RADIANT LOGISTICS, INC
Form 10-K
October 01, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2007

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______ to ________

Commission File Number 000-50283

RADIANT LOGISTICS, INC.
(Name of Registrant as Specified in Its Charter)

Delaware	04-3625550
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

1227 120th Avenue N.E
Bellevue, WA 98005

(Address of Principal Executive Offices) (Zip Code)

(425) 943-4599

Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Exchange on which Registered
Common Stock, $.001 Par Value	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $.001 Par Value per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. o

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the average bid and asked price of the registrant's common stock as reported on the OTC Bulletin Board on September 24, 2007 was $12,326,011.

As of September 24, 2007, 33,961,639 shares of the registrant's common stock were outstanding.

Documents Incorporated by Reference: None

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Cautionary Statement for Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future operating performance, events, trends and plans. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expects,” “intends,” “plans,” “projects,” “estimates,” “anticipates,” or “ the negative thereof or any variation thereon or similar terminology or expressions. We have based these forward-looking statements on our current expectations, projections and assumptions about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that, if not realized, may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. While it is impossible to identify all of the factors that may cause our actual operating performance, events, trends or plans to differ materially from those set forth in such forward-looking statements, such factors include the inherent risks associated with our ability to: (i) to use Airgroup as a “platform” upon which we can build a profitable global transportation and supply chain management company; (ii) retain and build upon the relationships we have with our exclusive agency offices; (iii) continue the development of our back office infrastructure and transportation and accounting systems in a manner sufficient to service our expanding revenues and base of exclusive agency locations; (iv) continue growing our business and maintain historical or increased gross profit margins; (v) locate suitable acquisition opportunities; (vi) secure the financing necessary to complete any acquisition opportunities we locate; (vii) assess and respond to competitive practices in the industries in which we compete, (viii) mitigate, to the best extent possible, our dependence on current management and certain of our larger exclusive agency locations; (ix) assess and respond to the impact of current and future laws and governmental regulations affecting the transportation industry in general and our operations in particular; and (x) assess and respond to such other factors which may be identified from time to time in our Securities and Exchange Commission (SEC) filings and other public announcements including those set forth below in Part 1 Item 1A. Furthermore, the general business assumptions underlying the forward-looking statements included herein represent estimates of future events and are subject to uncertainty due to, among other things, changes in economic, legislative, industry, and other circumstances. As a result, the identification, interpretation and use of data and other information in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, we can provide no assurance regarding the achievability of those forward-looking statements. Except as required by law, we undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

The Company

The Company was formed under the laws of the state of Delaware on March 15, 2001 and from inception through the third quarter of 2005, the Company's principal business strategy focused on the development of retail golf stores. In October 2005, our management team consisting of Bohn H. Crain and Stephen M. Cohen completed a change of control transaction when they acquired a majority of the Company’s outstanding securities from the Company’s former officers and directors in privately negotiated transactions. In conjunction with the change of control transaction, we: (i) elected to discontinue the Company’s former business model; (ii) repositioned ourselves as a global transportation and supply chain management company; and (iii) changed our name to “Radiant Logistics, Inc.” to, among other things, better align our name with our new business focus.

We completed the repositioning of our business model when we completed the acquisition of Airgroup Corporation (“Airgroup”) effective January 1, 2006. Airgroup is a Seattle, Washington based non-asset based logistics company that provides domestic and international freight forwarding services through a network of exclusive agent offices across North America. Airgroup services a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and international agents positioned strategically around the world.

By implementing a growth strategy based on the operations of Airgroup as a platform, we intend to build a leading global transportation and supply-chain management company offering a full range of domestic and international freight forwarding and other value added supply chain management services, including order fulfillment, inventory management and warehousing.

Our growth strategy will focus on both organic growth and acquisitions. From an organic perspective, we will focus on strengthening existing and expanding new customer relationships. One of the drivers of our organic growth will be retaining existing, and securing new exclusive agency locations. Since our acquisition of Airgroup in January 2006, we have focused our efforts on the build-out of our network of exclusive agency offices, as well as enhancing our back-office infrastructure and transportation and accounting systems.

As we continue to build out our network of exclusive agent locations to achieve a level of critical mass and scale, we intend to implement an acquisition strategy to develop additional growth opportunities. Implementation of an acquisition strategy will rely upon two primary factors: first, our ability to identify and acquire target businesses that fit within our general acquisition criteria and, second, the continued availability of capital and financing resources sufficient to complete these acquisitions. Following our acquisition of Airgroup, we have from time-to-time identified a number of additional companies that we believed could be suitable acquisition candidates. However, for a variety of reasons, primarily due to pricing concerns, due diligence issues or risks associated with operational integration, we have not yet completed a follow-on transaction to our platform acquisition. On a longer-term basis, we remain committed to our acquisition strategy and continue to search for targets that fit within our acquisition criteria. Our ability to secure additional financing will rely upon the sale of debt or equity securities, and the development of an active trading market for our securities, neither of which can be assured.

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

Successful implementation of our growth strategy depends upon a number of factors, including our ability to: (i) continue developing new agency locations; (ii) locate acquisition opportunities; (iii) secure adequate funding to finance identified acquisition opportunities; (iv) efficiently integrate the businesses of the companies we acquire; (v) generate the anticipated economies of scale from the integration; and (vi) maintain the historic sales growth of the acquired businesses in order to generate continued organic growth. There are a variety of risks associated with our ability to achieve our strategic objectives, including our ability to acquire and profitably manage additional businesses and the intense competition in our industry for customers and for acquisition candidates. Certain of these business risks are identified or referred to below in Item 1A of this Report.

Industry Overview

As business requirements for efficient and cost-effective logistics services have increased, so has the importance and complexity of effectively managing freight transportation. Businesses increasingly strive to minimize inventory levels, perform manufacturing and assembly operations in the lowest cost locations and distribute their products in numerous global markets. As a result, companies are increasingly looking to third-party logistics providers to help them execute their supply chain strategies.

Customers have two principal third-party alternatives: a freight forwarder or a fully-integrated carrier. A freight forwarder, such as Airgroup, procures shipments from customers and arranges the transportation of cargo on a carrier. A freight forwarder may also arrange pick-up from the shipper to the carrier and delivery of the shipment from the carrier to the recipient. Freight forwarders often tailor shipment routing to meet the customer's price and service requirements. Fully-integrated carriers, such as FedEx Corporation, DHL Worldwide Express, Inc. and United Parcel Service ("UPS"), provide pick up and delivery service, primarily through their own captive fleets of trucks and aircraft. Because freight forwarders select from various transportation options in routing customer shipments, they are often able to serve customers less expensively and with greater flexibility than integrated carriers. Freight forwarders, generally handle shipments of any size and can offer a variety of customized shipping options.

Most freight forwarders, like Airgroup, focus on heavier cargo and do not generally compete with integrated shippers of primarily smaller parcels. In addition to the high fixed expenses associated with owning, operating and maintaining fleets of aircraft, trucks and related equipment, integrated carriers often impose significant restrictions on delivery schedules and shipment weight, size and type. On occasion, integrated shippers serve as a source of cargo space to forwarders. Additionally, most freight forwarders do not generally compete with the major commercial airlines, which, to some extent, depend on forwarders to procure shipments and supply freight to fill cargo space on their scheduled flights.
We believe there are several factors that are increasing demand for global logistics solutions. These factors include:

- Outsourcing of non-core activities. Companies increasingly outsource freight forwarding, warehousing and other supply chain activities to allow them to focus on their respective core competencies. From managing purchase orders to the timely delivery of products, companies turn to third party logistics providers to manage these functions at a lower cost and greater efficiency.

- Globalization of trade. As barriers to international trade are reduced or substantially eliminated, international trade is increasing. In addition, companies increasingly are sourcing their parts, supplies and raw materials from the most cost competitive suppliers throughout the world. Outsourcing of manufacturing functions to, or locating company-owned manufacturing facilities in, low cost areas of the world also results in increased volumes of world trade.

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

- Consolidation of global logistics providers. Companies are decreasing the number of freight forwarders and supply chain management providers with which they interact. We believe companies want to transact business with a limited number of providers that are familiar with their requirements, processes and procedures, and can function as long-term partners. In addition, there is strong pressure on national and regional freight forwarders and supply chain management providers to become aligned with a global network. Larger freight forwarders and supply chain management providers benefit from economies of scale which enable them to negotiate reduced transportation rates and to allocate their overhead over a larger volume of transactions. Globally integrated freight forwarders and supply chain management providers are better situated to provide a full complement of services, including pick-up and delivery, shipment via air, sea and/or road transport, warehousing and distribution, and customs brokerage.

- Increasing influence of e-business and the internet. Technology advances have allowed businesses to connect electronically through the Internet to obtain relevant information and make purchase and sale decisions on a real-time basis, resulting in decreased transaction times and increased business-to-business activity. In response to their customers' expectations, companies have recognized the benefits of being able to transact business electronically. As such, businesses increasingly are seeking the assistance of supply chain service providers with sophisticated information technology systems that can facilitate real-time transaction processing and web-based shipment monitoring.

Our Growth Strategy

Our objective is to provide customers with comprehensive value-added logistics solutions. We plan to achieve this goal through domestic and international freight forwarding services offered by Airgroup. We expect to grow our business organically and by completing acquisitions of other companies with complementary geographical and logistics service offerings. Our organic growth strategy involves strengthening existing and expanding new customer relationships. One of the drivers of this strategy is our ability to retain existing, and secure new exclusive agency locations. Since our acquisition of Airgroup, we have focused our efforts on the organic build-out of our network of exclusive agency locations, as well as the enhancement of our back office infrastructure and transportation and accounting systems. However, on a longer-term basis, we intend to pursue an acquisition strategy to consolidate and enhance our position in our current markets and to acquire operations in new markets.

We believe there are many attractive acquisition candidates in our industry because of the highly fragmented composition of the marketplace, the industry participants' need for capital and their owners' desire for liquidity. Our target acquisition candidates are generally expected to have earnings of $1.0 to $5.0 million. Companies in this range of earnings may be receptive to our acquisition program since they are often too small to be identified as acquisition targets by larger public companies or to independently attempt their own public offerings.

On a longer-term basis, we believe we can successfully implement our acquisition strategy due to the following factors:

- the highly fragmented composition of our market;
- our strategy for creating an organization with global reach should enhance an acquired target company’s ability to compete in its local and regional markets through an expansion of offered services and lower operating costs;
- the potential for increased profitability as a result of our centralization of certain administrative functions, greater purchasing power and economies of scale;
- our centralized management capabilities should enable us to effectively manage our growth and integration of acquired companies;
- our status as a public corporation may ultimately provide us with a liquid trading currency for acquisitions; and
- the ability to utilize our experienced management to identify, acquire and integrate acquisition opportunities.

An acquisition strategy would focus on acquisitions in key gateway locations such as Los Angeles, New York, Chicago, Seattle, Miami, Dallas, and Houston to expand our international base of operations. We believe that our domestic and expanded international capabilities, when taken together, will provide significant competitive advantage in the marketplace.

Our Operating Strategy

Leverage the People, Process and Technology Available through Airgroup. A key element of our operating strategy is to maximize our operational efficiencies by integrating general and administrative functions into the back-office of our platform acquisition and reducing or eliminating redundant functions and facilities at acquired companies. This is designed to enable us to quickly realize potential savings and synergies, efficiently control and monitor operations of acquired companies and allow acquired companies to focus on growing their sales and operations.

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

Operations

Through our exclusive agency relationships, we offer domestic and international air, ocean and ground freight forwarding for shipments that are generally larger than shipments handled by integrated carriers of primarily small parcels such as Federal Express Corporation and United Parcel Service. As we execute our growth strategy, our revenues will ultimately be generated from a number of diverse services, including air freight forwarding, ocean freight forwarding, customs brokerage, logistics and other value-added services.

Our primary business operations involve obtaining shipment or material orders from customers, creating and delivering a wide range of logistics solutions to meet customers' specific requirements for transportation and related services, and arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. These logistics solutions will include domestic and international freight forwarding and door-to-door delivery services using a wide range of transportation modes, including air, ocean and truck. As a non-asset based provider we do not own the transportation equipment used to transport the freight. We expect to neither own nor operate any aircraft and, consequently, place no restrictions on delivery schedules or shipment size. We arrange for transportation of our customers’ shipments via commercial airlines, air cargo carriers, and other assets and non-asset based third-party providers. We select the carrier for a shipment based on route, departure time, available cargo capacity and cost. We charter cargo aircraft from time to time depending upon seasonality, freight volumes and other factors. We make a profit or margin on the difference between what we charge to our customers for the totality of services provided to them, and what we pay to the transportation provider to transport the freight.

