Online Merchant

BUSINESS PLAN E-RETURN SOLUTIONS

43600 Wonderland Boulevard
Kansas City, Missouri 64105

E-Return Solutions offers a unique and proprietary solution to managing the receipt, handling, and resale of returned merchandise for electronic commerce and multi-channel retailers. E-Return provides these retailers with the opportunity to entirely outsource the burdensome, complex, and costly chore of managing product returns. This plan was provided by Jason Sears and Esther Schuller and was compiled in conjunction with the MOOT CORP® competition sponsored by the University of Texas at Austin.

EXECUTIVE SUMMARY

> *"There's going to be a fallout this holiday season. Most online merchants don't preserve customer relationships."*

It is common knowledge that the next evolution of online commerce involves developing sustainable customer relationships, but what exactly does that mean for retailers? Many sophisticated online retailers have initiated customized delivery solutions using consumer profiles developed from an online shoppers' clicks and purchases, but that is only the beginning. It is imperative that retailers ensure that the online experience provides comparable customer service as that provided in the traditional brick-and-mortar channel. In fact, 87 percent of shoppers who spent at least $2,000 online during the past six months will abandon a website if they encounter bad customer service. E-Return Solutions addresses a traditionally neglected aspect of this customer service—managing the return process.

E-commerce companies, hoping to grow market share, are feverishly pursuing customer acquisition and brand recognition strategies. These companies are in a relentless race to become the recognized online leader; however, lost amid their frantic efforts to drive sales, many of these companies have failed to address a critical aspect of their business—logistics, and in particular reverse logistics. Reverse logistics is the process of managing the receipt, handling, and disposition of returned merchandise.

With return rates for the online apparel industry ranging from 18-50 percent, an estimated $3.6 to $10.1 billion in returns will be generated by 2003. With online apparel sales expected to increase 13 times in the next five years, the handling of returned merchandise—typically handled by most companies as an exception process—will become extremely cost-intensive and disruptive. E-Return manages the receipt, handling, and resale of returned merchandise for e-commerce and multi-channel apparel manufacturers and retailers, and allows companies to remain focused on driving sales.

While the handling of returned merchandise has contributed to retailer frustration for many years, the explosion in e-commerce has presented a new set of challenges to the retail industry. Multi-channel retailing (the practice of selling merchandise through numerous channels such as brick-and-mortar, online, and/or mail-order catalogs) involves managing multiple forward distribution and fulfillment strategies—each of which involves specific shipping economies, packaging practices, and inventory management requirements. Complicating the process even further, returns involve processing and valuing damaged merchandise, aggregating and preparing merchandise for resale, and mitigating damaged relationships with frustrated customers.

The industry is enormous, the problem is substantial, and E-Return has created the solution. E-Return will become the industry standard for e-commerce returns, beginning with the apparel industry and ultimately penetrating diverse markets including the toys and games and home furnishings industries. No other reverse logistics provider offers a comprehensive solution that addresses all return concerns from improved customer care to increased bottom line profitability. In a nutshell, E-Return lowers our clients' cost, increases their revenues, and helps ensure customer loyalty. E-Return is the answer.

The Solution

E-Return offers a unique and proprietary solution to managing the receipt, handling, and resale of returned merchandise for electronic commerce and multi-channel retailers. E-Return provides these retailers with the opportunity to entirely outsource the burdensome, complex, and costly chore of managing product returns. E-Return is designed to meet the requirements of their industry and utilizes specialized processing techniques and the latest technology to deliver:

- Top-notch customer support
- The most efficient handling of returned merchandise
- The optimization of merchandise resale and alternative methods of disposition through the use of a sophisticated and dynamic business-to-business exchange

Our solution is divided into four components: (1) customer care, (2) operations, (3) product disposition, and (4) post-transaction supply chain management. As the first company to offer all of these critical components, E-Return provides the following value to its clients:

- Improved customer satisfaction and sustainability
- Improved financial returns on returned merchandise
- Reduced processing costs
- Increased sales and profitability
- Improved asset utilization

Funding Requirements

Based on estimated revenues and costs over a five-year horizon, E-Return will require $3.5 million to launch and fund the company's growth until the second round of financing, which is scheduled to raise an additional $8 million by late 2001. The initial $3.5 million of funding will be used to expand the management team and sales force, lease fixed assets, develop and purchase necessary technology, and secure two charter customers.

The Management Team

E-Return's founding team and current management includes:

- **Anthony Ray, President** —Mr. Ray's background is in management consulting at KPMG and Center for Applied Strategy (CAST). He has advised emerging-growth and established companies in the services and technology industries on information technology, operations, and marketing strategies. Mr. Ray is pursuing his M.B.A. and his Juris Doctor joint-degree from the University of Missouri at Kansas City. He received a B.A. in Economics from Columbia University at New York.
- **Barton Fitz, Director of Marketing and Sales** —Mr. Fitz has marketing and sales experience in both the financial services and consumer goods industries. At IBM, he developed national marketing and sales programs for corporate and consumer clients. Mr. Fitz received a B.S. degree in finance from New York University, and is pursuing his M.B.A. at the University of Missouri at Kansas City.
- **Robert Romano, CPA, Director of Finance** —Mr. Romano's experience includes audit and financial analysis with Ernst & Young and later with Shell Oil's global internal audit division. His experience includes initial and secondary public stock offerings. Mr. Romano completed his B.S. degree in accountancy at the University of Michigan and is pursuing his M.B.A. at the University of Missouri at Kansas City.
- **Rachel Summers, Director of Strategic Operations** —Ms. Summers's experience includes designing, implementing, and managing operations and financial processes and controls for Credit Suisse Financial Products as well as emerging-growth companies. Ms. Summers has a B.B.A. degree in finance from the University of Missouri at Kansas City and is pursuing her M.B.A. from the same university.
- **Justin Roberts, Director of Technology** —Mr. Roberts's technical and managerial experience includes software development, database modeling, and systems management projects working for multiple companies located throughout the U.S. Mr. Roberts received a B.S. degree in mathematics from the University of Illinois at Urbana and is pursuing his M.B.A. at the University of Missouri at Kansas City.

Board of Advisors

- **William Fanchon** —Mr. Fanchon is founder and president of CFO Services, Inc. which provides business consulting services including merger and acquisition advisory services, financial and credit analysis, business valuations, loan procurement, business planning and strategic planning to small to mid-size businesses. Mr. Fanchon serves on the advisory board of multiple start-up ventures in the Kansas City area.
- **Jason Williams** —Mr. Williams has over 18 years of retail management experience in merchandising and operations. Mr. Williams is Director of Retail Operations for MGM Grand Hotel and Casino. Additional retail experience includes Bullocks department store, a division of R. H. Macy Corporation, where he served as divisional merchandise manager and general manager.
- **Abdul Ruiz** —Dr. Ruiz received his Ph.D. in MIS from Indiana State University and is currently a professor in the MIS department at the University of Missouri at Kansas City. Dr. Ruiz's research involves various aspects and components of online markets and exchanges.

Professional Advisors

- Thompson, Wall, & Heidenreich—currently filing a provisional patent on the E-Return Interface Exchange (ERIE), Merchant Interface Application (MIA), and the Secondary Market Exchange (SME).

THE OPPORTUNITY

An Introduction to Reverse Logistics

According to Forrester Research, the apparel industry will be inundated with over 550 million returned garments in the year 2000 that will cost an estimated $3 billion to process. Of these, 19 million returns will be generated by the online channel alone, based on Gartner Group estimates of 20 percent return rates and sales of $5.6 billion for apparel purchased online. Given their immediate focus on customer acquisition and order fulfillment, apparel manufacturers will be unable to manage the returned merchandise in a timely or cost-effective manner. Consequently, manufacturers will suffer from symptoms of poor reverse logistics management including:

- Substantial customer dissatisfaction with the returns process and subsequent loss of customer loyalty
- Excessive handling and processing costs due to the lack of accurate reporting capabilities, merchandise handling technologies, and standard procedures
- Significant loss of revenue due to the inability to recapture the costs of the returned merchandise

Reverse logistics is the process of managing the receipt, handling, and disposition of returned merchandise. Distinguished from forward distribution and order fulfillment, the reverse logistics function is comprised of a set of unique, complex, and time-sensitive tasks. Optimal performance of these tasks—which includes reviewing product quality, crediting customer accounts, and immediate resale of the merchandise—requires specialized operations and information systems.

Although returns represent a significant cost component of a manufacturer's total logistics costs, it was only recently that reverse logistics began to receive the attention of executive management. Reasons for this include:

- Reverse logistics do not directly generate revenue
- Manufacturers focus resources on staying ahead of the fashion curve
- Capital expenditures on reverse logistics do not offer a return on assets
- E-commerce manufacturers focus on acquiring customers and establishing a web presence

With the explosion of online and mail-order retailing, and the excessive high rates of product returns associated with these channels, manufacturers are beginning to realize the importance of an effective reverse logistics function. As competition continues to increase, apparel manufacturers will be forced to embrace innovative strategies that go beyond offering the lowest prices and user-friendly websites to include enhancing customer care and minimizing logistics costs beyond the initial purchase.

Current Reverse Logistics in Electronic Commerce and Mail-Order Environment

Traditional reverse logistics practices are especially impractical and ineffective for e-commerce retailers ("e-tailers") and mail-order catalog apparel manufacturers primarily because they contribute to poor customer care, operational inefficiency, and minimal financial return on returned apparel.

Poor Customer Care

Contrary to customer demands, online and mail-order apparel manufacturers do not offer the same level of service and convenience for merchandise returns as provided by brick-and-mortar retailers. Customers are often confronted with a difficult and time-consuming ordeal when returning items purchased on the web or by catalog.

Typically, the consumer must retrieve the retailer's return address from the website or customer service representative, re-package and label the return item, bring the package to the USPS or UPS office during business hours, and wait in line for proper postage. The consumer must then track the product until the retailer acknowledges receipt to ensure subsequent credit on the return.

Unsurprisingly, a recent E-Return survey found that 95 percent of online consumers are dissatisfied with current e-tailers' return policies. Moreover, 66 percent of online consumers factor the e-tailer's return policy into their purchasing decisions, suggesting that companies unable to improve customer service risk significant loss of sales.

Current e-tailer and mail-order return policies also result in excessive obsolescence costs. Apparel, due to constantly changing seasonal requirements and fashion trends, is subject to high obsolescence costs. The Reverse Logistics Executive Council reports that obsolescence diminishes the value of clothing by approximately 10-20 percent every 30 days. Consumers confronted with the inconvenience of returning merchandise purchased online or via a mail-order catalog will often hold an item the maximum time allowed by the manufacturers before returning an item. The estimated duration of this holding period ranges from 3-8 weeks, potentially costing manufacturers up to 40 percent of the returned garment's original value.

Inefficient and Costly Handling Procedures

Most warehouses are designed for forward distribution. Thus, handling returned items is an exception process with a low priority. Returned items may remain in the warehouse for weeks before it is processed, further increasing obsolescence costs and diminishing the clothing's resale value. Many warehouses are not equipped with the technology or personnel to efficiently handle individually returned garments. Receiving, sorting, and repackaging returns is a time-intensive process that detracts from the manufacturer's ability to fulfill orders, and costs an estimated 2-3 times as much per item as forward distribution.

Minimal Financial Returns

Once the returned items have been processed, manufacturers typically hold the garments in their warehouses until there is a substantial inventory build-up, at which time the merchandise is liquidated at local clearance sales. These clearance sales are intended to simply move the merchandise out of the warehouse and, therefore, fail to maximize recovery on these assets.

SOLUTION AND VALUE

The Solution

E-Return offers the first total reverse logistics and product disposition service specifically designed to manage returned merchandise for e-tailers and multi-channel apparel manufacturers. While E-Return never assumes title of the manufacturer's merchandise, it does offer the most sophisticated and advanced service available to ensure minimal operations costs and maximum financial return on the merchandise.

Our service is composed of four components:

1. Customer care
2. Operations
3. Product disposition
4. Post-transaction supply chain management

Combined, the components represent a total solution that relieves the manufacturer of the costly and time-consuming reverse logistics process, while providing premier customer service and optimal performance.

Customer Care

The customer care component of E-Return's solution will enable the retailer's online customer to link to the E-Return website, designed as a seamless interface to the retailer's site, and automatically receive a return merchandise authorization (RMA) number for the merchandise to be returned. Customers only need to write the RMA number on the pre-paid and preaddressed E-Return return label, which is included with the original package, and can then conveniently place the package in the mail from their home or office. Also, online customers will automatically receive an e-mail confirmation once E-Return has received and reviewed the returned merchandise.

