EARLY BIRD DISTRIBUTORS, INC.

2003 ANNUAL REPORT

Framework 1

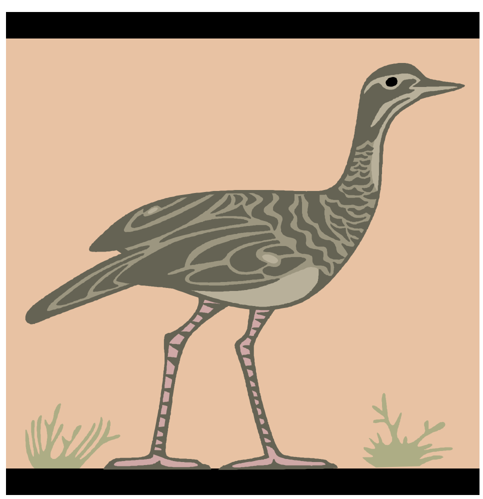


Table of Contents

Overview

Executive Summary

- Financial highlights:
  - Early Bird recovered to "break-even" operating results in 2003, after having experienced a wide operating loss in FY 2002
  - FY 2004 is expected to achieve a small, but positive operating profit
  - Both FY 2005 and FY 2006 are anticipated to achieve sufficient operating profits enabling Early Bird to reinvest in capital expenditures while reducing its debt

- Distribution highlights:
  - Leverage the primary markets of New York, Boston, Philadelphia, Washington, D.C. and San Francisco
  - Pursue critical mass opportunities with major metros
  - Reposition national market consistent with economics and competitive landscape

- Marketing and retention highlights:
  - Develop an enhanced marketing model to support development and implementation of more successful acquisition and retention strategies
  - Reposition and consolidate contact center capacity, resulting in a more effective and efficient service platform

Company Background

- Early Bird provides circulation services to the newspaper publishing industry as an outsourcing opportunity versus the traditional model of newspaper publishers performing circulation services "in house". Integrated core services include distribution, customer care, and telemarketing

- Headquartered in Hanover, Maryland, the company was incorporated in 1983

- Company has roughly 2,200 employees (1,700 FTE's) and contracts with roughly 9,000 independent contractors

- Operations include roughly 150 distribution centers and six contact centers

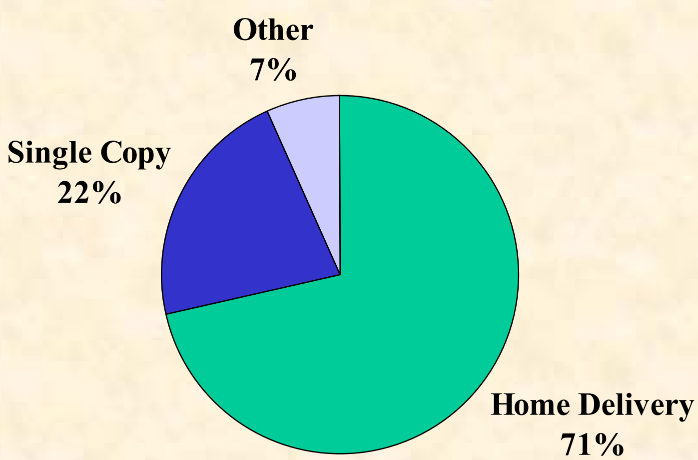
With approximately 40 clients, Early Bird serves some of the most influential national and regional newspaper publishers, providing services for over 1.5 million subscribers daily

Newspaper Publishing Industry Trends

- Circulation continues to gradually decline
- Advertising revenues continue to remain in trough:
  - Reduced circulation
  - Audit Bureau of Circulation (ABC) investigations
  - Competing advertising channels
- Cost-cutting measures being taken as top-line revenue growth remains stalled

Industry trends are favorable to having newspaper publishers consider Early Bird's outsourcing model.

