SunOpta Inc.
Form 4/A
October 06, 2014

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Greene Douglas
(Last) (First) (Middle)
1301 SPRUCE STREET
(Street)
BOULDER, CO 80302
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SunOpta Inc. [STKL]

3. Date of Earliest Transaction (Month/Day/Year)
10/02/2014

4. If Amendment, Date Original Filed(Month/Day/Year)
10/06/2014

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Shares	10/02/2014		M		10,000	A	$ 5.74	133,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Options	$ 5.74	10/02/2014		M			10,000	10/06/2009	10/06/2014	Common Shares	10,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Greene Douglas 1301 SPRUCE STREET BOULDER, CO 80302	X			

Signatures

/s/Douglas Greene	10/06/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. T">44,969,300

See accompanying notes to consolidated financial statements.

F-7

STONEPATH GROUP, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2004, 2003 and 2002

	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$ (13,043,355)	$ (785,603)	$ 453,596
Adjustments to reconcile net income (loss) to net cash used in operating activities, net of acquisitions:			
Deferred income taxes	615,300	574,800	389,300
Depreciation and amortization	4,189,040	2,659,882	2,186,951
Stock-based compensation	59,874	95,232	98,425
Minority interest in income of subsidiaries	1,394,896	187,310	
Loss from disposal of furniture and equipment	8,350		4,560
Non-cash restructuring charges	3,556,133		
Issuance of common stock in litigation settlement		350,000	
Issuance of common stock to vendor of former business		135,000	
Issuance of common stock in offering penalty		98,550	
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(11,957,872)	(11,187,538)	(5,731,830)
Other assets	11,973	(887,891)	(160,903)
Accounts payable and accrued expenses	13,587,422	4,771,653	2,176,634
Net cash used in operating activities	(1,578,239)	(3,988,605)	(583,267)
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(8,004,253)	(9,385,908)	(10,497,306)
Purchases of technology, furniture and equipment	(4,909,148)	(4,183,201)	(1,812,750)
Loans made	(75,000)	(130,000)	(350,000)
Payment of earn-out	(3,431,285)	(2,206,715)	
Discontinued operations:			
Proceeds from sale of ownership interests in affiliate companies			115,000
Net cash used in investing activities	(16,419,686)	(15,905,824)	(12,545,056)
Cash flows from financing activities:			
Issuance of common stock		18,185,415	
Payment of equity financing fees			(25,000)
Payment of debt financing fees	(250,000)		(233,580)
Proceeds from line of credit, net	16,911,700		
Proceeds from financing of equipment		2,049,638	
Principal payments on capital lease	(753,959)	(265,178)	
Proceeds related to minority interest in subsidiary		81,818	
Proceeds from issuance of common stock upon exercise of options and warrants	1,782,819	650,779	425,181
Net cash provided by financing activities	17,690,560	20,702,472	166,601
Effect of foreign currency translation	33,859		
Net increase (decrease) in cash and cash equivalents	(273,506)	808,043	(12,961,722)
Cash and cash equivalents, beginning of year	3,074,151	2,266,108	15,227,830
Cash and cash equivalents, end of year	$ 2,800,645	$ 3,074,151	$ 2,266,108
Cash paid for interest	$ 617,007	$ 189,359	$
Cash paid for income taxes	$ 157,145	$ 373,832	$ 84,959

	2004	2003	2002
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of common stock in satisfaction of earn-out	$	$ 403,000	$
Increase in goodwill related to accrued earn-out payments	2,615,946	3,636,034	2,697,215
Issuance of warrants in connection with consulting services	70,000		95,000
Offset of related party loan against earn-out	87,500	87,500	87,500
Issuance of common stock in connection with acquisitions	100,000	4,144,094	
Issuance of common stock from conversion of Series D Convertible Preferred Stock	310	51	
Issuance of common stock in connection with cashless exercise of options	511,068		
Issuance of common stock in connection with Employee Stock Purchase Plan	224,170		
Increase in technology, furniture and equipment from capital lease obligations	458,408		

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.

Notes to Consolidated Financial Statements

December 31, 2004, 2003 and 2002

(1) Nature of Operations

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

The Company has experienced losses from operations, and has an accumulated deficit. In addition the Company has experienced negative cash flow from operations. In view of these matters, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued profitable operations of the Company and generation of cash flow sufficient to meet its obligations. The Company believes that planned operating improvements and cost reductions and the availability on its credit facilities will provide the Company with adequate liquidity to provide uninterrupted support for its business operations through December 31, 2005.

(2) Summary of Significant Accounting Policies

a) Principles of Consolidation

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

b) Use of Estimates

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include revenue recognition, accruals for the cost of purchased transportation, accounting for stock options, the assessment of the recoverability of long-lived assets (specifically goodwill and acquired intangibles), the establishment of an allowance for doubtful accounts and the valuation allowance for deferred income tax assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results could differ from those estimates.

c) Cash and Cash Equivalents

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

d) Concentrations of Credit Risk

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

The Company maintains its cash accounts with high quality financial institutions. With respect to accounts receivable, such receivables are primarily from manufacturers, distributors and major retailers located throughout the United States, Asia and South America. Credit is granted to customers on an unsecured basis, and generally provides for 30-day payment terms. For the years ended December 31, 2004, 2003 and 2002, the Company's largest customer, a national retail chain, accounted for approximately 13%, 24% and 33% of revenue, respectively, and approximately 5% and 16% of the accounts receivable balance as of December 31, 2004 and 2003, respectively. No other customer accounted for greater than 10% of revenue. To reduce credit risk, the Company performs ongoing credit evaluations of its customers' financial conditions. The Company maintains 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. Management continually assesses the adequacy of the recorded allowance for doubtful accounts, based on its knowledge about the customer base. Credit losses have been within management's expectations.

e) Technology, Furniture and Equipment

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

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

Costs for general and administrative, overhead, maintenance and training, as well as the cost of software that does not add functionality to existing systems, are expensed as incurred.

f) Goodwill

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations accounted for as purchases (see Note 5).

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires an annual impairment test for goodwill and intangible assets with indefinite lives. Under the provisions of SFAS No. 142, the first step of the impairment test requires that the Company determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. The Company performed its annual impairment test effective October 1, 2004 and noted no impairment for either of its reporting units. In the future, the Company will continue to perform the annual test during its fiscal fourth quarter unless events or circumstances indicate an impairment may have occurred before that time.

g) Long-Lived Assets

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

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

h) Income Taxes

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

i) Revenue Recognition and Purchased Transportation Costs

The Company derives its revenue from three principal sources: freight forwarding, customs brokerage, and warehousing and other value-added services.

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

At the time of delivery to the direct carrier, the Company records costs related to the shipment based on estimates of total purchased transportation costs. The estimates are based upon anticipated margins, contractual arrangements with direct carriers and other known factors. The estimates are routinely monitored and compared to actual invoiced costs. The estimates are adjusted as deemed necessary by the Company to reflect differences between the original accruals and actual costs of purchased transportation.

j) Stock-Based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, the Company has elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options granted to employees and members of the board of directors is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount the grantee must pay to acquire the stock. The Company accounts for stock-based compensation to non-employees (including directors who provide services outside their capacity as members of the board) in accordance with SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. The Company has implemented the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure.

The table below illustrates the effect on net income (loss) attributable to common stockholders and income (loss) per share as if the fair value of options granted had been recognized as compensation expense in accordance with the provisions of SFAS No. 123. See Notes 12 and 13 for additional information regarding options and warrants.

	2004	2003	2002
Year ended December 31:			
Net income (loss) attributable to common stockholders: As reported	$ (13,043,355)	$ (785,603)	$ 15,473,744
Add: stock-based employee compensation expense included in reported net income (loss)	21,174	95,232	92,566
Deduct: total stock-based compensation expense determined under fair value method for all awards	(5,848,264)	(2,306,736)	(1,922,051)
Pro forma	$ (18,870,445)	$ (2,997,107)	$ 13,644,259
Basic earnings (loss) per common share:			
As reported	$ (0.33)	$ (0.03)	$ 0.70
Pro forma	(0.48)	(0.10)	0.62
Diluted earnings (loss) per common share:			
As reported	$ (0.33)	$ (0.03)	$ 0.02
Pro forma	(0.48)	(0.10)	(0.05)

The weighted average fair value of employee options granted during 2004, 2003 and 2002 was $2.16, $1.05 and $0.89 per share, respectively. The fair value of options granted were estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

	2004	2003	2002
Dividend yield	None	None	None
Expected volatility	83.8%	55.8%	93.8%
Average risk free interest rate	4.25%	1.56%	1.36%
Average expected lives	9.3 years	6.9 years	6.8 years

k) Restructuring Charges

The Company accounts for restructuring charges in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities and SFAS No. 144. SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred.

l) Earnings (Loss) Per Share

Basic earnings (loss) per common share and diluted earnings (loss) per common share are presented in accordance with SFAS No. 128, Earnings per Share. Basic earnings (loss) per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share incorporates the incremental shares issuable upon the assumed exercise of stock options and warrants and upon the assumed conversion of the Company's preferred stock, if dilutive. Certain stock options, stock warrants, and convertible securities were excluded because their effect was antidilutive. The total numbers of such shares excluded from diluted earnings (loss) per common share are 7,799,763, 7,443,299 and 1,336,825 for the years ended December 31, 2004, 2003 and 2002, respectively.