The returns process for mail-order catalog customers is essentially the same. These customers will also receive a pre-paid and pre-addressed mailing label with their purchase. If, however, the RMA cannot be assigned online because the manufacturer is not accessible online or the customer does not have access to the Internet, the customer need only call the manufacturer's customer service department to obtain the RMA number. The package can then conveniently be mailed to E-Return.

Operations

E-Return's operations component will incorporate both a web-based interface that seamlessly communicates with our client's website and a centralized return center (CRC) equipped with leading-edge technology and resources dedicated to the most-efficient processing of returned merchandise. Once the returned merchandise has been received, E-Return will immediately identify, inspect, and sort the clothing for resale or other disposition. E-Return's CRC staff will utilize a combination of bar-coding, warehousing technology, and inventory management systems to ensure rapid processing and precise control of the merchandise. Since E-Return's focus is the management of merchandise returns, the processing of returns is the highest priority. This enables a substantial reduction in obsolescence costs due to inefficiency or oversight.

Product Disposition

After the merchandise has been sorted, E-Return will prepare it for resale or other disposition. E-Return's custom-built product management and disposition management applications will allow the apparel manufacturer to establish and modify merchandise resale and disposition policies in real-time to reflect each manufacturer's branding and re-distribution strategy, product life cycles, and goals for maximizing financial returns on the returned garments.

E-Return will also design a dynamic business-to-business exchange to facilitate the resale and charitable contribution of returned merchandise to secondary markets, thereby avoiding inventory build-up at the manufacturer's warehouse and the potential for loss due to shrinkage. The exchange is continually updated to reflect available merchandise both in the warehouse and currently in shipment from the customer. The manufacturer will determine the parameters of each sale to the secondary market. The exchange will also govern the donation and destruction of items according to the disposition parameters established by the manufacturer.

Post-Transaction Supply Chain Management

E-Return's solution creates the only information system available that provides the manufacturer with complete post-transaction supply chain management and control capabilities. From the moment the customer generates an RMA until the resale or alternative disposition of the merchandise, the manufacturer has access to real-time knowledge of the volume and value of merchandise in the reverse logistics channel. Consequently, the manufacturer will be empowered to better control manufacturing quality, inventory, product life cycles and customer satisfaction.

The Value Proposition

As the first and only provider of reverse logistics services designed for e-commerce and multi-channel apparel manufacturers, E-Return is uniquely positioned to improve every aspect of managing returned merchandise.

Reduced Processing Costs

E-Return incorporates the benefits of a centralized operation, a highly-efficient merchandise handling process, and innovative technology to reduce the manufacturer's reverse logistics costs by an average of 22 percent per item, based on estimated labor costs and overhead. These cost-savings directly impact our client's bottom line.

Increased Sales

E-Return's services will result in increased and more profitable sales by facilitating the returns process and improving the manufacturer's ability to cross-sell merchandise. E-Return minimizes the unpleasantness and inconvenience of returning products, thereby restoring customer confidence in the manufacturer and increasing the likelihood of future sales.

Improved Financial Return on Merchandise

E-Return's system will improve our client's average recovery on returned merchandise by an estimated 5-10 percent by minimizing customer and warehouse holding times. Our convenient and easy-to-use process encourages online customers to promptly ship return items. In fact, E-Return will automatically generate reminders to customers who have registered a return but have forgotten or neglected to mail the merchandise. Once received at E-Return's centralized return center, the merchandise will be immediately processed and prepared for resale or an alternative disposition.

Moreover, E-Return's web-based, business-to-business exchange will provide secondary marketers the opportunity to bid-up the purchase price on the returned merchandise—further increasing the manufacturer's cost recovery.

Enhanced Customer Care

E-Return's system will greatly enhance the manufacturer's ability to provide customer care by improving the convenience and ease of returning merchandise by providing the consumer with an easy-to-use, web-based interface that automatically registers the return and generates an RMA number. Also, customers will be provided with return labels that include a return address and pre-paid postage and will be notified upon E-Return's receipt of the merchandise.

E-Return's system enables manufacturers to customize return policies for online and direct mail customers by dictating the shipping and restocking charges for each customer. This allows the manufacturer to reward loyal customers and discourage the abuse of favorable return policies.

Improved Supply Chain Management

E-Return's unique system allows the manufacturer to manage the post-transaction portion of the supply chain, tracking returned merchandise from the moment it is registered into the system until its ultimate disposition. Post-transaction supply chain management provides numerous benefits to the manufacturer including improved manufacturing quality control, inventory and product life cycle management, and customer satisfaction.

Improved Asset Utilization

The main challenge in today's rapidly changing e-commerce and multi-channel environment is not to commit to assets that do not support a company's core competency or limit its flexibility, according to Andersen Consulting's supply chain management practice. E-Return will provide e-commerce and multi-channel apparel manufacturers with the first opportunity to capitalize on a reverse logistics solution specifically designed to satisfy their requirements without requiring significant capital expenditure.

Customer Care, Operations, & Product Disposition

E-Return's approach to reverse logistics eliminates the hassle of managing returns and improves our client's bottom line. The company's unique "one touch" handling process reduces our client's returns processing costs by an average of 22 percent, based on conservative wage estimates for employees to receive, credit, handle, and redirect returned items and for onand off-site warehouse space. E-Return also reduces obsolescence costs by reducing customer return and merchandise handling time. Finally, E-Return increases the resale value of the returned merchandise by first aggregating the apparel and then making it instantly available to secondary markets through E-Return's dynamic secondary market business-to-business exchange.

TECHNICAL INFRASTRUCTURE OVERVIEW

E-Return's technical infrastructure, explained in the following section, will combine off-the-shelf software with internally developed proprietary components to provide a comprehensive and unique solution.

Customer Care

Point of Origin

E-tailers and mail-order catalog manufacturers using E-Return's solution will be given return slips to include with all online and mail-order catalog purchases. Each slip will contain a preaddressed mailing label, convenient pre-paid postage, and instructions to the online customer on how to return merchandise.

To initiate the return process, online customers will visit E-Return's web interface, reached via the e-tailer's website, to initiate the return process and to specify the item(s) to be returned. The website, branded with our client's colors and logo, first requests the customer to specify what item is being returned and why it is being returned, and then automatically generates a Return Merchandise Authorization (RMA) number. This allows E-Return to immediately capture critical merchandise data at the moment the consumer makes the decision to send the items back to the e-tailer.

Mail-order returns will be similarly handled, except that the call center representative will log on to the website rather than the customer.

E-Return's Return Notification Application (ERRNA)

E-Return's Return Notification Application (ERRNA) is the web-based application referred to above designed to capture critical information on the returned merchandise at its point of origin. The ERRNA will use the customer's invoice number to generate an XML-based request to our client's site requesting the contents of the invoice(s). Please see Appendix E for additional information on the use of this technology.

The ERRNA application will:

- allow customers to specify what merchandise they intend to return
- issue invoice-content requests to our client
- generate a Return Merchandise Authorization (RMA) number
- enable the e-tailer and mail-order catalog manufacturer to provide preferential treatment to individual consumers on a transaction-by-transaction basis. Our clients can then identify preferential customers to waive shipping and handling costs or, conversely, penalize "return abusers" with additional restocking charges.
- save all customer return information for later use at the Customer Return Center Management System (CRCMS)

E-Return Interface Engine (ERIE)

The E-Return Interface Engine (ERIE) is a Java-based server-side application that will be installed on our clients' (the e-tailers') web server. The ERIE will act as the interface between the ERRNA and the database of customer and invoice information, translating requests for customer information into a suitable query format and then transmitting the results.

Operations

Shipping and Transportation

E-Return will outsource shipping and transportation to third-party carriers.

Receiving and Processing

Upon receipt of the merchandise, E-Return will record the RMA number and the associated shipping costs for the merchandise. E-Return clients are notified electronically of shipping charges incurred on behalf of each customer for charge-back purposes. At this time, each item will be tagged with a E-Return bar code tag. The bar code tag will be scanned into the Warehouse Management System and will track both the original RMA number and the individual customer SKU number of each item throughout the entire system.

Products will be individually inspected and identified as one of three categories: good, flawed, or destroyed. This information will be entered into the warehouse information systems via a touch-screen and will dictate how the merchandise should be handled within E-Return's warehouse.

Warehousing (CRC)

Initially, E-Return intends to locate its Centralized Return Center (CRC) in Jefferson City, Missouri. Jefferson City provides affordable warehouse space and labor, as well as access to the technical expertise required for systems development. The CRC will be an estimated 20,000 square feet to provide sufficient capacity for E-Return's initial clients.

Central Return Center Management System (CRCMS)

E-Return will use an off-the-shelf Warehouse Management System (WMS) since a number of these systems are currently available and offer the combined functionality of bar code recognition and customizable inventory locations. Internal development staff will identify, document, and develop the additional E-Return requirements not sufficiently addressed by the chosen WMS.

Among the technology utilized to ensure complete and accurate inventory tracking will be stationary and portable bar code scanners, bar code printers, and rolling workstations equipped with touch-screen functionality. These technologies will allow scalability associated with increased processing volumes.

Product Disposition

Once the merchandise has been identified and sorted, it will be ready for resale or alternative disposition. E-Return's disposition services as designed are unique and innovative and will give the client the ability to dictate disposition policies in real-time that incorporate marketing strategies and the particular garment's stage in its product cycle.

E-Return will establish relationships with numerous retailers in the secondary market, at which point each secondary marketer will be "graded" according to their individual resale practices. For example, franchised outlets may receive a high grade since merchandise is resold in a controlled environment while exporters unable to guarantee retailing practices will receive a lower grade. E-Return's clients will then identify which grades of secondary marketers are allowed to purchase returned merchandise.

E-Return's clients can also direct certain merchandise to be donated to the charities of their choice. In these instances, E-Return will track the value of the merchandise contributed so that our clients can realize the tax benefits and goodwill of these donations.

Finally, any merchandise not resold or donated will be destroyed or recycled. In each case, the disposition process will be administered according to environmental regulations. Destruction expenses will be passed through to the client.

Merchant Interface Application (MIA)

Using the MIA, the E-Return's client will communicate the disposition policies by label, product line, or SKU. The variables captured by the system include holding duration, resale restrictions prohibiting sales to specific secondary marketers, and donation/destruction thresholds. These parameters are then transmitted to the CRC Management System (CRCMS) and the Secondary Market Exchange (SME).

Secondary Market Exchange (SME)

E-Return's dynamic business-to-business exchange, the SME, will manage the posting of merchandise to the secondary markets as it becomes available. The auction-style exchange will identify the merchandise, the duration of the exchange for that merchandise, and the minimum bid price. This minimum bid price will be calculated based on the merchandise pricing logic specified by our client. Once a particular exchange period closes, the SME will identify the highest bidder, debit the appropriate vendor's account, and post a work order to the CRCMS to have the merchandise shipped.

The SME will also allow our client to pre-select charities for the contribution of returned merchandise. Charities requesting particular merchandise may submit a merchandise request through the SME system. In addition to immediately designating merchandise for contribution, e-tailers and manufacturers can specify rules through the SME that specify that once returned merchandise reaches the end of its pre-determined resale holding duration, or its value drops below a designated level, the merchandise should be shipped to a specified charity.

MARKETING & SALES STRATEGY

Marketing Approach

E-Return will engage the apparel market through a three-phase marketing approach, illustrated and explained below.

Phase 1—Refine the approach

During Phase 1, E-Return will conduct extensive market research to further define our target customers and better understand their specific needs. Phase 1 will be executed without promotion to avoid unnecessary attention from potential competition.

Concurrent with the secondary research, we will utilize contacts provided by our advisory board members, investors, and our own previous research to identify and obtain two charter customers by September 2000. E-Return will work closely with our charter customers to further develop our promotions and sales strategies. E-Return will hire a vice president of marketing and sales with substantial apparel industry experience and contacts to oversee the development of our client base and marketing campaign.

Phase 2—Inform the marketplace

Phase 2 will commence in November 2000, just before the holiday season, and last until March of 2001. E-Return will use information gathered from our charter customers to refine product and service offerings. To augment post-holiday sales efforts, E-Return will actively begin personal contact with our prospects prior to the holiday season. Concurrently, E-Return will conduct several awareness and brand-building activities including mass mailings, advertisements in key industry publications, and participation in industry trade shows. We will also actively promote the success of our charter customers. We anticipate hiring a sales manager during January 2001 in preparation for Phase 3.