Recent Developments

In May 2007, we launched a new logistics service offering focused on the automotive industry through our wholly-owned subsidiary, Radiant Logistics Global Services, Inc. (“RLGS”).

In connection with the launch of our automotive services group, we entered into an Asset Purchase Agreement (the "APA") with Mass Financial Corporation ("Mass") to acquire certain assets formerly used in the operation of the automotive division of Stonepath Group, Inc. (the "Purchased Assets"). In its capacity as a senior secured creditor, Mass agreed to sell RLGS the Purchased Assets in connection with a foreclosure and disposition process that began in April 2007. The purchase price consists of a $100,000 refundable deposit, $150,000 to be paid at closing, and up to an additional $2.5 million in cumulative earn-out payments equal to 25% of the annual earnings before interest, taxes, depreciation and amortization, as defined in the APA, generated from the automotive group in future periods. The APA contains negotiated representations, warranties, covenants and indemnities by each party.

Concurrent with the execution of the APA, we also entered into a Management Services Agreement ("MSA") with Mass, whereby we agreed to operate the Purchased Assets within our automotive services group during the interim period pending the closing under the APA. As part of the MSA, Mass agreed to indemnify us from and against any and all expenses, claims and damages arising out of or relating to any use by any of our subsidiaries or affiliates of the Purchased Assets and the operation of the business utilizing the Purchased Assets.

As more fully explained under Item 1A, "Risk Factors", since the execution of the APA, certain events, including a recent dispute with a judgment creditor of Stonepath, have adversely affected Mass' ability to convey the Purchased Assets to us in accordance with the APA. We are uncertain as to whether all closing conditions under the APA can be satisfied. If a closing under the APA does not occur, the outlook for our continued development of an automotive services group is also uncertain. On or about September 28, 2007 Mass filed suit against us seeking to compel us to close the APA and damages for alleged breach of the APA. See ITEM 3. LEGAL PROCEEDINGS below.

Information Services

The regular enhancement of our information systems and ultimate migration of acquired companies and additional exclusive agency locations to a common set of back-office and customer facing applications is a key component of our growth strategy. We believe that the ability to provide accurate real-time information on the status of shipments will become increasingly important and that our efforts in this area will result in competitive service advantages. In addition, we believe that centralizing our transportation management system (rating, routing, tender and financial settlement processes) will drive significant productivity improvement across our network.

We utilize a web-enabled third-party freight forwarding software (Cargowise) which we have integrated to our third-party accounting system (SAP) that combine to form the foundation of our supply-chain technologies which we call "Globalvision". Globalvision provides us with a common set of back-office operating, accounting and customer facing applications used across the network. We have and will continue to assess technologies obtained through our acquisition strategy and expect to develop a "best-of-breed" solution set using a combination of owned and licensed technologies. This strategy will require the investment of significant management and financial resources to deliver these enabling technologies.

Our Competitive Advantages

As a non-asset based third-party logistics provider, we believe that we will be well-positioned to provide cost-effective and efficient solutions to address the demand in the marketplace for transportation and logistics services. We believe that the most important competitive factors in our industry are quality of service, including reliability, responsiveness, expertise and convenience, scope of operations, geographic coverage, information technology and price. We believe our primary competitive advantages are: (i) our low cost; non-asset based business model; (ii) our information technology resources; and (iii) our diverse customer base.

· Non-asset based business model. With relatively no dedicated or fixed operating costs, we are able to leverage our network of exclusive agency offices and offer competitive pricing and flexible solutions to our customers.

Moreover, our balanced product offering provides us with revenue streams from multiple sources and enables us to retain customers even as they shift from priority to deferred shipments of their products. We believe our model allows us to provide low-cost solutions to our customers while also generating revenues from multiple modes of transportation and logistics services.

- Intention to develop a Global network. We intend to focus on expanding our network on a global basis. Once accomplished, this will enable us to provide a closed-loop logistics chain to our customers worldwide. Within North America, our capabilities consist of our pick up and delivery network, ground and air networks, and logistics capabilities. Our ground and pick up and delivery networks enable us to service the growing deferred forwarding market while providing the domestic connectivity for international shipments once they reach North America. In addition, our heavyweight air network provides for competitive costs on shipments, as we have no dedicated charters or leases and can capitalize on available capacity in the market to move our customers' goods.

- Information technology resources. A primary component of our business strategy is the continued development of advanced information systems to continually provide accurate and timely information to our management and customers. Our customer delivery tools enable connectivity with our customers' and trading partners' systems, which leads to more accurate and up-to-date information on the status of shipments.

- Diverse customer base. We have a well diversified base of customers that includes manufacturers, distributors and retailers. As of the date of this Report, no single customer represented more than 5% of our business reducing risks associated with any particular industry or customer concentration.

Sales and Marketing

We principally market our services through the senior management teams in place at each of our 42 exclusive agent offices located strategically across the United States. Each office is staffed with operational employees of the agent to provide support for the sales team, develop frequent contact with the customer's traffic department, and maintain customer service. Through the agency relationship, the agent has the ability to focus on the operational and sales support aspects of the business without diverting costs or expertise to the structural aspect of its operations and provides the agent with the regional, national and global brand recognition that they would not otherwise be able to achieve by serving their local markets.

Although we have exclusive and long-term relationships with these agents, the agency agreements are terminable by either party subject to requisite notice provisions that generally range from ten to thirty days. Although we have no customers that account for more than 5% of our revenues, there are four agency locations that each account for more than 5% of our total gross revenues.

As we continue to grow, we expect to implement a national accounts program which is intended to increase our emphasis on obtaining high-revenue national accounts with multiple shipping locations. These accounts typically impose numerous requirements on those competing for their freight business, including electronic data interchange and proof of delivery capabilities, the ability to generate customized shipping reports and a nationwide network of terminals. These requirements often limit the competition for these accounts to a very small number of logistics providers. We believe that our anticipated future growth and development will enable us to more effectively compete for and obtain these accounts.

Competition and Business Conditions

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

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

Regulation

There are numerous transportation related regulations. Failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of operating permits or authorities. We cannot give assurance as to the degree or cost of future regulations on our business. Some of the regulations affecting our current and prospective operations are described below.

Air freight forwarding businesses are subject to regulation, as an indirect air cargo carrier, under the Federal Aviation Act by the U.S. Department of Transportation and by the Department of Homeland Security and the Transportation Security Administration. However, air freight forwarders are exempted from most of the Federal Aviation Act's requirements by the Economic Aviation Regulations. The air freight forwarding industry is subject to regulatory and legislative changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to customers.

Surface freight forwarding operations are subject to various federal statutes and are regulated by the Surface Transportation Board. This federal agency has broad investigatory and regulatory powers, including the power to issue a certificate of authority or license to engage in the business, to approve specified mergers, consolidations and acquisitions, and to regulate the delivery of some types of domestic shipments and operations within particular geographic areas.

The Surface Transportation Board and U.S. Department of Transportation also have the authority to regulate interstate motor carrier operations, including the regulation of certain rates, charges and accounting systems, to require periodic financial reporting, and to regulate insurance, driver qualifications, operation of motor vehicles, parts and accessories for motor vehicle equipment, hours of service of drivers, inspection, repair, maintenance standards and other safety related matters. The federal laws governing interstate motor carriers have both direct and indirect application to the Company. The breadth and scope of the federal regulations may affect our operations and the motor carriers which are used in the provisioning of the transportation services. In certain locations, state or local permits or registrations may also be required to provide or obtain intrastate motor carrier services.

The Federal Maritime Commission, or FMC, regulates and licenses ocean forwarding operations. Indirect ocean carriers (non-vessel operating common carriers) are subject to FMC regulation, under the FMC tariff filing and surety bond requirements, and under the Shipping Act of 1984, particularly those terms proscribing rebating practices.

United States customs brokerage operations are subject to the licensing requirements of the U.S. Treasury and are regulated by the U.S. Customs Service. As we broaden our capabilities to include customs brokerage operations, we will be subject to regulation by the Customs Service. Likewise, any customs brokerage operations would also be licensed in and subject to the regulations of their respective countries.

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

Personnel

As of the date of this Report, we have approximately 74 full-time employees. None of these employees are currently covered by a collective bargaining agreement. We have experienced no work stoppages and consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

RISKS PARTICULAR TO OUR BUSINESS

We are largely dependent on the efforts of our exclusive agents to generate our revenue and service our customers.

We currently sell principally all of our services through a network of 42 exclusive agent stations located throughout North America. Although we have exclusive and long-term relationships with these agents, the agency agreements are terminable by either party subject to requisite notice provisions that generally range from 10-30 days. Although we have no customers that account for more than 5% of our revenues, there are four agency locations that each account for more than 5% of our revenues. The loss of one or more of these exclusive agents could negatively impact our ability to retain and service our customers. We will need to expand our existing relationships and enter into new relationships in order to increase our current and future market share and revenue. We cannot be certain that we will be able to maintain and expand our existing relationships or enter into new relationships, or that any new relationships will be available on commercially reasonable terms. If we are unable to maintain and expand our existing relationships or enter into new relationships, we may lose customers, customer introductions and co-marketing benefits and our operating results may suffer.

If we fail to develop and integrate information technology systems or we fail to upgrade or replace our information technology systems to handle increased volumes and levels of complexity, meet the demands of our agents and customers and protect against disruptions of our operations, we may suffer a loss in our business.

Increasingly, through our exclusive agents, we compete for business based upon the flexibility, sophistication and security of the information technology systems supporting our services. The failure of the hardware or software that supports our information technology systems, the loss of data contained in the systems, or the inability to access or interact with our web site or connect electronically, could significantly disrupt our operations, prevent clients from placing orders, or cause us to lose inventory items, orders or clients. If our information technology systems are unable to handle additional volume for our operations as our business and scope of services grow, our service levels, operating efficiency and future transaction volumes will decline. In addition, we expect our agents to continue to demand more sophisticated, fully integrated information technology systems from us as customers demand the same from their supply chain services providers. If we fail to hire qualified persons to implement, maintain and protect our information technology systems or we fail to upgrade or replace our information technology systems to handle increased volumes and levels of complexity, meet the demands of our agents and customers and protect against disruptions of our operations, we may lose suffer a loss in our business.

Because our freight forwarding and domestic ground transportation operations are dependent on commercial airfreight carriers and air charter operators, ocean freight carriers, major U.S. railroads, other transportation companies, draymen and longshoremen, changes in available cargo capacity and other changes affecting such carriers, as well as interruptions in service or work stoppages, may negatively impact our business.

We rely on commercial airfreight carriers and air charter operators, ocean freight carriers, trucking companies, major U.S. railroads, other transportation companies, draymen and longshoremen for the movement of our clients' cargo. Consequently, our ability to provide services for our clients could be adversely impacted by shortages in available cargo capacity; changes by carriers and transportation companies in policies and practices such as scheduling, pricing, payment terms and frequency of service or increases in the cost of fuel, taxes and labor; and other factors not within our control. Reductions in airfreight or ocean freight capacity could negatively impact our yields. Material interruptions in service or stoppages in transportation, whether caused by strike, work stoppage, lock-out, slowdown or otherwise, could adversely impact our business, results of operations and financial condition.

Our profitability depends on our ability to effectively manage our cost structure as we grow the business.

As we continue to expand our revenues through the expansion of our network of exclusive agency locations, we must maintain an appropriate cost structure to maintain and expand our profitability. While we intend to continue to work on growing revenue by increasing the number of our exclusive agency locations, by strategic acquisitions, and by continuing to work on maintaining and expanding our gross profit margins by reducing transportation costs, our ultimate profitability will be driven by our ability to manage our agent commissions, personnel and general and administrative costs as a function of our net revenues. There can be no assurances that we will be able to increase revenues or maintain profitability.

We face intense competition in the freight forwarding, logistics and supply chain management industry.

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

Our business is subject to seasonal trends.

Historically, our operating results have been subject to seasonal trends when measured on a quarterly basis. Our first and fourth fiscal quarters are traditionally weaker compared with our second and third fiscal quarters. This trend is dependent on numerous factors, including the markets in which we operate, holiday seasons, climate, economic conditions and numerous other factors. A substantial portion of our revenue is derived from clients in industries whose shipping patterns are tied closely to consumer demand which can sometimes be difficult to predict or are based on just-in-time production schedules. Therefore, our revenue is, to a larger degree, affected by factors that are outside of our control. There can be no assurance that our historic operating patterns will continue in future periods as we cannot influence or forecast many of these factors.

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

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

Our information technology systems are subject to risks which we cannot control.

Our information technology systems are dependent upon third party communications providers, web browsers, telephone systems and other aspects of the Internet infrastructure which have experienced significant system failures and electrical outages in the past. Our systems are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. The occurrence of any of these events could disrupt or damage our information technology systems and inhibit our internal operations, our ability to provide services to our customers.