The following table indicates the calculation of earnings per share related to continuing operations for the year ended December 31, 2002:

Year ended December 31, 2002:			
Income from continuing operations	$ 453,596		
Less: preferred stock dividend	(1,952,892)		
Plus: redemption of Series C Preferred Stock in exchange transaction (see Note 12)	16,973,040		
Basic Earnings per Common Share			
Income from continuing operations attributable to common stockholders	15,473,744	22,154,861	$ 0.70
Effect of Dilutive Securities			
Options and warrants		3,331,275	
Convertible preferred stock	(15,020,148)	3,746,432	
Diluted Earnings Per Common Share			
Net income attributable to common stockholders plus assumed conversions	$ 453,596	29,232,568	$ 0.02

m) New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 Revised, Share-Based Payment ("SFAS No. 123R"), which will replace SFAS No. 123 and supersede APB Opinion No. 25. SFAS No. 123R will require compensation cost related to share-based payment transactions to be recognized in the consolidated financial statements. As permitted by SFAS No. 123, the Company currently follows the guidance of APB Opinion No. 25, which allows the use of the intrinsic value method of accounting to value share-based payment transactions with employees. SFAS No. 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. SFAS No. 123R allows implementation using a modified version of prospective application, under which compensation expense for the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. SFAS No. 123R also allows companies to implement it by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under SFAS No. 123. The Company will adopt SFAS No. 123R using the modified prospective method beginning January 1, 2006. The impact of adopting SFAS No. 123R on the Company's consolidated results of operations is not expected to differ materially from the pro forma disclosures currently required by SFAS No. 123.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets. This statement addresses the fair value concepts contained in APB Opinion No. 29, Accounting for

Nonmonetary Transactions which included certain exceptions to the concept that exchanges of similar productive assets should be recorded at the carrying value of the asset relinquished. SFAS No. 153 eliminates that exception and replaces it with a general exception for exchanges of nonmonetary assets that lack commercial substance. Only nonmonetary exchanges in which an entity's future cash flows are expected to significantly change as a result of the exchange will be considered to have commercial substance. SFAS No. 153 must be applied to nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of SFAS No. 153 is not expected to have a significant effect on the Company's financial position, results of operations or cash flows.

The FASB issued two final FASB Staff Positions ("FSPs") addressing the financial accounting for certain provisions of the American Jobs Creation Act of 2004 (the "Act"). A provision of the Act allows taxpayers a deduction equal to a percentage of the lesser of the taxpayer's qualified domestic production activities income or taxable income, subject to a limitation of 50% of annual wages paid. FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, addresses whether the qualified domestic production activities should be treated as a special deduction or a rate reduction under SFAS No. 109.

Additionally, another provision of the Act provides taxpayers a special, one-time 85% dividend received deduction for certain foreign earnings that are repatriated in either a company's first taxable year beginning on or after the date of the Act's enactment or the last taxable year beginning before such date. Some companies have requested that clarification be provided on certain aspects of the repatriation provisions of the Act. Until these clarifications are made, the Company is unable to conclude whether it will repatriate earnings or how much that repatriation will be.

(3) Restructuring Charges

In November 2004, the Company commenced a restructuring program, engineered to accelerate the integration of its businesses and improve the Company's overall profitability. During the first half of 2005, the Company will consolidate its corporate headquarters and the domestic and international divisional headquarters into one central management facility in Seattle, Washington. This streamlining will eliminate unnecessary duplication of efforts as well as provide a much more cohesive day to day management coordination capability. In addition, the restructuring initiative includes the rationalization of technology systems, personnel and facilities. In connection with this plan, the Company recorded pre-tax restructuring charges of $4,368,250 for the year ended December 31, 2004. The pre-tax restructuring charges are composed of:

	Restructuring Charges	Non-Cash Charges	Cash Payments	Liability Balance, December 31, 2004
Systems	$ 3,556,134	$ (3,556,134)	$	$
Personnel	666,408			666,408
Lease terminations:				
Building	75,229			75,229
Truck	70,479		(70,479)	
	$ 4,368,250	$ (3,556,134)	$ (70,479)	$ 741,637

F-15

The systems charges relate to impairment of the Company's corporate freight software systems in 2004 which were in development. The personnel charges relate to corporate contractual obligations incurred in 2004 with certain former executives. The lease terminations relate to vacating certain Domestic facilities in 2004 and the cancellation of truck leases in 2004. Except for the systems charges, all restructuring charges will result in cash outflows. The Company expects to complete its restructuring activities by the end of the second quarter of 2005 and anticipates that additional costs of approximately $3,000,000 will be incurred.

(4) Discontinued Operations

On December 28, 2001, the Board of Directors approved a plan to dispose of all of the assets related to the Company's former business of investing in early-stage technology companies, since these investments were incompatible with the Company's current strategy of building a global integrated logistics services organization. Therefore, for financial reporting purposes, results of operations and cash flows of the former business have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations. The Company never recognized any revenue from its former business model. At December 31, 2004 and 2003, there were no assets or liabilities of the discontinued operations remaining on the Company's consolidated balance sheets.

During the second quarter of 2003, the Company recorded a liability for $135,000 related to services rendered in 2000 by a consultant. The liability was satisfied in the third quarter of 2003 through the issuance of common stock. Also during the second quarter of 2003, a subtenant defaulted on the payment of sublease rentals related to a property occupied by the Company's former business. The Company recorded a liability for the remaining rental payments and recognized a loss of approximately $239,000. During the fourth quarter of 2003, the Company entered into a new sublease agreement and reduced the rental liability by approximately $92,000, which represents the amount of rentals to be received under the new agreement. The total loss recognized related to discontinued operations in 2003, net of income taxes, amounts to approximately $263,000, and is reflected as loss from discontinued operations in the accompanying consolidated statement of operations for the year ended December 31, 2003.

The Company settled the suit brought by Emergent Capital Investment LLC in the United States District Court for the Southern District of New York in exchange for the payment by the Company of $50,000. The settlement, net of insurance recoveries amounting to $25,000, is included in loss from discontinued operations in the consolidated statement of operations for the year ended December 31, 2004.

(5) Acquisitions

On February 9, 2004, the Company acquired, through its indirect wholly-owned subsidiary, Stonepath Holdings (Hong Kong) Limited, a 55% interest in Shaanxi Sunshine Cargo Services International Co., Ltd. ("Shaanxi"). Shaanxi is a Class A licensed freight forwarder headquartered in Shanghai, PRC and provides a wide range of customized transportation and logistics services and supply chain solutions, including global freight forwarding, warehousing and distribution, shipping services and special freight handling. As consideration for the purchase, which was effective as of March 1, 2004, the Company paid $5,500,000 consisting of $3,500,000 in cash, financed through its revolving credit agreement, and $2,000,000 of the Company's common stock. The common shares issued in the transaction are subject to a one-year restriction on sale and are subject to a pro rata forfeiture based upon a formula that compares the actual pre-tax income of Shaanxi through December 31, 2004 with the targeted level of income of $4,000,000 (on an annualized basis). Also, if the trading price of the Company's common stock is less than $3.17 per share at the end of the one-year restriction, the Company will issue up to 169,085 additional shares to the seller. Because the common shares issued in connection with this transaction are subject to forfeiture, they are accounted for as contingent consideration. When the number of common shares to be retained by the seller is ultimately determined, such shares will be valued at their then fair value and will result in additional goodwill being recorded. Based upon the actual pre-tax income through December 31, 2004, the seller forfeited 37,731 shares of common stock. As provided for in the purchase agreement, the amount of $119,608, which represents the original fair value of the forfeited shares at the date of acquisition, will be added ratably to the future earn-outs. Because the quoted market price of the Company's common stock was less than $3.17 on February 9, 2005, the Company will issue 158,973 additional shares of its common stock. As of February 9, 2005, the Company has issued 752,157 shares of its common stock in connection with this transaction. The Company will record additional goodwill amounting to $752,157 in the first quarter of 2005. The seller may receive additional consideration of up to $5,619,608 under an earn-out arrangement payable at the rate of $1,100,000 in the first year and $1,254,902 per year over the next four years based on the future financial performance of Shaanxi.

In addition, the Company agreed to pay the seller 55% of Shaanxi's accounts receivable balances, net of assumed liabilities (the "Effective Date Net Accounts Receivable"), existing on the date of acquisition realized in cash within 180 days following the acquisition with a targeted distribution date in August 2004. Effective September 20, 2004, the Company amended the purchase agreement for a change in the settlement date from August 2004 to an initial payment of $1,045,000 on or before November 15, 2004, and the final payment of $868,000 on or before March 31, 2005. The amendment also fixed the date of distribution for collections in cash after the initial 180 day working capital assessment period from being due when collected to March 31, 2005. On March 21, 2005, the Company and the seller entered into a financing arrangement whereby the amount due on March 31, 2005 would become subject to a note payable due March 31, 2006 with interest at 10% per annum. Due to this financing arrangement, the balance due to the seller amounting to $1,897,539 is included in other long-term liabilities in the consolidated balance sheet at December 31, 2004.

The acquisition, which significantly enhances the Company's presence in the region, was accounted for as a purchase and accordingly, the results of operations and cash flows of Shaanxi have been included in the Company's consolidated financial statements prospectively from the date of acquisition. Because the Company consolidates its foreign subsidiaries on a one-month lag, such information has been reflected in the consolidated statement of operations effective for the period from March 1, 2004 through November 30, 2004. At December 31, 2004, the total purchase price, including acquisition expenses of $269,000, but excluding the contingent consideration, was $6,650,000. The following table summarizes the allocation of the purchase price based on the fair value of the assets acquired and liabilities assumed at March 1, 2004 (in thousands):

Current assets	$	15,090
Furniture and equipment		157
Goodwill		2,161
Other intangible assets		1,453
Total assets acquired		18,861
Current liabilities assumed		(9,727)
Minority interest		(2,484)
Net assets acquired	$	6,650

The acquired intangible assets have a weighted average life of 6.6 years. The intangible assets include a customer related intangible of $1,112,100 with a 7.1 year life and a covenant-not-to-compete of $341,000 with a five year life. The $2,161,100 of goodwill was assigned to the Company's International Services business unit and is not deductible for income tax purposes.

