc. and will be retained by Stonepath Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

STONEPATH GROUP

CORPORATE HEADQUARTERS
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Philadelphia, PA 19103
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INQUIRIES
Investor information is available on our Web site at www.stonepath.com. If you prefer, you may also write or call us:

John Brine
Senior Vice President, Marketing & Communications
280 East 10th Street, STE 2E
New York, NY 10009
johnbrine@stonepath.com
Tel: 212-254-8280

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE APPROVAL OF THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS OF STONEPATH GROUP, INC.

2.	**Proposal 2**			
	Approval of Amendment to the Company's Amended & Restated 2000 Stock Incentive Plan.	FOR ☐	AGAINST ☐	ABSTAIN ☐
3.	**Proposal 3**			
	Ratification of the appointment of KPMG LLP to serve as the auditors for the Company for the fiscal year ending December 31, 2004.	FOR ☐	AGAINST ☐	ABSTAIN ☐

Check appropriate box Indicate changes below: ☐Address Change ☐Name Change

The undersigned hereby acknowledges receipt of the proxy statement.

PLEASE SIGN, DATE AND RETURN YOUR PROXY PROMPTLY IN THE ENCLOSED ENVELOPE. *NO POSTAGE REQUIRED IF MAILED IN THE UNITED STATES.*

NOTE: Please sign name(s) exactly as printed hereon. Joint owners must each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

SIGNATURE(S) ______________________________

____

DATE ______________________________, 2004

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YOUR VOTE IS IMPORTANT
VOTE TODAY IN ONE OF TWO WAYS:

1. **VOTE BY INTERNET:**
   Log-on to www.votestock.com
   Enter your control number printed below
   Vote your proxy by checking the appropriate boxes
   Click on "Accept Vote"

OR

2. **VOTE BY MAIL:** If you do not wish to vote over the internet, please complete, sign, date and return the above proxy card in the pre-paid envelope provided.

YOUR CONTROL NUMBER IS:

You may vote over the Internet 24 hours a day, 7 days a week.
Your Internet vote authorizes the named proxies to vote in the same manner as if you

STONEPATH GROUP, INC.

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby constitutes and appoints Dennis L. Pelino and Stephen M. Cohen, with full power of substitution, as proxy, to vote for the undersigned all shares of the common stock, pa value $.001 per share of Stonepath Group, Inc., a Delaware corporation (the "Company"), that the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders to be hel in the Philadelphia Room of the offices of Buchanan Ingersoll PC, 11 Penn Center, 1835 Market Street, 15th Floor, Philadelphia, Pennsylvania 19103 at 10:00 a.m. local time on Wednesday, May 26, 2004, c at any adjournments thereof, upon the matters described in the accompanying proxy statement and upon such other matters as may properly come before the meeting. Said proxy is directed to vote or refrai from voting on the matters set forth in the accompanying proxy statement in the manner set forth on this proxy.

You are encouraged to specify your choice by marking the appropriate box (SEE REVERSE SIDE), but you need not mark any box if you wish to vote in accordanc with the Board of Directors' recommendations.

THE PROXY CANNOT VOTE YOUR SHARES UNLESS YOU SIGN AND RETURN THIS CARD

	FOR	WITHHELD
1. Proposal 1		
ELECTION OF DIRECTORS Nominees: Dennis L. Pelino, J. Douglass Coates, Robert McCord, David R. Jones, Aloysius T. Lawn, IV, John H. Springer	☐	☐

For, except vote withheld for the following nominee(s):