Newspaper Industry Distribution Profile



Total Market = 48 Million Copies per Day
Early Bird = 1.5 Million Copies per Day

Key Business Drivers

- Effective integration of new growth
- Improving productivity and cost profile
- Leveraging technology
- Developing organizational talent

Enterprise Risk Management

- Industry Specific
    - Slow, gradual trend of declining readership of hard copy newspapers
    - Publishers in advertising “trough”, leading to cost-cutting and price pressure

- Business Specific
    - Sales revenue concentration The Metro (60%+) and Daily Voice (20%+)
    - Segment concentration (75%+) in distribution operations
    - Geographic exposure limited to the contiguous U.S., but operations are concentrated in high-profile metropolitan areas
    - Insurance coverage programs required to mitigate large employee population, numerous leased operating locations and automobiles, and general liabilities associated with service-centric business profile

Management Team

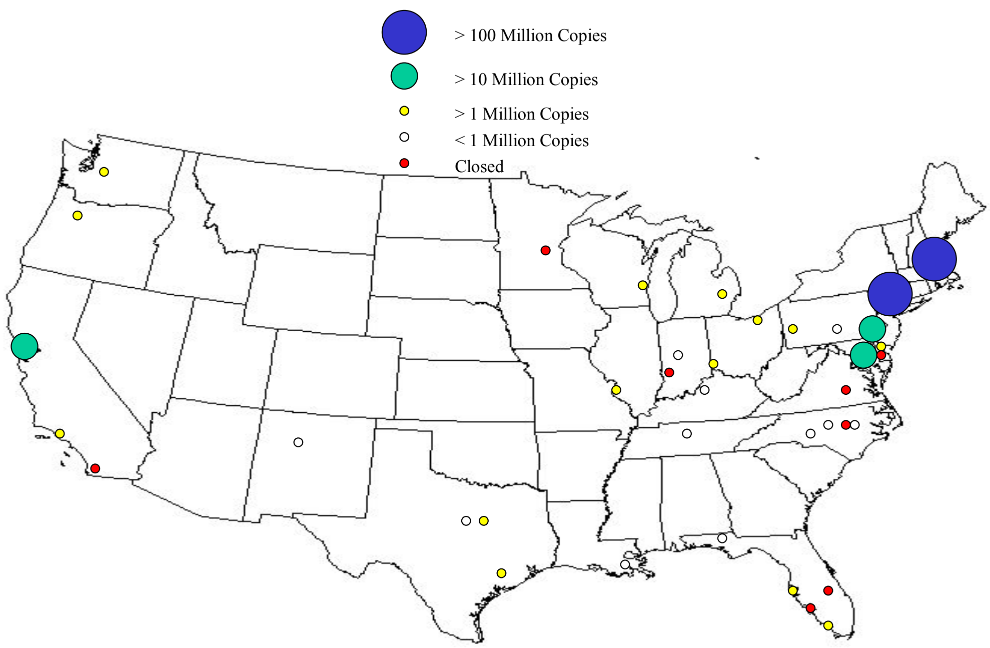
Executive Leadership Team

- Jim Smith, President & CEO
- Bill Quick, Vice President & COO
- Penny Wise, Vice President & CFO

Leadership Team

- J.T. Snow, Vice President – Distribution Services
- Frank Abbott, Vice President – Contact Center Services
- Mary English, Vice President – Marketing & Sales
- Ed Hurley, Vice President – Business Development
- Cynthia Cummins, Vice President – Business Development
- Rick Abel, Vice President – Information Technology
- Terry Howard, Vice President – Human Resources

