STONEPATH GROUP INC
Form 10-K
March 31, 2003

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

FORM 10-K

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

Commission File Number: 0-29413

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)
YES [ ] NO [X]

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of June 28, 2002 was $21,606,526 based upon the closing sale price of the Registrant's common stock on the American Stock Exchange of $1.10 on such date. See Footnote (1) below.

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

Documents Incorporated by Reference: None

Index to Exhibits appears at page 41 of this Report

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

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

TABLE OF CONTENTS

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

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

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

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

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

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

- On October 5, 2001, we acquired M.G.R., Inc., d/b/a "Air Plus Limited" and its operating affiliates, a group of Minneapolis-based privately held companies that provide a full range of logistics and transportation services (collectively, "Air Plus"). Air Plus provides the platform for our Domestic Services organization.

- On April 4, 2002, we acquired Global Transportation Services, Inc. ("Global"), a Seattle-based privately held company that provides a full range of international air and ocean logistics services. Global provides the platform for our International Services organization.

- On May 30, 2002, we acquired United American Freight Services, Inc. ("United American"), a Detroit-based organization as an "add-on" acquisition to our Domestic Services organization to expand our service offering to include a time definite logistics service for the automotive industry.

- On October 1, 2002, we acquired Transport Specialists, Inc. ("TSI"), a

Virginia-based organization as an "add-on" acquisition to our Domestic Services organization to broaden our client base to include various U.S. government agency and contractor relationships.

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

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

Industry Overview

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

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

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

Market penetration of third-party logistics providers ("3PLs") is still relatively low. According to industry sources, total revenue for the third-party logistics services in the U.S. was approximately $61 billion in 2001, representing about 8% of the total logistics market that could be outsourced to

3PLs. The market for third-party logistics services in the United States is expected to grow at an average rate of about 15% over the next several years, or to well over $100 billion by 2006. The total logistics market available to 3PLs in the United States is expected to grow at an average rate of about 4% over the next several years, to approximately $875 billion in 2006, from $720 billion in 2001.

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

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

- 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 increased to 78% in 2002, from 68% to 73% usage rates reported in the previous six years.

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

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

Our Strategic Objectives

Our Business Strategy

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

- 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 the potential to benefit from the synergies offered by our acquisition strategy.

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

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

Our Acquisition Strategy

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

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

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

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

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

Our Operating Strategy

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

- Develop and Maintain Strong Customer Relationships. We seek to develop and maintain strong, interactive customer relationships by anticipating and focusing on our customers' needs. We emphasize a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach used by many of our competitors. To develop close customer relationships, we regularly meet with both existing and prospective clients 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 scaleable, replicable and require a minimum amount of customization (typically only at the interface with the customer). This non-asset ownership approach maximizes our flexibility in creating and delivering a wide range of end-to-end logistics solutions on a global basis while simultaneously allowing us to exercise significant control over the quality and cost of the transportation services provided.

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

Our services can be broadly classified into the following categories:

- 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 in the United States and will provide similar services in other countries in which we choose to operate. Within each country, the rules and regulations vary along with the level of expertise that is required to perform the customs brokerage services. Our customs brokers and support staff have substantial knowledge of the complex tariff laws and customs regulations governing the payment of duty, as well as valuation and import restrictions in their respective countries.

- 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.

Other value added services provided by the Company include:

- Direct to store logistics for retail clients 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.

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

- Web-based fulfillment solutions in which we provide order management as well as the subsequent pick, pack and shipment for our clients.

- 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 Services

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

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

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

Sales and Marketing

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

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

Our customers include large manufacturers and distributors of computers and other electronic and high-technology equipment, printed and publishing materials, automotive and aerospace components, trade show exhibit materials, telecommunications equipment, machinery and machine parts, apparel, entertainment products, and household goods. For the year ended December 31, 2002, our largest customer, a national retail chain, accounted for approximately 29% of our revenues. Our next five largest customers accounted for approximately 21% of our revenue, with no one of these customers accounting for 10% or more of our 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 will begin to operate all of our businesses under the single global brand "Stonepath Logistics," which we believe will help us reach our organic expansion goals.

Competition and Business Conditions

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

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

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

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

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

Regulation

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

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

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

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

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

Personnel

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

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

Discontinued Operations

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

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

- demonstrates 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 web site all materials that we file with the Securities and Exchange Commission, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports as soon as reasonably practicable after such materials have been filed with, or furnished to, the Securities and Exchange Commission.