If we are not able to limit our liability for customers' claims through contract terms and limit our exposure through the purchase of insurance, we could be required to pay large amounts to our clients as compensation for their claims and our results of operations could be materially adversely affected.

In general, we seek to limit by contract and/or International Conventions and laws our liability to our clients for loss or damage to their goods to $20 per kilogram (approximately $9.07 per pound) and $500 per carton or customary unit, for ocean freight shipments, again depending on the International Convention. For truck/land based risks there are a variety of limits ranging from a nominal amount to full value. However, because a freight forwarder's relationship to an airline or ocean carrier is that of a shipper to a carrier, the airline or ocean carrier generally assumes the same responsibility to us as we assume to our clients. When we act in the capacity of an authorized agent for an air or ocean carrier, the carrier, rather than we, assumes liability for the safe delivery of the client's cargo to its ultimate destination, other than in respect of any of our own errors and omissions.

We have, from time to time, made payments to our clients for claims related to our services and may make such payments in the future. Should we experience an increase in the number or size of such claims or an increase in liability pursuant to claims or unfavorable resolutions of claims, our results could be adversely affected. There can be no assurance that our insurance coverage will provide us with adequate coverage for such claims or that the maximum amounts for which we are liable in connection with our services will not change in the future or exceed our insurance levels. As with every insurance policy, there are limits, exclusions and deductibles that apply and we could be subject to claims for which insurance coverage may be inadequate or even disputed and which claims could adversely impact our financial condition and results of operations. In addition, significant increases in insurance costs could reduce our profitability.

Our failure to comply with, or the costs of complying with, government regulation could negatively affect our results of operation.

Our freight forwarding business as an indirect air cargo carrier is subject to regulation by the United States Department of Transportation (DOT) under the Federal Aviation Act, and by the Department of Homeland Security and the Transportation Security Administration (TSA). Our overseas independent agents' air freight forwarding operations are subject to regulation by the regulatory authorities of the respective foreign jurisdictions. The air freight forwarding industry is subject to regulatory and legislative changes which can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to customers. We do not believe that costs of regulatory compliance have had a material adverse impact on our operations to date. However, our failure to comply with any applicable regulations could have an adverse effect. There can be no assurance that the adoption of future regulations would not have a material adverse effect on our business.

The prospects for our recently formed automotive services group are uncertain.

In May 2007, we launched a new logistics service offering focused on the automotive industry through our wholly-owned subsidiary, RLGS.

In connection with the launch of our automotive services group, we entered into an Asset Purchase Agreement (the "APA") with Mass Financial Corporation ("Mass") to acquire certain assets formerly used in the operation of the automotive division of Stonepath Group, Inc. (the "Purchased Assets"). In its capacity as a senior secured creditor, Mass agreed to sell RLGS the Purchased Assets in connection with a foreclosure and disposition process that began in April 2007. The purchase price consists of a $100,000 refundable deposit, $150,000 to be paid at closing, and up to an additional $2.5 million in cumulative earn-out payments equal to 25% of the annual earnings before interest, taxes, depreciation and amortization, as defined in the APA, generated from the automotive group in future periods. The APA contains negotiated representations, warranties, covenants and indemnities by each party.

Concurrent with the execution of the APA, we also entered into a Management Services Agreement ("MSA") with Mass, whereby we agreed to operate the Purchased Assets within our automotive services group during the interim period pending the closing under the APA. As part of the MSA, Mass agreed to indemnify us from and against any and all expenses, claims and damages arising out of or relating to any use by any of our subsidiaries or affiliates of the Purchased Assets and the operation of the business utilizing the Purchased Assets.

Shortly after commencing operation of the Purchased Assets pursuant to the MSA, a judgment creditor of Stonepath (the "Stonepath Creditor") issued garnishment notices to the automotive customers being serviced by us disputing the priority and superiority of the underlying security interest of Mass in the Purchased Assets and asserting that we were in possession of certain accounts receivable or other assets covered by the garnishment notice. This resulted in a significant disruption to the automotive business, including a delay in the payment of outstanding RLGS invoices as the garnishment notices required that all such amounts be directed to a court sponsored escrow arrangement. Although Mass recently posted a letter of credit that resolved the outstanding garnishment action, we have incurred significant out of pocket costs while operating the Purchased Assets under the MSA. We expect to be able to recover a significant amount of these costs as customers begin to remit payment for outstanding invoices, or through indemnification claims under the MSA. Based upon these circumstances, it is uncertain as to whether all closing conditions under the APA can be satisfied. If a closing under the APA does not occur, the outlook for our continued development of an automotive services group is also uncertain.

The issue of the priority of Mass's security interest in the former Stonepath assets will be determined by the Court after discovery and a possible hearing. If the Court determines that the Mass security interest in the former assets of Stonepath is not superior to the judgment of the Stonepath judgment creditor, such creditor, may be entitled to draw upon and satisfy his judgment from the letter of credit posted by Mass. If Mass is successful in establishing the superiority of its security interest in the subject assets, the Stonepath judgment creditor would not be able to draw upon the letter of credit and may or may not pursue other enforcement actions, including an action against us to recover the value of the garnished assets. We view any such action as without merit, would vigorously defend any such action, and seek all available remedies including an indemnification claim against Mass.

Our present levels of capital may limit the implementation of our business strategy.

The objective of our business strategy is to build a global logistics services organization. One element of this strategy is an acquisition program which will require the acquisition of a number of diverse companies within the logistics industry covering a variety of geographic regions and specialized service offerings. We have a limited amount of cash resources and our ability to make additional acquisitions without securing additional financing from outside sources will be limited. This may limit or slow our ability to achieve the critical mass we need to achieve our strategic objectives.

There is a scarcity of and competition for acquisition opportunities.

There are a limited number of operating companies available for acquisition which we deem to be desirable targets. In addition, there is a very high level of competition among companies seeking to acquire these operating companies. We are and will continue to be a very minor participant in the business of seeking acquisitions of these types of companies. A large number of established and well-financed entities are active in acquiring interests in companies which we may find to be desirable acquisition candidates. Many of these entities have significantly greater financial resources, technical expertise and managerial capabilities than us. Consequently, we will be at a competitive disadvantage in negotiating and executing possible acquisitions of these businesses. Even if we are able to successfully compete with these entities, this competition may affect the terms of completed transactions and, as a result, we may pay more than we expected for potential acquisitions. We may not be able to identify operating companies that complement our strategy, and even if we identify a company that complements our strategy, we may be unable to complete an acquisition of such a company for many reasons, including:

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- a failure to agree on the terms necessary for a transaction, such as the amount of the purchase price;
- incompatibility between our operational strategies and management philosophies and those of the potential acquiree;
- competition from other acquirers of operating companies;
- a lack of sufficient capital to acquire a profitable logistics company; and
- the unwillingness of a potential acquiree to work with our management.

We have not completed an acquisition since January 2006.

Following our acquisition of Airgroup Corporation (“Airgroup”), we have from time-to-time identified a number of additional companies that we believed could be suitable acquisition candidates. However, for a variety of reasons, primarily due to pricing concerns, due diligence issues or risks associated with operational integration, we have not yet completed another acquisition. We remain committed to our acquisition strategy and continue to search for targets that fit within our acquisition criteria. If we are unable to successfully compete with other entities in identifying and executing possible acquisitions of companies we target, then we will not be able to successfully implement the acquisition element of our growth strategy. This may limit or slow our ability to achieve the critical mass we need to achieve our strategic objectives.

Risks related to acquisition financing.

In order to pursue our acquisition strategy in the longer term, we will require additional financing. We intend to obtain such financing through a combination of traditional debt financing or the placement of debt and equity securities. We may finance some portion of our future acquisitions by either issuing equity or by using shares of our common stock for all or a substantial portion of the purchase price for such businesses. In the event that our common stock does not attain or maintain a sufficient market value, or potential acquisition candidates are otherwise unwilling to accept common stock as part of the purchase price for the sale of their businesses, we may be required to utilize more of our cash resources, if available, in order to maintain our acquisition program. If we do not have sufficient cash resources, we will not be able to complete acquisitions and our growth could be limited unless we are able to obtain additional capital through debt or equity financings.

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

In February 2007 we renewed our $10 million credit facility with Bank of America, N.A. to provide additional funding for acquisitions and for our on-going working capital requirements. Under the terms of the credit facility, we are subject to a number of financial and operational covenants which may limit the number of additional acquisitions we make without the lender’s consent. In the event that we were not able to satisfy the conditions of the credit facility in connection with a proposed acquisition, we would have to forego the acquisition unless we either obtained the lender’s consent or retired the credit facility. This may prevent us from completing acquisitions which we determine are desirable from a business perspective and limit or slow our ability to achieve the critical mass we need to achieve our strategic objectives.

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

The terms of our credit facility are subject to certain financial covenants which may limit the amount otherwise available under that facility. Principal among these are financial covenants that limit funded debt to a multiple of our consolidated earnings before interest, taxes, depreciation and amortization, or “EBITDA”. Under this covenant, our funded debt is limited to a multiple of 3.25 of our EBITDA measured on a rolling four quarter basis. Our ability to generate EBITDA will be critical to our ability to use the full amount of the credit facility.

To the extent we make any material acquisitions, our earnings will be adversely affected by non-cash charges relating to the amortization of intangibles which may cause our stock price to decline.

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

We are not obligated to follow any particular criteria or standards for identifying acquisition candidates.

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

We may be required to incur a significant amount of indebtedness in order to successfully implement our acquisition strategy.

We may be required to incur a significant amount of indebtedness in order to complete future acquisitions. If we are not able to generate sufficient cash flow from the operations of acquired companies to make scheduled payments of principal and interest on the indebtedness, then we will be required to use our capital for such payments. This will restrict our ability to make additional acquisitions. We may also be forced to sell an acquired company in order to satisfy indebtedness. We cannot be certain that we will be able to operate profitably once we incur this indebtedness or that we will be able to generate a sufficient amount of proceeds from the ultimate disposition of such acquired companies to repay the indebtedness incurred to make these acquisitions.

Risks related to our acquisition strategy.

We intend to continue to build our business through a combination of organic growth, and if possible, through additional acquisitions. Growth by acquisition involves a number of risks, including possible adverse effects on our operating results, diversion of management resources, failure to retain key personnel, and risks associated with unanticipated liabilities, some or all of which could have a material adverse effect on our business, financial condition and results of operations.

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Dependence on key personnel.

For the foreseeable future our success will depend largely on the continued services of our Chief Executive Officer, Bohn H. Crain, as well as certain of the other key executives of Airgroup, because of their collective industry knowledge, marketing skills and relationships with major vendors and owners of our exclusive agent stations. We have secured employment arrangements with each of these individuals, which contain non-competition covenants which survive their actual term of employment. Nevertheless, should any of these individuals leave the Company, it could have a material adverse effect on our future results of operations.

We may experience difficulties in integrating the operations, personnel and assets of companies that we acquire which may disrupt our business, dilute stockholder value and adversely affect our operating results.

A core component of our business plan is to acquire businesses and assets in the transportation and logistics industry. We have only made one such acquisition and, therefore, our ability to complete such acquisitions and integrate any acquired businesses into our Company is unproven. Increased competition for acquisition candidates may develop, in which event there may be fewer acquisition opportunities available to us as well as higher acquisition prices. There can be no assurance that we will be able to identify, acquire or profitably manage businesses or successfully integrate acquired businesses into the Company without substantial costs, delays or other operational or financial problems. Such acquisitions also involve numerous operational risks, including:

- difficulties in integrating operations, technologies, services and personnel;
- the diversion of financial and management resources from existing operations;
- the risk of entering new markets;
- the potential loss of key employees; and
- the inability to generate sufficient revenue to offset acquisition or investment costs.

As a result, if we fail to properly evaluate and execute any acquisitions or investments, our business and prospects may be seriously harmed.

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

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

Provisions of our charter, bylaws and Delaware law may make a contested takeover of our Company more difficult.

Certain provisions of our certificate of incorporation, bylaws and the General Corporation Law of the State of Delaware (the "DGCL") could deter a change in our management or render more difficult an attempt to obtain control of us, even if such a proposal is favored by a majority of our stockholders. For example, we are subject to the provisions of the DGCL that prohibit a public Delaware corporation from engaging in a broad range of business combinations with a person who, together with affiliates and associates, owns 15% or more of the corporation's outstanding voting shares (an "interested stockholder") for three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Our certificate of incorporation provides that directors may only be removed for cause by the affirmative vote of 75% of our outstanding shares and that amendments to our bylaws require the affirmative vote of holders of two-thirds of our outstanding shares. Our certificate of incorporation also includes undesignated preferred stock, which may enable our Board of Directors to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise. Finally, our bylaws include an advance notice procedure for stockholders to nominate directors or submit proposals at a stockholders meeting.