Phase 3—Sell the solution

After successfully managing the holiday season for our two charter customers, E-Return will initiate full-scale sales efforts, as part of Phase 3, in March of 2001. Initially, all efforts will target the manufacturer's e-commerce and mail-order catalog sales. Because it is the e-commerce channel that presents the most difficult challenges for our clients, selling our e-commerce solution will be a logical entry point to establishing a relationship with our clients.

Phase 4—Up-sell existing clients

Once E-Return has established strong relationships with its clients and has proven the value of its services, we will, starting in 2003, up-sell our clients and begin to handle returned merchandise from all of their channels including those by mail-order customers and brick-and-mortar retailers. According to the American Apparel Manufacturers Association, these two channels will generate over 500 million returned garments in 2003.

Market Size

The apparel industry represents an attractive opportunity for E-Return for several reasons. First, online apparel sales are rapidly growing. According to Forrester Research, online retail apparel sales next year will approach $5.6 billion, resulting in approximately 19 million returned garments. This number will swell to 67 million returned garments by 2003. E-Return expects to process about 8-12 percent of this online apparel return market. The mail-order channel is growing more than 6 percent annually, and will generate an estimated 50 million returned garments by 2003.

Second, the apparel industry experiences relatively high return rates due to seasonal factors and the subjective nature of the merchandise. Third, returned garments are relatively easy to manage from a reverse logistics perspective, mainly due to their less complex nature and consequent ease with which irregular and defective garments are identified. Finally, apparel suffers from high obsolescence costs as styles change from one season to the next—a costly problem minimized by E-Return's solution.

Customer Profile

E-Return will initially target mid-tier apparel manufacturers that either plan to sell—or have already begun to sell—merchandise online or through mail-order catalogs. These manufacturers will be the most unprepared to administer the complexities of e-commerce and multi-channel reverse logistics management.

Product Positioning and Pitch

E-Return has spoken with apparel manufacturers, industry analysts, and online consumers. Based on this research and continued feedback, E-Return will position itself as the only provider of comprehensive reverse logistics services catering to e-commerce and multi-channel apparel manufacturers. Our marketing and sales pitch will emphasize our ability to enhance customer care and improve financial recovery on returned merchandise. E-Return will work with its charter customers to further refine the marketing efforts and sales pitch to better reflect potential clients' needs.

Once E-Return enlists a client, the manufacturer will be unlikely to defect to a would-be competitor because of the relationship-oriented nature of the business, our apparel focus, switching costs relating the technical systems' interfaces, and a reluctance to sacrifice their customers' return experience.

Pricing

E-Return will utilize a multi-schemed pricing model that reflects the company's various services. Our pricing is designed to align E-Return's incentives with those of the apparel manufacturer. In addition to per-item processing fees, commissions are charged as a percentage of sales to secondary marketers. Clients are billed on a monthly basis.

Customer Acquisition

Costing Model

> *"I have spent some time in the last few months listening to apparel purveyors—brick-and-mortar, pure-play, catalog, retail, some or all of those—talk about returns, and they seem not to have anywhere to go for statistics either."*

Retailers are generally unaware of their actual reverse logistics costs. Consequently, E-Return must educate prospective clients about the costs and complexities associated with this function. E-Return's sales representatives will act as consultants to our clients' technical, accounting, and operations management. Utilizing E-Return's costing model, sales representatives will be able to quantify the true costs of processing, aggregating, and re-selling returned merchandise for each individual client. The model will include the indirect costs associated with a returned good, including warehouse space, labor costs, obsolescence costs, and shrinkage.

Obtaining "Charter" Customers

E-Return will target several small to mid-size apparel manufacturers as "charter" customers with whom we can work to finalize the system requirements. In exchange for their willingness to partner with E-Return during the developmental stage and subsequent publicity campaigns, E-Return will customize and implement our charter customers' systems at no charge and substantially discount initial processing fees.

Costs of Obtaining a New Client

E-Return will begin awareness and brand advertising in November 2000. Periodical advertising and direct mail will be utilized to establish initial contact. Awareness will also be generated through direct phone calls to potential clients before the holiday season. Advertising will increase after the holidays as we will marry the E-Return brand to the anticipated pain associated with post-holiday returns.

Direct sales calls will begin in March of 2001. From the first meeting to the close of the sale (about 3 months), we expect the sales process to include about four meetings between the client and E-Return's management team. E-Return estimates the cost of acquiring a customer to be approximately $40,000. This figure includes all sales-related expenses, including travel, client education, and on-site tours of E-Return's facilities.

Partnerships and Strategic Alliances

E-Return intends to form strategic partnerships with freight providers and complementary technology firms, including vendors specializing in CRM, point-of-sale, and business-to-business exchange software. These relationships will provide increased cost savings and customer acquisition rates for our clients.

Promotion

Capitalizing on the "Charter" Client

Once E-Return proves its ability to effectively manage its "charter" clients' return processes through the peak merchandise returns period following Christmas 2000, the company will aggressively advertise its success through public relations campaigns and sales literature designed to give potential clients a "reason to believe."

Direct Mailings and Web Presence

E-Return will conduct a focused direct-mailing initiative for a select group of small to mid-size multi-channel and purely e-commerce retailers. We will concentrate more marketing dollars to fewer prospects using simple, image-oriented direct mail composed of rich mailings and customized sales literature.

E-Return will also maintain a website that publicizes the company's services and demonstrates how the customer interface portion of our system facilitates the return process for the endconsumer. E-Return's website will feature a costing model that enables our prospective clients to estimate their current reverse logistics costs.

Advertising and Public Relations

E-Return will build industry awareness and brand recognition by advertising in trade publications that cater to operations/logistics executives as well as appropriate mainstream periodicals. In addition, E-Return will aggressively publicize its success with the company's charter clients and participate in industry trade shows and conferences. Finally, E-Return will explore the feasibility of producing a "Best of Breed in the Industry" newsletter to promote the company's services and the benefits of administering effective reverse logistics.

COMPETITION & RISKS

Current and Potential Competition

The following table lists E-Return's current and potential competition by category. Although several companies offer partial reverse logistics solutions to retailers, E-Return offers the only solution combining the benefits of customer care, real-time merchandise disposition control, and total post-transaction supply chain management. For those companies currently handling this function in-house, the process is burdensome, ineffective and especially costly. When made aware of the E-Return solution, these companies will recognize the value of outsourcing their reverse logistics.

Category of Logistics Provider	Multi-Channel, Reverse Logistics Provider	General Logistics Providers	Reverse Logistics Specialists	E-commerce Logistics Specialists	Shippers and Transportation Companies
Examples	E-Return	Consolidated Freight, USF Logistics	GENCO, Consolidated Freightways	NetShip, iShip	United States Postal Service, FedEx, UPS
Reverse Logistics Emphasis	X	X	X		X
Apparel Industry Emphasis	X				
Merchandise Processing Capability	X		X		
Multi-channel Capability	X	X	X	X	
Customer Care Capability	X			X	
Real-time Disposition Control Capability	X				
Secondary Market Exchange	X				
Total Post-Transaction SCM	X				

Current and Potential Competition

Category of Logistics Provider	Multi-Channel, Reverse Logistics Provider	General Logistics Provider	Reverse Logistics Specialists	E-commerce Logistics Specialists	Shippers and Transportation Companies
Examples	E-Return	Consolidated Freight, USF Logistics	GENCO, Consolidated Freightways	NetShip, iShip	United States Postal Service, FedEx, UPS
Reverse Logistics Emphasis	X	X	X		X
Apparel Industry Emphasis	X				
Merchandise Processing Capability	X		X		
Multi-channel Capability	X	X	X	X	
Customer Care Capability	X			X	
Real-time Disposition Control Capability	X				
Secondary Market Exchange	X				
Total Post-Transaction SCM	X				

Competitive Advantage and Sustainability

E-Return's competitive advantage stems from our ability to differentiate ourselves as the only reverse logistics specialist providing multi-channel support exclusive to the apparel industry. As such, the company will capitalize on its "first mover advantage" to establish a proven record of performance before the competition will be able to provide comparable services.

Several factors will help E-Return to sustain its competitive advantage. High barriers to entry include first mover advantages as well as proprietary technology and processes that are difficult, expensive, and time-consuming for competitors to emulate, thus creating a significant timing advantage. High switching costs associated with switching service providers include systems integration and data transfer will protect our customer base. Customized services, extended service contracts, and relationship management will extend the duration of our customers and will protect margins.

Risks

Despite E-Return's expectation to become a leading reverse logistics provider, the company understands the risks associated with the venture. These risks are:

- **Sensitive Launch Time:** E-Return must aggressively pursue and develop a "charter" customer and consequent customer base while it has the first mover advantage.
- **Significant Launch and Ramp-up Costs:** E-Return will incur significant costs associated with leasing fixed assets and developing technology before the company can generate profits.
- **Seasonal Nature of the Business:** E-Return plans to accommodate the seasonal spikes in merchandise

volume with temporary staffing and additional shifts.

- **Potential Competition:** E-Return must aggressively market itself as the only company providing a comprehensive solution for multi-channel retailers. E-Return will develop strong customer relationships and extended service contracts as well as create strong brand equity that will make it difficult for competitors to establish a market presence.

GROWTH & HARVEST

Phase 0: Pre-Launch (January 2000 - June 2000)

Pre-launch will be funded by internal sources. These efforts will focus on four areas: (1) coordinating legal preparation for launch, (2) completing of prototype and commencement of development of technical Phase 1, (3) conducting market research to develop client prospect list and refine approach, and (4) developing key relationships with potential charter customers and disposition channel partners.

Time Frame Event

Jan '00	Commence prototype development
Feb '00	Develop initial web page content and marketing strategy for charter purposes
May '00	Develop relationships with disposition channel partners
May '00	Identify and develop relationships with target charter customers
May '00	Prototype complete
May '00	50 percent of technical Phase 1 development complete—E-Return Return Notification Application (ERRNA) and E-Return Interface Engine (ERIE)

Jan '00	Commence prototype development
Feb '00	Develop initial web page content and marketing strategy for charter purposes
May '00	Develop relationships with disposition channel partners
May '00	Identify and develop relationships with target charter customers
May '00	Prototype complete
May '00	50 percent of technical Phase 1 development complete—E-Return Return Notification Application (ERRNA) and E-Return Interface Engine (ERIE)

USE OF FUNDS: $3.5 million in Series A funding

E-Return will use $3.5 million in Series A funding to complete technical Phase 1 and begin Phase 2—over a 15-18 month period—for eight primary purposes: (1) completing technical Phase 1 development, (2) establishing warehouse and office set-up and staffing, (3) developing an interactive website, (4) acquiring and testing of two charter customers, (5) commencing technical Phase 2 development, (6) ramping-up sales force, (7) building market and brand recognition, and (8) acquiring additional customers.

Phase 1: Launch (June 2000 - February 2001)

Jun '00	Raise $3.5 million in Series A funding
Jun '00	Technology Development team ramp-up
Jun '00	Outsource interactive website
Aug '00	First charter customer acquired
Aug '00	Initiate warehouse lease and begin preliminary set-up
Sep '00	Second charter customer acquired
Oct '00	Warehouse set-up complete
Nov '00	Complete Merchant Interface Application version 1 (MIA 1)
Nov '00	Technical Phase 1 implementation
Nov '00	Finalize technology set-up and training of charter customers
Nov '00	Final testing operation and information flow
Nov '00	Begin pre-holiday mass advertising campaign
Jan '01	Commence Phase 2 technology development efforts

Time Frame	Event
Jun '00	**Raise $3.5 million in Series A funding**
Jun '00	Technology Development team ramp-up
Jun '00	Outsource interactive website
Aug '00	First charter customer acquired
Aug '00	Initiate warehouse lease and begin preliminary set-up
Sep '00	Second charter customer acquired
Oct '00	Warehouse set-up complete
Nov '00	Complete Merchant Interface Application version 1 (MIA1)
Nov '00	Technical Phase 1 implementation
Nov '00	Finalize technology set-up and training of charter customers
Nov '00	Final testing operation and information flow
Nov '00	Begin pre-holiday mass advertising campaign
Jan '01	Commence Phase 2 technology development efforts

Jan '01	Sales force ramp-up
Jan '01	Post-holiday target marketing and brand awareness campaign
Feb '01	Initiate preliminary design sessions with existing customers and management
Feb '01	Commence development of Merchant Interface Application version 2 (MIA2)
Feb '01	Complete customer training literature

Jan '01 Sales force ramp-up
Jan '01 Post-holiday target marketing and brand awareness campaign
Feb '01 Initiate preliminary design sessions with existing customers and management
Feb '01 Commence development of Merchant Interface Application version 2 (MIA2)
Feb '01 Complete customer training literature

Phase 2: Early Growth (March 2001 - March 2003)

Mar '01	Charter customers are converted to full paying customers
Mar '01	Develop network of secondary markets for B2B exchange
Mar '01	Begin direct selling efforts to build customer base
Sep '01	Commence development of Secondary Market Exchange (SME)

Time Frame Event

Mar '01 Charter customers are converted to full paying customers
Mar '01 Develop network of secondary markets for B2B exchange
Mar '01 Begin direct selling efforts to build customer base
Sep '01 Commence development of Secondary Market Exchange (SME)

USE OF FUNDS: $8 million in funding

E-Return will use $8 million in funding—over a 30-36 month rapid-growth period—for four primary purposes: (1) expand warehouse and office set-up, (2) implement second shift of employee and management staffing, (3) complete technical Phase 2 development, and (4) continue to acquire customers. E-Return expects to be cash-positive in March 2004.