Segment Information

For additional information about our business segments, see the business segment information presented in Note 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.

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

Through cash resources and our existing credit facility, we believe we have sufficient capital to implement our acquisition strategy in the short term. However, we will need additional financing to pursue our acquisition strategy in the longer term. We intend to obtain the additional financing through a combination of additional commercial debt financing or the placement of debt and equity securities. We may finance some portion of our future acquisitions by using shares of our common stock for all or a substantial portion of the purchase price. In the event that our common stock does not attain or maintain a sufficient market value, or potential acquisition candidates are otherwise unwilling to accept common stock as part of the consideration for the sale of their businesses, we may be required to use more cash to maintain our acquisition program. If we do not have sufficient cash resources, our growth could be limited unless we are able to obtain additional capital through debt or equity financings.

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

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

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

We have obtained a $15 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 credit facility also limits the number of those acquisitions to four per year after the date of the facility (excluding any acquisitions made only with our stock). In the event that we were not able to satisfy the conditions of the credit facility in connection with a proposed acquisition, we would have to forego the acquisition unless we either obtained the lender's consent or retired the credit facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

o Since we are not obligated to follow any particular criteria or standards for acquisition candidates, 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 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.

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

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

- 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.

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

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

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

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

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

We are currently authorized to issue 100,000,000 shares of common stock. As of March 17, 2003, we have 27,945,914 outstanding shares. We may in the future issue up to 16,828,043 additional shares of our common stock upon exercise or conversion of the following existing outstanding convertible securities:

	Number of Shares	Proceeds
Upon conversion of our Series D Preferred Stock	3,607,450	$ --
Options granted under our Stock Option Plan	8,145,600	9,568,060
Non-plan options	2,282,900	5,981,650
Warrants	2,792,093	3,012,908
Total	16,828,043	$18,562,618

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

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

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

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

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

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

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

o We face intense competition in our industry.

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

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

The market price of our common stock could be highly volatile. Some factors that may affect the market price 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 small market capitalization and which sometimes has been unrelated to the operating performances of such companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

Certain provisions of our certificate of incorporation and the General Corporation Law of the State of Delaware (the "GCL") could deter a change in our management or render more difficult an attempt to obtain control of us, even if such a proposal is favored by a majority of our 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.

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

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

Our facilities are situated in the following locations:

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

Item 3. Legal Proceedings

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

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

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

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

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

The Company may become involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

None

PART II

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

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

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

Share Information

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

15

Equity Compensation Plan Information

The following table sets forth information, as of December 31, 2002, with respect to the Company's Stock Option Plan under which common stock is authorized for issuance, as well as other compensatory options granted outside of the Company's Stock Option Plan.

Plan Category	(a) 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
Equity compensation plans approved by security holders	7,164,000	$1.09
Equity compensation plans not approved by security holders	2,283,300	$2.62
Total	9,447,300	$1.46

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

Recent Sales of Unregistered Securities

1. In May 2000, we issued 113,214 shares of our common stock to Webmodal, Inc. in conjunction with a cash investment, pursuant to which we purchased 563,000 shares of Series A Preferred Stock of Webmodal, Inc. We issued these shares of common stock in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

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

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

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

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

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

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

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

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

Stonegate Securities, Inc.	43,200
Dennis L. Pelino	100,000

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

Item 6. Selected Consolidated Financial Data

The following tables present portions of our financial statements and are not complete. You should read the following selected consolidated financial data together with the Company's consolidated financial statements and related footnotes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected historical consolidated statement of operations data for each of the years in the three-year period ended December 31, 2002 and the balance sheet data as of December 31, 2002 and 2001 are derived from the Company's consolidated financial statements that have been audited by KPMG LLP. The selected historical consolidated statement of operations data for each of the years in the two-year period ended December 31, 1999 and the balance sheet data as of December 31, 2000, 1999 and 1998 are derived from the Company's audited consolidated financial statements (after reclassification for discontinued operations, as discussed below) which are not included in this Annual Report on Form 10-K.

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.

Due to the significance of the effects on the consolidated financial statements of the change in business strategy and the discontinuation of our former business, we have presented below selected unaudited pro forma information, as if the discontinuation of our former line of business and our acquisitions had occurred as of January 1, 2001. The unaudited pro forma financial data are not necessarily indicative of results of operations that would have occurred had these acquisitions been consummated at the beginning of the periods presented or that might be attained in the future.