RISKS RELATED TO OUR COMMON STOCK

Trading in our common stock has been limited and there is no significant trading market for our common stock.

Our common stock is currently eligible to be quoted on the OTC Bulletin Board, however, trading to date has been limited. Trading on the OTC Bulletin Board is often characterized by low trading volume and significant price fluctuations. Because of this limited liquidity, stockholders may be unable to sell their shares. The trading price of our shares may from time to time fluctuate widely. The trading price may be affected by a number of factors including events described in the risk factors set forth in this report as well as our operating results, financial condition, announcements, general conditions in the industry, and other events or factors. In recent years, broad stock market indices, in general, and smaller capitalization companies, in particular, have experienced substantial price fluctuations. In a volatile market, we may experience wide fluctuations in the market price of our common stock. These fluctuations may have a negative effect on the market price of our common stock.

The influx of additional shares of our common stock onto the market may create downward pressure on the trading price of our common stock.

We completed private placements of approximately 15.4 million shares of our common stock between October 2005 and February 2006. The availability of those shares for sale to the public either by prospectus or by Rule 144 of the Securities Act of 1933, as amended, and sale of such shares in public markets could have an adverse effect on the market price of our common stock. Such an adverse effect on the market price would make it more difficult for us to sell our equity securities in the future at prices which we deem appropriate or to use our shares as currency for future acquisitions which will make it more difficult to execute our acquisition strategy.

The issuance of additional shares in connection with potential acquisitions may result in additional dilution to our existing stockholders.

We will require additional financing to fund the acquisition component of our growth strategy. At some point this may entail the issuance of additional shares of common stock or common stock equivalents, which would have the effect of further increasing the number of shares outstanding. In connection with future acquisitions, we may undertake the issuance of more shares of common stock without notice to our then existing stockholders. We may also issue additional shares in order to, among other things, compensate employees or consultants or for other valid business reasons in the discretion of our Board of Directors, and could result in diluting the interests of our existing stockholders.

We may issue shares of preferred stock with greater rights than our common stock.

Although we have no current plans or agreements to issue any preferred stock, our certificate of incorporation authorizes our board of directors to issue shares of preferred stock and to determine the price and other terms for those shares without the approval of our shareholders. Any such preferred stock we may issue in the future could rank ahead of our common stock, in terms of dividends, liquidation rights, and voting rights.

As we do not anticipate paying dividends, investors in our shares will not receive any dividend income.

We have not paid any cash dividends on our common stock since our inception and we do not anticipate paying cash dividends in the foreseeable future. Any dividends that we may pay in the future will be at the discretion of our Board of Directors and will depend on our future earnings, any applicable regulatory considerations, covenants of our debt facility, our financial requirements and other similarly unpredictable factors. Our ability to pay dividends is further limited by the terms of our credit facility with Bank of America, N.A. For the foreseeable future, we anticipate that we will retain any earnings which we may generate from our operations to finance and develop our growth and that we will not pay cash dividends to our stockholders. Accordingly, investors seeking dividend income should not purchase our stock.

We are not subject to certain of the corporate governance provisions of the Sarbanes-Oxley Act of 2002

Since our common stock is not listed for trading on a national securities exchange, we are not subject to certain of the corporate governance requirements established by the national securities exchanges pursuant to the Sarbanes-Oxley Act of 2002. These include rules relating to independent directors, and independent director nomination, audit and compensation committees. Unless we voluntarily elect to comply with those obligations, investors in our shares will not have the protections offered by those corporate governance provisions. As of the date of this report, we have not elected to comply with any regulations that do not apply to us. While we may make an application to have our securities listed for trading on a national securities exchange, which would require us to comply with those obligations, we can not assure that we will do so or that such application will be approved.

We will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 in 2008, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal controls over financial reporting, and attestation of this assessment by our independent registered public accountants. The SEC has extended the compliance dates for smaller public companies, including us, such that an annual assessment of our internal controls requirement will first apply to our annual report for our first fiscal year ending June 30, 2008 and that the first attestation report of our assessment that our independent registered public accounting firm will need to complete will be required in connection with the preparation of our annual report for our fiscal year ending June 30, 2009. Compliance with these rules will require us to incur increased general and administrative expenses and management attention. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal controls over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

ITEM 2. PROPERTIES

Principal Executive Offices

Our offices are located at 1227 120th Avenue N.E., Bellevue, Washington 98005 and consist of approximately 14,500 feet of office space which we lease for approximately $14,020 per month pursuant to the lease expiring April 30, 2009. We also maintain approximately 8,125 feet of office space at 19320 Des Moines Memorial Drive South, SeaTac, Washington which we lease for approximately $5,460 per month pursuant to lease that expires December 31,

2010. In addition, we own a small parcel of undeveloped acreage located at Grays Harbor, Washington which is not material to our business. We believe our current offices are adequately covered by insurance and are sufficient to support our operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

From time to time, our operating subsidiary, Airgroup, is involved in legal matters or named as a defendant in legal actions arising in its ordinary course of business. Management believes that these matters will not have a material adverse effect on our financial statements.

Team Air Express Proceeding

On or about February 21, 2007, Team Air Express, Inc. d/b/a Team Worldwide ("Team") commenced an action against the Company, as well as Texas Time Express, Inc., Douglas K. Tabor, and Michael E. Staten, in the District Court of the State of Texas, Tarrant County (the "Court") captioned Cause No. 017 222706 07; *Team Air Express, Inc. d/b/a Team Worldwide v. Airgroup Corporation, Texas Time Express, Inc., Douglas K. Tabor, individually and as officer of Texas Time Express, Inc., and Michael E. Staten, individually and as officer of Texas Time Express, Inc.*

In its complaint, Team alleges that we, in conjunction with the other named defendants, tortiously interfered with an existing contract Team had in place with VRC Express, Inc. ("VRC"), its then existing Chicago, Illinois station location. In their petition, Team alleges that we and other defendants caused VRC to leave the Team network of companies, and become a branch office of Airgroup Corporation. The suit seeks damages for the loss of business opportunity and profits as a result of VRC leaving the Team system. We have tentatively concluded that no interference of the VRC contract occurred, and we intend to vigorously defend the matter.

Automotive Garnishment Proceeding

On June 15, 2007, writs of garnishment issued by a judgment creditor of Stonepath were directed to, among others, the automotive customers being serviced by our RLGS subsidiary pursuant to the Management Services Agreement between RLGS and Mass. Together with Mass, we intervened in the matter and objected to the writs of garnishment for the reason that Mass's interest in the former Stonepath assets originated as the result of a prior perfected security interest that was properly foreclosed upon by Mass. The matter is pending in the Circuit Curt for the County of Wayne, State of Michigan, Case No. 04-433025-CA. Ultimately, on August 14, 2007, a Stipulated Order Regarding Writs of Garnishment was entered whereby Mass posted a letter of credit in the amount of $2,750,000 for the benefit of the Stonepath judgment creditor. Upon posting of that letter of credit, the garnished customers were released from the writs of garnishment and directed to release all garnished funds and make all future payments as directed to Mass and our RLGS subsidiary. Further, the Stonepath judgment creditor was ordered to refrain from further garnishments and enforcement action against the former assets of Stonepath. The issue of the superiority of Mass's security interest in the former Stonepath assets will be determined by the Court after discovery and a possible hearing.

Mass Proceeding

On or about September 28, 2007, Mass Financial Corp. ("Mass") commenced an action against the Company and Radiant Logistics Global Services, Inc. in the Federal District Court for the Western District of the State of Washington at Seattle. In its complaint, Mass has sought specific performance, injunctive relief and damages against the Company and RLGS, seeking to compel a closing under an unexecuted draft amendment to the Asset Purchase Agreement between the parties. The Company has only recently become aware of this action and believes the claims are without merit, will vigorously defend the claims, and bring all available counterclaims against Mass.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock currently trades on the OTC Bulletin Board under the symbol "RLGT.OB." The first reported trade in our common stock occurred on December 27, 2005. The following table states the range of the high and low bid-prices per share of our common stock for each of the calendar quarters since the first reported trade, as reported by the OTC Bulletin Board. These quotations represent inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. The last price of our common stock as reported on the OTC Bulletin Board on September 24, 2007, was $.52 per share.

	High	Low
Twelve Months Ended June 30, 2007:		
Quarter ended June 30, 2007	$ .66	$ .47
Quarter ended March 31, 2007	.80	.51
Quarter ended December 31, 2006	.70	.55
Quarter ended September 30, 2006	1.05	.85
Six Months Ended June 30, 2006 (Transition Period):		
Quarter ended June 30, 2006	$ 1.05	$ .85
Quarter ended March 31, 2006	1.05	.95
Year Ended December 31, 2005:		
Quarter ended December 31, 2005	$ 1.05	$ .95

Holders

As of September 24, 2007, the number of stockholders of record of our common stock was 128. We believe there are additional beneficial owners of our common stock who hold their shares in street name.

Dividend Policy

We have not paid any cash dividends on our common stock to date, and we have no intention of paying cash dividends in the foreseeable future. Whether we declare and pay dividends will be determined by our board of directors at their discretion, subject to certain limitations imposed under Delaware law. The timing, amount and form of dividends, if any, will depend on, among other things, our results of operations, financial condition, cash requirements and other factors deemed relevant by our Board of Directors. Our ability to pay dividends is limited by the terms of our Bank of America, N.A. credit facility.

Transfer Agent

Pacific Stock Transfer Company, 500 East Warm Springs, Suite 240, Las Vegas, Nevada 89119, serves as our transfer agent.

Equity Compensation Plan Information

The following table sets forth certain information regarding compensation plans under which our equity securities are authorized for issuance as of June 30, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(c)
Equity Compensation Plans approved by security holders	0	--	0
Equity compensation plans not approved by security holders	3,150,000	$0.605	1,850,000
Total	3,150,000	$0.605	1,850,000

A description of the material terms of The Radiant Logistics, Inc. 2005 Stock Incentive Plan is set forth in Item 11. EXECUTIVE COMPENSATION- Stock Incentive Plan.

Recent Sale of Unregistered Securities

Pursuant to an agreement dated May 15, 2007, we agreed to issue up to 200,000 shares of our common stock to Richard Manner in connection with his agreement to assist us in connection with the establishment of our automotive services segment, with issuance of the shares to be subject to certain benchmarks. Mr. Manner has vested in 50,000 of the shares. The shares are to be issued in a transaction exempt from registration under the Securities Act, in reliance on Section 4(2) of the Securities Act and/or the safe-harbor private offering exemption provided by Rule 506 promulgated under the Securities Act, without the payment of underwriting discounts or commissions to any person. Vesting and issuance of the balance of the shares remains subject to uncertainty.

ITEM 6. SELECTED FINANCIAL INFORMATION

Effective on June 30, 2006, we changed our fiscal year end from December 31 to June 30. This change was made in order to make our fiscal year conform to the June 30 fiscal year of our principal operating subsidiary, Airgroup Corporation.

The selected financial data that appears below has been presented utilizing a combination of historical and, where relevant, pro forma information to include the effects on our consolidated financial statements of : (i) equity offerings completed during 2005 and 2006; (ii) the acquisition of Airgroup Corporation during 2006; (iii) our 2006 change in fiscal year to conform to the June 30 fiscal year of Airgroup Corporation. Historical financial data has been supplemented, where appropriate, with pro forma financial data since historical data which merely reflects the prior period results of the Company on a stand-alone basis, would provide no meaningful data with respect to our ongoing operations since we were in the development stage prior to our acquisition of Airgroup. The pro forma results are also adjusted to reflect a consolidation of the historical results of operations of Airgroup and Radiant as adjusted to reflect the amortization of acquired intangibles. Similarly, pro forma statements of income have been presented for twelve months ended June 30, 2007 and 2006 as if we had completed our equity offerings and acquired Airgroup as of July 1, 2005, effectively the beginning of fiscal year 2006.

The pro forma financial data presented is not necessarily indicative of results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented or that might be obtained in the future.

The following table sets forth selected historical financial data as of and for the periods ended June 30, 2007 (historic and audited) and 2006 (historic and unaudited), respectively and is not complete. The data is derived from our consolidated financial statements. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Financial Statements and the Notes to Financial Statements included elsewhere in this report.