Oct '01	Raise $8 million in Series B funding
Oct '01	Warehouse equipment investment
Nov '01	Warehouse employee ramp-up
Jan '02	Sales force ramp-up
Feb '02	Post-Christmas target marketing and brand awareness campaign
Aug '02	Complete customized reporting and analysis tools training information
Aug '02	Expansion to larger warehouse and employee hiring increase
Oct '02	Technical Phase 2 implementation
Dec '02	Implement second shift for holiday and busy seasons
Jan '03	Up-sell existing client base to include brick-and-mortar channel returns

Time Frame	Event
Oct '01	**Raise $8 million in Series B funding**
Oct '01	Warehouse equipment investment
Nov '01	Warehouse employee ramp-up
Jan '02	Sales force ramp-up
Feb '02	Post-Christmas target marketing and brand awareness campaign
Aug '02	Complete customized reporting and analysis tools training information
Aug '02	Expansion to larger warehouse and employee hiring increase
Oct '02	Technical Phase 2 implementation
Dec '02	Implement second shift for holiday and busy seasons
Jan '03	Up-sell existing client base to include brick-and-mortar channel returns

Phase 3: Emerging Growth (March 2003 - June 2005)

Phase 3 will focus on effectively managing E-Return's continued growth. By March 2004, E-Return will establish itself as the reverse logistics provider for the apparel industry. Year 5 will show enormous revenue growth with E-Return handling returns for all of our clients' distribution channels (online, catalog, and brick-and-mortar).

E-Return will develop plans to apply its proprietary software and handling processes to other industries including toys and games and home furnishings. In addition, Back Track will begin to license its proprietary technology to large multi-channel retailers or non-targeted industries for in-house merchandise handling and access to E-Return's Secondary Market Exchange (SME).

Phase 4: Harvest

In 2005, E-Return will earn revenues of $50.8 million and will process over 11 million articles of clothing for 47 clients. By this time, expansion efforts into several industries will have begun.

E-Return will be a prime candidate for strategic acquisition by general logistics providers or transportation providers seeking to expand their service offerings. E-Return will also be an attractive acquisition target for supply chain management software vendors. In addition, E-Return's expertise in managing the growing e-commerce and multi-channel returns market will make the company a strong IPO candidate.

MANAGEMENT TEAM & BOARD OF ADVISORS

The Founders and Management Team

E-Return's founding team represents a solid mix of professional experience and qualifications necessary to develop, launch, and grow an innovative technology and services company in a new logistics environment. Detailed bios on the management team members may be found in Appendix B.

Board of Advisors

E-Return's Board of Advisors currently consists of three individuals. Detailed bios for these individuals may be found in Appendix B. In addition, E-Return is currently pursuing additions to the Board of Advisors to provide experience in the areas of retail logistics and apparel sales.

E-Return has also been introduced to a former chief executive of a leading catalog retailer and is actively pursuing an advisory relationship with this individual.

FINANCIALS

Revenue

E-Return has modeled revenue for our launch market: the apparel industry. Later stage-expansion opportunities into other markets, including toys and games and home furnishings have not been included. In addition, E-Return has not included revenues from the licensing of its proprietary technology for in-house merchandise handling and access to E-Return's Secondary Market Exchange (SME). The table below shows market size, market growth, and market share estimates as well as pricing assumptions:

	Year 1	Year 2	Year 3	Year 4	Year 5
Online Apparel Market Size	$9.7B	$13.7B	$20.1B	$28.3B	$39.5B
Online Apparel Market Growth	71.40%	41.60%	40.00%	40.00%	40.00%
Penetration of Online Market	0.10%	1.00%	5.00%	11.00%	17.00%
E-commerce Units Handled	De minimus	160,000	1,200,000	5,004,000	11,448,000
Revenue	$0.0MM	$0.8MM	$5.7MM	$22.7MM	$50.9MM

Note: Market information obtained from Forrester Research, Gomez Advisors, and Harris Interactive.

	Year 1	Year 2	Year 3	Year 4	Year 5
Note: Market information obtained from Forrester Research, Gomez Advisors, and Harris Interactive.					
Online Apparel Market Size	$9.7B	$13.7B	$20.1B	$28.3B	$39.5B
Online Apparel Market Growth	71.40%	41.60%	40.00%	40.00%	40.00%
Penetration of Online Market	0.10%	1.00%	5.00%	11.00%	17.00%
E-commerce Units Handled	De minimus	160,000	1,200,000	5,004,000	11,448,000
Revenue	$0.0MM	$0.8MM	$5.7MM	$22.7MM	$50.9MM

Expenses

Our gross margin forecasts are the key drivers of value. Gross margins have been calculated utilizing cost analyses for technology development, infrastructure establishment, and initial customer acquisition costs. Costs of operation include the following expense items:

- Warehouse leasing costs (approximately 30 percent)
- Warehouse equipment depreciation (approximately 15 percent)
- All manual labor associated with handling the goods (approximately 55 percent)

In addition, as allowed by FASB principles, software development costs are capitalized and amortized over a period of 36 months. At the point in which the software is "substantially complete" (approximately mid 2002), E-Return will begin to amortize these costs accordingly as costs of operation. The IT Development Costs identified as operating costs will be costs associated with system maintenance and software upgrades based upon our clients' needs.

In addition, analyses of comparable fulfillment and distribution companies' costs were utilized in identifying our costs. These industry comparisons have been adjusted to reflect the cost reduction effects of E-Return's industry specialization, high utilization of assets and information technology, and a unique one-touch handling and disposition process.

Assumptions

Other major assumptions are in the notes of the financial statements in Appendix A. Assumptions include:

- Financial model assumes a five-year horizon with a terminal value calculation.

- Our most likely financial scenario. E-Return performed sensitivity analyses surrounding our key success factors. As such, our funding requests are based upon our worst case scenario, which include information technology overruns, higher warehouse leasing and operating costs, and lastly higher costs of customer acquisition.
- Initial IT development costs are capitalized and amortized in accordance with FASB requirements. In addition to the cost of operations, future IT Development Costs will be expensed as incurred.

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	$0.0MM	$0.8MM	$5.7MM	$22.7MM	$50.9MM
Gross Margin	($0.4MM)	$0.2MM	$1.5MM	$7.2MM	$17.7MM
%	—	22.80%	26.30%	31.90%	34.80%
EBITDA	($1.2MM)	($0.9MM)	($0.5MM)	$3.5MM	$11.4MM
%	—	-116.40%	-8.60%	15.20%	22.30%
EBIT	($1.2MM)	($1.2MM)	($1.0MM)	$2.5MM	$10.0MM
%	—	-151.20%	-17.50%	11.10%	19.70%
Cash balance	$1.0MM	$6.5MM	$3.1MM	$3.8MM	$8.3MM

Summary of Financial Results (Most Likely Scenario)

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	$0.0MM	$0.8MM	$5.7MM	$22.7MM	$50.9MM
Gross Margin	($0.4MM)	$0.2MM	$1.5MM	$7.2MM	$17.7MM
%	—	22.80%	26.30%	31.90%	34.80%
EBITDA	($1.2MM)	($0.9MM)	($0.5MM)	$3.5MM	$11.4MM
%	—	-116.40%	-8.60%	15.20%	22.30%
EBIT	($1.2MM)	($1.2MM)	($1.0MM)	$2.5MM	$10.0MM
%	—	-151.20%	-17.50%	11.10%	19.70%
Cash balance	$1.0MM	$6.5MM	$3.1MM	$3.8MM	$8.3MM

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Operating cash flows	($41)	($2,502)	($2,144)	($3,369)	$1,472	$4,469
Financing/ Investing Cash flow						
Equity cash flow	$3,500		$8,000			$90,854
Cash flows to investor						($33,363)
IRR %	57%					

(in thousands of dollars)

The value of E-Return (including a summary of investor returns)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
(in thousands of dollars)						
Operating cash flows	($41)	($2,502)	($2,144)	($3,369)	$1,472	$4,469
Financing/ Investing Cash flow						
Equity cash flow	$3,500		$8,000			$90,854
Cash flow to investor						($33,363)
IRR %	57%					

The value of the business has been based on cash flows available to equity holders, discounted at a 40 percent post-tax cost of equity. Included in these cash flows is the assumption that the business is sold at the end of year 5. The terminal value for the business (net of debt) has been estimated as $90.9 million, and is based on a terminal earnings multiple of 8 times EBITDA.

This valuation is conservative given that E-Return will be expanding into several different industries subsequent to year 5.

Detailed financial forecasts (which include profit and loss), balance sheets, and cash flow statements are included in the Financial Forecast at the conclusion of this plan.

Funding

E-Return is seeking $3.5 million in initial funding from investors who are familiar with the retail and apparel industry, to finance technology development, warehouse infrastructure development, working capital, and customer acquisition. In return for this investment, E-Return's investors will receive:

- 35 percent equity position in E-Return
- Two seats on the Board of Directors
- An internal rate of return of 57 percent

APPENDIX A: Financial Assumptions & Statements

Assumptions and Financial Decisions:

- 1. Software development costs are capitalized and amortized over a period of 36 months. At the point in which the operations software is "substantially complete" (approximately mid 2002), E-Return will begin to amortize these costs accordingly as costs of operation. Additional IT development costs, which are identified as operating costs, will be associated with system maintenance and software upgrades.
- 2. E-Return's financing request is based upon our worst-case financial position. Sensitivity analyses were performed surrounding the following factors:
- Price reductions for services rendered—upwards to 20 percent
- Gross margin decreases upwards to 10 percent
- Online apparel market penetration rate reductions of 10 percent
- Increased operating expenses in relation to labor and warehouse expenses of approximately 15 percent
- Additional time required to obtain customers
- Other minor shifts in cost and in revenue growths

Due to the time and effort required to raise additional levels of capital, the E-Return team has consciously requested funding based upon the worst-case scenarios identified above. As such, should the most-likely financial situation occur, E-Return intends to utilize the additional cash flow to expand operations quicker.

- E-Return utilized the following conservative revenue assumptions:

Online apparel purchases will not all be returned via shipping as many e-tailers have established return policies to their brick-and-mortar locations. As such, our estimates utilize that approximately 35 percent of all online apparel returns will be returned via shipping (E-Return). The other 65 percent will be returned via other means.

- Online retailers will experience a 15 percent rate of return for online purchases.
- Minimal revenues will be recognized by E-Return for those items processed by our charter customers.
- Revenues from other channels (brick-and-mortar and mail order) will occur over a period of 2 years after our customers' satisfaction with our high level of service.

Projected Apparel Sales by Channel	2001	2002	2003	2004	2005
E-commerce	$9,692	$13,729	$20,181	$28,253	$39,555
Mail Order	$13,251	$14,112	$15,029	$16,006	$17,046
Brick-and-Mortar	$165,017	$165,758	$164,197	$161,129	$154,950

Note: Market information obtained from Forrester Research, Gomez Advisors, and Harris Interactive.

Projected Apparel Sales by Channel	2001	2002	2003	2004	2005

Note: Market information obtained from Forrester Research, Gomez Advisors, and Harris Interactive.