The following unaudited pro forma information is presented as if the acquisition of Shaanxi had occurred on December 1, 2002, using the one-month lag consolidation policy (in thousands, except earnings per share):

	Year ended December 31,			
		2004		2003
Total revenue	$	391,637	$	287,785
Loss from continuing operations		(12,245)		(56)
Net loss		(12,295)		(56)
Earnings per share:				
Basic	$	(0.31)	$	(0.01)
Diluted	$	(0.31)	$	(0.01)

(6) Acquired Intangible Assets

Information with respect to acquired intangible assets is as follows:

	December 31,							
	2004				2003			
	Gross Carrying Amount		Accumulated Amortization		Gross Carrying Amount		Accumulated Amortization	
Amortizable intangible assets:								
Customer related	$	11,042,100	$	4,813,229	$	8,970,000	$	2,923,033
Covenants-not-to-compete		1,506,000		654,885		1,119,000		390,074
Total	$	12,548,100	$	5,468,114	$	10,089,000	$	3,313,107
Aggregate amortization expense:								
For the year ended December 31, 2004			$	2,282,887				
For the year ended December 31, 2003				1,615,662				
For the year ended December 31, 2002				1,404,778				
Estimated aggregate amortization expense:								
For the year ended December 31, 2005			$	1,859,000				
For the year ended December 31, 2006				1,547,000				
For the year ended December 31, 2007				1,254,000				
For the year ended December 31, 2008				931,000				
For the year ended December 31, 2009				607,000				

(7) Technology, Furniture and Equipment

Technology, furniture and equipment consists of the following:

	December 31,			
	2004		2003	
Furniture and office equipment	$	6,105,146	$	3,396,048
Computer software		3,845,479		5,006,495
Leasehold improvements		1,037,696		593,425
Vehicles		241,179		62,334
		11,229,500		9,058,302
Less: accumulated depreciation		(3,633,641)		(1,995,346)
	$	7,595,859	$	7,062,956

(8) Credit Facilities

In May 2002, the Company secured a $15,000,000 revolving credit facility (the "U.S. Facility") which was increased to $20,000,000 during 2003 and to $25,000,000 in 2004. The U.S. Facility is collateralized by accounts receivable and other assets of the Company and its subsidiaries. Under the original U.S. Facility, the Company had the option to elect to pay interest at a rate equal to LIBOR plus 2.25% or the prime rate. The Company also paid a commitment fee of 0.5% per annum on the average unused balance of the U.S. Facility. The Company could use advances under the U.S. Facility to finance future acquisitions, capital expenditures or other corporate purposes. Borrowings under the original U.S. Facility could be limited based upon measures of the Company's cash flow, as well as a covenant that limited funded debt (the "Funded Debt Covenant") to a multiple of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") generated from the operations of the United States subsidiaries. At December 31, 2004, the outstanding balance on the U.S. Facility was $13,911,700; based on available collateral and an outstanding $150,000 letter of credit commitment, there was $7,565,700 available for borrowing under the U.S. Facility.

On July 28, 2004, the Company amended its U.S. Facility to provide a bridge loan with a principal amount of $5,000,000, a term of 120 days and interest at 200 basis points above the prime rate. The amendment modified certain financial covenants, including but not limited to, cash flow coverage ratio test, funded debt limitations and domestic and worldwide funded debt to consolidated EBITDA. The Company borrowed the full $5,000,000 available under the bridge loan on August 24, 2004 and subsequently repaid the bridge loan facility by November 26, 2004.

The Company restated its consolidated financial statements as of December 31, 2003 and 2002 and for each of the years in the three-year period ended December 31, 2003, which resulted in the technical default of certain financial covenants of the U.S. Facility, as amended. These defaults were waived and the Company entered into a further amended revolving credit facility, dated November 17, 2004. This amendment reduced the U.S. Facility term from May 15, 2007 to January 31, 2006, reduced the maximum availability under the U.S. Facility from $25,000,000 to $22,500,000, established minimum quarterly EBITDA targets for the Company and defined segments commencing in the quarter ended December 31, 2004, precluded acquisitions, eliminated LIBOR based borrowings, fixed the interest rate at the lender's prime rate plus 200 basis points and imposed semi-annual fees of approximately $125,000, among other changes to the agreement. At December 31, 2004, the Company was in default of the EBITDA target for the quarter ended December 31, 2004, and, as a result of a cross default provision, the Company was in default of its Master Lease Agreement dated June 6, 2003. On March 16, 2005, these defaults were waived by the lender and lessor; however, future lease payments to July 1, 2006 under the Master Lease Agreement have been accelerated to March 31, 2005. Accordingly, the consolidated balance sheet at December 31, 2004 reflects all future payments under the Master Lease Agreement as current liabilities. See also Note 18 for additional information about the U.S. Facility.

Effective October 27, 2004, a subsidiary of the Company, Stonepath Holdings (Hong Kong) Limited ("Asia Holdings") entered into a Term Credit Agreement with Hong Kong Central League Credit Union (the "Lender") and SBI Advisors, LLC, as agent for the Lender. The Term Credit Agreement provides Asia Holdings with the right to borrow an initial amount of $3,000,000 and up to an additional $7,000,000 upon the satisfaction of certain conditions. The obligations of Asia Holdings under the Term Credit Agreement are secured by floating charges on the foreign accounts receivable of three of its subsidiaries, Planet Logistics Express (Singapore) Pte. Ltd., GLink Express (Singapore) Pte. Ltd., and Stonepath Logistics (Hong Kong) Limited. Asia Holdings borrowed $3,000,000 on November 4, 2004 and $2,000,000 on February 16, 2005. There is no assurance that the remaining $5,000,000 will be available to Asia Holdings under the Term Credit Agreement. All borrowings under the Term Credit Agreement bear interest at an annual rate of 15% and must be repaid on or before November 4, 2005. The obligation to repay the borrowings under the Term Credit Agreement may be accelerated by the Lender upon the occurrence of events of default customary for loan transactions. Stonepath Group, Inc. has guaranteed the obligations of Asia Holdings under the Term Credit Agreement. The outstanding balance on the Term Credit Agreement was $3,000,000 at December 31, 2004.

During the year ended December 31, 2004 and 2003, the Company incurred interest costs of $701,391 and $189,359, respectively, of which $61,900 and $47,500, respectively, was capitalized.

(9) Income Taxes

Deferred tax assets and liabilities are determined based upon the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as well as for operating and capital loss carryforwards, using the current enacted tax rates. Deferred income tax assets and liabilities are classified as current and noncurrent based on the financial reporting classification of the related assets and liabilities that give rise to the temporary difference. The tax effects of temporary differences that give rise to the Company's deferred tax accounts are as follows:

	December 31,	
	2004	**2003**
Deferred tax assets:		
Accruals	$ 527,000	$ 191,000
Equity in losses of affiliate companies	373,000	384,000
Depreciation and amortization	422,000	616,000
Deferred compensation and warrants	1,403,000	3,044,000
Capital loss carryforward	2,137,000	2,201,000
Federal and state deferred tax benefits arising from net operating loss carryforwards	18,220,000	9,550,000
Total gross deferred tax assets	23,082,000	15,986,000
Less: valuation allowance	(23,082,000)	(15,986,000)
Net total deferred tax assets		
Deferred tax liabilities:		
Amortization of goodwill for tax purposes	(1,600,900)	(985,600)
Foreign taxes	(50,000)	(50,000)
Total gross deferred tax liabilities	(1,650,900)	(1,035,600)
Net deferred tax liabilities	$ (1,650,900)	$ (1,035,600)

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because it is management's intention to reinvest such earnings for the foreseeable future. At December 31, 2004, the undistributed earnings of the foreign subsidiaries amounted to approximately $2,268,000. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management believes that a valuation allowance against the gross deferred tax assets is appropriate.

The net change in the valuation allowance for the years ended December 31, 2004 and 2003 was an increase of $7,096,000 and a decrease of $6,042,000, respectively. The increase in 2004 was principally due to the increase in the amount of the deferred tax asset related to the Company's net operating loss carryforward. The decrease in 2003 was principally due to a reduction in the amount of the deferred tax asset related to stock-based compensation. As of December 31, 2004, the Company had net operating loss carryforwards for federal and state income tax purposes amounting to approximately $47,000,000 and $50,000,000, respectively. The federal net operating loss carryforwards expire beginning 2018 through 2024, and the state net operating loss carryforwards expire beginning in 2005. The use of certain net operating losses may be subject to annual limitations based on changes in the ownership of the Company's common stock, as defined by Section 382 of the Internal Revenue Code.

Income tax expense attributable to continuing operations is as follows:

	Years ended December 31,		
	2004	**2003**	**2002**
Current:			
Federal	$	$	$
State	109,337	40,000	30,000
Foreign	1,671,175	121,086	1,877
	1,780,512	161,086	31,877
Deferred:			
Federal	572,600	448,800	309,500
State	42,700	76,000	79,800
Foreign		50,000	
	615,300	574,800	389,300
	$ 2,395,812	$ 735,886	$ 421,177

In addition to the amounts reflected above, an income tax benefit of approximately $19,000 has been allocated to discontinued operations for the year ended December 31, 2003.