Consolidated Statements of Operations Data for the twelve months ending June 30, 2007 (historic and audited) and 2006 (historic and unaudited); (in thousands, except per share amounts):

	Historic Twelve Months Ended June 30,			
	2007		2006 (unaudited)	
Consolidated Statement Of Operations Data: (In Thousands, Except Per Share Amounts)				
Total revenue	$	75,527	$	26,469
Cost of transportation		48,813		16,966
Net revenue		26,714		9,503
Operating expenses		26,301		9,597
Income (loss) from operations		413		(94)
Other income (expense)		(49)		-
Income (loss) before income taxes		364		(94)
Income tax expense (benefit)		156		(39)
Income (loss) before minority interest		208		(55)
Minority interest		45		-
Net income (loss)	$	163	$	(55)
Net income (loss) per common share (1) :				
Basic	$	-	$	-
Diluted	$	-	$	-
Weighted average common shares:				
Basic shares outstanding		33,883		30,071
Diluted shares outstanding		34,325		30,071

(1) For all periods presented, the weighted average common shares outstanding have been adjusted to reflect 3.5:1 stock split effected in October of 2005.

	As of June 30,			
	2007		2006	
Consolidated Balance Sheet Data (In Thousands)				
Cash and cash equivalents	$	720	$	511
Working capital		779		1,985
Total assets		25,024		17,045
Long-term debt		1,974		2,470
Stockholders' equity		7,044		6,334

The following table sets forth selected historical financial data as of and for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004, 2003 and 2002. The data is derived from our audited financial statements. The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial

Condition and Results of Operations," the Financial Statements and the Notes to Financial Statements included elsewhere in this report.

Consolidated Statement of Operations Data for the prior Five Years ended June 30 and December 31 (historical and audited); (in thousands, except per share amounts):

	Selected Financial Data				
	Six Months Ended June 30,	------------Twelve month ended December 31, -------------			
	2006	2005	2004	2003	2002
Consolidated Statement Of Operations Data: (In Thousands, Except Per Share Amounts)					
Total revenue	$ 26,469	$ —	$ —	$ —	$ —
Cost of transportation	16,966	—	—	—	—
Net revenue	9,503	—	—	—	—
Operating expenses	9,457	162	23	30	124
Income (loss) from operations	46	(162)	(23)	(30)	(124)
Other income (expense)	(14)	13	(2)	—	—
Income (loss) from continuing operations before income tax expense	32	(149)	(25)	(30)	(124)
Income tax (benefit)	(39)	—	—	—	—
Net income (loss)	$ 71	$ (149)	$ (25)	$ (30)	$ (124)
Net income (loss) per common share:					
Basic	$ —	$ (0.01)	$ 0.00	$ 0.00	$ (0.01)
Diluted	$ —	$ (0.01)	$ 0.00	$ 0.00	$ (0.01)
Weighted average common shares [(1)] :					
Basic	33,186	26,490	25,964	25,964	22,424
Diluted	34,585	26,490	25,964	25,964	22,424

(1) For all periods presented, the weighted average common shares outstanding have been adjusted to reflect 3.5:1 stock split effected in October of 2005.

Consolidate Balance Sheet Data (In Thousands)	June 30,	----------------------December 31, ----------------------			
	2006	2005	2004	2003	2002
Cash and cash equivalents	$ 511	$ 5,266	$ 19	$ 51	$ 27
Working capital	1,985	5,143	17	42	20

Total assets		17,045		5,307		19		51		27
Long-term debt		2,470		—		50		50		—
Stockholders' equity	$	6,334	$	5,159	$	(33)	$	(8)	$	20

Supplemental Pro Forma Financial Information

Consolidated Statements of Operations Data for the twelve months ended June 30, 2007 (historic and audited) and 2006 (pro forma and unaudited); (in thousands, except per share amounts)

Supplemental pro forma information is being provided since historical data merely reflects the prior period results, for two quarters, of the Company on a stand-alone basis prior to the acquisition of Airgroup would provide no meaningful data with respect to our ongoing operations.

Consolidated Statement Of Operations Data: (In Thousands, Except Per Share Amounts)	Pro Forma and unaudited Years Ended June 30, 2007		2006	
Total revenue	$	75,527	$	54,580
Cost of transportation		48,813		35,192
Net revenue		26,714		19,388
Operating expenses		26,301		19,175
Income from operations		413		213
Other income (expense)		(49)		(22)
Income before income taxes		364		191
Income tax expense		156		217
Income (loss) before minority interest		208		(26)
Minority interest		45		-
Net income (loss)	$	163	$	(26)
Net income (loss) per common share [1] :				
Basic	$	-	$	-
Diluted	$	-	$	-
Weighted average common shares:				
Basic shares outstanding		33,883		30,071
Diluted shares outstanding		34,325		30,607

(1) For all periods presented, the weighted average common shares outstanding have been adjusted to reflect 3.5:1 stock split effected in October of 2005.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On July 31, 2006, the Board of Directors of the Company resolved to change our fiscal year from December 31 to June 30 effective for the fiscal year 2006 resulting in a six month fiscal year ending June 30. This change was made to conform the Company’s fiscal year to the June 30 fiscal year of the Company’s principal operating subsidiary, Airgroup Corporation.

The following discussion and analysis of our financial condition and result of operations should be read in conjunction with the consolidated financial statements and the related notes and other information included elsewhere in this report.

Overview

In conjunction with a change of control transaction completed during October 2005 and discussed under Part 1 Item 1, of this Report, we: (i) discontinued our former business model; (ii) adopted a new business strategy focused on building a global transportation and supply chain management company; (iii) changed our name to "Radiant Logistics, Inc." to, among other things, better align our name with our new business focus; and (iv) completed our first acquisition within the logistics industry.

We accomplished the first step in our new business strategy by completing the acquisition of Airgroup effective as of January 1, 2006. Airgroup is a Seattle-Washington based non-asset based logistics company providing domestic and international freight forwarding services through a network of exclusive agent offices across North America. Airgroup services a diversified account base including manufacturers, distributors and retailers using a network of independent carriers and international agents positioned strategically around the world.

By implementing a growth strategy, we intend to build a leading global transportation and supply-chain management company offering a full range of domestic and international freight forwarding and other value added supply chain management services, including order fulfillment, inventory management and warehousing.

As a non-asset based provider of third-party logistics services, we seek to limit our investment in equipment, facilities and working capital through contracts and preferred provider arrangements with various transportation providers who generally provide us with favorable rates, minimum service levels, capacity assurances and priority handling status. Our non-asset based approach allows us to maintain a high level of operating flexibility and leverage a cost structure that is highly variable in nature while the volume of our flow of freight enables us to negotiate attractive pricing with our transportation providers.

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

Our transportation revenue represents the total dollar value of services we sell to our customers. Our cost of transportation includes direct costs of transportation, including motor carrier, air, ocean and rail services. We act principally as the service provider to add value in the execution and procurement of these services to our customers. Our net transportation revenue (gross transportation revenue less the direct cost of transportation) is the primary indicator of our ability to source, add value and resell services provided by third parties, and is considered by management to be a key performance measure. In addition, management believes measuring its operating costs as a function of net transportation revenue provides a useful metric, as our ability to control costs as a function of net transportation revenue directly impacts operating earnings.

Our operating results will be affected as acquisitions occur. Since all acquisitions are made using the purchase method of accounting for business combinations, our financial statements will only include the results of operations and cash flows of acquired companies for periods subsequent to the date of acquisition.

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

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

Critical Accounting Policies

Accounting policies, methods and estimates are an integral part of the consolidated financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. While there are a number of accounting policies, methods and estimates that affect our financial statements, the areas that are particularly significant include the assessment of the recoverability of long-lived assets, specifically goodwill, acquired intangibles, and revenue recognition.

We follow 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 we 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 we 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. We perform our annual impairment test during our fiscal fourth quarter unless events or circumstances indicate an impairment may have occurred before that time, and we have found no impairment.

Acquired intangibles consist of customer related intangibles and non-compete agreements arising from our acquisition. Customer related intangibles will be amortized using accelerated methods over approximately 5 years and non-compete agreements will be amortized using the straight line method over a 5 year period.

Under the provisions of Statement of Position 98-1, *"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"*, we capitalize 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.

We follow 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. We review 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, we estimated 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.

As a non-asset based carrier, we do not own transportation assets. We generate the major portion of our air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to our customers. In accordance with Emerging Issues Task Force ("EITF") 91-9 "Revenue and Expense Recognition for Freight Services in Process", revenue from freight forwarding and export services is recognized at the time the freight is tendered to the direct carrier at origin, and direct expenses associated with the cost of transportation are accrued concurrently. These accrued purchased transportation costs are estimates 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 to reflect differences between the original accruals and actual costs of purchased transportation.

We recognize revenue on a gross basis, in accordance with EITF 99-19, "Reporting Revenue Gross versus Net", as a result of the following: We are the primary obligor responsible for providing the service desired by the customer and are responsible for fulfillment, including the acceptability of the service(s) ordered or purchased by the customer. We, at our sole discretion, set the prices charged to our customers, and are not required to obtain approval or consent from any other party in establishing our prices. We have multiple suppliers for the services we sell to our customers, and have the absolute and complete discretion and right to select the supplier that will provide the product(s) or service(s) ordered by a customer, including changing the supplier on a shipment-by-shipment basis. In most cases, we determine the nature, type, characteristics, and specifications of the service(s) ordered by the customer. We also assume credit risk for the amount billed to the customer.

Results of Operations

Basis of Presentation

The results of operations discussion that appears below has been presented utilizing a combination of historical and, where relevant, pro forma unaudited information to include the effects on our consolidated financial statements of: (i) equity offerings completed during 2005 and 2006; (ii) the acquisition of Airgroup Corporation during 2006; and (iii) our 2006 change in fiscal year to conform to the June 30 fiscal year of Airgroup Corporation. Historical financial data has been supplemented, where appropriate, with pro forma financial data since historical data which merely reflects the prior period results of the Company, prior to our acquisition of Airgroup, on a stand-alone basis, would provide no meaningful data with respect to our ongoing operations since we were in the development stage at that time. The pro forma information has been presented for fiscal year ended June 30, 2006 as if we had completed our equity offerings and acquired Airgroup as of July 1, 2005. The pro forma results are also adjusted to reflect a consolidation of the historical results of operations of Airgroup and the Company as adjusted to reflect the amortization of acquired intangibles and are also provided in the Financial Statements included within this report.

The pro forma financial data presented is not necessarily indicative of results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented or that might be attained in the future.

Twelve months ended June 30, 2007 (historic and audited) compared to twelve months ended June 30, 2006 (historic and unaudited), six months ended June 30, 2006 (historic and audited) to six months ended June 30, 2005 (historic and unaudited), and twelve months ended December 31, 2005 (historic and audited) compared to twelve months ended December 31, 2004.

We generated transportation revenue of $75.5 million and net transportation revenue of $26.7 million for the twelve months ended June 30, 2007. This reflects the revenues derived from the operation of Airgroup. We had six months of revenues, $26.5 million, and net transportation revenue of $9.5 million for the comparative prior year period as we remained in the developmental stage prior to the acquisition of Airgroup. Net income was $163,000 for the twelve months ended June 30, 2007 compared to a net loss of $55,000 for the twelve months ended June 30, 2006.