Projected Apparel Sales by Channel	2001	2002	2003	2004	2005
E-commerce	$9,692	$13,729	$20,181	$28,253	$39,555
Mail Order	$13,251	$14,112	$15,029	$16,006	$17,046
Brick-and-Mortar	$165,017	$165,758	$164,197	$161,129	$154,950

APPENDIX B: Management Team & Board of Advisors

The Founders and Management Team

Anthony Ray, President

Mr. Ray is responsible for coordination of company growth and strategy, communications, and intellectual property.

Mr. Ray's experience includes consulting to established and emerging growth companies in the technology, services, and financial sectors with the Center for Applied Strategy (CAST), a West Coast-based management consulting firm specializing in marketing, information technology, and operations strategy and as a senior consultant for KPMG Consulting. Mr. Ray developed information technology strategies to improve operations and enhance customer service, designed marketing strategies and competition assessments in support of product development, market penetration, and acquisition strategies, and enhanced business operations with reengineering and organizational effectiveness strategies. Mr. Ray is pursuing a M.B.A. and a Juris Doctor joint-degree from the University of Missouri at Kansas City. He received a B.A. in economics from Columbia University.

Barton Fitz, Director of Marketing and Sales

Mr. Fitz is responsible for marketing and sales, customer acquisition, and relationship development.

Mr. Fitz's experience includes marketing and sales for the commercial banking and consumer goods industries. While working with the Middle Valley National Bank in Missouri, Mr. Fitz was responsible for the creation of multiple product launch campaigns and institution-wide sales programs. In addition, he designed and developed the bank's Internet site, which included online account access and applications. For IBM, Mr. Fitz developed a strategy and an integrated national marketing plan to penetrate target channels and developed a co-marketing strategy to enhance brand equity positions of the firm and its independent distributors. Mr. Fitz has a B.S. degree in finance from New York University and is pursuing an M.B.A. degree at the University of Missouri at Kansas City.

Robert Romano, CPA, Director of Finance

Mr. Romano is responsible for finance, accounting, and client profitability measurements.

Mr. Romano has over six years of accounting and finance experience with Ernst & Young and Shell Oil. His work included the preparation of an S-1 initial public offering filing as well as a second public stock offering. His experience also included comfort letter, 10K, 10Q, and 8K audit services for well-recognized clients in the insurance, financial services, and manufacturing industries. Lastly, Mr. Romano performed numerous employee benefit plan audits and in doing so gained familiarity with ERISA regulations. Mr. Romano's operational and financial control experience included import/export, manufacturing, and information systems operations. He was extensively involved with the SAP Human Resource and Payroll system implementation. Mr. Romano completed with highest honors his B.S. degree in accountancy at the University of Michigan and is pursuing his M.B.A. at the University of Missouri at Kansas City.

Rachel Summers, Director of Strategic Operations

Ms. Summers is responsible for operations and logistics.

Ms. Summers's experience includes designing, implementing, and managing operations and financial processes and controls for a top-tier financial institution as well as emerging-growth companies. In this capacity, Ms. Summers developed operations and financial processes for global inter-company reconciliation at Credit Suisse Financial Products including transaction level tracking and reconciling and the standardization, timely, and efficient operation of complex procedures. She established and automated financial and operations procedures to manage 100 percent growth at the European headquarters for Weiden & Kennedy, Inc. Ms. Summers developed short-and long-term strategic plans for product and market expansion of Internet start-up, GoPDA.com, through complete solutions for vertical markets and business-to-business opportunities. Ms. Summers received a B.B.A. in finance from the University of Missouri at Kansas City, where she is currently pursuing an M.B.A.

Justin Roberts, Director of Technology

Mr. Roberts is responsible for building E-Return's technical infrastructure, including the development of all new applications, and customer technical implementation and support.

Mr. Roberts brings over 6 years of technical and management experience. He has directed software development teams of up to 10 people in the custom design and development of applications to track, relocate, and redistribute fixed assets for the transportation industry. Mr. Roberts's experience includes the application of Java-based XML integrator technologies in developing web-based applications including the various components and communication protocols that these solutions require and the use of Microsoft's ASP technology to access SQL Server databases. Mr. Roberts has experience managing both full-time and part-time developers to ensure completion of all deliverables under tight time constraints. Mr. Roberts received a B.S. degree in mathematics and operations research from the University of Illinois at Urbana and is pursuing an M.B.A. at the University of Missouri at Kansas City.

Board of Advisors

Profile of William Fanchon

Mr. Fanchon is a full-time faculty member employed as a Senior Lecturer in the Department of Finance at the University of Missouri at Kansas City. Mr. Fanchon has been a voting faculty member since 1980 and instructed over 8,000 students. He has taught multiple sections of the undergraduate small business finance class, multiple sections of the graduate corporate finance classes for small business as well as sections of the graduate Entrepreneurial Process class and graduate Entrepreneurial Harvest class. Mr. Fanchon is associate director of the Center for Small and Middle-Sized Companies which coordinates the Community Minority Business Advancement Program, a 45-hour, 15-session business fundamental courses to minority businessmen and businesswomen in St. Louis, Independence, Springfield, and Kansas City each year. Mr. Fanchon is a regular lecturer in UT's Management Development Programs and Executive Education Programs and has lectured in custom programs at Shell Oil, IBM, Halliburton, M.D. Anderson, Fisher Rosemount, Banco do Brazil, Wayne Dresser, and Dell Computer. He teaches in Executive Education public programs such as Management Institute and Management Challenge programs as well as topical programs such as finance and accounting for nonfinancial managers. He has participated in seminars with the University of Missouri's Executive Program for Agricultural Producers, Small Business Administration, Cen-Tex Certified Development Companies, and Businesses Invest in Growth. He has also traveled to Mexico to lecture in the ITESM Monterey Tech executive education programs as well as the ITESM Ph.D. program. Mr. Fanchon has also served as faculty advisor to the University of Missouri Finance Association and has received numerous teaching awards.

William Fanchon is founder and president of CFO Services, Inc., a Kansas City-based small business financial consulting firm. CFO Services provides an array of business consulting services to owner/managers of private, closely held, and family small and middle-sized businesses. Services include merger and acquisition advisory services, financial and credit analysis, business valuations, loan procurement, SBA loan packaging, loan restructuring, feasibility studies, business planning and strategic planning. Mr. Fanchon has served as an expert witness in divorce cases, dissenting shareholder suits, bankruptcy cases, and business litigation cases. CFO Services has a client list of over 650 small and middle-sized businesses ranging from annual revenues of $100,000 to over $100 million that cross all industry lines including retail, wholesale, manufacturing, construction, high tech, low tech, and service.

William Fanchon has been assisting small business owners in Kansas City since 1977. He incorporated his sole proprietorship, FMC Associates, to form CFO Services, Inc. in 1989. In addition to his consulting practice, Mr. Fanchon is co-owner and vice-president of Hill Country Printing, Inc. Mr. Fanchon serves as an advisory director of a Kansas City independent bank, a recycling company, and a manufacturing company. He also holds a Kansas City real estate salespersons' license.

William Fanchon received his B.B.A. and M.B.A. from the University of Missouri at Kansas City and majored in finance.

Profile of Jason Williams

Mr. Williams brings over 18 years of retail management experience, both merchandising and operations, to E-Return. Currently, Mr. Williams oversees MGM's $30MM annual retail sales operations for all MGM locations. In addition, Mr. Williams's previous experience includes responsibilities as the divisional merchandise manager and general manager for Bullocks department store (a division of R. H. Macy Corporation). Prior to that role, Mr. Williams was the general manager for the Nevada Merchandise Division of the Marriott Corporation. This position entailed management responsibility for 27 stores in the greater Las Vegas area.

Mr. Williams completed his bachelor's degree in business administration at the University of California at Berkeley.

Profile of Abdul Ruiz

Dr. Ruiz is currently an assistant professor in the Management Science and Information Systems Department at the University of Missouri at Kansas City. He is currently teaching Digital Economy and Commerce at the graduate level. His previous teaching experience includes Management Information Systems at the undergraduate level at Indiana State University and Telecommunications for Managers at the graduate level at Columbia College at Chicago.

Dr. Ruiz's research and areas of interest include the economics of information systems and electronic commerce. In particular, his work focuses on the economic characteristics of information goods and how firms producing these goods decide to compete and/or exist efficiently in the market place. Dr. Ruiz provides E-Return with valuable insight into the complexities of business to business exchanges.

Dr. Ruiz received his Ph.D. in MIS from Indiana State University with a specialization in telecommunications, economics of information systems, electronic commerce, and database management.

APPENDIX C: Consumer Survey Results

- 1.What would it take for you to begin purchasing clothing from an online store?
- Free return shipping—very important
- Easy return policy—very important
- Having brick-and-mortar store for return—somewhat important

- 2.At what point would an online return policy discourage you from purchasing?
- = existence of a mandatory 7-day return policy
- = had to pay shipping costs
- = need to acquire an RMA
- 3.2/3 of consumers say that a return policy affects their decisions of from which store to purchase.
- 4.What is most frustrating about a company's return policy?
- Had to pay shipping costs for returns
- Getting to the post office to mail return
- Not knowing the status of a return
- 5.100 percent of respondents indicated they want a pre-printed return label to be included with the merchandise.
- 6. Only 9 percent of respondents like the idea of calling customer service to request an RMA.
- 7.95 percent indicated they expect to individually receive better customer service because they have made multiple purchases from the online store.
- 8.When asked to score the importance of the return policy in choosing an apparel store, the average consumer score was 4.4 (on a scale from 1-5 with 5 = extremely important).
- 9.78 percent feel that customer service is worse in the e-commerce market space compared to the traditional brick-and-mortar channel.
- 10.70 percent need more assurances that their returns will be handled properly because they are purchasing the item online rather than in the traditional brick-and-mortar channel.
- 11.Rather than returning an item because it is defective or because the wrong item was sent, 80 percent of the returns are the result of the item not being what the consumer expected it to be.

Straight from the consumer's mouth…

> "Because I am worried about the return policy, I will probably not buy clothing online."
>
> "If the [return] policy is bad, I will shop elsewhere."
>
> **Note: 66 of 80 survey participants responding.*

APPENDIX D: A Note on E-Return's Technical Infrastructure

As part of its technology solution, E-Return will rely on the use of XML for the transfer of data between organizations. Critical to the adoption of XML are the Document Definition Types (DTDs). DTDs are essentially the mapping of data so that both parties in a data transfer transaction are "speaking the same language." The concept of sharing document definitions is aimed at ensuring that each end of the document exchange is using the same standard.

There are standards being developed in all industries, and the apparel industry in which E-Return operates is no different. The DTDs that exist define invoice content, inventory details, and other similar information.

Recognizing that no one standard is recognized as the dominant standard for the industry, E-Return's solution is designed to handle multiple DTD types. As part of the initial implementation phase, E-Return works with a merchant to determine the appropriate or desired DTD to be used for their customized solution. This step of the implementation phase is required for the organizations and merchants who are sophisticated enough to be using XML interfaces in their business operations. These organizations may be using similar technology in the interaction with their suppliers. E-Return would simply leverage the existing technology already in place. The Merchant Interface Engine is simply an XML integrator that is used to translate XML requests into merchant specific queries to their databases.

Recognizing the importance of being familiar with the standards that govern the exchange of invoice and RMA information between businesses, E-Return intends to participate in the development of the DTD standards when possible.

APPENDIX E: The Status of E-Return's Intellectual Property

As part of E-Return Solutions' technical infrastructure, the company intends to build several novel and non-obvious software applications. Accordingly, E-Return has engaged Thompson, Wall, & Heidenrich to manage the protection of its intellectual property. E-Return is currently filing a provisional patent on its E-Return Interface Exchange (ERIE), Merchant Interface Application (MIA), and the Secondary Market Exchange (SME).