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income tax expense related to continuing operations.

	Years ended December 31,		
	2004	2003	2002
Tax at statutory rate	34.0%	34.0%	34.0%
Amortization of goodwill	(6.2)	112.0	35.4
Change in valuation allowance	(50.7)	22.5	(44.0)
State taxes	(1.3)	29.0	12.5
Effect of tax rates of foreign subsidiaries	(0.7)	(39.1)	(0.2)
Non-deductible items	(1.1)	25.3	10.4
Income tax expense	(26.0)%	183.7%	48.1%

(10) Commitments

Employment Agreements

At December 31, 2004, the Company had employment agreements with three of its officers for an aggregate annual base salary of $810,000 plus bonus and increases in accordance with the terms of the agreements. The contracts are for varying terms through October 2009.

Leases

The Company leases equipment, office and warehouse space under operating leases expiring at various times through 2010. During 2004, the Company entered into various capital leases aggregating $458,409 for certain equipment utilized in its Domestic Services segment. During 2003, the Company entered into a capital lease for certain technology and hardware related to its Tech-Logis project. Total rent expense for the years ended December 31, 2004, 2003 and 2002 was $9,150,000, $7,451,000 and $4,750,000, respectively. Future minimum lease payments are as follows:

	Operating Leases			
Year ending December 31,	**Third-party**	**Related Party**	**Total**	**Capital Lease**
2005	$ 8,578,000	$ 94,000	$ 8,672,000	$ 914,491
2006	5,792,000		5,792,000	604,507
2007	3,862,000		3,862,000	85,891
2008	2,868,000		2,868,000	
2009	1,952,000		1,952,000	
Thereafter	1,516,000		1,516,000	
Total minimum lease payments	$ 24,568,000	$ 94,000	$ 24,662,000	1,604,888
Less: Amount representing interest				94,427
Present value of minimum lease payments				1,510,461
Less: Current portion of capital lease obligation				1,510,461
Long-term portion of capital lease obligation				$

Property under capital leases consists of the following:

	December 31, 2004	December 31, 2003
Software	$	$ 2,049,638
Equipment	458,409	
Accumulated amortization	(119,397)	
	$ 339,012	$ 2,049,638

Employee Benefit Plan

The Company sponsors voluntary defined contribution savings plans covering all U.S. employees. Company contributions are discretionary. For the years ended December 31, 2004, 2003 and 2002, total Company contributions amounted to $629,000, $547,000 and $260,000, respectively.

(11) Contingencies

Acquisition Agreements

Assuming minimum pre-tax income levels are achieved by the acquired companies, the Company will be required to make future contingent consideration payments by April 1 of the respective year as follows (in thousands)(1)(2):

	2006	2007	2008	2009	Total
Earn-out payments:					
Domestic	$ 8,050	$ 2,500	$ 2,500	$	$ 13,050
International	5,131	5,503	3,769	3,417	17,820
Total earn-out payments	$ 13,181	$ 8,003	$ 6,269	$ 3,417	$ 30,870
Prior year pre-tax earnings targets(3)					
Domestic	$ 12,306	$ 3,500	$ 3,500	$	$ 19,306
International	12,446	13,502	8,840	7,723	42,511
Total pre-tax earnings targets	$ 24,752	$ 17,002	$ 12,340	$ 7,723	$ 61,817
Domestic	65.4%	71.4%	71.4%		67.6%
International	41.2%	40.8%	42.6%	44.2%	41.9%
Combined	53.3%	47.1%	50.8%	44.2%	49.9%

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

(2) During the 2005-2008 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as $18,000,000 if certain of the acquired companies generate an incremental $37,000,000 in pre-tax earnings.

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

Legal Proceedings

The Company was named as a defendant in eight purported class action complaints filed in the United States Court for the Eastern District of Pennsylvania between September 24, 2004 and November 19, 2004. Also named as defendants in these lawsuits were officers Dennis L. Pelino and Thomas L. Scully and former officer Bohn H. Crain. These cases have now been consolidated for all purposes in that Court under the caption In re Stonepath Group, Inc. Securities Litigation, Civ. Action No. 04-4515 and the lead plaintiff, Globis Capital Partners, LP, filed an amended complaint in February 2005. The lead plaintiff seeks to represent a class of purchasers of the Company's shares between March 29, 2002 and September 20, 2004, and allege claims for securities fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. These claims are based upon the allegation that certain public statements made during the period from March 29, 2002 through September 20, 2004 were materially false and misleading because they failed to disclose that the Company's Domestic Services operations had improperly accounted for accrued purchased transportation costs. The plaintiffs are seeking compensatory damages, attorneys' fees and costs, and further relief as may be determined by the Court. The Company and the individual defendants believe that the plaintiffs' claims are without merit and intend to vigorously defend against them.

The Company has been named as a nominal defendant in a shareholder derivative action on behalf of the Company that was filed on October 12, 2004 in the United States District Court for the Eastern District of Pennsylvania under the caption Ronald Jeffrey Neer v. Dennis L. Pelino, et al., Civ. A. No. 04-cv-4971. Also named as defendants in the action are all of the individuals who were serving as directors of the Company when the complaint was filed (Dennis L. Pelino, J. Douglass Coates, Robert McCord, David R. Jones, Aloysius T. Lawn and John H. Springer), former directors Andrew Panzo, Lee C. Hansen, Darr Aley, Stephen George, Michela O'Connor-Abrams and Frank Palma, officer Thomas L. Scully and former officers Bohn H. Crain and Stephen M. Cohen. The derivative action alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment and violations of the Sarbanes-Oxley Act of 2002. These claims are based upon the allegation that the defendants knew or should have known that the Company's public filings for fiscal years 2001, 2002 and 2003 and for the first and second quarters of fiscal year 2004, and certain press releases and public statements made during the period from January 1, 2001 through August 9, 2004, were materially misleading. The complaint alleges that the statements were materially misleading because they understated the Company's accrued purchase transportation liability and related costs of transportation in violation of generally accepted accounting principles and they failed to disclose that the Company lacked internal controls. The derivative action seeks compensatory damages in favor of the Company, attorneys' fees and costs, and further relief as may be determined by the Court. The defendants believe that this action is without merit, have filed a motion to dismiss this action, and intend to vigorously defend themselves against the claims raised in this action.

On October 22, 2004, Douglas Burke filed a two-count action against United American Acquisitions, Inc. ("UAF"), Stonepath Logistics Domestic Services, Inc., and the Company in the Circuit Court for Wayne County, Michigan. Mr. Burke is the former President and Chief Executive Officer of UAF. The Company purchased the stock of UAF from Mr. Burke on May 30, 2002 pursuant to a Stock Purchase Agreement. At the closing of the transaction Mr. Burke received $5,100,000 and received the right to receive an additional $11,000,000 in four annual installments based upon UAF's performance in accordance with the Stock Purchase Agreement. Subject to the purchase, Stonepath Logistics Domestic Services, Inc. and Mr. Burke entered into an Employment Agreement. Mr. Burke's complaint alleges that the defendants breached the terms of the Employment Agreement and Stock Purchase Agreement and seeks, among other things, the production of financial information, unspecified damages, attorney's fees and interest. The defendants believe that Mr. Burke's claims are without merit and intend to vigorously defend against them. In addition, the Company is seeking $456,000 in excess earn-out payments that were paid to Mr. Burke.

The Company has received notice that the Securities and Exchange Commission (the "Commission") is conducting an informal inquiry to determine whether certain provisions of the federal securities laws have been violated in connection with the Company's accounting and financial reporting. As part of the inquiry, the staff of the Commission has requested information relating to the restatement amounts, personnel at the Air Plus subsidiary and Stonepath Group, Inc. and additional background information for the period from October 5, 2001 to December 2, 2004. The Company is voluntarily cooperating with the staff.

By letter dated March 25, 2005, the court-appointed receiver (the "Receiver") of Lancer Management Group, LLC and certain related parties asserted that he has determined that payments made by Lancer Partners, L.P. totaling $3,000,000 and payments made by related entities totaling $5,349,000 were avoidable as fraudulent transfers. Lancer Partners, L.P. and certain related entities purchased securities of the Company in past private placement transactions. The letter provides no basis for the Receivers's determination and seeks evidence from the Company establishing that the payments were not avoidable or the payment of $8,349,000. The Company is in the process of reviewing the transactions identified in the Receiver's letter.

The Company is not able to predict the outcome of any of the foregoing actions at this time, since each action is in an early stage. An adverse determination in any of those actions could have a material and adverse effect on the Company's financial position, results of operations and/or cash flows.

The Company settled the suit brought by Emergent Capital Investment LLC in the United States District Court for the Southern District of New York in exchange for the payment by the Company of $50,000. The settlement, net of insurance recoveries amounting to $25,000, is included in loss from discontinued operations in the consolidated statement of operations for the year ended December 31, 2004.

On May 6, 2003, the Company elected to settle litigation instituted on August 20, 2000 by Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A. Although the Company believed that the plaintiffs' claims were without merit, the Company chose to settle the matter in order to avoid future litigation costs and to mitigate the diversion of management's attention from operations. The total settlement costs of $787,500, paid $437,500 in cash and $350,000 in shares of the Company's common stock, are included in litigation and nonrecurring costs in the accompanying consolidated statement of operations for the year ended December 31, 2003.

