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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 2 TO CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported): June 20, 2003

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

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

1600 Market Street, Suite 1515 Philadelphia, Pennsylvania (Address of Principal Executive Offices)	19103 (Zip Code)
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Registrant's telephone number, including area code: (215) 979-8370

Not Applicable

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

General Explanation

This Amendment No. 2 on Form 8-K/A is being filed to further amend the Company's Current Report on Form 8-K filed on July 7, 2003 relating to the Company's acquisition of the assets and operations of Regroup Express, LLC. The purpose of this amendment is to restate the Pro Forma Financial Information included in Item 7(b).

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

RESTATED UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

BASIS OF PRESENTATION

On June 20, 2003, through its indirect wholly owned subsidiary, Stonepath Logistics Government Services, Inc. ("SLGS"), Stonepath Group, Inc. (the "Company") acquired the business of Regroup Express LLC, a Virginia limited liability company ("Regroup").

The business acquired from Regroup provides time-definite domestic and international transportation services including air and ground freight forwarding, ocean freight forwarding, major project logistics as well as local pick up and delivery services. The customers of the acquired business include U.S. government agencies and contractors, select companies in the retail industry and other commercial businesses.

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The assets acquired from Regroup consist primarily of its goodwill and other intangible assets, such as its intellectual property, employee base, operating methods and systems, customer relationships and ongoing operations. Certain leases were assumed and personal property was acquired, consisting primarily of office equipment. Accounts receivable were not acquired and accounts payable and other obligations were not assumed. The consideration paid by the Company at the closing of the transaction was \$4.7 million, which amount was paid through a combination of \$3.7 million in cash and \$1.0 million of the Company's common stock. Members of Regroup will be entitled to an earn-out arrangement over a period of five years providing for a total base purchase price of up to \$17.2 million, contingent upon the future financial performance of SLGS following the acquisition. Members of Regroup may also be entitled to an additional earn-out payment to the extent its pre-tax earnings exceed \$17.5 million during the earn-out period. The funds required for the cash payment at the closing were obtained by the Company from its credit facility with LaSalle Business Credit, Inc. The consideration was determined based on arms-length negotiations between the parties.

The contingent payments will be accounted for as additional cost of Regroup when the earnings contingency is resolved and the consideration is issued or becomes issuable. Accordingly, the purchase price allocation presented herein is preliminary and includes only the \$4.7 million paid at closing plus approximately \$300 thousand of direct acquisition costs.

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The following unaudited pro forma condensed consolidated balance sheet at March 31, 2003 presents the Company's acquisition of Regroup as if it had occurred on March 31, 2003. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2002 and the three months ended March 31, 2003 presents the Company's acquisition of Regroup as if it had occurred on January 1, 2002. The detailed assumptions used to prepare the unaudited pro forma condensed consolidated financial information are contained in the accompanying explanatory notes.

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

Historically, Regroup did not maintain a direct contractual relationship with the end customer but rather operated effectively as the exclusive sales agent in the mid-Atlantic region for Transgroup Express, Inc. ("Transgroup"). In turn, Transgroup maintained the primary contractual relationship with the end customers and the network of asset-based carriers as well as provided billing, collection and other back-office services to Regroup. In exchange for these services, Transgroup charged Regroup accounting and factoring fees for its services and remitted funds to Regroup net of these administrative fees. Regroup was not a party to the house airway bill with the customer or a party to the master bill of lading with the carriers. In applying EITF Issue No. 99-19 to the business relationship as between Regroup and Transgroup, Regroup reported its revenues on a net basis. As part of the Stonepath platform, however, the acquired business of Regroup will no longer be operating under the auspices of an agency relationship and like other Stonepath operations, will assume a direct contractual relationship with its customers and record revenues on a "gross" basis. To give effect for the change in operating characteristics of the Regroup business as part of the Stonepath organization, the pro forma presentation makes adjustments to reflect revenues on a "gross" basis, to eliminate the accounting and factoring fees charged by Transgroup and to include additional back-office costs (anticipated to be four additional personnel) in connection with internalizing the back-office services previously provided by Transgroup.

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

This pro forma presentation incorporates the Company's preliminary

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allocation of purchase price of the acquired Regroup business which includes \$250,000 to covenants-not-to-compete (to be amortized on a straight line basis over five years), \$1,250,000 to the customer relationship intangible asset (anticipated to be amortized under the declining balance method using a rate of 25%) and \$3,480,000 to goodwill. These preliminary allocations will be refined and finalized over the next several months as the Company completes the appropriate valuation analysis.