18

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

	Pro forma (1) (Unaudited) Year ended December 31		Histo Year ended		
	2002	2001	2002	2001	20
Revenues	$ 165,853	$ 133,193	$ 139,649	$ 15,598	$
Cost of transportation	120,699	95,791	101,339	8,819	
Net revenues	45,154	37,402	38,310	6,779	
Operating expenses	38,746	34,104	34,770	11,068	
Income (loss) from operations	6,408	3,298	3,540	(4,289)	(
Other income (expense)	14	(13)	128	1,295	
Income (loss) from continuing operations before income taxes	6,422	3,285	3,668	(2,994)	(
Income taxes	175	90	102	-	
Income (loss) from continuing operations	6,247	3,195	3,566	(2,994)	(
Loss from discontinued operations	-	-	-	(13,863)	(3
Net income (loss)	6,247	3,195	3,566	(16,857)	(3
Preferred stock dividends	15,020	(4,151)	15,020	(4,151)	(4
Net income (loss) attributable to common stockholders	$ 21,267	$ (956)	$ 18,586	$ (21,008)	$ (8
Basic earnings (loss) per common share:					
Continuing operations	$ 0.96	$ (0.05)	$ 0.84	$ (0.34)	$
Discontinued operations	-	-	-	(0.68)	
	$ 0.96	$ (0.05)	$ 0.84	$ (1.02)	$
Diluted earnings (loss) per common share:(2)					
Continuing operations	$ 0.21	$ (0.05)	$ 0.12	$ (0.34)	$
Discontinued operations	-	-	-	(0.68)	
	$ 0.21	$ (0.05)	$ 0.12	$ (1.02)	$
Weighted average common shares:					
Basic	22,155	20,510	22,155	20,510	1
Diluted	29,233	20,510	29,233	20,510	1

Consolidated Balance Sheet Data:
(in thousands)

	Historical December 31			
	2002	2001	2000	
Cash and cash equivalents	$ 2,266	$ 15,228	$ 29,100	$
Working capital (deficit)	5,634	15,259	27,713	
Total assets	56,614	41,066	44,911	
Long-term debt and redeemable preferred stock	-	-	-	
Stockholders' equity (deficit)	36,879	32,694	43,326	

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(1) The unaudited pro forma consolidated statement of operations information provided above includes the costs associated with the continuing operations of Stonepath, plus the historical results of Air Plus, Global and United American adjusted to reflect contractual changes in officers' compensation and to reflect amortization of acquired intangibles. The unaudited pro forma results of operations for 2001 exclude the losses from operations discontinued in that year.

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

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 18 major metropolitan areas in North America, plus two international locations, using an extensive network of over 200 independent carriers and over 150 service partners strategically located around the world.

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

In certain instances, accounting principles generally accepted in the United States of America allow for the selection of alternative accounting methods. Two alternative methods for accounting for stock options are available, the intrinsic value method and the fair value method. We use the intrinsic value method of accounting for stock options, and accordingly, no compensation expense has been recognized for options issued at an exercise price equal to or greater than the quoted market price on the date of grant to employees, officers and directors. Under the fair value method, the determination of the pro forma amounts involves several assumptions including option life and volatility. If the fair value method were used, basic earnings per share and diluted earnings per share would have decreased by $0.08 and $0.06, respectively, in 2002.

As discussed in Note 4 to the consolidated financial statements, the goodwill arising from the our acquisitions is not amortized, but instead is tested for impairment at least annually in accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. The impairment test requires several estimates including future cash flows, growth rates and the selection of a discount rate. In addition, the acquired intangibles arising from those transactions are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. We cannot guarantee that our assets will not be impaired in future periods.

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

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

21

Discontinued Operations

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

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

Results of Operations

Basis of Presentation

Our results of operations are presented in a manner that is intended to provide meaningful data with respect to our transition to and ongoing operations as a third-party logistics company. Accordingly, unaudited pro forma results of operations for 2002 and 2001 are first presented as if we had discontinued our former business model and acquired Air Plus, Global and United American (collectively the "Material Acquisitions") as of January 1, 2001. The unaudited pro forma results reflect a consolidation of the historical results of operations of the Material Acquisitions, as adjusted to reflect contractual adjustments to officers' compensation at the companies comprising the Material Acquisitions and to reflect amortization of acquired intangibles. The unaudited pro forma results also exclude losses associated with our discontinued operations as well as the impact of the July 18, 2002 exchange transaction with the holders of our Series C Preferred Stock. We have also presented our historical results of operations for 2002 and 2001. For 2001, our historical results only reflect the operations of Air Plus for the period of October 1, 2001 through December 31, 2001. For 2002, our historical results include 12 months of operations for Air Plus, but they only reflect the results of Global, United American and TSI from their various acquisition dates in 2002. As a result of the non-comparative nature of our business in 2002 and 2001, we have only provided limited comparative analysis of our historical results.