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

(12) Stockholders' Equity

The Company has two classes of authorized stock: common stock and preferred stock.

a) Common Stock

The Company is authorized to issue 100,000,000 shares of common stock, par value $.001 per share. The holders of common stock are entitled to one vote per share and are entitled to dividends as declared.

Dividends are subject to the preferential rights of the holders of the Company's preferred stock. The Company has never declared dividends on its common stock.

In March 2003, the Company completed a private placement of 4,470,000 shares of its common stock at a price of approximately $1.35 per share realizing gross proceeds of $6,072,500. This placement yielded net proceeds of $5,512,468 for the Company, after the payment of placement agent fees and other out-of-pocket costs associated with the placement.

In October 2003, the Company completed a private placement of 5,983,500 shares of its common stock at a price of $2.20 per share realizing gross proceeds of $13,163,700. This placement yielded net proceeds of $12,552,947 for the Company, after the payment of placement agent fees and other out-of-pocket costs associated with the placement.

On February 9, 2004 the Company filed a shelf registration statement with the Commission. This registration statement, filed on Form S-3, had been declared effective, and permitted the Company to sell, in one or more public offerings, shares of common stock, preferred stock, or warrants for proceeds of up to an aggregate amount of $50,000,000. In view of the Company's late filing of its Form 10-Q for the three and nine month periods ending September 30, 2004, the aforementioned Form S-3 is not available for use by the Company at this time.

b) Preferred Stock

The Company's Board of Directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock, par value $.001 per share, that may be issued in one or more series and with such terms as may be determined by the Board of Directors. At December 31, 2004, there are no preferred shares of any series outstanding.

Series C Preferred Stock

In March 2000, the Company completed a private placement transaction in which it issued 4,166,667 shares of Series C Preferred Stock and warrants to purchase 416,667 additional shares of common stock for aggregate gross proceeds of $50,000,000.

The terms of the Series C Preferred Stock initially required the Company to use the proceeds from this offering solely for investments in early stage Internet companies. In February 2001, the Company received consents (the "Consents") from the holders of more than two-thirds of its issued and outstanding shares of Series C Preferred Stock to modify this restriction to permit it to use the proceeds to make any investments in the ordinary course of business, as from time-to-time determined by the Board of Directors, or for any other business purpose approved by the Board of Directors.

In exchange for the Consents, the Company agreed to a private exchange transaction (the "Exchange Transaction") in which it would issue to the holders of the Series C Preferred Stock as of July 18, 2002 (the "conversion date"), additional warrants to purchase up to a maximum of 2,692,195 shares of common stock at an exercise price of $1.00 per share, and reduce the per share exercise price from $26.58 to $1.00 for 307,805 existing warrants owned by the holders of the Series C Preferred Stock. As a condition to receiving the additional warrants and having their existing warrants re-priced, the holders of the Series C

Preferred Stock agreed to convert their shares of preferred stock into shares of common stock on the conversion date.

At the request of the largest holder of Series C Preferred Stock (because of legal limitations in its governing instruments which prevented it from holding investments in common stock), the Company expanded the Exchange Transaction to include an additional alternative. Holders of the Series C Preferred Stock as of the conversion date were provided with the alternative of exchanging the common stock issuable upon conversion of the Series C Preferred Stock, the additional warrants and re-priced warrants, for shares of a newly designated Series D Convertible Preferred Stock.

As a result of the exercise of these rights by the holders of the Series C Preferred Stock, as of July 19, 2002, all of the Company's shares of Series C Preferred Stock, representing approximately $44,600,000 in liquidation preferences, together with warrants to purchase 307,805 shares of the Company's common stock, were surrendered and retired in exchange for a combination of securities consisting of:

1,911,071 shares of common stock;

1,543,413 warrants to purchase common stock at an exercise price of $1.00; and

360,745 shares of Series D Convertible Preferred Stock.

The 1,911,071 shares of common stock and the 1,543,413 warrants to purchase shares of common stock at an exercise price of $1.00 were issued in exchange for 1,911,071 shares of Series C Preferred Stock and warrants to purchase 158,349 shares of the Company's common stock at an exercise price of $26.58 per share. The exchange of the common stock for the Series C Preferred Stock was accounted for as a conversion of the Series C Preferred Stock pursuant to its terms. The estimated fair value of the additional warrants and the re-priced warrants had been previously recorded by the Company in 2001 as a dividend, so no further amount was recorded in 2002.

The remaining 1,803,725 shares of Series C Preferred Stock were converted into 1,803,725 shares of common stock. In addition, the Company issued 1,307,130 additional warrants to purchase shares of common stock at an exercise price of $1.00 per share and re-priced 149,457 warrants to purchase shares of the Company's common stock (the re-priced warrants were re-priced from an exercise price of $26.58 per share to an exercise price of $1.00 per share). The common stock, additional warrants and re-priced warrants were then immediately surrendered by the holders in exchange for 360,745 shares of Series D Convertible Preferred Stock.

EITF Topic D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock, indicates that the excess of the carrying amount of preferred stock over the fair value of the consideration transferred to the holders of the preferred stock should be added to net income. The Series C Preferred Stock which was converted into Series D Convertible Preferred Stock had a carrying value of approximately $21,645,000. The Company obtained an independent appraisal which valued the Series D Convertible Preferred Stock at approximately $4,672,000. The excess of the carrying value of the Series C Preferred Stock over the fair value of the Series D Convertible Preferred Stock was added to net income for purposes of computing net income attributable to common stockholders for the year ended December 31, 2002. The Exchange Transaction had no effect on the cash flows of the Company.

The holders of the Series C Preferred Stock earned 162,741 additional shares of Series C Preferred Stock from payment of preferred stock dividends during the year ended December 31, 2002.

Series D Convertible Preferred Stock

Each share of the Series D Convertible Preferred Stock was convertible into ten shares of common stock of the Company. The conversion terms were negotiated to be similar to the terms of the Exchange Transaction. During the years ended December 31, 2004 and 2003, 310,477 shares and 50,265 shares, respectively, of Series D Convertible Preferred Stock were converted into 3,104,770 shares and 502,650 shares, respectively, of common stock of the Company.

Preferred Stock Dividends

For the year ended December 31, 2002, the components of the preferred stock dividends were as follows:

Series C Preferred Stock dividend payable in kind	$	(1,952,892)
Non-cash credit: excess of carrying value of Series C Preferred Stock over the fair value of Series D Convertible Preferred Stock		16,973,040
	$	15,020,148

c) Deferred Stock-Based Compensation

The Company records deferred compensation when it makes restricted stock awards or compensatory stock option grants to employees and consultants. In the case of stock option grants to employees, the amount of deferred compensation initially recorded is the difference, if any, between the exercise price and quoted market value of the common stock on the date of grant. Such deferred compensation is fixed and remains unchanged for subsequent increases or decreases in the market value of the Company's common stock. In the case of options granted to consultants, the amount of deferred compensation recorded is the fair value of the stock options on the grant date as determined using a Black-Scholes valuation model. The Company records deferred compensation as a reduction to stockholders' equity and an offsetting increase to additional paid-in capital. The Company then amortizes deferred compensation into stock-based compensation expense over the performance period, which typically coincides with the vesting period of the stock-based award of three to four years.

The components of deferred compensation are as follows:

	Employees	Consultants	Total
Balance at January 1, 2002	$ 211,638	$	$ 211,638
Deferred compensation recorded		3,193	3,193
Amortization to stock-based compensation	(95,232)	(3,193)	(98,425)
Balance at December 31, 2002	116,406		116,406
Amortization to stock-based compensation	(95,232)		(95,232)
Balance at December 31, 2003	21,174		21,174
Deferred compensation recorded		70,000	70,000
Amortization to stock-based compensation	(21,174)	(38,700)	(59,874)
Balance at December 31, 2004	$	$ 31,300	$ 31,300

Stock-based compensation is included in personnel costs in the accompanying consolidated statements of operations.

(13) Stock Options and Warrants

a) Stock Options

The Amended and Restated Stonepath Group, Inc. 2000 Stock Incentive Plan, (the "Stock Incentive Plan") covers 15,000,000 shares of common stock. Under its terms, employees, officers and directors of the Company and its subsidiaries are currently eligible to receive non-qualified and incentive stock options and restricted stock awards. Options granted generally vest over three to four years and expire ten years following the date of grant. The Board of Directors or a committee thereof determines the exercise price of options granted.