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

	Historical Statements				
	Restated Stonepath	Regroup	Restated Pro Forma Adjustments		
Total revenues	\$ 139,649	\$4,163	\$14,297	(a)	\$
Cost of transportation	101,339		13,110	(a)	
Net revenue	38,310	4,163	1,187		
Selling, general and administrative costs	35,956	2,310	1,187	(a)	
			(399)	(b)	
			363	(c)	
Income from operations	2,354	1,853	36		
Other income (expense)	128	-	(148)	(d)	
Income before income taxes	2,482	1,853	(112)		
Income taxes	102	-	57	(e)	
Net income	2,380	1,853	(169)		
Preferred stock dividends	15,020	-	-		
Net income attributable to common stockholders	\$ 17,400	\$1,853	\$ (169)		\$
Basic earnings per common share	\$ 0.79				\$
Diluted earnings per common share	\$ 0.08				\$
Basic weighted average common shares outstanding	22,154,861				2
Diluted weighted average common shares outstanding	29,232,568				2

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

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the declining balance method using a 25% rate.

- (d) To reflect incremental interest expense at 4.0% associated with borrowings for the \$3.7 million in cash paid at closing.
- (e) To reflect state income tax expense.

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

	Historical Statements		Restated Pro Forma Adjustments
	Restated Stonepath	Regroup	
Total revenues	\$ 45,365	\$ 397	\$4,118 (a)
Cost of transportation	33,182	-	3,720 (a)
Net revenues	12,183	397	398
Selling, general and administrative costs	11,455	285	398 (a) (201) (b) 71 (c)
Litigation settlement	750	-	-
Income from operations	(22)	112	130
Other income (expense)	30	-	(37) (d)
Income before income taxes	8	112	93
Income taxes	15	-	13 (e)
Net income attributable to common stockholders	\$ (7)	\$ 112	\$ 80
Basic earnings per common share	\$ (0.00)		
Diluted earnings per common share	\$ (0.00)		
Basic weighted average common shares outstanding	24,764,810		
Diluted weighted average common shares outstanding	24,764,810		

- (a) To reflect revenues, cost of purchased transportation services and

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the accounting and factoring fees charged under an agency agreement with another logistics services organization on a gross basis.

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

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

	Historical Statements				
	Restated Stonepath	Regroup	Pro Forma Adjustments		Re Pr R
Current assets:					
Cash and cash equivalents	\$ 2,669	\$ 52	\$ (3,700) (a)		\$
			(52) (b)		
			3,700 (d)		
Accounts receivable, net	19,411	1,578	(1,578) (b)		
Other current assets	1,288	96	(96) (b)		
	-----	-----	-----		-----
Total current assets	23,368	1,726	(1,726)		
Goodwill and acquired intangibles, net	25,060	-	4,980 (c)		
Furniture and equipment,	4,748	100	(80) (b)		
Other assets	1,228	7	(7) (b)		
	-----	-----	-----		-----
	\$ 54,404	\$1,833	\$ 3,167		\$
	=====	=====	=====		=====
Current liabilities:					
Accounts payable	\$ 8,663	\$ 60	\$ (60) (b)		\$
Earn-out payable	1,061	-	-		

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Accrued expenses	3,656	18	(18)	(b)
			300	(e)
Other current liabilities	-	31	(31)	(b)
			3,700	(d)
	-----	-----	-----	
Total current liabilities	13,380	109	3,891	
Long-term debt	-	36	(36)	(b)
	-----	-----	-----	
Total liabilities	13,380	145	3,855	
Stockholders' equity				
Common stock	28	-	1	(a)
Additional paid in capital	201,808	-	999	(a)
Members' equity	-	1,688	(1,688)	(b)
Accumulated deficit	(160,719)	-	-	
Deferred compensation	(93)	-	-	
	-----	-----	-----	
Total stockholders' equity	41,024	1,688	(688)	
	-----	-----	-----	
	\$ 54,404	\$1,833	\$ 3,167	\$
	=====	=====	=====	=====

(a) To reflect payment of \$3.7 million in cash and \$1.0 million in Company stock paid at closing.

(b) To reflect the elimination of assets, liabilities and equity balances not acquired in the asset purchase.

(c) To reflect goodwill and other acquired intangibles. Purchase price allocated as follows:

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

Net assets acquired

(d) To reflect \$3.7 million of incremental borrowings in connection with the transaction.

(e) To reflect approximately \$300 thousand of capitalized direct acquisition costs.

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SIGNATURES

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

STONEPATH GROUP, INC.

Date: August 25, 2003

By: Dennis L. Pelino

Name: Dennis L. Pelino

Title: Chairman and Chief Executive Officer