We had adjusted earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) of $1,412,000 and $441,000 for twelve months ended June 30, 2007 and 2006, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the "non-cash" effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

The following table provides a reconciliation of adjusted EBITDA to net income for the twelve months ended June 30, 2007 (historic and audited) and twelve months ended June 30, 2006 (historic and unaudited):

	Twelve months ended June 30,		Change	
	2007	**2006**	**Amount**	**Percent**
Net income (loss)	$ 163	$ (55)	$ 218	NM
Income tax expense (benefit)	156	(39)	195	NM
Net interest expense	6	(3)	9	NM
Depreciation and amortization	830	423	407	NM
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 1,155	$ 326	$ 829	NM
Share based compensation and other non-cash costs	257	115	142	NM
Adjusted EBITDA	$ 1,412	$ 441	$ 971	NM

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The following table provides a reconciliation of adjusted EBITDA to net income for the twelve months ended June 30, 2007 (historic and audited) and six months ended June 30, 2006 (actual and audited):

	Twelve months ended June 30, 2007	Six months ended June 30, 2006	Change Amount	Percent
Net income	$ 163	$ 71	$ 92	NM
Income tax expense (benefit)	156	(39)	195	NM
Net interest (income) expense	6	11	(5)	NM
Depreciation and amortization	830	423	407	NM
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 1,155	$ 466	$ 689	NM
Share based compensation and other non-cash costs	257	86	171	NM
Adjusted EBITDA	$ 1,412	$ 552	$ 860	NM

The following table provides a reconciliation of adjusted EBITDA to net income for the six months ended June 30, 2006 (historic and audited) and six months ended June 30, 2005(historic and unaudited):

	Six months ended June 30, 2006	Six months ended June 30, 2005	Change Amount	Percent
Net income (loss)	$ 71	$ (23)	$ 94	NM
Income tax expense (benefit)	(39)	-	(39)	NM
Net interest expense	11	1	10	NM
Depreciation and amortization	423	-	423	NM
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 466	$ (22)	$ 488	NM
Share based compensation and other non-cash costs	86	-	86	NM
Adjusted EBITDA	$ 552	$ (22)	$ 574	NM

The following table provides a reconciliation of adjusted EBITDA to net income for the six months ended June 30, 2006 (historic and audited) and year ended December 31, 2005(historic and audited):

	Six months ended June 30, 2006	Year ended Dec. 31, 2005	Change Amount	Percent
Net income (loss)	$ 71	$ (149)	$ 220	NM
Income tax (benefit)	(39)	-	(39)	NM
Net iInterest (income) expense	11	(13)	24	NM

Depreciation and amortization		423		-		423	NM
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$	466	$	(162)	$	628	NM
Share based compensation and other non-cash costs		86		-		86	NM
Adjusted EBITDA	$	552	$	(162)	$	714	NM

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The following table summarizes transportation revenue, cost of transportation and net transportation revenue (in thousands) for the twelve months ended June 30, 2007 (historic and audited) and twelve months ended June 30, 2006 (historic and unaudited):

	Twelve months ended June 30,		Change	
	2007	**2006**	**Amount**	**Percent**
Transportation revenue	$ 75,527	$ 26,469	$ 49,058	185.3%
Cost of transportation	48,813	16,966	31,847	187.7%
Net transportation revenue	$ 26,714	$ 9,503	$ 17,211	181.1%
Net transportation margins	35.4%	35.9%	35.1%	

We generated transportation revenue of $75.5 million and net transportation revenue of $26.7 million for the twelve months ended June 30, 2007. This reflects a full 12 months of revenues derived from the operations of Airgroup, which was acquired as of January 1, 2006. We had six months of revenues, $26.5 million, and net transportation revenue of $9.5 million for twelve months ended June 30, 2006 as we remained in the developmental stage prior to the acquisition of Airgroup. Domestic and International transportation revenue was $49.1 million and $26.4 million, respectively, for twelve months ended June 30, 2007 compared with $15.0 million and $11.5 million, respectively, for twelve months ended June 30, 2006 as we remained in the developmental stage prior to the acquisition of Airgroup.

For twelve months ended June 30, cost of transportation was 64.6% and 64.1% of transportation revenue for 2007 and 2006 respectively. 2006 reflects only six months of Airgroup operations as it was acquired as of January 1, 2006.

Net transportation margins were 35.4% and 35.9% of transportation revenue for the twelve months ended June 30, 2007 and 2006 respectively. 2006 reflects only six months of Airgroup operations as it was acquired as of January 1, 2006.

The following table compares condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands) for the twelve months ended June 30, 2007 (historic and audited) and twelve months ended June 30, 2006 (historic and unaudited):

	Twelve months ended June 30,					
	2007		**2006**		**Change**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Net transportation revenue	$ 26,714	100.0%	$ 9,503	100.0%	$ 17,211	181.1%
Agent commissions	20,048	75.1%	7,037	74.1%	13,011	184.9%
Personnel costs	2,916	10.9%	1,209	12.7%	1,707	141.2%
Other selling, general and administrative	2,507	9.4%	928	9.7%	1,579	170.2%
Depreciation and amortization	830	3.1%	423	4.5%	407	96.2%
Total operating costs	26,301	98.5%	9,597	101.0%	16,704	174.1%
Income (loss) from operations	413	1.5%	(94)	-1.0%	507	539.4%
Other expense	(49)	-0.1%	-	-	(49)	NM
Income (loss) before income taxes and minority interest	364	1.4%	(94)	1.0%	458	487.2%
Income tax expense (benefit)	156	0.6%	(39)	-0.4%	195	500.0%
Income (loss) before minority interest	208	.8%	(55)	-.6%	263	478.2%
Minority interest	45	.2%	-	-	45	NM
Net income (loss)	$ 163	.6%	$ (55)	-.6%	$ 218	396.4%

Agent commissions were $20.0 million for the twelve months ended June 30, 2007, an increase of 184.9% from $7.0 million for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, agent commissions increased from 75.1% for the twelve months ended June 30, 2007 from 74.1% for the twelve months ended June 30, 2006. The twelve months ended June 30, 2006 only included six months of Airgroup's operations as it was acquired January 1, 2006. The Company was in the development stage prior to the acquisition of Airgroup.

Personnel costs were $2.9 million for the twelve months ended June 30, 2007, an increase of 141.2% from $1.2 million for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, personnel costs decreased to 10.9% for the twelve months ended June 30, 2007 from 12.7% for the twelve months ended June 30, 2006. The twelve months ended June 30, 2006 only included six months of Airgroup's operations as it was acquired January 1, 2006. The Company was in the development stage prior to the acquisition of Airgroup.

Other selling, general and administrative costs were $2.5 million for the twelve months ended June 30, 2007, an increase of 170.2% from $.9 million for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, other selling, general and administrative costs decreased to 9.4% for the twelve months ended June 30, 2007 from 9.7% for the twelve months ended June 30, 2006. The twelve months ended June 30, 2006 only included six months of Airgroup's operations as it was acquired January 1, 2006. The Company was in the development stage prior to the acquisition of Airgroup.

Depreciation and amortization costs were approximately $830,000 for the twelve months ended June 30, 2007, an increase of 96.2% from $423,000 for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, depreciation and amortization decreased to 3.1% for the twelve months ended June 30, 2007 from 4.5% for the twelve months ended June 30, 2006. The twelve months ended June 30, 2006 only included six months of Airgroup's operations as it was acquired January 1, 2006. The Company was in the development stage prior to the acquisition of Airgroup.

Income from operations was $413,000 for twelve months ended June 30, 2007, an increase of 539.4% from a loss of $94,000 for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, income from operations increased to 1.5% for the twelve months ended June 30, 2007 from a loss from operations of 1.0% for the twelve months ended June 30, 2006. The twelve months ended June 30, 2006 only included six months of Airgroup's operations as it was acquired January 1, 2006. The Company was in the development stage prior to the acquisition of Airgroup.

Net income for the twelve months ended June 30, 2007, was $163,000 and a net loss of $55,000 for the twelve months ended June 30, 2006. The twelve months ended June 30, 2006 include only six months of Airgroup's operations as it was acquired January 1, 2006. The Company was in the development stage prior to the acquisition of Airgroup.

Supplemental pro forma information for the twelve months ended June 30, 2007 (actual and audited) compared to the twelve months ended June 30, 2006 (pro forma and unaudited) as if the Airgroup acquisition happened July 1, 2005

We generated transportation revenue of $75.5 million and $54.6 million and net transportation revenue of $26.7 million and $19.4 million for the twelve months ended June 30, 2007 and 2006, respectively. Net income was $163,000 for the twelve months ended June 30, 2007 compared to net loss of $26,000 for the twelve months ended June 30, 2006.

We had adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of approximately $1.4 million and $1.1 million for twelve months ended June 30, 2007 and 2006, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the “non-cash” effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

The following table provides a reconciliation of adjusted EBITDA to net income, the most directly comparable GAAP measure in accordance with SEC Regulation G (in thousands) for the twelve months ended June 30, 2007 (historic and audited) and twelve months ended June 30, 2006 (pro forma and unaudited):

	Twelve months ended June 30, 2007	Twelve months ended June 30, 2006	Change Amount	Change Percent
Net income (loss)	$ 163	$ (26)	$ 189	NM
Income tax expense	156	217	(61)	-28.1%
Net interest expense (benefit)	6	(9)	15	NM
Depreciation and amortization	830	793	37	4.7%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 1,155	$ 975	$ 180	18.5%
Share based compensation and other non-cash costs	257	86	171	198.8%
Adjusted EBITDA	$ 1,412	$ 1,061	$ 351	33.1%

The following table summarizes the transportation revenue, cost of transportation and net transportation revenue (in thousands) for the twelve months ended June 30, 2007 (historic and audited) and the twelve months ended June 30, 2006 (pro forma and unaudited):

	Twelve months ended June 30, 2007	Twelve months ended June 30, 2006	Change Amount	Change Percent
Transportation revenue	$ 75,527	$ 54,580	$ 20,947	38.4%
Cost of transportation	48,813	35,192	13,621	38.7%
Net transportation revenue	$ 26,714	$ 19,388	$ 7,326	37.8%
Net transportation margins	35.4%	35.5%	-	

Net transportation revenue was $26.7 million for the twelve months ended June 30, 2007, an increase of 38.4% over total transportation revenue of $19.4 million for the twelve months ended June 30, 2006. Domestic transportation revenue increased by 48.4% to $49.1 million for the twelve months ended June 30, 2007 from $33.1 million for the twelve months ended June 30, 2006. International transportation revenue increased by 22.9% to $26.4 million for the twelve months ended June 30, 2007 from $21.5 million for the comparable prior year period. The increase in both domestic and international transportation revenue is a result of new stations added over the year.

Cost of transportation was 64.6% of transportation revenue for the twelve months ended June 30, 2007, or unchanged, when compared to 64.5% of transportation revenue for the twelve months ended June 30, 2006.

Net transportation margins were unchanged, 35.4% to 35.5%, when comparing the twelve months ended June 30, 2007 and 2006, respectively.

The following table compares certain condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands) for the twelve months ended June 30, 2007 (historic and audited) and twelve months ended June 30, 2006 (pro forma and unaudited):

	Twelve months ended June 30,					
	2007		2006		Change	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Net transportation revenue	$ 26,714	100.0%	$ 19,388	100.0%	$ 7,326	37.8%
Agent commissions	20,048	75.1%	14,341	74.0%	5,707	39.8%
Personnel costs	2,916	10.9%	2,313	11.9%	603	26.1%
Other selling, general and administrative	2,507	9.4%	1,728	8.9%	779	45.1%
Depreciation and amortization	830	3.1%	793	4.1%	37	4.7%
Total operating costs	26,301	98.5%	19,175	98.9%	7,126	37.2%
Income from operations	413	1.5%	213	1.1%	200	93.9%
Other expense	(49)	-0.1%	(22)	-.8%	(27)	122.7%
Income before income taxes and minority interest	364	1.4%	191	1.0%	173	90.6%
Income tax expense (benefit)	156	0.6%	217	1.0%	(61)	-28.1%
Income before minority interest	208	.8%	(26)	0.0%	234	NM
Minority interest	45	.2%	-	-	45	NM
Net income (loss)	$ 163	.6%	$ (26)	0.0%	$ 289	NM

Agent commissions were $20.0 million for the twelve months ended June 30, 2007, an increase of 39.8% from $14.3 million for the twelve months ended June 30, 2006 as a result of revenue growth. As a percentage of net revenues, agent commissions increased to 75.1% for the twelve months ended June 30, 2007 from 74.0% for the twelve months ended June 30, 2006.

Personnel costs were $2.9 million for the twelve months ended June 30, 2007, an increase of 26.1% from $2.3 million for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, personnel costs decreased to 10.9% for the twelve months ended June 30, 2007 from 11.9% for the twelve months ended June 30, 2006.

Other selling, general and administrative costs were $2.5 million for the twelve months ended June 30, 2007, an increase of 45.1% from $1.7 million for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, other selling, general and administrative costs increased to 9.4% for the twelve months ended June 30, 2007 from 8.9% for the twelve months ended June 30, 2006.

Depreciation and amortization costs were approximately $830,000 for the twelve months ended June 30, 2007, an increase of 4.7% from $793,000 for the twelve months ended June 30, 2006. As a percentage of net revenues, depreciation and amortization decreased to 3.1% for the twelve months ended June 30, 2007 from 4.1% for the twelve months ended June 30, 2006.

Income from operations was $413,000 for twelve months ended June 30, 2007, an increase of 93.9% from $213,000 for the twelve months ended June 30, 2006 as a result of our substantial revenue growth. As a percentage of net revenues, income from operations increased to 1.5% for the twelve months ended June 30, 2007 from 1.1% for the twelve months ended June 30, 2006.

Net income for the twelve months ended June 30, 2007 was $163,000. We incurred a net loss of $26,000 for the twelve months ended June 30, 2006.

The following table summarizes transportation revenue, cost of transportation and net transportation revenue (in thousands) for the six months ended June 30, 2006 (historic and audited) and six months ended June 30, 2005 (historic and unaudited):

	Six months ended June 30,		Change	
	2006	**2005**	**Amount**	**Percent**
Transportation revenue	$ 26,469	$ -	$ 26,469	NM
Cost of transportation	16,966	-	16,966	NM
Net transportation revenue	$ 9,503	$ -	$ 9,503	NM
Net transportation margins	35.9%	-	35.9%	NM

Transportation revenue was $26.5 million for the six months ended June 30, 2006. Domestic and International transportation revenue was $15.0 million and $11.5 million, respectively. There were no revenues for the comparable prior year period.