DISTRIBUTION MARKET PROFILE



Marketing Overview

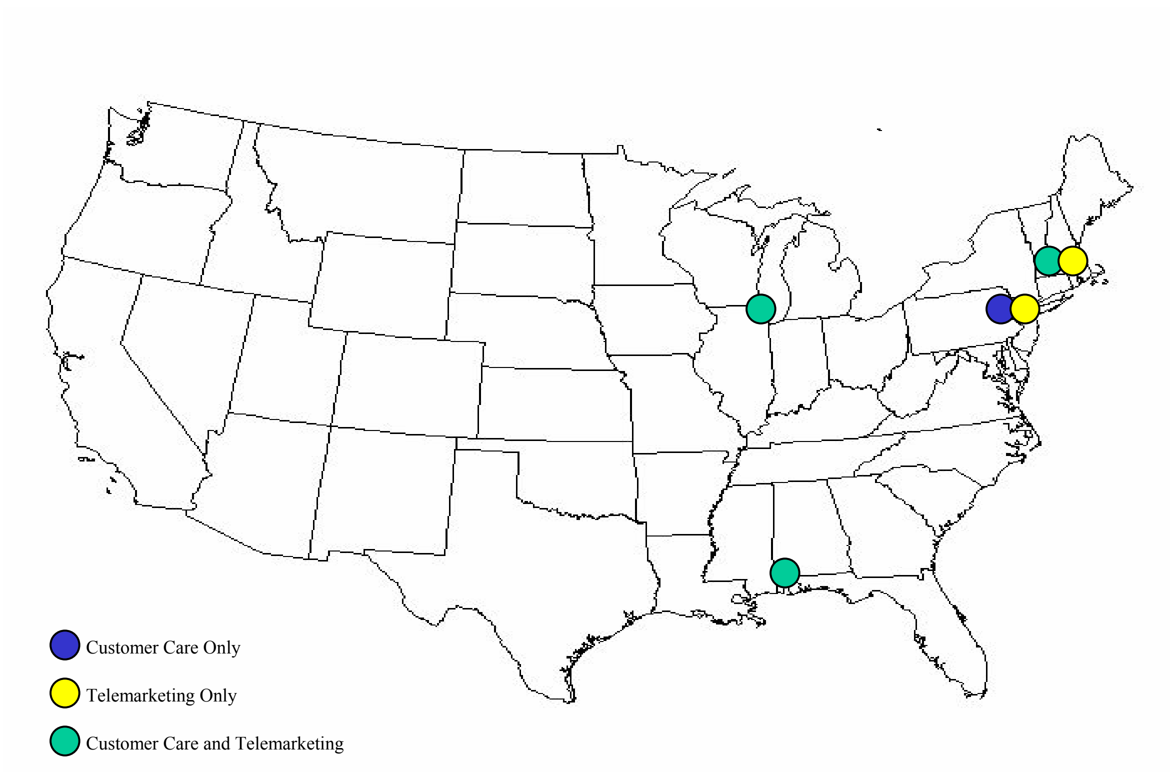
- Build and implement sophisticated marketing tools and capability
- Reposition / consolidate contact center capacity

Improve effectiveness and efficiency to become more competitive in the marketplace.

- Leverage value-to-cost ratio in telemarketing segment
- Leverage bundled service of customer care with distribution services

Achieve growth with clients through a more attractive value proposition

CONTACT CENTER LOCATIONS



Financial Summary

FY 2003 Highlights

- Essentially achieved a "break-even" operating profit
- 4% productivity improvement over FY 2002
- Oversaw the distribution of nearly 500 million copies
- Ensured compliance with Do-Not-Call telemarketing legislation

Forward Looking Highlights

- Revenue Growth
  - Total net revenues grow 3.5% - 5% during plan period
- Operating Profit (EBITDA) Improvement
  - Expected to improve from breakeven in FY 2003 to $9.5M by FY 2006
- Reduce Debt and Reinvest in Infrastructure
  - $18M revolving line of credit reduced to $9.4M by end of FY 2006
  - Capital expenditures increase to $4.0M per year in FY 2005 and FY 2006

Early Bird Financial Summary

($ Millions)

	ACTUAL RESULTS		FORWARD LOOKING INFORMATION		
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$202.3	$212.3	$219.7	$230.6	$238.4
Operating Profit / (Loss) "EBITDA"	($7.5)	($0.1)	$2.5	$7.1	$9.5
Capital Expenditures	$3.3	$0.4	$3.0	$4.0	$4.0
Revolving Line of Credit	$12.0	$18.0	$18.0	$15.7	$9.4

Risks & Opportunities

- Risks
    - Home delivery expenses increase to maintain service
        - Gasoline price spikes cause carrier contract pricing to increase
        - Later truck deliveries to distribution centers cause route splits
        - Uncertainty regarding future telemarketing demand
- Opportunities
    - Land major metro deal(s)
    - Significant productivity/cost improvements

Financial Statements & Forward Looking Information

Historical information is not necessarily an indication of future performance. Financial forecasts and projections, while made in good faith, are based on underlying assumptions which may or may not prove to be accurate. There will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Early Bird Income Statement