____
____
____
____

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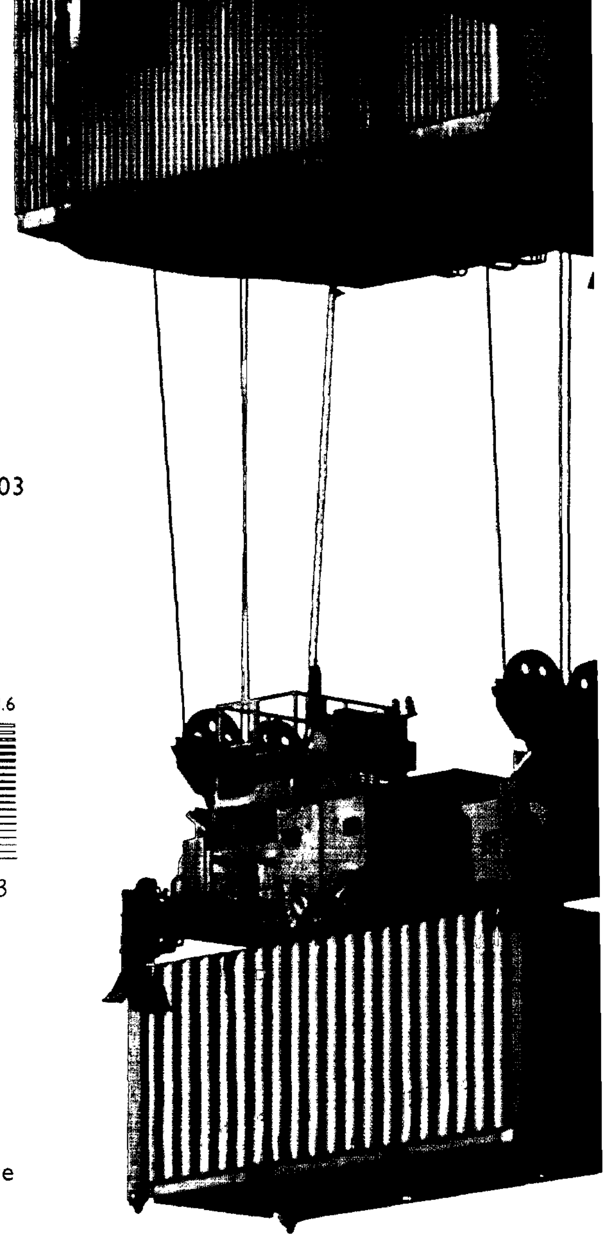
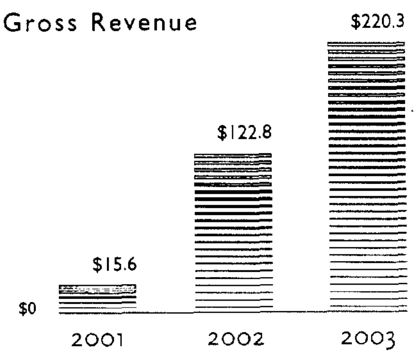
(CONTINUED AND TO BE SIGNED ON REVERSE SIDE)

PROFITABLE GROWTH

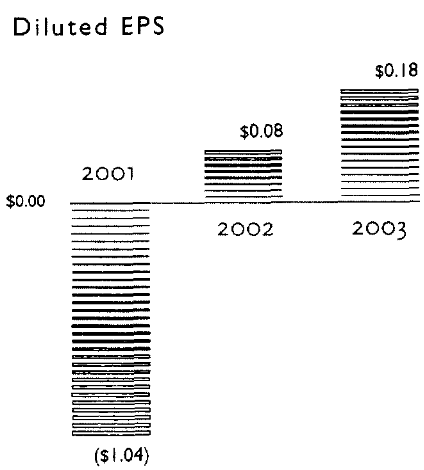
An accretive acquisition strategy, a focus on organic growth, technology, integration and cost control worked together to produce significant shareholder value in 2003

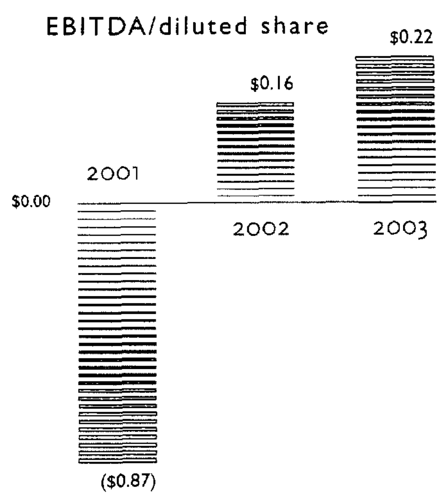


Stonepath delivered 79% revenue growth and 87% growth in EBITDA in 2003



With 125% growth in diluted EPS and 38% growth in EBITDA/diluted share





$Millions except per share

By combining the right forces, Stonepath is moving forward in its charge to be a leading global logistics provider

ORGANIC GROWTH

Bolster existing technology platform with leading transportation and warehouse management software

A CLEAR MISSION

To become a leader in the logistics industry by *combining profitable* logistics services businesses with innovative technologies.