APPENDIX F: E-Return's Fee and Commission Schedule

Name of Fee/Commission	Description	Fee Type	Fee Amount
System Implementation Fee	• Covers system customization and implementation, client education, and all systems consulting	• Flat • One-time	$50,000
System Service and Maintenance Fee	• Covers system maintenance • Covers supply chain reporting capabilities	• Incremental • Periodic	• $2,500 - $4,000 per month
Merchandise Processing Fee	• Covers processing of all items received by the CRC	• Transaction-based	• $1.00-$4.00 per item*
Secondary Market Resale Commission	• Covers costs of secondary market interface and holding costs	• Percentage of resale price	• 7.5 - 12.5%**

** The higher charge reflects the additional costs of receiving and processing individual garments.*
*** The commission rate fluctuates to accommodate clients' varying holding requirements.*

Name of Fee/Commission	Description	Fee Type	Fee Amount
** The higher charge reflects the additional costs of receiving and processing individual garments.*			
*** The commission rate fluctuates to accommodate clients ' varying holding requirements.*			
System Implementation Fee	• Covers system customization and implementation, client education, and all systems consulting	• Flat • One-time	$50,000
System Service and Maintenance Fee	• Covers system maintenance • Covers supply chain reporting capabilities	• Incremental • Periodic	• $2,500 - $4,000 per month
Merchandise Processing Fee	• Covers processing of all items received by the CRC	• Transaction- based	• $1.00-$4.00 per item*
Secondary Market Resale Commission	• Covers costs of secondary market	• Percentage of interface and holding costs	• 7.5 - 12.5%** resale price

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Profit and Loss Analysis (000's): Year 1—2001

Revenues	Jul	Aug	Sep	Q1	Oct	Nov	Dec	Q2
Set-Up Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Service Fee Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Online Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Brick-and-Mortar Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Mail-Order Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Disposition Revenue from Retailers	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cost of Operations (See Assumptions for Details)	$4.3	$30.1	$20.0	$54.3	$20.0	$26.8	$24.8	$71.5
Gross Margin	($4.3)	($30.1)	($20.0)	($54.3)	($20.0)	($26.8)	($24.8)	($71.5)
Operating Expenses								
IT Development Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Marketing	($24.0)	($4.5)	($26.5)	($55.0)	($17.0)	($6.5)	($4.5)	($28.0)
Selling Costs	($0.3)	($0.3)	($20.3)	($20.8)	($10.3)	($10.3)	($0.3)	($20.8)
General & Administrative Costs	($19.5)	($19.5)	($19.5)	($58.5)	($19.5)	($21.8)	($21.8)	($63.1)
Total Operating Expenses	($43.8)	($24.3)	($66.3)	($134.3)	($46.8)	($38.5)	($26.5)	($111.8)
EBITDA	($48.0)	($54.3)	($86.2)	($188.6)	($66.7)	($65.3)	($51.3)	($183.3)
Depreciation	($1.1)	($1.1)	($1.1)	($3.4)	($1.1)	($1.1)	($1.1)	($3.4)
EBIT	($49.1)	($55.5)	($87.4)	($192.0)	($67.9)	($66.4)	($52.4)	($186.7)
Interest Expense	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
EBT	($49.1)	($55.5)	($87.4)	($192.0)	($67.9)	($66.4)	($52.4)	($186.7)
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NPAT	($49.1)	($55.5)	($87.4)	($192.0)	($67.9)	($66.4)	($52.4)	($186.7)
Financial Summary Ratios								
Gross Margin %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EBITDA %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EBT %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NPAT %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Revenues	**Jul**	**Aug**	**Sep**	**Q1**	**Oct**	**Nov**	**Dec**	**Q2**
Set-Up Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Service Fee Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Online Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Brick-and-Mortar Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Mail-Order Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Disposition Revenue from Retailers	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenues	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Cost of Operations (See Assumptions for Details)	$4.3	$30.1	$20.0	$54.3	$20.0	$26.8	$24.8	$71.5
Gross Margin	($4.3)	($30.1)	($20.0)	($54.3)	($20.0)	($26.8)	($24.8)	($71.5)
Operating Expenses								
IT Development Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Marketing	($24.0)	($4.5)	($26.5)	($55.0)	($17.0)	($6.5)	($4.5)	($28.0)
Selling Costs	($0.3)	($0.3)	($20.3)	($20.8)	($10.3)	($10.3)	($0.3)	($20.8)
General & Administrative Costs	($19.5)	($19.5)	($19.5)	($58.5)	($19.5)	($21.8)	($21.8)	($63.1)
Total Operating Expenses	**($43.8)**	**($24.3)**	**($66.3)**	**($134.3)**	**($46.8)**	**($38.5)**	**($26.5)**	**($111.8)**
EBITDA	($48.0)	($54.3)	($86.2)	($188.6)	($66.7)	($65.3)	($51.3)	($183.3)
Depreciation	($1.1)	($1.1)	($1.1)	($3.4)	($1.1)	($1.1)	($1.1)	($3.4)
EBIT	($49.1)	($55.5)	($87.4)	($192.0)	($67.9)	($66.4)	($52.4)	($186.7)
Interest Expense	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
EBT	($49.1)	($55.5)	($87.4)	($192.0)	($67.9)	($66.4)	($52.4)	($186.7)
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NPAT	($49.1)	($55.5)	($87.4)	($192.0)	($67.9)	($66.4)	($52.4)	($186.7)

Revenues	**Jul**	**Aug**	**Sep**	**Q1**	**Oct**	**Nov**	**Dec**	**Q2**
Financial Summary Ratios								
Gross Margin %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EBITDA %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EBT %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NPAT %	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Jan	Feb	Mar	Q3	Apr	May	Jun	Q4	Total
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
$27.8	$23.8	$23.8	$75.3	$27.6	$27.6	$27.6	$82.8	$283.9
($27.8)	($23.8)	($23.8)	($75.3)	($27.6)	($27.6)	($27.6)	($82.8)	($283.9)
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($29.5)	($6.5)	($4.5)	($40.5)	($9.0)	($4.5)	($6.5)	($20.0)	($143.5)
($10.3)	($20.3)	($20.3)	($50.8)	($10.3)	($10.3)	($10.3)	($30.8)	($123.0)
($21.8)	($21.8)	($21.8)	($65.3)	($21.8)	($21.8)	($21.8)	($65.3)	($252.2)
($61.5)	($48.5)	($46.5)	($156.6)	($41.0)	($36.5)	($38.5)	($116.1)	($518.7)
($89.3)	($72.3)	($70.3)	($231.9)	($68.6)	($64.1)	($66.1)	($198.8)	($802.6)
($1.1)	($1.1)	($1.1)	($3.4)	($1.1)	($1.1)	($1.1)	($3.4)	($13.6)
($90.4)	($73.4)	($71.4)	($235.3)	($69.7)	($65.2)	($67.2)	($202.2)	($816.3)
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($90.4)	($73.4)	($71.4)	($235.3)	($69.7)	($65.2)	($67.2)	($202.2)	($816.3)
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($90.4)	($73.4)	($71.4)	($235.3)	($69.7)	($65.2)	($67.2)	($202.2)	($816.3)
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Jan	**Feb**	**Mar**	**Q3**	**Apr**	**May**	**Jun**	**Q4**	**Total**
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$0.0	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
$27.8	$23.8	$23.8	$75.3	$27.6	$27.6	$27.6	$82.8	$283.9
($27.8)	($23.8)	($23.8)	($75.3)	($27.6)	($27.6)	($27.6)	($82.8)	($283.9)
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($29.5)	($6.5)	($4.5)	($40.5)	($9.0)	($4.5)	($6.5)	($20.0)	($143.5)
($10.3)	($20.3)	($20.3)	($50.8)	($10.3)	($10.3)	($10.3)	($30.8)	($123.0)
($21.8)	($21.8)	($21.8)	($65.3)	($21.8)	($21.8)	($21.8)	($65.3)	($252.2)
($61.5)	**($48.5)**	**($46.5)**	**($156.6)**	**($41.0)**	**($36.5)**	**($38.5)**	**($116.1)**	**($518.7)**
($89.3)	($72.3)	($70.3)	($231.9)	($68.6)	($64.1)	($66.1)	($198.8)	($802.6)
($1.1)	($1.1)	($1.1)	($3.4)	($1.1)	($1.1)	($1.1)	($3.4)	($13.6)
($90.4)	($73.4)	($71.4)	($235.3)	($69.7)	($65.2)	($67.2)	($202.2)	($816.3)
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($90.4)	($73.4)	($71.4)	($235.3)	($69.7)	($65.2)	($67.2)	($202.2)	($816.3)

Jan	Feb	Mar	Q3	Apr	May	Jun	Q4	Total
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($90.4)	($73.4)	($71.4)	($235.3)	($69.7)	($65.2)	($67.2)	($202.2)	($816.3)
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Profit and Loss Analysis (000's): Years 2-5—2002-2005

	2002/Q1	2002/Q2	2002/Q3	2002/Q4	Total 2002
Revenues					
Set-Up Revenues	$0.0	$0.0	$0.0	$0.0	$0.0
Service Fee Revenues	$30.0	$30.0	$30.0	$30.0	$120.0
Online Revenue	$26.5	$44.2	$79.6	$26.5	$177.0
Brick-and-Mortar Revenues	$348.6	$581.1	$1,045.9	$348.6	$2,324.3
Mail-Order Revenues	$79.2	$131.9	$237.5	$79.2	$527.7
Disposition Revenue from Retailers	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenues	$484.3	$787.2	$1,393.0	$484.3	$3,149.0
Cost of Operations (See Assumptions for Details)	$351.9	$586.5	$1,055.7	$351.9	$2,346.0
Gross Margin	$132.4	$200.7	$337.3	$132.4	$803.0
Operating Expenses					
IT Development Costs	($47.2)	($47.2)	($23.6)	($39.4)	($157.4)
Marketing	($28.3)	($47.2)	($94.5)	($18.9)	($188.9)
Selling Costs	($15.7)	($15.7)	($15.7)	($15.7)	($63.0)
General & Administrative Costs	($55.1)	($55.1)	($55.1)	($55.1)	($220.4)
Total Operating Expenses	($146.4)	($165.3)	($188.9)	($129.1)	($629.8)
EBITDA	($14.0)	$35.4	$148.4	$3.3	$173.2
Depreciation	($48.0)	($48.0)	($48.0)	($48.0)	($192.1)
EBIT	($62.0)	($12.6)	$100.4	($44.7)	($18.9)
Interest Expense	$0.0	$0.0	$0.0	$0.0	$0.0
EBT	($62.0)	($12.6)	$100.4	($44.7)	($18.9)
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0
NPAT	($62.0)	($12.6)	$100.4	($44.7)	($18.9)
Financial Summary Ratios					
Gross Margin %	27.3%	25.5%	24.2%	27.3%	25.5%
EBITDA %	-2.9%	4.5%	10.7%	0.7%	5.5%
EBT %	-12.8%	-1.6%	7.2%	-9.2%	-0.6%
NPAT %	-12.8%	-1.6%	7.2%	-9.2%	-0.6%

	2002/Q1	2002/Q2	2002/Q3	2002/Q4	Total 2002
Revenues					
Set-Up Revenues	$0.0	$0.0	$0.0	$0.0	$0.0
Service Fee Revenues	$30.0	$30.0	$30.0	$30.0	$120.0
Online Revenue	$26.5	$44.2	$79.6	$26.5	$177.0
Brick-and-Mortar Revenues	$348.6	$581.1	$1,045.9	$348.6	$2,324.3
Mail-Order Revenues	$79.2	$131.9	$237.5	$79.2	$527.7
Disposition Revenue from Retailers	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenues	**$484.3**	**$787.2**	**$1,393.0**	**$484.3**	**$3,149.0**
Cost of Operations (See Assumptions for Details)	$351.9	$586.5	$1,055.7	$351.9	$2,346.0
Gross Margin	$132.4	$200.7	$337.3	$132.4	$803.0
Operating Expenses					
IT Development Costs	($47.2)	($47.2)	($23.6)	($39.4)	($157.4)
Marketing	($28.3)	($47.2)	($94.5)	($18.9)	($188.9)
Selling Costs	($15.7)	($15.7)	($15.7)	($15.7)	($63.0)

	2002/Q1	2002/Q2	2002/Q3	2002/Q4	Total 2002
General & Administrative Costs	($55.1)	($55.1)	($55.1)	($55.1)	($220.4)
Total Operating Expenses	**($146.4)**	**($165.3)**	**($188.9)**	**($129.1)**	**($629.8)**
EBITDA	($14.0)	$35.4	$148.4	$3.3	$173.2
Depreciation	($48.0)	($48.0)	($48.0)	($48.0)	($192.1)
EBIT	($62.0)	($12.6)	$100.4	($44.7)	($18.9)
Interest Expense	$0.0	$0.0	$0.0	$0.0	$0.0
EBT	($62.0)	($12.6)	$100.4	($44.7)	($18.9)
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0
NPAT	($62.0)	($12.6)	$100.4	($44.7)	($18.9)
Financial Summary Ratios					
Gross Margin %	27.3%	25.5%	24.2%	27.3%	25.5%
EBITDA %	-2.9%	4.5%	10.7%	0.7%	5.5%
EBT %	-12.8%	-1.6%	7.2%	-9.2%	-0.6%
NPAT %	-12.8%	-1.6%	7.2%	-9.2%	-0.6%