($ Millions)

	ACTUAL RESULTS		FORWARD LOOKING INFORMATION		
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues					
Distribution	$153.7	$165.8	$174.3	$180.9	$188.4
Customer Care	18.3	19.7	20.7	20.7	21.0
Sales Development	19.1	18.8	17.6	17.8	17.5
Administrative Fees	15.2	14.7	14.7	17.2	17.9
Client Rebates	(4.0)	(6.7)	(7.6)	(6.0)	(6.4)
Total Net Revenues	**202.3**	**212.3**	**219.7**	**230.6**	**238.4**
Cost of Sales					
Distribution	155.1	158.5	163.9	169.8	173.7
Customer Care	16.2	15.0	16.5	15.7	16.2
Sales Development	19.5	17.8	15.2	15.1	15.0
Total	**190.8**	**191.3**	**195.6**	**200.6**	**204.9**
Gross Margin	**$11.5**	**$21.0**	**$24.1**	**$30.0**	**$33.5**
Gross Margin Percentage	**5.7%**	**9.9%**	**11.0%**	**13.0%**	**14.1%**
General & Administrative	19.0	21.1	21.6	22.9	24.0
Total Operating Costs	**209.8**	**212.4**	**217.2**	**223.5**	**228.9**
Operating Profit / (Loss)	**($7.5)**	**($0.1)**	**$2.5**	**$7.1**	**$9.5**
Operating Margin Percentage	**-3.7%**	**0.0%**	**1.1%**	**3.1%**	**4.0%**
Interest Expense	0.5	0.5	0.4	0.3	0.2
Depreciation Expense	3.6	2.9	3.1	3.2	3.5
Other Expense/(Income)	0.0	0.0	0.7	0.0	0.0
	4.1	3.4	3.5	3.5	3.7
Net Income/(Loss) Before Taxes	**(11.6)**	**(3.5)**	**(1.7)**	**3.6**	**5.8**
Income Tax (Expense)/Benefit	4.6	1.4	0.7	(1.4)	(2.3)
Net Income / (Loss)	**($7.0)**	**($2.1)**	**($1.0)**	**$2.2**	**$3.5**
Net margin Percentage	**-3.5%**	**-1.0%**	**-0.5%**	**1.0%**	**1.5%**

Early Bird Statement of Cash Flow

($ Millions)

	ACTUAL RESULTS		FORWARD LOOKING INFORMATION		
	FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
OPERATING ACTIVITIES					
Cash Received From Customers	$201.4	$212.1	$219.7	$230.2	$238.2
Cash Payments for Operating Expenses:					
Independent Contractors (Carriers)	(103.8)	(107.8)	(110.0)	(113.0)	(115.0)
Employee Payroll and Benefits	(70.7)	(70.8)	(72.0)	(74.0)	(76.0)
Other Vendor Payments	(30.1)	(37.6)	(34.8)	(36.3)	(36.0)
Net Cash From Operating Activities	**(3.2)**	**(4.1)**	**2.9**	**6.9**	**11.2**
INVESTING ACTIVITIES					
(Purchase) Sale of PP&E	(3.3)	(0.4)	(3.0)	(4.0)	(4.0)
Net Cash From Investing Activities	**(3.3)**	**(0.4)**	**(3.0)**	**(4.0)**	**(4.0)**
FINANCING ACTIVITIES					
Revolving Line of Credit Borrowing (Payments)	1.8	6.0	-	(2.3)	(6.3)
Payments on Capital Leases	(0.3)	(0.3)	(0.4)	-	(0.1)
Net Cash From Financing Activities	**1.5**	**5.7**	**(0.4)**	**(2.3)**	**(6.4)**
INCREASE (DECREASE) IN CASH	**($5.0)**	**$1.2**	**($0.5)**	**$0.6**	**$0.8**
CASH RECONCILIATION					
Cash at End of Year	1.0	2.2	1.7	2.3	3.1
Cash at Beginning of Year	6.0	1.0	2.2	1.7	2.3
INCREASE (DECREASE) IN CASH	**($5.0)**	**$1.2**	**($0.5)**	**$0.6**	**$0.8**