STRATEGIC ACQUISITIONS

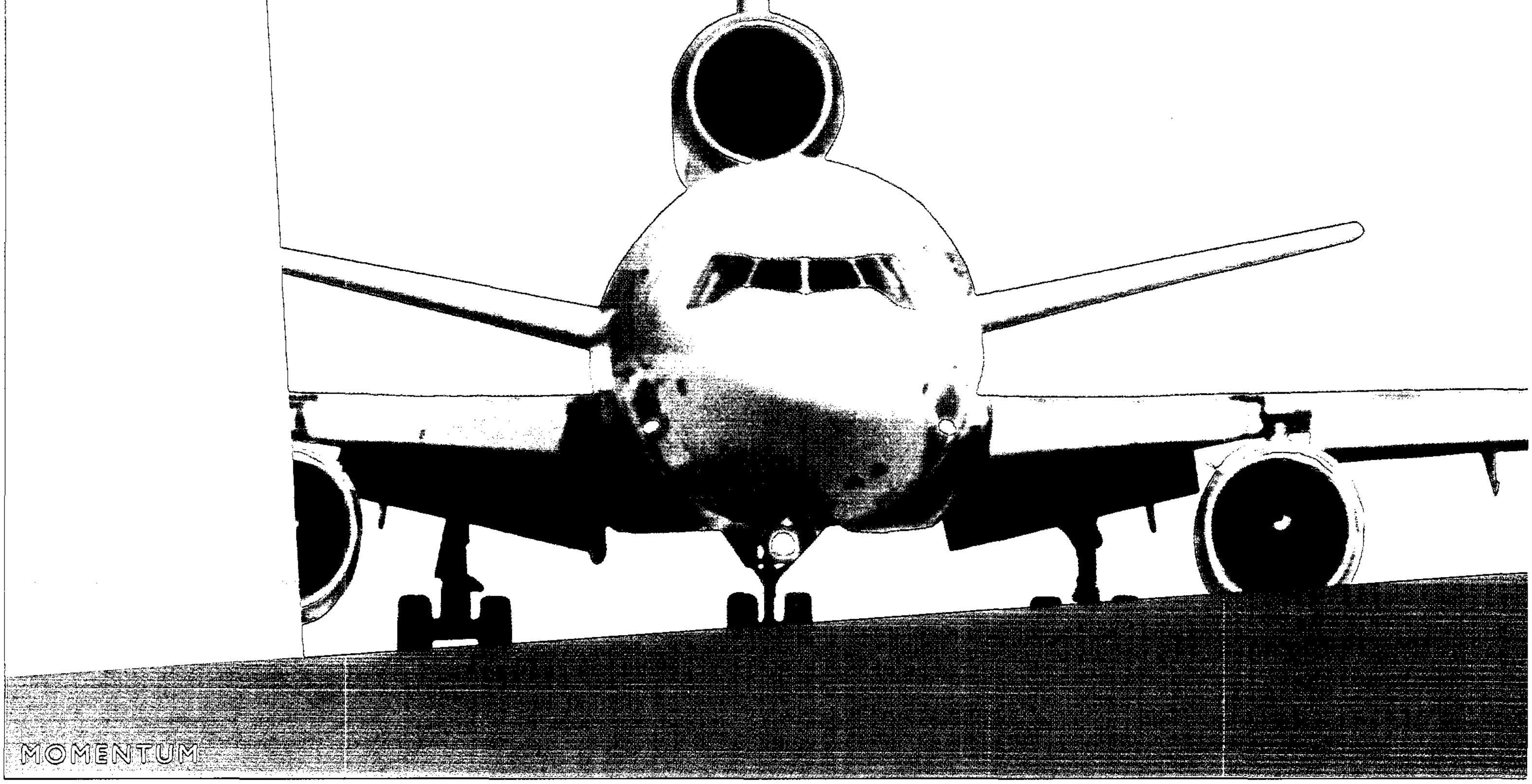
- Profitable companies
- Deep customer bases
- Key geographic or service niches
- Committed management teams
- Ability to integrate

THE RIGHT PEOPLE

Empower top executive talent and team members.