Cost of transportation was 64.1% of transportation revenue for the six months ended June 30, 2006 with no comparable data for the prior year period.

Net transportation margins were 35.9% of transportation revenue for the six months ended June 30, 2006 with no comparable data for the prior year period.

The following table compares certain condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands) for the six months ended June 30, 2006 (historic and audited) and six months ended June 30, 2005 (historic and unaudited):

	Six months ended June 30,				Change	
	2006		**2005**			
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Net transportation revenue	$ 9,503	100.0%	$ -	NM	$ 9,503	NM
Agent commissions	7,037	74.1%	-	NM	7,037	NM
Personnel costs	1,154	12.1%	-	NM	1,154	NM
Other selling, general and administrative	843	8.8%	22	NM	821	NM
Depreciation and amortization	423	4.5%	-	NM	423	NM

Total operating costs		9,457	99.5%		22	NM		9,435	NM
Income (loss) from operations		46	0.5%		(22)	NM		68	NM
Other expense		(14)	-0.2%		(1)	NM		(13)	NM
Income (loss) before income taxes		32	0.3%		(23)	NM		55	NM
Income tax (benefit)		(39)	-0.4%		-	NM		(39)	NM
Net income (loss)	$	71	.7%	$	(23)	NM	$	94	NM

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Agent commissions were $7.0 million and 74.1% of net revenues for the six months ended June 30, 2006. There were no similar costs for the comparable prior year period.

Personnel costs were $1.2 million and 12.1% of net revenues for the six months ended June 30, 2006. There were no similar costs for the comparable prior year period.

Other selling, general and administrative costs were $843,000 and 8.8% of net revenues for the six months ended June 30, 2006, compared to $22,000 for the six months ended June 30, 2005.

Depreciation and amortization costs were approximately $423,000 and 4.5% of net revenues for the six months ended June 30, 2006. There were no similar costs for the comparable prior year period.

Income from operations was $46,000 for the six months ended June 30, 2006, compared to a loss from operations of $22,000 for the six months ended June 30, 2005.

Net income was $71,000 for the six months ended June 30, 2006, compared to a net loss of $23,000 for the six months ended June 30, 2005.

Supplemental pro forma information for the six months ended June 30, 2006 (historic and audited) compared to the six months ended June 30, 2005 (pro forma and unaudited)

We generated transportation revenue of $26.5 million and $27.6 million and net transportation revenue of $9.5 million and $10.9 million for the six months ended June 30, 2006 and 2005, respectively. Net income was $71,000 for the six months ended June 30, 2006, compared to a loss of $11,000 for the six months ended June 30, 2005.

We had adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of approximately $552,000 and $366,000 for six months ended June 30, 2006 and 2005, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the “non-cash” effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA and adjusted EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

The following table provides a reconciliation of six months ended June 30, 2006 (historic and audited) and six months ended June 30, 2005 (pro forma and unaudited) adjusted EBITDA to net income, the most directly comparable GAAP measure in accordance with SEC Regulation G (in thousands):

	Six months ended June 30,		Change	
	2006	**2005**	**Amount**	**Percent**
Net income (loss)	$ 71	$ (11)	$ 82	NM
Income tax (benefit)	(39)	(7)	(32)	NM
Interest expense (benefit)	11	(13)	24	-
Depreciation and amortization	423	397	26	6.5%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 466	$ 366	$ 100	27.3%
Share based compensation and other non-cash costs	86	-	86	NM%
Adjusted EBITDA	$ 552	$ 366	$ 186	50.8%

The following table summarizes the transportation revenue, cost of transportation and net transportation revenue (in thousands) for the six months ended June 30, 2006 (historic and audited) and the six months ended June 30, 2005 (pro forma and unaudited):

	Six months ended June 30,		Change	
	2006	**2005**	**Amount**	**Percent**
Transportation revenue	$ 26,469	$ 27,603	$ (1,134)	-4.1%
Cost of transportation	16,966	16,696	270	1.6%
Net transportation revenue	$ 9,503	$ 10,907	$ (1,404)	-12.9%
Net transportation margins	35.9%	39.5%	-	

Transportation revenue was $26.5 million for the six months ended June 30, 2006, a decrease of 4.1% over total transportation revenue of $27.6 million for the six months ended June 30, 2005. Domestic transportation revenue decreased by 13.8% to $15.6 million for the six months ended June 30, 2006 from $18.1 million for the six months ended June 30, 2005. The decrease was due primarily to project services work performed in 2005 which was nearly completed by June 2005. International transportation revenue increased by 14.4% to $10.9 million for the six months ended June 30, 2006 from $9.5 million for the comparable prior year period, due mainly to increased air and ocean import freight volume.

Cost of transportation increased to 64.1% of transportation revenue for the six months ended June 30, 2006 from 60.5% of transportation revenue for the six months ended June 30, 2005. This increase was primarily due to increased international ocean import freight volume which historically reflects a higher cost of transportation as a percentage of sales.

Net transportation margins decreased to 35.9% of transportation revenue for the six months ended June 30, 2006 from 39.5% of transportation revenue for the six months ended June 30, 2005 as a result of the factors described above.

The following table compares certain condensed consolidated statement of income data as a percentage of our net transportation revenue (in thousands) for the six months ended June 30, 2006 (historic and audited) and six months ended June 30, 2005 (pro forma and unaudited):

	Six months ended June 30,					
	2006		2005		Change	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Net transportation revenue	$ 9,503	100.0%	$ 10,907	100.0%	$ (1,404)	-12.9%
Agent commissions	7,037	74.1%	7,906	72.5%	(869)	-11.0%
Personnel costs	1,154	12.1%	1,946	17.8%	(792)	-40.7%
Other selling, general and administrative	843	8.8%	694	6.4%	149	21.5%
Depreciation and amortization	423	4.5%	397	3.6%	26	6.5%
Total operating costs	9,457	99.5%	10,943	100.3%	(1,486)	-13.6%
Income (loss) from operations	46	0.5%	(36)	-0.3%	82	227.8%
Other (income)expense	(14)	-0.2%	18	0.2%	(32)	-177.8%
Income (loss) before income taxes	32	0.3%	(18)	-0.1%	50	277.8%
Income tax (benefit)	(39)	-0.4%	(7)	-0.0%	(32)	NM
Net income (loss)	$ 71	.7%	$ (11)	-0.1%	$ 82	NM

Agent commissions were $7.0 million for the six months ended June 30, 2006, a decrease of 11.0% from $7.9 million for the six months ended June 30, 2005. Agent commissions as a percentage of net revenue increased to 74.1% for six months ended June 30, 2006 from 72.5% for the comparable prior year period as a result an adjustment of freight costs in 2005 which increased net transportation margin, or net transportation revenue, yielding a lower commission percentage for 2005.

Personnel costs were $1.2 million for the six months ended June 30, 2006, a decrease of 40.7% from $1.9 million for the six months ended June 30, 2005. Personnel costs as a percentage of net revenue decreased to 12.1% for six months ended June 30, 2006 from 17.8% for the comparable prior year period as a result of contractual reductions in compensation paid to certain of the selling shareholders of Airgroup.

Other selling, general and administrative costs were $843,000 for the six months ended June 30, 2006, an increase of 21.5% from $694,000 for the six months ended June 30, 2005. As a percentage of net revenue, other selling, general and administrative costs increased to 8.8% for six months ended June 30, 2006 from 6.4% for the comparable prior year period primarily as a result of transaction costs incurred by Airgroup in connection with the sale of the company to us and the incremental costs associated with operating as a public company.

Depreciation and amortization costs were $423,000 for the six months ended June 30, 2006, an increase of 6.5% from $397,000 for the six months ended June 30, 2005. Personnel costs as a percentage of net revenue increased to 4.5% for six months ended June 30, 2006 from 3.6% for the comparable prior year period.

Income from operations was $46,000 for the six months ended June 30, 2006, compared to a loss from operations of $36,000 for the six months ended June 30, 2005.

Net income was $71,000 for the six months ended June 30, 2006, compared to a net loss of $11,000 for the six months ended June 30, 2005.

Year ended December 31, 2005 (historic and audited) compared to year ended December 31, 2004 (historic and audited)

The following table compares consolidated statement of income data as a percentage of our net transportation revenue (in thousands) for the year ended December 31, 2005 and 2004 (historic and audited):

	Year ended December 31,					
	2005		2004		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Net revenue	$ -	NM	$ -	NM	$ -	NM
Other selling, general and administrative	162	NM	23	NM	139	NM
Total operating costs	162	NM	23	NM	139	NM
Loss from operations	(162)	NM	(23)	NM	(139)	NM
Other income (expense)	13	NM	(2)	NM	15	NM
Loss before income taxes	(149)	NM	(25)	NM	(124)	NM
Income tax expense	-	NM	-	NM	-	NM
Net loss	$ (149)	NM	$ (25)	NM	(124)	NM

As we remained in the development stage for all of 2005 and 2004, we had no transportation revenue for these years and incurred operating costs of approximately $162,000 for the year ended December 31, 2005 compared to operating costs of approximately $23,000 for the year ended December 31, 2004.

The year over year increase in operating costs resulted from our increased activities in the fourth quarter of 2005 in connection with the Company’s change in management and strategy to enter into the logistics business. Net loss for the year ended December 31, 2005 was approximately $149,000 compared to a net loss of approximately $25,000 for the year ended December 31, 2004.

Supplemental Pro Forma Information for the year ended June 30, 2006 (historical and unaudited) compared to the year ended June 30, 2005 (pro forma and unaudited)

We generated transportation revenue of $54.6 million and $51.5 million, and net transportation revenue of $19.4 million and $21.6 million for the twelve month periods ended June 30, 2006 and 2005, respectively. Net income was $10,000 for the year ended June 30, 2006 compared to net income of $35,000 for the six months ended June 30, 2005.

We had earnings before interest, taxes, depreciation and amortization (EBITDA) of $1,061,000 and $835,000 for fiscal years ended June 30, 2006 and 2005, respectively. EBITDA, is a non-GAAP measure of income and does not include the effects of interest and taxes, and excludes the “non-cash” effects of depreciation and amortization on current assets. Companies have some discretion as to which elements of depreciation and amortization are excluded in the EBITDA calculation. We exclude all depreciation charges related to property, plant and equipment, and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. . We then further adjust EBITDA to exclude costs related to share based compensation expense and other non-cash charges consistent with the financial covenants of our credit facility. While management considers EBITDA useful in analyzing our results, it is not intended to replace any presentation included in our consolidated financial statements.

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The following table provides a reconciliation of EBITDA to net income, the most directly comparable GAAP measure in accordance with SEC Regulation G (in thousands) for the years ended June 30, 2006 and 2005 (pro forma and unaudited):

	Year ended June 30,		Change	
	2006	**2005**	**Amount**	**Percent**
Net income (loss)	$ (26)	$ 35	$ (61)	NM%
Income tax expense	217	19	198	NM
Net interest income	(9)	(13)	4	-23.1%
Depreciation and amortization	793	794	(1)	6.5%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	$ 975	$ 835	$ 140	16.8%
Share based compensation and other non-cash costs	86	-	86	NM%
Adjusted EBITDA	$ 1,061	$ 835	$ 226	27.1%

The following table summarizes transportation revenue, cost of transportation and net transportation revenue (in thousands) for the years ended June 30, 2006 and 2005 (pro forma and unaudited):

	Year ended June 30,		Change	
	2006	**2005**	**Amount**	**Percent**
Transportation revenue	$ 54,580	$ 51,521	$ 3,059	5.9%
Cost of transportation	35,192	29,957	5,235	17.5%
Net transportation revenue	$ 19,388	$ 21,564	$ (2,176)	-10.1%
Net transportation margins	35.5%	41.9%		

Transportation revenue was $54.5 million for the year ended June 30, 2006, an increase of 5.9% over total transportation revenue of $51.5 million for the year ended June 30 2005. Domestic transportation revenue decreased by 15.7% to $33.2 million for the year ended June 30, 2006 from $38.4 million for the prior fiscal year as a result of project services work performed in 2005 that was nearly completed by June 2005, decline in customer volume, and closure of a station. International transportation revenue increased by 69.1% to $21.3 million for the 2006 fiscal year from $13.2 million for the 2005 fiscal year, due mainly to increased air and ocean import freight volume.

Cost of transportation increased to 64.5% of transportation revenue for the year ended June 30, 2006 from 58.1% of transportation revenue for the year ended June 30, 2005. This increase was primarily due to increased international ocean import freight volume which historically reflects a higher cost of transportation as a percentage of sales.