Early Bird Balance Sheet

as of Fiscal Year End

($ Millions)

	ACTUAL RESULTS			FORWARD LOOKING INFORMATION		
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Assets						
Current Assets:						
Cash and cash equivalents	$6.0	$1.0	$2.2	$1.7	$2.3	$3.1
Accounts Receivable	0.6	1.5	1.7	1.7	2.1	2.3
Deferred Income Taxes	-	1.1	1.1	1.1	1.1	1.1
Prepaid Expenses	1.1	1.1	1.1	0.9	1.1	1.1
Total Current Assets	7.7	4.7	6.1	5.4	6.6	7.6
Property, Plant & Equipment:						
Office, Computer & Telephone Equip.	14.2	16.1	16.4	19.0	23.0	27.0
Furniture & Fixtures	1.4	1.6	1.6	1.8	1.8	1.8
Vehicles	1.6	1.7	1.7	1.7	1.7	1.7
Leasehold Improvements	5.0	6.1	6.2	6.4	6.4	6.4
Gross Property, Plant & Equipment	22.2	25.5	25.9	28.9	32.9	36.9
Less: Accumulated Depreciation	(11.0)	(14.6)	(17.5)	(20.6)	(23.8)	(27.3)
Net Property, Plant & Equipment	11.2	10.9	8.4	8.3	9.1	9.6
Other Assets:						
Security Deposits	0.3	0.7	0.8	0.7	0.7	0.7
Deferred Income Taxes	0.8	3.8	5.2	5.9	4.5	2.2
Total Assets	**$20.0**	**$20.1**	**$20.5**	**$20.3**	**$20.9**	**$20.1**
Liabilities & Stockholders' Equity						
Current Liabilities:						
Accounts Payable	$1.6	$3.8	$1.5	$2.2	$2.3	$2.7
Other Current Liabilities	6.9	9.1	9.6	10.2	10.8	11.5
Capital Lease Obligations-Current	0.6	0.6	0.4	0.1	0.1	0.1
Deferred Revenue	0.2	1.9	0.5	0.4	0.4	1.4
Deferred Income Taxes	0.5	-	-	-	-	-
Revolving Line of Credit Facility	10.2	12.0	18.0	18.0	15.7	9.4
Total Current Liabilities	20.0	27.4	30.0	30.9	29.3	25.1
Long Term Liabilities:						
Capital Lease Obligations-Long Term	0.6	0.3	0.2	0.1	0.1	-
Total Long-Term Liabilities	0.6	0.3	0.2	0.1	0.1	-
Stockholders' Equity						
Capital Stock (1)	-	-	-	-	-	-
Retained Earnings/(Deficit)	(0.6)	(7.6)	(9.7)	(10.7)	(8.5)	(5.0)
Total Stockholders' Equity	(0.6)	(7.6)	(9.7)	(10.7)	(8.5)	(5.0)
Total Liabilities & Stockholders' Equity	**$20.0**	**$20.1**	**$20.5**	**$20.3**	**$20.9**	**$20.1**

(1) Capital stock of 1,100 shares at $1 par value per share.

Early Bird Ratio Analysis
($ Millions)

	ACTUAL RESULTS		FORWARD LOOKING INFORMATION		
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Senior Funded Debt:					
Capital Leases	$ 0.9	$ 0.6	$ 0.2	$ 0.2	$ 0.1
Revolving Line of Credit	$ 12.0	$ 18.0	$ 18.0	$ 15.7	$ 9.4
Total Senior Funded Debt	$ 12.9	$ 18.6	$ 18.2	$ 15.9	$ 9.5
EBITDA:					
Net income/(loss)	$ (7.0)	$ (2.1)	$ (1.0)	$ 2.2	$ 3.5
Add/(less):					
Interest Expense	$ 0.5	$ 0.5	$ 0.4	$ 0.3	$ 0.2
Depreciation Expense	$ 3.6	$ 2.9	$ 3.1	$ 3.2	$ 3.5
Income Tax Expense/(Benefit)	$ (4.6)	$ (1.4)	$ (0.7)	$ 1.4	$ 2.3
EBITDA	**$ (7.5)**	**$ (0.1)**	**$ 1.8**	**$ 7.1**	**$ 9.5**
Senior Funded Debt to EBITDA Ratio	**(1.72)**	**(186.00)**	**10.11**	**2.24**	**1.00**