RIPE OPPORTUNITIES

- Fragmented, fast-growing industry poised to consolidate
- Providers seeking alignment with global players
- Customers demanding global capability and comprehensive services



- Established $15mm credit facility through LaSalle Business Credit
- Raised nearly $20mm via clear-cut private placements
- Increased credit facility to $20mm, adding flexibility
- Filed $50mm equity shelf registration

AN IMPRESSIVE (and growing) CLIENT LIST

Best Buy • Target Stores • Ford • AT&T Wireless • Peoplesoft
General Dynamics • Toshiba

SUCCESSFUL CLIENT PROGRAMS

Domestic Services division receives "Target Corporation Transportation Carrier of the Year"

RESULTS

Achieve increased revenue and earnings objectives

AGGRESSIVE EXPANSION

- Build network in key Asian markets
- Pursue acquisitions in key Latin American and European sectors

SMART CAPITAL DEPLOYMENT

Each additional $10 million in acquisitions designed to deliver at least $4 million in incremental EBITDA

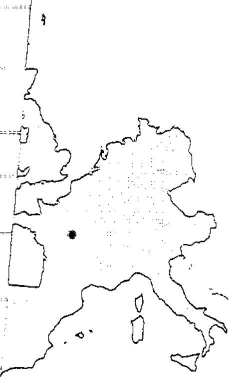
INTELLIGENT MANAGEMENT

- Invest in technology, sales & marketing
- Foster entrepreneurial culture
- Increase purchasing power and improve transportation margins
- Focus on cross-selling and broadening service mix

TALENT
EXPANSION
RESULTS
STRATEGY
OPPORTUNITY
BEST BUY
TARGET
PEOPLESOFT
FORD
GENERAL DYNAMICS
AT&T
TOSHIBA

Stonepath is building a powerful network for a new age in global logistics. With several acquisitions in Asia, Stonepath is primed to be a major player in this surging market. Stonepath strengthened its domestic operations by acquiring leading regional players, adding capabilities and expanding its customer base.

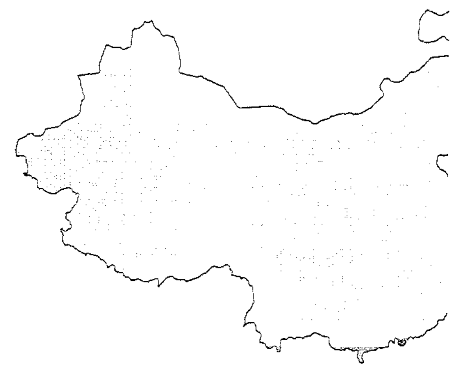
MILWAUKEE
CHICAGO
MINNEAPOLIS
ATLANTA
NORFOLK
BOSTON
SALT LAKE CITY
NEW YORK
DETROIT
SEATTLE
DALLAS/FORT WORTH
LOS ANGELES
PHOENIX



Europe
Continue to extend capabilities through partnerships, with an eye on strategic acquisitions in 2004.

China
Gained major traction in the Chinese market with acquisition of Shaanxi Sunshine Cargo Services, a prominent freight forwarder with operations in the PRC and Taiwan.

Shanghai
Acquisition of Group Logistics provides a platform to penetrate air cargo markets in Shanghai.



Malaysia
Added Malaysian operations of G-Link Express in Penang, Kuala Lumpur and Johor Barhu.

Singapore
Gained a significant air cargo network by acquiring controlling interests in Planet Logistics and the Singapore and Cambodia-based operations of the G-Link Group.

Hong Kong

Integrated newly acquired East Ocean Logistics with existing Hong Kong operations, broadening ocean carriage capabilities throughout China and Southeast Asia.

Seattle

(International Services HQ)
Built upon international platform by expanding global network, enhancing operations and broadening service capabilities.

Minneapolis

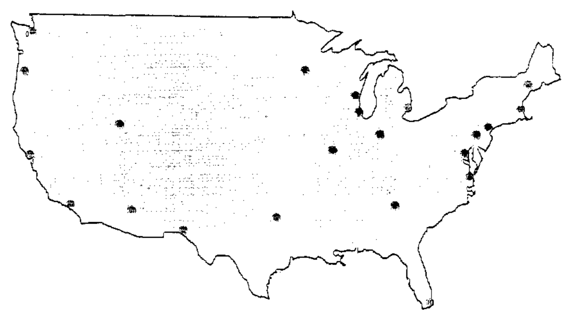
(Domestic Services HQ)
Strengthened position as leading provider of domestic time-definite transportation and distribution solutions.

Indianapolis

Opened a nearly 200,000-square-foot storage facility with state-of-the-art sorting technology to provide on-demand product distribution for major retail chain.

Detroit

Automotive team working with clients like GM and Ford to streamline their supply chains and lower transportation and inventory costs.



Los Angeles, and worldwide

Dedicated project teams in LA, Washington, D.C., Houston, Asia and Brazil orchestrate complex projects worldwide.

Norfolk

Opened new logistics center in this key shipping location to support growing import, customs brokerage and documentation business.