The following summarizes the Company's stock option activity and related information:

	Shares	Range of exercise prices	Weighted average exercise price
Outstanding at January 1, 2002	6,282,883	$0.50 17.50	$ 1.47
Granted	3,648,000	1.30 2.30	1.37
Exercised	(409,583)	0.50 1.00	0.96
Expired	(74,400)	0.70 1.58	0.98
Outstanding at December 31, 2002	9,447,300	0.50 17.50	1.46
Granted	1,862,100	1.53 2.85	1.95
Exercised	(307,916)	0.70 1.30	1.04
Expired	(273,600)	9.27 10.00	9.27
Cancelled	(123,750)	1.21 2.00	1.34
Outstanding at December 31, 2003	10,604,134	0.50 17.50	1.36
Granted	3,774,700	0.75 3.75	2.25
Exercised	(2,089,094)	0.60 1.38	0.85
Expired	(24,000)	2.50	2.50
Cancelled	(859,556)	1.30 2.85	1.89
Outstanding at December 31, 2004	11,406,184	$0.50 17.50	$ 1.70

The following table summarizes information about options outstanding and exercisable as of December 31, 2004:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.50 $1.00	3,895,334	7.0 years	$ 0.79	3,157,833	$ 0.80
$1.01 $2.00	4,189,619	7.5 years	1.47	2,863,412	1.45
$2.01 $4.00	3,248,031	7.8 years	2.78	1,922,950	2.72
$6.38	10,000	4.5 years	6.38	10,000	6.38
$17.50	63,200	2.7 years	17.50	63,200	17.50
Total	11,406,184	7.4 years	$ 1.70	8,017,395	$ 1.63

On October 5, 2001, February 28, 2002 and July 3, 2002, the Company modified the existing option arrangements with its Chairman such that, effective as of July 3, 2002, vesting was fully accelerated on options to purchase 1,800,000 shares of the Company's common stock. Based on the excess of the trading price of the common stock on the dates of the modifications over the exercise price, the Company could incur a non-cash charge to its earnings of approximately $870,000 if the Chairman leaves the employment of the Company prior to the vesting dates specified in the original option grant.

b) Warrants

The following summarizes warrant activity and related information:

	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at January 1, 2002	3,473,051	$0.82 26.58	$ 6.67
Issued	1,693,413	1.00 1.23	1.02
Exercised	(31,225)	1.00	1.00
Expired	(1,780,027)	2.40 10.00	5.16
Cancelled	(407,806)	0.82 26.58	20.26
Outstanding at December 31, 2002	2,947,406	1.00 26.58	2.51
Issued	297,000	1.49	1.49
Exercised	(923,040)	1.00 1.49	1.13
Expired	(437,970)	6.00 26.58	11.12
Outstanding at December 31, 2003	1,883,396	1.00 1.49	1.03
Issued	600,000	5.00	5.00
Exercised	(525,612)	1.00	1.00
Outstanding at December 31, 2004	1,957,784	$1.00 5.00	$ 2.26

These warrants were issued primarily in connection with former borrowing arrangements, the Series C Preferred Stock issuance, the receipt of consulting services and services to be rendered in connection with a private placement of the Company's common stock. In 2002, the Company recorded $95,000 of deferred offering costs for warrants that were issued in connection with an anticipated private placement of the Company's common stock.

(14) Fair Value of Financial Instruments

At December 31, 2004 and 2003, the carrying values of cash and cash equivalents, accounts receivable, loans receivable, accounts payable and lines of credit approximated their fair values as they are short-term and are generally receivable or payable on demand. At December 31, 2004, the carrying value of the capital leases approximated their fair value, since they are payable in full on March 31, 2005. Other long-term liabilities represented amounts payable to the former shareholder of Shaanxi and approximated their fair value since they are now the subject of a recently-negotiated note payable, due March 31, 2006.

(15) Related Party Transactions

During 2002, the Company purchased certain computer equipment and peripherals for $28,000 from a company owned by the Company's Chairman.

During 2002, the Company paid a total of $60,000 to two of its directors as a placement fee related to the employment of the Company's former Chief Financial Officer.

During 2003, the Company paid $25,872 for consulting services received from a company owned by a director.

At December 31, 2003, a former officer was indebted to the Company for a loan with an aggregate unamortized balance of $14,597. This loan is generally forgivable over a three-year term and for accounting purposes was amortized evenly to expense over the term which ended in April 2004.

Certain real estate is leased under an operating lease from the former principal shareholder of M.G.R., Inc. d/b/a Air Plus, which the Company acquired on October 5, 2001. Rent under this arrangement was determined by a survey of comparable building rents and totaled $187,000 for each of the years ended December 31, 2004, 2003 and 2002.

At December 31, 2004, a former principal shareholder of Global was indebted to the Company for a loan amounting to $87,500. The loan is repayable by offset against his portion of the contingent consideration payment to be made in 2006.

(16) Segment Information

SFAS No 131, Disclosures About Segments of an Enterprise and Related Information, established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company identifies operating segments based on the principal service provided by the business unit. The Company determined that it has two operating segments: the Domestic Services platform, which provides a full range of logistics and transportation services throughout North America, and its International Services platform, which provides international air and ocean logistics services. Each segment has a separate management structure. The accounting policies of the reportable segments are the same as described in Note 2. Segment information, in which corporate expenses (other than the legal settlement and nonrecurring costs) have been fully allocated to the operating segments, is as follows (in thousands):

	Year Ended December 31, 2004			
	Domestic Services	International Services	Corporate	Total
Revenue from external customers	$ 145,172	$ 221,909	$	$ 367,081
Inter-segment revenue	18	350		368
Revenue from significant customer	46,998			46,998
Segment operating income (loss)	(9,879)	4,303		(5,576)
Segment assets	42,278	76,420	4,248	122,946
Segment goodwill	19,641	17,638		37,279
Depreciation and amortization	2,551	1,638		4,189
Capital expenditures	1,887	716	2,765	5,368

	Year Ended December 31, 2003			
	Domestic Services	International Services	Corporate	Total
Revenue from external customers	$ 129,474	$ 90,610	$	$ 220,084
Inter-segment revenue	56	124		180
Revenue from significant customer	53,582			53,852
Segment operating income (loss)	(1,465)	4,312	(1,169)	1,678
Segment assets	49,780	36,577	3,912	90,269
Segment goodwill	19,641	11,868		31,509
Depreciation and amortization	2,259	401		2,660
Capital expenditures	643	140	3,400	4,183

	Year Ended December 31, 2002			
	Domestic Services	International Services	Corporate	Total
Revenue from external customers	$ 78,319	$ 44,469	$	$ 122,788
Inter-segment revenue	76	15		91
Revenue from significant customer	40,164			40,164
Segment operating income (loss)	(1,023)	1,770		747
Segment assets	40,682	13,867	(564)	53,985
Segment goodwill	13,923	5,208		19,131
Depreciation and amortization	2,036	151		2,187
Capital expenditures	788	349	676	1,813

The revenue in the table below is allocated to geographic areas based upon the location of the customer (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Total revenue:			
United States	$ 239,389	$ 208,591	$ 121,111
Asia	116,388	8,003	1,076
North America (excluding the United States)	220	1,360	55
Europe	6,507	1,287	344
South America	2,605		
Other	1,972	843	202
Total	$ 367,081	$ 220,084	$ 122,788

The following table presents long-lived assets by geographic area (in thousands):

	December 31,	
	2004	2003
United States	$ 6,797	$ 6,737
Asia	691	326
South America	108	
	$ 7,596	$ 7,063

Cash on deposit with foreign banks amounted to $6,005,000 at December 31, 2004.

(17) Quarterly Information (Unaudited)

The following is a summary of certain unaudited quarterly financial information for fiscal 2004 and 2003:

2004	**Quarter Ended** March 31	June 30	September 30	December 31
Total revenue	$ 60,224,390	$ 86,469,712	$ 109,711,414	$ 110,675,149
Cost of transportation	43,472,712	67,404,844	84,638,366	86,842,725
Net revenue	$ 16,751,678	$ 19,064,868	$ 25,073,048	$ 23,832,424
Income (loss) from continuing operations	$ (5,700,446)	$ (1,368,806)	$ 105,767	$ (6,054,870)
Gain (loss) from discontinued operations			(50,000)	25,000
Net income (loss) attributable to common stockholders	$ (5,700,446)	$ (1,368,806)	$ 55,767	$ (6,029,870)
Loss per common share:				
Basic				
Continuing	$ (0.15)	$ (0.03)	$	$ (0.15)
Discontinued operations				
Earnings per common share	$ (0.15)	$ (0.03)	$	$ (0.15)
Diluted				
Continuing	$ (0.15)	$ (0.03)	$	$ (0.15)
Discontinued operations				
Earnings per common share	$ (0.15)	$ (0.03)	$	$ (0.15)

2003	**Quarter Ended** March 31	June 30	September 30	December 31
Total revenue	$ 38,572,441	$ 46,333,989	$ 65,507,874	$ 69,669,977
Cost of transportation	26,634,489	34,392,588	47,554,483	49,524,035
Net revenue	$ 11,937,952	$ 11,941,401	$ 17,953,391	$ 20,145,942
Income (loss) from continuing operations	$ (1,656,934)	$ (1,792,020)	$ 1,307,951	$ 1,618,431
Gain (loss) from discontinued operations		(354,991)		91,960
Net income (loss) attributable to common stockholders	$ (1,656,934)	$ (2,147,011)	$ 1,307,951	$ 1,710,391
Earnings (loss) per common share:				
Basic				
Continuing operations	$ (0.07)	$ (0.06)	$ 0.04	$ 0.05
Discontinued operations		(0.01)		

	Quarter Ended			
Earnings per common share	$ (0.07)	$ (0.07)	$ 0.04	$ 0.05
Diluted				
Continuing operations	$ (0.07)	$ (0.06)	$ 0.03	$ 0.04
Discontinued operations		(0.01)		
Earnings per common share	$ (0.07)	$ (0.07)	$ 0.03	$ 0.04

(18) Subsequent Events

On March 21, 2005, the Company and the former Shaanxi shareholder entered into a financing agreement whereby the amount payable to the former shareholder for 55% of Shaanxi's working capital at the date of the acquisition (approximately $1,900,000) became subject to a note payable due March 31, 2006 with interest at 10% per annum.