2003/Q1	2003/Q2	2003/Q3	2003/Q4	Total 2003	2004	2005
$37.5	$37.5	$37.5	$37.5	$150.0	$250.0	$350.0
$52.5	$52.5	$52.5	$52.5	$210.0	$360.0	$570.0
$195.1	$325.2	$585.4	$195.1	$1,300.8	$4,370.8	$8,741.6
$968.7	$1,614.5	$2,906.0	$968.7	$6,457.9	$11,847.9	$24,029.8
$217.3	$362.1	$651.8	$217.3	$1,448.3	$3,338.2	$5,516.7
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$1,471.1	$2,391.8	$4,233.2	$1,471.1	$9,567.0	$20,166.8	$39,208.0
$247.8	$366.8	$407.4	$368.4	$7,003.1	$14,419.3	$28,033.8
$384.6	$641.0	$1,153.8	$384.6	$2,564.0	$5,747.6	$11,174.3
($86.1)	($86.1)	($43.1)	($71.8)	($287.0)	($403.3)	($784.2)
($229.6)	($229.6)	($57.4)	($57.4)	($574.0)	($806.7)	($1,176.2)
($23.9)	($23.9)	($23.9)	($23.9)	($95.7)	($100.8)	($196.0)
($215.3)	($215.3)	($215.3)	($215.3)	($861.0)	($1,815.0)	($3,528.7)
($554.9)	($554.9)	($339.6)	($368.3)	($1,817.7)	($3,125.9)	($5,685.2)
($170.3)	$86.1	$814.2	$16.3	$746.2	$2,621.7	$5,489.1
($69.5)	($69.5)	($69.5)	($69.5)	($278.1)	($587.2)	($491.9)
($239.8)	$16.6	$744.6	($53.3)	$468.1	$2,034.5	$4,997.2
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($239.8)	$16.6	$744.6	($53.3)	$468.1	$2,034.5	$4,997.2
$0.0	($6.0)	($268.1)	$0.0	$0.0	($570.4)	($1,799.0)
($239.8)	$10.6	$476.6	($53.3)	$468.1	$1,464.1	$3,198.2
26.1%	26.8%	27.3%	26.1%	26.8%	28.5%	28.5%
-11.6%	3.6%	19.2%	1.1%	7.8%	13.0%	14.0%
-16.3%	0.7%	17.6%	-3.6%	4.9%	10.1%	12.7%
-16.3%	0.4%	11.3%	-3.6%	4.9%	7.3%	8.2%

2003/Q1	**2003/Q2**	**2003/Q3**	**2003/Q4**	**Total 2003**	**2004**	**2005**
$37.5	$37.5	$37.5	$37.5	$150.0	$250.0	$350.0
$52.5	$52.5	$52.5	$52.5	$210.0	$360.0	$570.0
$195.1	$325.2	$585.4	$195.1	$1,300.8	$4,370.8	$8,741.6
$968.7	$1,614.5	$2,906.0	$968.7	$6,457.9	$11,847.9	$24,029.8
$217.3	$362.1	$651.8	$217.3	$1,448.3	$3,338.2	$5,516.7
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
$1,471.1	**$2,391.8**	**$4,233.2**	**$1,471.1**	**$9,567.0**	**$20,166.8**	**$39,208.0**
$247.8	$366.8	$407.4	$368.4	$7,003.1	$14,419.3	$28,033.8
$384.6	$641.0	$1,153.8	$384.6	$2,564.0	$5,747.6	$11,174.3
($86.1)	($86.1)	($43.1)	($71.8)	($287.0)	($403.3)	($784.2)

2003/Q1	2003/Q2	2003/Q3	2003/Q4	Total 2003	2004	2005
($229.6)	($229.6)	($57.4)	($57.4)	($574.0)	($806.7)	($1,176.2)
($23.9)	($23.9)	($23.9)	($23.9)	($95.7)	($100.8)	($196.0)
($215.3)	($215.3)	($215.3)	($215.3)	($861.0)	($1,815.0)	($3,528.7)
($554.9)	**($554.9)**	**($339.6)**	**($368.3)**	**($1,817.7)**	**($3,125.9)**	**($5,685.2)**
($170.3)	$86.1	$814.2	$16.3	$746.2	$2,621.7	$5,489.1
($69.5)	($69.5)	($69.5)	($69.5)	($278.1)	($587.2)	($491.9)
($239.8)	$16.6	$744.6	($53.3)	$468.1	$2,034.5	$4,997.2
$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
($239.8)	$16.6	$744.6	($53.3)	$468.1	$2,034.5	$4,997.2
$0.0	($6.0)	($268.1)	$0.0	$0.0	($570.4)	($1,799.0)
($239.8)	$10.6	$476.6	($53.3)	$468.1	$1,464.1	$3,198.2
26.1%	26.8%	27.3%	26.1%	26.8%	28.5%	28.5%
-11.6%	3.6%	19.2%	1.1%	7.8%	13.0%	14.0%
-16.3%	0.7%	17.6%	-3.6%	4.9%	10.1%	12.7%
-16.3%	0.4%	11.3%	-3.6%	4.9%	7.3%	8.2%

Balance Sheet Analysis (000's): Year 1—2001

	Current Position	Investment Adjustments	Post Investment	Jul	Aug	Sep	Q1	Oct	Nov
Current Assets									
Cash	$0	$1,500	$1,500	$1,432	$1,237	$1,112	$1,112	$959	$856
Receivables	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other	$0	$0	$0	$10	$10	$10	$10	$10	$10
Total Current Assets	$0	$1,500	$1,500	$1,442	$1,247	$1,122	$1,122	$969	$866
Non-Current Assets									
Property, plant, and equipment (including software & hardware)	$41	$0	$41	$61	$202	$241	$241	$327	$364
Accumulated depreciation	$0	$(1)	$(2)	$(3)	$(3)	$(5)	$(6)	$(7)	$(7)
Net Assets	$41	$0	$41	$60	$199	$237	$237	$322	$358
Total Assets	$41	$1,500	$1,541	$1,502	$1,446	$1,359	$1,359	$1,291	$1,225
Current Liabilities									
Payables	$0	$0	$0	$10	$10	$10	$10	$10	$10
Revolving Line of Credit	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Current Liabilities	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Current Liabilities	$0	$0	$0	$10	$10	$10	$10	$10	$10
Non-Current Liabilities									
Long-Term Borrowings	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Liabilities	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Liabilities	$0	$0	$0	$10	$10	$10	$10	$10	$10
Net Assets	$41	$1,500	$1,541	$1,492	$1,436	$1,349	$1,349	$1,281	$1,215
Issued Capital	$250	$1,500	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750
Retained Earnings	$(209)	$0	$(209)	$(258)	$(314)	$(401)	$(401)	$(469)	$(535)
Total Shareholders Equity	$41	$0	$1,541	$1,492	$1,436	$1,349	$1,349	$1,281	$1,215

	Current Position	Investment Adjustments	Post Investment	Jul	Aug	Sep	Q1	Oct	Nov
Current Assets									
Cash	$0	$1,500	$1,500	$1,432	$1,237	$1,112	$1,112	$959	$856
Receivables	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other	$0	$0	$0	$10	$10	$10	$10	$10	$10
Total Current Assets	**$0**	**$1,500**	**$1,500**	**$1,442**	**$1,247**	**$1,122**	**$1,122**	**$969**	**$866**
Non-Current Assets									

	Current Position	Investment Adjustments	Post Investment	Jul	Aug	Sep	Q1	Oct	Nov
Property, plant, and equipment (including software & hardware)	$41	$0	$41	$61	$202	$241	$241	$327	$364
Accumulated depreciation	$0	$(1)	$(2)	$(3)	$(3)	$(5)	$(6)	$(7)	$(7)
Net Assets	$41	$0	$41	$60	$199	$237	$237	$322	$358
Total Assets	**$41**	**$1,500**	**$1,541**	**$1,502**	**$1,446**	**$1,359**	**$1,359**	**$1,291**	**$1,225**
Current Liabilities									
Payables	$0	$0	$0	$10	$10	$10	$10	$10	$10
Revolving Line of Credit	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Current Liabilities	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Current Liabilities	$0	$0	$0	$10	$10	$10	$10	$10	$10
Non-Current Liabilities									
Long-Term Borrowings	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Liabilities	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Liabilities	$0	$0	$0	$10	$10	$10	$10	$10	$10
Net Assets	**$41**	**$1,500**	**$1,541**	**$1,492**	**$1,436**	**$1,349**	**$1,349**	**$1,281**	**$1,215**
Issued Capital	$250	$1,500	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750
Retained Earnings	$(209)	$0	$(209)	$(258)	$(314)	$(401)	$(401)	$(469)	$(535)
Total Shareholders Equity	**$41**	**$0**	**$1,541**	**$1,492**	**$1,436**	**$1,349**	**$1,349**	**$1,281**	**$1,215**

Dec	Q2	Jan	Feb	Mar	Q3	Apr	May	Jun	Q4	Total
$775	$775	$656	$555	$455	$455	$351	$258	$162	$162	$162
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$785	$785	$666	$565	$465	$465	$361	$268	$172	$172	$172
$394	$394	$423	$453	$483	$483	$517	$547	$576	$576	$576
$(8)	$(9)	$(10)	$(10)	$(11)	$(12)	$(14)	$(14)	$(14)	$(14)	$(14)
$387	$387	$415	$444	$472	$472	$506	$534	$563	$563	$563
$1,172	$1,172	$1,082	$1,008	$937	$937	$867	$802	$735	$735	$735
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$1,172	$1,162	$1,072	$998	$927	$927	$857	$792	$725	$725	$725
$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750
$(588)	$(588)	$(678)	$(752)	$(823)	$(823)	$(893)	$(958)	$(1,025)	$(1,025)	$(1,025)
$1,162	$1,162	$1,072	$998	$927	$927	$857	$792	$725	$725	$725

Dec	Q2	Jan	Feb	Mar	Q3	Apr	May	Jun	Q4	Total
$775	$775	$656	$555	$455	$455	$351	$258	$162	$162	$162
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$785	**$785**	**$666**	**$565**	**$465**	**$465**	**$361**	**$268**	**$172**	**$172**	**$172**
$394	$394	$423	$453	$483	$483	$517	$547	$576	$576	$576
$(8)	$(9)	$(10)	$(10)	$(11)	$(12)	$(14)	$(14)	$(14)	$(14)	$(14)
$387	$387	$415	$444	$472	$472	$506	$534	$563	$563	$563
$1,172	**$1,172**	**$1,082**	**$1,008**	**$937**	**$937**	**$867**	**$802**	**$735**	**$735**	**$735**
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$10	$10	$10	$10	$10	$10	$10	$10	$10	**$10**	**$10**
$1,172	**$1,162**	**$1,072**	**$998**	**$927**	**$927**	**$857**	**$792**	**$725**	**$725**	**$725**
$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750
$(588)	$(588)	$(678)	$(752)	$(823)	$(823)	$(893)	$(958)	$(1,025)	$(1,025)	$(1,025)
$1,162	**$1,162**	**$1,072**	**$998**	**$927**	**$927**	**$857**	**$792**	**$725**	**$725**	**$725**

Balance Sheet Analysis (000's): Years 2-5—2002-2005

	2002/Q1	2002/Q2	2002/Q3	2002/Q4	Total 2002	2003/Q1	2003/Q2	2003/Q3
Current Assets								
Cash	$511	$416	$365	$1,987	$1,987	$1,513	$1,517	$1,803
Receivables	$319	$519	$918	$319	$319	$970	$1,577	$2,791
Other	$10	$10	$10	$10	$10	$0	$0	$0
Total Current Assets	$840	$945	$1,293	$2,317	$2,317	$2,483	$3,094	$4,594
Non-Current Assets								
Property, plant, and equipment (including software & hardware)	$624	$704	$804	$834	$834	$1,486	$1,673	$1,746
Accumulated depreciation	$(62)	$(110)	$(158)	$(206)	$(206)	$(275)	$(345)	$(414)
Net Assets	$562	$594	$646	$629	$629	$1,211	$1,328	$1,332
Total Assets	$1,402	$1,539	$1,939	$2,945	$2,945	$3,693	$4,423	$5,926
Current Liabilities								
Payables	$240	$389	$689	$240	$240	$727	$1,183	$2,093
Revolving Line of Credit	$500	$500	$500	$0	$0	$500	$500	$500
Other Current Liabilities	$0	$0	$0	$0	$0	$0	$0	$0
Total Current Liabilities	$740	$889	$1,189	$240	$240	$1,227	$1,683	$2,593
Non-Current Liabilities								
Long-Term Borrowings	$0	$0	$0	$0	$0	$0	$0	$0
Other Liabilities	$0	$0	$0	$0	$0	$0	$265	$381
Total Liabilities	$740	$889	$1,189	$240	$240	$1,227	$1,948	$2,974
Net Assets	$663	$650	$750	$2,706	$2,706	$2,466	$2,475	$2,952
Issued Capital	$1,750	$1,750	$1,750	$3,750	$3,750	$3,750	$3,750	$3,750
Retained Earnings	$(1,087)	$(1,100)	$(1,000)	$(1,044)	$(1,044)	$(1,284)	$(1,274)	$(797)
Total Shareholders Equity	$663	$650	$750	$2,706	$2,706	$2,466	$2,476	$2,953