Washington, D. C.

Acquired Regroup Express to strengthen position in the government services and defense contractor market.

Miami

Gained powerful gateway to Central America, South America and the Caribbean by acquiring Customs Services International, an international freight forwarder and leading customs broker.

CUSTOMERS
DEMAND
STONEPATH
DELIVERS
CUTTING-EDGE
CUSTOMS BROKERAGE
POSSIBILITIES
FUTURE
REVERSE LOGISTICS
AUTOMOTIVE PARTS
DISTRIBUTION
INSIGHT

At Stonepath, we thrive on the art of the possible. Our broad reach, cutting-edge technology and proven expertise give us the power to deliver smart logistics and transportation solutions worldwide.

TARGET STORES needed a logistics provider to orchestrate NON-RETAIL items at hundreds of stores, including store fixtures, displays and employee goods. *Stonepath established a state-of-the-art logistics consolidation center in Shakopee, MN to consolidate non-retail items for Target's new stores, remodeling initiatives and in-store marketing programs. With the help of our warehouse management and inventory control system, Target's non-retail product flow is on track and ready for future growth.*

There is GROWING DEMAND for cargo space in key TRADELANES such as China-Europe and Pakistan-USA, and our clients require creative transportation solutions. *At Stonepath, we turn challenges into opportunities. We established bi-weekly air charters from China to Europe to handle the enormous demand for products. To support our apparel customers, we developed an innovative solution to address capacity issues out of Pakistan – shipping to Turkey using our air charter program and then to the US East Coast utilizing our ocean services.*

BEST BUY wanted a partner who could handle logistics and transportation for their CONSUMER MUSIC BUSINESS at more than 1,000 locations across the U.S. *Stonepath launched a full-service logistics center in Plainfield, IN with close to 200,000 square feet of storage and state-of-the-art sorting equipment and took over all time-definite music distribution for the specialty retailer.*

GOVERNMENT AGENCIES needed knowledgeable, reliable logistics support to get equipment and military supplies into ***IRAQ***. *Stonepath understands the nuances of moving freight into Iraq. By working closely with the interim government and business leaders while partnering with preferred carriers, we're delivering for our clients through a combination of ocean, air and truck transportation.*

Executing LARGE-SCALE OPERATIONS AND INSTALLATIONS in the oil and energy, construction, manufacturing and entertainment industries takes deep expertise. *In Brazil, our Project Services team has expanded the scope of our operations and broadened our capabilities to deliver heavy cargo and equipment like turbines, generators and transformers for clients like Hyundai, El Paso and Termo Norte.*

SMART TECHNOLOGY

transportation management | warehouse management
order management & fulfillment | web-native architecture
leading supply chain software

STONEPATH'S OPERATING SYSTEM, TECH-LOGIS™

- enhances operational capabilities across the Stonepath network
- gives customers immediate access to their entire supply chains through a single user interface
- provides detail-level visibility

STONEPATH GROUP

CORPORATE DIRECTORY AND STOCKHOLDER INFORMATION

BOARD OF DIRECTORS

Dennis L. Pelino, Chairman of the Board and Chief Executive Officer
John Springer, Director of Global Operations for Nike Golf
J. Douglass Coates, Principal, Manalytics International, Inc.
Rob McCord, Managing Director, PA Early Stage; President, Eastern Technology Council
Aloysius T. Lawn, IV, EVP, General Counsel and Secretary of Talk America Holdings, Inc.
David Jones, President, DR Jones Financial, Inc.

CORPORATE OFFICERS

Dennis L. Pelino, Chairman of the Board and Chief Executive Officer
Bohn H. Crain, Chief Financial Officer and Treasurer
Stephen M. Cohen, General Counsel and Secretary
Thomas L. Scully, Vice President – Controller and Principal Accounting Officer

CORPORATE HEADQUARTERS

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Philadelphia, PA 19103
Tel: 215-979-8370
Fax: 215-979-8399
Web: www.stonepath.com

AUDITORS

KPMG LLP

COUNSEL

Buchanan Ingersoll Professional Corporation

TRANSFER AGENT AND REGISTRAR

StockTrans, Inc.
44 West Lancaster Avenue
Ardmore, PA 19003
Tel: 610-649-7300

INQUIRIES

Investor information is available on our Web site at www.stonepath.com.
If you prefer, you may also write or call us:

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New York, NY 10009
johnbrine@stonepath.com
Tel: 212-254-8280