As of March 2, 2005, the Company failed to deliver to the lender a compliance certificate and certain financial statements as of and for the period ended January 31, 2005 as required by its U.S. Facility. On March 30, 2005, the Company obtained a waiver of the breach of these covenants as well as an extension of the term of the agreement from January 31, 2006 to May 31, 2006. The Company incurred a fee of $50,000 in connection with this waiver. The lender also requires the Company to secure additional financing of $5,000,000 by April 30, 2005 or have availability under the U.S. Facility reduced by $250,000 and incur a fee of $100,000. Similar fees and reductions in availability will occur on each of May 31, 2005, June 30, 2005, September 30, 2005, January 31, 2006 and April 30, 2006. If the financing is received, the Company will incur fees of $100,000 and availability reductions of $250,000 on each of August 31, 2005, November 30, 2005 and February 28, 2005. In connection with the extension of the term of the loan agreement, the payoff of the leases referred to in Note 8 have been modified from full payment on March 31, 2005 to $438,000 on March 31, 2005 and the remaining balance of $904,000 on April 30, 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Under date of February 24, 2004, we reported on the consolidated balance sheet of Stonepath Group, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the two-year period ended December 31, 2003. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule as of and for the years ended December 31, 2003 and 2002, as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Philadelphia, Pennsylvania
January 31, 2005

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
STONEPATH GROUP, INC. AND SUBSIDIARIES

Column A Description	Column B Balance at beginning of period	Column C Additions (1) Charged to costs and expenses	Column C Additions (2) Charged to other accounts describe	Column D Deductions describe[a]	Column E Balance at end of period
Allowance for doubtful accounts:					
Year ended December 31, 2004	$ 1,055,000	$ 1,838,000	$	$ (1,340,000)	$ 1,553,000
Year ended December 31, 2003	$ 320,000	$ 771,000	$	$ (36,000)	$ 1,055,000
Year ended December 31, 2002	$ 167,000	$ 153,000	$	$	$ 320,000
Reserve for excess earn-out payments:					
Year ended December 31, 2004	$ 1,270,141	$ 3,075,190	$	$	$ 4,345,331
Year ended December 31, 2003	$	$ 1,270,141	$	$	$ 1,270,141

(a) Represents write-off of uncollectible accounts receivable.

F-39

STONEPATH GROUP, INC.

Consolidated Balance Sheet

		June 30, 2005
Assets		
Current assets		
Cash and cash equivalents	$	4,502,720
Accounts receivable, net		63,118,103
Prepaid expenses and other current assets		3,420,682
Total current assets		71,041,505
Goodwill		38,189,684
Technology, furniture and equipment, net		6,933,245
Acquired intangibles, net		6,087,071
Note receivable, related party		87,500
Other assets		1,723,642
Total assets	$	124,062,647
Liabilities and Stockholders' Equity		
Current liabilities:		
Lines of credit	$	5,000,000
Note payable		1,897,539
Accounts payable		43,365,590
Earn-outs payable		340,045
Accrued payroll and related expenses		2,584,117
Accrued restructuring costs		2,513,386
Capital lease obligation		376,012
Accrued expenses		5,691,234
Total current liabilities		61,767,923
Long-term debt		16,320,414
Other long-term liabilities		159,227
Deferred tax liability		2,010,317
Total liabilities		80,257,881
Minority interest		5,699,438
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $.001 par value, 10,000,000 shares authorized; none issued		
Common stock, $.001 par value, 100,000,000 shares authorized; 43,712,726 shares issued and outstanding		43,713
Additional paid-in capital		222,639,560
Accumulated deficit		(184,753,117)
Accumulated other comprehensive income		175,172
Total stockholders' equity		38,105,328
Total liabilities and stockholders' equity	$	124,062,647

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.

Consolidated Statements of Operations

(UNAUDITED)

	Six months ended June 30, 2005	Six months ended June 30, 2004
Total revenue	$ 190,016,600	$ 146,694,102
Cost of transportation	147,480,141	110,877,557
Net revenue	42,536,459	35,816,545
Personnel costs	23,043,458	22,566,111
Other selling, general and administrative costs	18,826,998	13,934,885
Depreciation and amortization	2,296,681	1,983,778
Restructuring charges	3,448,209	
Loss from operations	(5,078,887)	(2,668,229)
Other income (expense):		
Provision for excess earn-out payments		(3,075,190)
Interest expense	(1,133,230)	(95,043)
Other income (expense), net	78,670	(35,284)
Loss before income tax expense and minority interest	(6,133,447)	(5,873,746)
Income tax expense	1,207,676	643,471
Loss before minority interest	(7,341,123)	(6,517,217)
Minority interest	605,102	552,036
Net loss	$ (7,946,225)	$ (7,069,253)
Basic and diluted loss per common share	$ (0.18)	$ (0.17)
Basic and diluted weighted average common shares outstanding	43,465,177	39,072,856

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.

Consolidated Statements of Cash Flows

(UNAUDITED)

	Six months ended June 30,	
	2005	**2004**
Cash flow from operating activities:		
Net loss	$ (7,946,225)	$ (7,069,253)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	359,417	242,000
Depreciation and amortization	2,296,681	1,983,778
Stock-based compensation	31,300	25,074
Minority interest in income of subsidiaries	605,102	552,036
Gain on disposal of technology, furniture and equipment and other	(27,318)	10,450
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	946,279	(7,802,841)
Prepaid expenses and assets	(1,323,804)	103,020
Accounts payable and accrued expenses	6,175,408	9,301,286
Net cash provided by (used in) operating activities	1,116,801	(2,654,450)
Cash flows from investing activities:		
Purchases of technology, furniture and equipment	(444,191)	(2,796,233)
Payment of earn-out	(2,362,125)	(3,431,285)
Proceeds from sales of technology, furniture and equipment	48,622	
Acquisition of business, net of cash acquired		(6,741,230)
Loans made		(75,000)
Net cash used in investing activities	(2,757,694)	(13,043,748)
Cash flows from financing activities:		
Proceeds from line of credit, net	4,408,714	12,225,100
Principal payments on capital lease	(1,205,062)	(351,583)
Proceeds from issuance of common stock upon exercise of options and warrants		2,006,989
Net cash provided by financing activities	3,203,652	13,880,506
Effect of foreign currency translation	139,316	47,895
Net increase (decrease) in cash and cash equivalents	1,702,075	(1,769,797)
Cash and cash equivalents at beginning of period	2,800,645	3,074,151
Cash and cash equivalents at end of period	$ 4,502,720	$ 1,304,354
Cash paid for interest	$ 1,028,449	$ 123,380
Cash paid for income taxes	$ 12,541	$ 87,261
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in connection with acquisitions	$ 854,548	$ 100,000
Issuance of common stock in connection with Employee Stock Purchase Plan	57,089	

	Six months ended June 30,
Increase in technology, furniture and equipment and capital lease obligation	390,754
Increase in common stock from conversion of Series D convertible preferred stock	149
Issuance of common stock in connection with exercise of options	200,240
Issuance of warrants for consulting services	70,000

See accompanying notes to consolidated financial statements.

STONEPATH GROUP, INC.

Notes to Unaudited Consolidated Financial Statements

June 30, 2005

(1) Nature of Operations and Basis of Presentation

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

The accompanying unaudited consolidated financial statements were prepared in accordance with United States generally accepted accounting principles for interim financial information. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") relating to interim financial statements. These statements reflect all adjustments, consisting only of normal recurring accruals, necessary to present fairly the Company's financial position, operations and cash flows for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Interim operating results are not necessarily indicative of the results for a full year because our operating results are subject to seasonal trends when measured on a quarterly basis. Our first and second quarters are likely to be weaker as compared with our other fiscal quarters, which we believe is consistent with the operating results of other supply chain service providers.

The Company has experienced losses from operations, and has an accumulated deficit. In addition the Company has experienced negative cash flow from operations in earlier years. In view of these matters, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon profitable future operations of the Company and generation of cash flow sufficient to meet its obligations. The Company believes that operating improvement and cost reduction actions implemented in the first half of 2005 coupled with existing availability on its credit facilities will provide the Company with adequate liquidity to provide uninterrupted support for its business operations through at least June 30, 2006.

Certain amounts for prior periods have been reclassified in the consolidated financial statements to conform to the classification used in 2005.

(2) Restructuring Charges

In November 2004, the Company commenced a restructuring program, engineered to accelerate the integration of its businesses and improve the Company's overall profitability. Currently, the Company has consolidated its corporate headquarters and is in the process of consolidating its domestic and international divisional headquarters into one central management facility in Seattle, Washington. This streamlining will eliminate unnecessary duplication of efforts as well as provide a much more cohesive day-to-day management coordination capability and improved internal controls. In addition, the restructuring initiative included the rationalization of technology systems, personnel and facilities throughout the U.S. In connection with this plan, the Company recorded pre-tax restructuring charges of $3,448,209 for the six-month period ended June 30, 2005. A summary of 2005 restructuring charges, cash payment and related liabilities is as follows:

	Liability Balance, January 1, 2005	Restructuring Charges	Non-Cash Charges	Cash Payments	Liability Balance, June 30, 2005
Personnel	$ 666,408	$ 657,289	$	$ (696,747)	$ 626,950
Lease terminations:					
Building	75,229	2,200,010		(388,803)	1,886,436
Equipment		590,910		(590,910)	
	$ 741,637	$ 3,448,209	$	$ (1,676,460)	$ 2,513,386

Personnel charges primarily relate to contractual obligations incurred in 2005 with certain executives. Lease termination costs relate to vacating certain Domestic Services facilities, vacating and relocating the Company's former corporate headquarters in Philadelphia, and the abandonment of related leased equipment. All restructuring charges will result in cash payments in future periods through 2008. The Company does not expect to incur significant additional restructuring costs during the remainder of 2005.

(3) Stock-Based Compensation

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, the Company has elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options granted to employees and members of the board of directors is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount the grantee must pay to acquire the stock. The Company accounts for stock-based compensation to non-employees (including directors who provide services outside their capacity as members of the board) in accordance with SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. The table below illustrates the effect on net loss attributable to common stockholders and loss per common share as if the fair value of options granted had been recognized as compensation expense in accordance with the provisions of SFAS No. 123.