	2002/Q 1	2002/Q 2	2002/Q 3	2002/Q 4	Total 2002	2003/Q 1	2003/Q 2	2003/Q 3
Current Assets								
Cash	$511	$416	$365	$1,987	$1,987	$1,513	$1,517	$1,803
Receivables	$319	$519	$918	$319	$319	$970	$1,577	$2,791
Other	$10	$10	$10	$0	$10	$0	$0	$0

	2002/Q 1	**2002/Q 2**	**2002/Q 3**	**2002/Q 4**	**Total 2002**	**2003/Q 1**	**2003/Q 2**	**2003/Q 3**
Total Current Assets	**$840**	**$945**	**$1,293**	**$2,317**	**$2,317**	**$2,483**	**$3,094**	**$4,594**
Non-Current Assets Property, plant, and equipment (including software & hardware)	$624	$704	$804	$834	$834	$1,486	$1,673	$1,746
Accumulated depreciation	$(62)	$(110)	$(158)	$(206)	$(206)	$(275)	$(345)	$(414)
Net Assets	$562	$594	$646	$629	$629	$1,211	$1,328	$1,332
Total Assets	**$1,402**	**$1,539**	**$1,939**	**$2,945**	**$2,945**	**$3,693**	**$4,423**	**$5,926**
Current Liabilities								
Payables	$240	$389	$689	$240	$240	$727	$1,183	$2,093
Revolving Line of Credit	$500	$500	$500	$0	$0	$500	$500	$500
Other Current Liabilities	$0	$0	$0	$0	$0	$0	$0	$0
Total Current Liabilities	**$740**	**$889**	**$1,189**	**$240**	**$240**	**$1,227**	**$1,683**	**$2,593**
Non-Current Liabilities								
Long-Term Borrowings	$0	$0	$0	$0	$0	$0	$0	$0
Other Liabilities	$0	$0	$0	$0	$0	$0	$265	$381
Total Liabilities	$740	$889	$1,189	$240	$240	$1,227	$1,948	$2,974
Net Assets	**$663**	**$650**	**$750**	**$2,706**	**$2,706**	**$2,466**	**$2,475**	**$2,952**
Issued Capital	$1,750	$1,750	$1,750	$3,750	$3,750	$3,750	$3,750	$3,750
Retained Earnings	$(1,087)	$(1,100)	$(1,000)	$(1,044)	$(1,044)	$(1,284)	$(1,274)	$(797)
Total Shareholders Equity	**$663**	**$650**	**$750**	**$2,706**	**$2,706**	**$2,466**	**$2,476**	**$2,953**

2003/Q4	Total 2003	2004	2005
$1,415	$1,415	$2,630	$5,138
$970	$970	$3,315	$6,445
$0	$0	$0	$0
$2,385	$2,385	$5,946	$11,583
$1,803	$1,803	$2,052	$2,452
$(484)	$(484)	$(1,071)	$(1,563)
$1,319	$1,319	$981	$889
$3,704	$3,704	$6,927	$12,472
$727	$727	$2,486	$4,834
$0	$0	$0	$0
$0	$0	$0	$0
$727	$727	$2,486	$4,834
$0	$0	$0	$0
$77	$77	$77	$77
$804	$804	$2,563	$4,911
$2,899	$2,899	$4,363	$7,561
$3,750	$3,750	$3,750	$3,750
$(850)	$(850)	$614	$3,812
$2,900	$2,900	$4,364	$7,562

2003/Q4	**Total 2003**	**2004**	**2005**
$1,415	$1,415	$2,630	$5,138
$970	$970	$3,315	$6,445
$0	$0	$0	$0
$2,385	**$2,385**	**$5,946**	**$11,583**
$1,803	$1,803	$2,052	$2,452

2003/Q4	Total 2003	2004	2005
$(484)	$(484)	$(1,071)	$(1,563)
$1,319	$1,319	$981	$889
$3,704	**$3,704**	**$6,927**	**$12,472**
$727	$727	$2,486	$4,834
$0	$0	$0	$0
$0	$0	$0	$0
$727	**$727**	**$2,486**	**$4,834**
$0	$0	$0	$0
$77	$77	$77	$77
$804	$804	$2,563	$4,911
$2,899	**$2,899**	**$4,363**	**$7,561**
$3,750	$3,750	$3,750	$3,750
$(850)	$(850)	$614	$3,812
$2,900	**$2,900**	**$4,364**	**$7,562**

Cash Flow Statement: Year 1—2001

Cashflow Analysis	1/1 thru 6/30 2000 $	Forecast Jul 01 $ Jul 00	Aug 01 $ Aug 00	Sep 01 $ Sep 00	Oct 01 $ Oct 00	Nov 01 $ Nov 00	Dec 01 $ Dec 00	Jan 01 $ Jan 01	Feb 01 $ Feb 01
Opening Balance Cash (7/1/xx)	$41	$1,500	$1,432	$1,237	$1,112	$959	$856	$775	$656
EBITDA		($48)	($54)	($86)	($67)	($65)	($51)	($89)	($72)
Less Interest		$0	$0	$0	$0	$0	$0	$0	$0
Less Tax		$0	$0	$0	$0	$0	$0	$0	$0
Less Change in Working Capital		$0	$0	$0	$0	$0	$0	$0	$0
Less CAPEX	($41)	($20)	($140)	($39)	($86)	($37)	($30)	($30)	($30)
Long-term Debt		$0	$0	$0	$0	$0	$0	$0	$0
Financing Activity	$1,500	$0	$0	$0	$0	$0	$0	$0	$0
Dividends Paid		$0	$0	$0	$0	$0	$0	$0	$0
Closing Balance Cash (6/30/xx)	$1,500	$1,432	$1,237	$1,112	$959	$856	$775	$656	$555

Back Track Solutions (Most Likely Scenario)

Cashflow Analysis	**1/1 thru 6/30 2000 $**	**Forecast Jul 01 $ Jul 00**	**Aug 01 $ Aug 00**	**Sep 01 $ Sep 00**	**Oct 01 $ Oct 00**	**Nov 01 $ Nov 00**	**Dec 01 $ Dec 00**	**Jan 01 $ Jan 01**	**Feb 01 $ Feb 01**
Opening Balance Cash (7/1/xx) EBITDA	$41	$1,500	$1,432	$1,237	$1,112	$959	$856	$775	$656
EBITDA		($48)	($54)	($86)	($67)	($65)	($51)	($89)	($72)
Less Interest		$0	$0	$0	$0	$0	$0	$0	$0
Less Tax		$0	$0	$0	$0	$0	$0	$0	$0
Less Change in Working Capital		$0	$0	$0	$0	$0	$0	$0	$0
Less CAPEX	($41)	($20)	($140)	($39)	($86)	($37)	($30)	($30)	($30)
Long-term Debt		$0	$0	$0	$0	$0	$0	$0	$0
Financing Activity	$1,500	$0	$0	$0	$0	$0	$0	$0	$0
Dividends Paid		$0	$0	$0	$0	$0	$0	$0	$0

Back Track Solutions (Most Likely Scenario)

	1/1 thru 6/30	——Forecast——							
Cashflow Analysis	**2000**	**Jul 01**	**Aug 01**	**Sep 01**	**Oct 01**	**Nov 01**	**Dec 01**	**Jan 01**	**Feb 01**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
		Jul 00	**Aug 00**	**Sep 00**	**Oct 00**	**Nov 00**	**Dec 00**	**Jan 01**	**Feb 01**
Closing Balance Cash (6/30/xx)	**$1,500**	**$1,432**	**$1,237**	**$1,112**	**$959**	**$856**	**$775**	**$656**	**$555**

Cash Flow Statement: Years 2-5—2002-2005

Cashflow Analysis	2002/Q1 $ Jul-Sep	2002/Q2 $ Oct-Dec	2002/Q3 $ Jan-Mar	2002/Q4 $ Apr-Jun	2003/Q1 $ Jul-Sep	2003/Q2 $ Oct-Dec
Opening Balance Cash (7/1/xx)	$162	$511	$416	$365	$1,987	$1,513
EBITDA	($14)	$35	$148	$3	($170)	$86
Less Interest	$0	$0	$0	$0	$0	$0
Less Tax	$0	$0	$0	$0	$0	$0
Less Change in Working Capital	$410	($50)	($100)	($350)	$347	$106
Less CAPEX	($47)	($80)	($100)	($30)	($652)	($187)
Long-term Debt	$0	$0	$0	$0	$0	$0
Financing Activity	$0	$0	$0	$2,000	$0	$0
Dividends Paid	$0	$0	$0	$0	$0	$0
Closing Balance Cash (6/30/xx)	$511	$416	$365	$1,987	$1,513	$1,517

Cashflow Analysis	**2002/Q1**	**2002/Q2**	**2002/Q3**	**2002/Q4**	**2003/Q1**	**2003/Q2**
	$	**$**	**$**	**$**	**$**	**$**
	Jul-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun**	**Jul-Sep**	**Oct-Dec**
Opening Balance Cash (7/1/xx)	$162	$511	$416	$365	$1,987	$1,513
EBITDA	($14)	$35	$148	$3	($170)	$86
Less Interest	$0	$0	$0	$0	$0	$0
Less Tax	$0	$0	$0	$0	$0	$0
Less Change in Working Capital	$410	($50)	($100)	($350)	$347	$106
Less CAPEX	($47)	($80)	($100)	($30)	($652)	($187)
Long-term Debt	$0	$0	$0	$0	$0	$0
Financing Activity	$0	$0	$0	$2,000	$0	$0
Dividends Paid	$0	$0	$0	$0	$0	$0
Closing Balance Cash (6/30/xx)	**$511**	**$416**	**$365**	**$1,987**	**$1,513**	**$1,517**

Mar 01	Apr 01	May 01	Jun 01
$	$	$	$
Mar 01	Apr 01	May 01	Jun 01
$555	$455	$351	$258
($70)	($69)	($64)	($66)
$0	$0	$0	$0
$0	$0	$0	$0
$0	$0	$0	$0
($30)	($35)	($30)	($30)
$0	$0	$0	$0
$0	$0	$0	$0
$0	$0	$0	$0
$455	$351	$258	$162

Mar 01	Apr 01	May 01	Jun 01
$	**$**	**$**	**$**
Mar 01	**Apr 01**	**May 01**	**Jun 01**
$555	$455	$351	$258
($70)	($69)	($64)	($66)
$0	$0	$0	$0
$0	$0	$0	$0
$0	$0	$0	$0
($30)	($35)	($30)	($30)
$0	$0	$0	$0
$0	$0	$0	$0
$0	$0	$0	$0
$455	**$351**	**$258**	**$162**

2003/Q3	2003/Q4	2004	2005
$	$	$	$
Jan-Mar	Apr-Jun		
$1,517	$1,803	$1,415	$2,630
$814	$16	$2,622	$5,489
$0	$0	$0	$0
$0	$0	($570)	($1,799)
($455)	($348)	($586)	($783)
($73)	($56)	($250)	($400)
$0	$0	$0	$0
$0	$0	$0	$0
$0	$0	$0	$0
$1,803	$1,415	$2,630	$5,138

2003/Q3	2003/Q4	2004	2005
$	**$**	**$**	**$**
Jan-Mar	**Apr-Jun**		
$1,517	$1,803	$1,415	$2,630
$814	$16	$2,622	$5,489
$0	$0	$0	$0
$0	$0	($570)	($1,799)
($455)	($348)	($586)	($783)
($73)	($56)	($250)	($400)
$0	$0	$0	$0
$0	$0	$0	$0
$0	$0	$0	$0
$1,803	**$1,415**	**$2,630**	**$5,138**