Net transportation margins decreased to 35.5% of transportation revenue for the fiscal year ended June 30, 2006 from 41.9% of transportation revenue for the 2005 fiscal year as a result of the factors described above.

The following table compares consolidated statement of income data as a percentage of our net transportation revenue (in thousands) for the certain year ended June 30, 2006 and 2005 (pro forma and unaudited):

	Year ended June 30,					
	2006		2005		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Net transportation revenue	$ 19,388	100.0%	$ 21,564	100.0%	$ (2,176)	-10.1%
Agent commissions	14,341	74.0%	15,988	74.1%	(1,647)	-10.3%
Personnel costs	2,313	11.9%	3,399	15.8%	(1,086)	-32.0%
Other selling, general and administrative	1,728	8.9%	1,342	6.2%	386	28.8%
Depreciation and amortization	793	4.1%	794	3.7%	(1)	-0.1%
Total operating costs	19,175	98.9%	21,523	99.8%	(2,348)	-10.9%
Income from operations	213	1.1%	41	0.2%	172	419.5%
Other income (expense)	(22)	-0.8%	13	0.1%	(35)	-269.2%
Income before income taxes	191	1.0%	54	0.3%	137	253.7%
Income tax expense	217	1.0%	19	-0.1%	198	NM%
Net income	$ (26)	0.0%	$ 35	0.2%	$ (61)	NM%

Agent commissions were $14.3 million for the year ended June 30, 2006, a decrease of 10.3% over $16.0 million for the year ended June 30 2005. Agent commissions as a percentage of net revenue remained relatively unchanged at approximately 74.0%.

Personnel costs were $2.3 million for the year ended June 30, 2006, a decrease of 32.0% over $3.4 million for the twelve month period. Personnel costs as a percentage of net revenue decreased to 11.9% for the 2006 fiscal year from 15.8% for the 2005 fiscal year. For the year ended June 30, 2006 compared to the prior year, headcount decreased by 7, to a total of 34, individuals who primarily provide finance and administrative services for the benefit of the agent offices.

Other selling, general and administrative costs were $1.7 million for the year ended June 30, 2006, an increase of 28.8% over $1.3 million for the year ended June 30, 2005. This increase was primarily the result of increased costs associated with operating as a public company. As a percentage of net revenue, other selling, general and administrative costs increased to 8.9% for the fiscal year ended 2006 from 6.2% for the 2005 fiscal year.

Depreciation and amortization remained relatively unchanged at $793,000 for year ended June 30, 2006 and $794,000 for 2005. Depreciation and amortization as a percentage of net revenue increased to 4.1% for the year ended June 30, 2006 from 3.7% for the 2005 fiscal year.

Income from operations was $213,000 for the year ended June 30, 2006, an increase of 419.5% over $41,000 for the 2005 fiscal year. Income from operations as a percentage of net revenue decreased to 1.1% for the 2006 fiscal year from 0.2% for the 2005 fiscal year.

Net income (loss) was a loss of $26,000 and income of $35,000 for years ended June 30, 2006 and 2005.

Liquidity and Capital Resources

Effective January 1, 2006, we acquired 100 percent of the outstanding stock of Airgroup. The transaction was valued at up to $14.0 million. This consisted of: (i) $9.5 million payable in cash at closing; (ii) a subsequent cash payment of $0.5 million in cash due on the two-year anniversary of the closing; (iii) as recently amended, an additional base payment of $0.6 million payable in cash with $300,000 payable on June 30, 2008 and $300,000 payable on January 1, 2009; (iv) a base earn-out payment of $1.9 million payable in Company common stock over a three-year earn-out period based upon Airgroup achieving income from continuing operations of not less than $2.5 million per year and (v) as additional incentive to achieve future earnings growth, an opportunity to earn up to an additional $1.5 million payable in Company common stock at the end of a five-year earn-out period (the "Tier-2 Earn-Out"). Under Airgroup's Tier-2 Earn-Out, the former shareholders of Airgroup are entitled to receive 50% of the cumulative income from continuing operations in excess of $15,000,000 generated during the five-year earn-out period up to a maximum of $1,500,000. With respect to the base earn-out payment of $1.9 million, in the event there is a shortfall in income from continuing operations, the earn-out payment will be reduced on a dollar-for-dollar basis to the extent of the shortfall. Shortfalls may be carried over or carried back to the extent that income from continuing operations in any other payout year exceeds the $2.5 million level. Through June 30, 2007, the former shareholders of Airgroup earned $214,000 in base earn-out payments.

In preparation for, and in conjunction with, the Airgroup transaction, we secured financing proceeds through several private placements of our common stock to a limited number of accredited investors as follows:

Date	Shares Sold	Gross Proceeds		Price Per Share	
October 2005	2,272,728	$	1,000,000	$	0.44
December 2005	10,098,934	$	4,400,000	$	0.44
January 2006	1,009,093	$	444,000	$	0.44
February 2006	1,446,697	$	645,000	$	0.44

Net proceeds for the above was $986,222, $4,153,150 (net of $63,153 of costs arising in 2006), $441,637 and $640,022 respectively.

In February 2007, our $10 million revolving credit facility (Facility) was extended into 2009 with more favorable terms to the Company. The Facility is collateralized by our accounts receivable and other assets of us and its subsidiaries. Advances under the Facility are available to fund future acquisitions, capital expenditures or for other corporate purposes. Borrowings under the facility bear interest, at the our option, at the Bank's prime rate minus .15% to 1.00% or LIBOR plus 1.55% to 2.25%, and can be adjusted up or down during the term of the Facility based on our performance relative to certain financial covenants. The Facility provides for advances of up to 80% of our eligible accounts receivable.

As of August 31, 2007, we had approximately $2.9 million outstanding under the Facility and we had eligible accounts receivable sufficient to support approximately $5.9 million in borrowings. The terms of the Facility are subject to certain financial and operational covenants which may limit the amount otherwise available under the Facility. The first covenant limits funded debt to a multiple of 3.00 times the our consolidated EBITDA measured on a rolling four quarter basis (or a multiple of 3.25 at a reduced advance rate of 75.0%). The second financial covenant requires us to maintain a funded debt to EBDITA ratio of 3.25 to 1.0. The third financial covenant requires us to maintain a basic fixed charge coverage ratio of at least 1.1 to 1.0. The fourth financial covenant is a minimum profitability standard that requires us not to incur a net loss before taxes, amortization of acquired intangibles and extraordinary items in any two consecutive quarterly accounting periods.

Under the terms of the Facility, we are permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the Facility include the following: (i) the absence of an event of default under the Facility, (ii) the company to be acquired must be in the transportation and logistics industry, (iii) the purchase price to be paid must be consistent with the Company's historical business and acquisition model, (iv) after giving effect for the funding of the acquisition, the Company must have undrawn availability of at least $1.0 million under the Facility, (v) the lender must be reasonably satisfied with projected financial statements the Company provides covering a 12 month period following the acquisition, (vi) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender, and (vii) the number of permitted acquisitions is limited to three per calendar year and shall not exceed $7.5 million in aggregate purchase price financed by funded debt. In the event that the we are not able to satisfy the conditions of the Facility in connection with a proposed acquisition, it must either forego the acquisition, obtain the lender's consent, or retire the Facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

Assuming minimum targeted earnings levels are achieved, the following table summarizes our contingent base earn-out payments related to the acquisition of Airgroup for the fiscal years indicated based on results of the prior year (in thousands) [(1)] :

	2009	2010	Total
Earn-out payments:			
Cash	$ —	$ —	$ —
Equity	633	634	1,267
Total potential earn-out payments	$ 633	$ 634	$ 1,267
Prior year earnings targets (income from continuing operations) [(2)]			
Total earnings actual and targets	$ 2,500	$ 2,500	$ 5,000
Earn-outs as a percentage of prior year earnings targets:			
Total	25.3%	25.3%	25.3%

(1) During the fiscal year 2007-2011 earn-out period, there is an additional contingent obligation related to tier-two earn-outs that could be as much as $1.5 million if Airgroup generates at least $18.0 million in income from continuing operations during the period.

(2) Income from continuing operations as presented refers to the uniquely defined earnings targets of Airgroup and should not be interpreted to be the consolidated income from continuing operations of the Company which would give effect to, among other things, amortization or impairment of intangible assets or various other expenses which may not be charged to Airgroup for purposes of calculating earn-outs.

Net cash provided by operating activities for the twelve months ended June 30, 2007 was $1,260,000 compared to net cash used by operating activities for the six months ended June 30, 2006 was $974,000. The change was principally driven by growth resulting in a reduction in working capital.

Net cash used for investing was $767,000 for twelve months ended June 30, 2007 compared to $7.2 million for six months ended June 30, 2006 reflecting $10.1 million used for the acquisition of Airgroup which had a cash balance of $2.8 million at the time of acquisition and is netted against cash used for purposes of the consolidated statement of cash flows. During 2007, we spent $524,000 for purposes of upgrading our SAP software and computer systems while acquiring other assets to further our continued growth strategy.

Net cash used by financing activity for twelve months ended June 30, 2007 was $284,000 compared to $3.4 million in net cash provided by financing for six months ended June 30, 2006. The $284,000 for 2007 mostly reflects payment to our credit facility compared to a draw down of $2.0 million for the six months ended June 30, 2006. For the six months ended June 30, 2006, we issued 2,475,790 shares of common stock for $1.1 million.

Contractual Obligations

We have entered into contracts with various third parties in the normal course of business that will require future payments. The following table illustrates our contractual obligations as of June 30, 2007:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long-Term Debt	$ 2,774	$ 800	$ 1,974	$ -	$ -
Capital Leases	-	-	-	-	-
Operating Leases	685	310	373	2	-
Purchase Obligations	-	-	-	-	-
Other Long-Term Liabilities	-	-	-	-	-
Total Contractual Obligations	$ 3,459	$ 1,110	$ 2,347	$ 2	$ -

Given our continued focus on the build-out of our network of exclusive agency locations, we believe that our current working capital and anticipated cash flow from operations are adequate to fund existing operations. However, should we attempt to build the business through strategic acquisitions, we will require additional sources of financing as our existing working capital is not sufficient to finance our operations and an acquisition program. Thus, our ability to finance future acquisitions will be limited by the availability of additional capital. We may, however, finance acquisitions using our common stock as all or some portion of the consideration. In the event that our common stock does not attain or maintain a sufficient market value or potential acquisition candidates are otherwise unwilling to accept our securities as part of the purchase price for the sale of their businesses, we may be required to utilize more of our cash resources, if available, in order to continue our acquisition program. If we do not have sufficient cash resources through either operations or from debt facilities, our growth could be limited unless we are able to obtain such additional capital. In this regard and in the course of executing our acquisition strategy, we expect to pursue an additional equity offering within the next twelve months.

We have used a significant amount of our available capital to finance the acquisition of Airgroup. We expect to structure acquisitions with certain amounts paid at closing, and the balance paid over a number of years in the form of earn-out installments which are payable based upon the future earnings of the acquired businesses payable in cash, stock or some combination thereof. As we execute our acquisition strategy, we will be required to make significant payments in the future if the earn-out installments under our various acquisitions become due. While we believe that a portion of any required cash payments will be generated by the acquired businesses, we may have to secure additional sources of capital to fund the remainder of any cash-based earn-out payments as they become due. This presents us with certain business risks relative to the availability of capacity under our Facility, the availability and pricing of future fund raising, as well as the potential dilution to our stockholders to the extent the earn-outs are satisfied directly, or indirectly, from the sale of equity.

During the early portion of fiscal 2008, however, our cash flow has been somewhat adversely affected as we were caused to operate our newly formed automotive services group without the benefit of certain customer payments; as such payments were withheld pending the resolution of a garnishment proceeding instituted by a Stonepath judgment creditor. Although the outstanding garnishment action has been resolved, we have incurred significant out-of-pocket costs operating the purchased assets under the MSA. During the intervening period, we made increased draws against our Facility.

Off Balance Sheet Arrangements

As of June 30, 2007, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which had been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

In February 2007 the Financial Accounting Standards Board ("FASB") issued SFAS 159 “The Fair Value Option for Financial Assets and Financial Liabilities.” The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. We are currently evaluating the impact this interpretation will have on our consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R).” This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The Company does not expect the adoption of SFAS 158 to have any impact on its financial position, results of operations or cash flows.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157 “Fair Value Measurements” which relate to the definition of fair value, the methods used to estimate fair value, and the requirement of expanded disclosures about estimates of fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 will not have any impact on the Company’s financial position, results of operations or cash flows.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, “Accounting for Uncertainty in Income Taxes,” with respect to FASB Statement No. 109, “Accounting for Income Taxes