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

The following table summarizes our net transportation revenues and revenues by service line on a pro forma basis (in thousands):

	2002	2001	Percent Change
Transportation revenues	$ 154,261	$ 124,925	23.5
Cost of transportation	120,699	95,791	26.0
Net transportation revenues	33,562	29,134	15.2
Net transportation margins	21.8%	23.3%	
Customs brokerage	8,333	6,799	22.6
Warehousing and other value added services	3,259	1,469	121.9
Total net revenues	$ 45,154	$ 37,402	20.7

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

	2002		2001		
	Amount	Percent	Amount	Percent	A
Net revenue	$ 45,154	100.0%	$ 37,402	100.0%	$

Personnel costs	22,214	49.2	17,377	46.5	
Other selling, general and administrative	16,532	36.6	16,727	44.7	
Total operating costs	38,746	85.8	34,104	91.2	
Income from operations	6,408	14.2	3,298	8.8	
Other income (expense)	14	-	(13)	-	
Income from continuing operations before income taxes	6,422	14.2	3,285	8.8	
Income taxes	175	0.4	90	0.3	
Income from continuing operations	$ 6,247	13.8%	$ 3,195	8.5%	$

Despite 2002's sluggish economy, gross revenues were $165.9 million in 2002, an increase of 24.5% over gross revenues of $133.2 million in 2001. Net transportation revenues were $33.6 million in 2002, an increase of 15.2% over net transportation revenues of $29.1 million in 2001. Net revenues were $45.2 million in 2002, an increase of 20.7% over net revenues of $37.4 million in 2001.

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

Other selling, general and administrative expenses were $16.5 million for 2002, relatively flat compared to $16.7 million in 2001. As a percentage of net revenues, other selling, general and administrative expenses decreased to 36.6% from 44.7% in 2001 and is indicative of the scalability of our business model.

Income from operations was $6.4 million in 2002, an increase of 94.3% over $3.3 million for 2001. Income from operations as a percentage of net revenues increased to 14.2% from 8.8% in 2001.

Other income and expenses improved modestly in 2002 compared to 2001. With year over year cash balances being reduced as a result of our acquisition strategy, interest income was insignificant to the Company's overall financial performance for 2002 falling to less than $0.1 million compared to $0.3 million in 2001. The overall positive variance relates to $0.3 million in interest expense and losses incurred on the sale of marketable securities in 2001.

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

Net income was $6.2 million in 2002, an increase of 95.5% compared to $3.2 million in 2001. Pro forma net income per share in 2002 was $0.28 per basic share and $0.21 per diluted share.

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

The following table summarizes our historical net transportation revenues and revenues by service line:

	2002	2001	Per Cha
Transportation revenues	$130,371	$15,174	7
Cost of transportation	101,339	9,741	9
Net transportation revenues	29,032	5,433	4
Net transportation margins	22.3%	35.8%	
Customs brokerage	6,290	-	
Warehousing and other value added services	2,988	424	6
Total net revenues	$ 38,310	$ 5,857	5

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

	2002		2001	
	Amount	Percent	Amount	Percent
Net revenue	$38,310	100.0%	$5,857	100.0
Personnel costs	19,089	49.8	5,997	102.4
Other selling, general and administrative	15,681	40.9	4,149	70.9
Total operating costs	34,770	90.7	10,146	173.3
Income (loss) from operations	3,540	9.3	(4,289)	(73.3
Other income (expense)	128	0.3	1,295	22.1
Income (loss) from operations before income taxes	3,668	9.6	(2,994)	(51.1
Income taxes	102	0.3	--	--
Income (loss) from continuing operations	3,566	9.3	(2,994)	(51.1
Loss from discontinued operations	--	--	(13,863)	(236.7
Net income (loss)	3,566	9.3	(16,857)	(287.9

Preferred stock dividends	15,020	39.2	(4,151)	(70.9
Net income (loss) attributable to common stockholders	$18,586	48.5%	$(21,008)	(358.8

24

Gross revenues were $139.6 million in 2002, compa