	Six months ended June 30, 2005	Six months ended June 30, 2004
Net loss:		
As reported	$ (7,946,225)	$ (7,069,253)
Add: stock-based employee compensation expense included in reported net loss		21,174
Deduct: total stock-based compensation expense determined under fair value method for all awards	(1,775,788)	(3,096,089)
Pro forma net loss	$ (9,722,013)	$ (10,144,168)
Basic and diluted loss per common share:		
As reported	$ (0.18)	$ (0.17)
Pro forma	(0.22)	(0.26)

F-44

(4) Acquisitions

On February 9, 2004, the Company acquired, through its indirect wholly-owned subsidiary, Stonepath Holdings (Hong Kong) Limited, a 55% interest in Shaanxi Sunshine Cargo Services International Co., Ltd. ("Shaanxi"). Shaanxi is a Class A licensed freight forwarder headquartered in Shanghai, PRC and provides a wide range of customized transportation and logistics services and supply chain solutions, including global freight forwarding, warehousing and distribution, shipping services and special freight handling. As consideration for the purchase, which was effective as of March 1, 2004, the Company paid $3,500,000 in cash, financed through its revolving credit agreement, and 630,915 shares of the Company's common stock which had a value of $2,000,000 on the date of the transaction. The common shares issued in the transaction were subject to a one-year restriction on sale and were subject to a pro rata forfeiture based upon a formula that compares the actual pre-tax income of Shaanxi through December 31, 2004 with the targeted level of income of $4,000,000 (on an annualized basis). Also, if the trading price of the Company's common stock was less than $3.17 per share at the end of the one-year restriction, the Company could issue up to 169,085 additional shares to the seller. Because the common shares issued in connection with this transaction were subject to forfeiture, they were accounted for as contingent consideration. Based upon the actual pre-tax income through December 31, 2004, the seller forfeited 37,731 shares of common stock. As provided for in the purchase agreement, the amount of $119,608, which represents the original fair value of the forfeited shares at the date of acquisition, will be added ratably to the future earn-outs. Because the quoted market price of the Company's common stock was less than $3.17 on February 9, 2005, the Company issued 158,973 additional shares of its common stock. As of February 9, 2005, the Company had issued 752,157 shares of its common stock in connection with this transaction. The Company recorded additional goodwill amounting to $752,157 in the first quarter of 2005. The seller may receive additional consideration of up to $5,619,608 under an earn-out arrangement payable at the rate of $1,100,000 in the first year and $1,129,902 per year over the next four years based on the future financial performance of Shaanxi.

In addition, the Company agreed to pay the seller 55% of Shaanxi's accounts receivable balances, net of assumed liabilities, existing on the date of acquisition realized in cash within 180 days following the acquisition with a targeted distribution date in August 2004. Effective September 20, 2004, the Company amended the purchase agreement for a change in the settlement date from August 2004 to an initial payment of $1,045,000 on or before November 15, 2004, and the final payment of $868,000 on or before March 31, 2005. The amendment also fixed the date of distribution for collections in cash after the initial 180 day working capital assessment period from being due when collected to March 31, 2005. On March 21, 2005, the Company and the seller entered into a financing arrangement whereby the amount due on March 31, 2005 was extended to March 31, 2006 through the execution of a note between the seller and the Company with interest at 10% per annum. The note balance of $1,897,539 is classified in current liabilities under the caption note payable in the consolidated balance sheet at June 30, 2005.

The acquisition, which significantly enhances the Company's presence in the region, was accounted for as a purchase and accordingly, the results of operations and cash flows of Shaanxi have been included in the Company's consolidated financial statements prospectively from the date of acquisition. Because the Company consolidates its foreign subsidiaries on a one-month lag, such information has been reflected in the consolidated statement of operations effective for periods subsequent to April 1, 2004. The total purchase price, including acquisition expenses of $269,000, was $7,402,000. The following table summarizes the allocation of the purchase price based on the fair value of the assets acquired and liabilities assumed (in thousands):

Current assets	$	15,090
Furniture and equipment		157
Goodwill		2,913
Other intangible assets		1,453
Total assets acquired		19,613
Current liabilities assumed		(9,727)
Minority interest		(2,484)
Net assets acquired	$	7,402

The acquired intangible assets have a weighted average life of 6.6 years. The intangible assets include a customer related intangible of $1,112,100 with a 7.1 year life and a covenant-not-to-compete of $341,000 with a five year life. The $2,913,300 of goodwill was assigned to the Company's International Services business unit and is not deductible for income tax purposes.

The following unaudited pro forma information for the six months ended June 30, 2004 is presented as if the acquisition of Shaanxi had occurred on December 1, 2003, using the one month lag consolidation policy (in thousands, except earnings per share):

		Six months ending June 30, 2004
Total revenue	$	171,250
Net loss		(6,331)
Loss per share:		
Basic and diluted	$	(0.16)

(5) Revolving Credit Facilities

At June 30, 2005, the Company maintained a $25,000,000 revolving credit facility (the "U.S. Facility") collateralized by the accounts receivable and certain other assets of the Company and its subsidiaries. In April and May 2005 the Company amended the U.S. Facility to assign its interests to a new lender in addition to making changes to other key terms, including changes to certain restrictive covenants. Advances under the amended facility may be used to fund capital expenditures, working capital requirements and earn-out payments from previous acquisitions. The facility prohibits the use of proceeds to fund new acquisitions. The U.S. facility, which expires May 31, 2007, bears interest at Libor plus 800 basis points and carries a commitment fee on the unused portion of the facility of 1.0% per annum. At June 30, 2005, the Company had $16,320,414 of outstanding borrowings under the facility and based on the level of available collateral there was additional borrowing availability of $2,824,000. The Company was in compliance with all restrictive covenants as of June 30, 2005.

In October 2004, a subsidiary of the Company, Stonepath Holdings (Hong Kong) Limited ("Asia Holdings") entered into a Term Credit Agreement with Hong Kong Central League Credit Union (the "Lender") and SBI Advisors, LLC, as agent for the Lender. The Term Credit Agreement provided Asia Holdings with the right to borrow an initial amount of $3,000,000 and up to an additional $7,000,000 upon the satisfaction of certain conditions. Asia Holdings borrowed $3,000,000 on November 4, 2004 and

$2,000,000 on February 16, 2005. There is no assurance that the remaining $5,000,000 will be available to Asia Holdings under the Term Credit Agreement. The borrowings under the Term Credit Agreement are secured by floating charges on the foreign accounts receivable of three of its subsidiaries, Planet Logistics Express (Singapore) Pte. Ltd., G-Link Express (Singapore) Pte. Ltd., and Stonepath Logistics (Hong Kong) Limited. All borrowings under the Term Credit Agreement bear interest at an annual rate of 15% and must be repaid on or before November 4, 2005. The obligation to repay the borrowings under the Term Credit Agreement may be accelerated by the Lender upon the occurrence of events of default customary for loan transactions. Stonepath Group, Inc. has guaranteed the obligations of Asia Holdings under the Term Credit Agreement. The outstanding balance on the Term Credit Agreement was $5,000,000 at June 30, 2005.

(6) Commitments and Contingencies

The Company was named as a defendant in eight purported class action complaints filed in the United States Court for the Eastern District of Pennsylvania between September 24, 2004 and November 19, 2004. Also named as defendants in these lawsuits were officers Dennis L. Pelino and Thomas L. Scully and former officer Bohn H. Crain. These cases have now been consolidated for all purposes in that Court under the caption In re Stonepath Group, Inc. Securities Litigation, Civ. Action No. 04-4515 and the lead plaintiff, Globis Capital Partners, LP, filed an amended complaint in February 2005. The lead plaintiff seeks to represent a class of purchasers of the Company's shares between March 29, 2002 and September 20, 2004, and alleges claims for securities fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. These claims are based upon the allegation that certain public statements made during the period from March 29, 2002 through September 20, 2004 were materially false and misleading because they failed to disclose that the Company's Domestic Services operations had improperly accounted for accrued purchased transportation costs. The plaintiffs are seeking compensatory damages, attorneys' fees and costs, and further relief as may be determined by the Court. The Company and the individual defendants believe that this action is without merit, have filed a motion to dismiss this action and intend to vigorously defend against the claims raised in this action.

The Company has been named as a nominal defendant in a shareholder derivative action on behalf of the Company that was filed on October 12, 2004 in the United States District Court for the Eastern District of Pennsylvania under the caption Ronald Jeffrey Neer v. Dennis L. Pelino, et al., Civ. A. No. 04-cv-4971. Also named as defendants in the action are all of the individuals who were serving as directors of the Company when the complaint was filed (Dennis L. Pelino, J. Douglas Coates, Robert McCord, David R. Jones, Aloysius T. Lawn and John H. Springer), former directors Andrew Panzo, Lee C. Hansen, Darr Aley, Stephen George, Michela O'Connor-Abrams and Frank Palma, officer Thomas L. Scully and former officers Bohn H. Crain and Stephen M. Cohen. The derivative action alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment and violations of the Sarbanes-Oxley Act of 2002. These claims are based upon the allegation that the defendants knew or should have known that the Company's public filings for fiscal years 2001, 2002 and 2003 and for the first and second quarters of fiscal year 2004, and certain press releases and public statements made during the period from January 1, 2001 through August 9, 2004, were materially misleading. The complaint alleges that the statements were materially misleading because they understated the Com