Early Bird Distribution KPIs

	Actual Results		Forward Looking Information		
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
COPY VOLUME (MILLIONS)					
Copies by Market (Direct Deliveries)					
New York	177.1	187.6	194.5	204.2	214.4
Boston	172.4	163.5	164.1	172.3	181.0
San Francisco	13.6	16.2	16.9	17.7	18.6
Washington, D.C.	15.3	18.5	17.7	18.6	19.5
Philadelphia	6.9	8.7	10.3	10.8	11.3
All Other Markets	42.1	46.5	51.1	53.7	56.4
	427.4	441.0	454.5	477.3	501.1
Copies by Client (Direct Deliveries)					
The Metro	208.4	202.4	193.7	203.4	213.5
Daily Voice	132.6	122.4	124.7	130.9	137.5
Town Journal	16.0	24.4	32.1	33.7	35.4
Business Post	21.7	26.7	28.2	29.6	31.0
The Gazette	7.0	9.1	14.3	15.0	15.8
Other Clients	41.7	55.9	61.6	64.6	67.9
	427.4	441.0	454.5	477.3	501.1
Copies by Channel (All Copies)					
Direct Deliveries	427.4	441.0	454.5	477.3	501.1
3rd Party Deliveries	41.6	54.6	64.4	67.6	71.0
	469.0	495.6	518.9	544.9	572.1
COMPLAINTS PER THOUSAND (CPM)					
CPM By Market (Direct Deliveries)					
New York	4.54	4.91	4.62	4.39	4.17
Boston	1.64	1.96	1.75	1.66	1.58
San Francisco	3.02	2.20	2.16	2.05	1.95
Washington, D.C.	7.24	10.56	7.28	6.92	6.57
Philadelphia	6.50	8.82	7.23	6.87	6.53
All Other Markets	3.75	4.03	3.51	3.33	3.17
	4.56	3.94	3.55	3.37	3.20
CPM By Client (Direct Deliveries)					
The Metro	5.00	5.98	5.46	5.19	4.93
Daily Voice	1.64	1.83	1.66	1.58	1.50
Town Journal	1.44	1.67	1.28	1.22	1.16
Business Post	2.80	2.59	3.68	3.50	3.32
The Gazette	5.56	6.06	4.50	4.28	4.06
Other Clients	4.70	2.46	2.10	2.00	1.90
	4.56	3.94	3.55	3.37	3.20
CPM By Channel (All Copies)					
Direct Deliveries	4.56	3.94	3.55	3.37	3.20
3rd Party Deliveries	9.65	8.3	8.03	7.63	7.25
	5.28	4.42	4.12	3.91	3.72

Early Bird Contact Centers KPIs

	Actual Results		Forward Looking Information		
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Inbound					
Total Calls Handled (CCAs and IVR)	7,378,597	7,420,173	7,627,456	7,700,000	7,700,000
Total Calls Handled (CCAs)	4,567,726	4,341,174	4,140,260	4,500,000	4,500,000
Service Level	78.9%	80.0%	83.1%	82.5%	82.5%
Agent Avg Handling Time (seconds)	195	177	188	195	195
Agent Occupancy	76.1%	76.1%	77.0%	77.5%	77.5%
Outbound					
Total Sales (Thousands)	589.6	717.8	644.9	700.1	717.8
Sales Per Hour	1.9	1.9	2.0	1.8	1.9
Sales Per Contact %	3.52%	3.52%	4.47%	3.52%	3.52%
Credit Card %	8.33%	6.84%	6.34%	7.01%	6.84%
Copies per Sale	5.47	4.49	5.17	4.61	4.49

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Early Bird Distributors, Inc. ("Early Bird") reported revenues of $212.3 million for the year ended December 28, 2003, which was $10.0 million, or 4.9%, above fiscal year 2002, reflecting higher distribution services volume.

The "EBITDA" (earnings before interest, taxes, depreciation and amortization) operating loss of $0.1 million for fiscal year 2003 was essentially at the breakeven level. This represents a $7.4 million improvement versus the $7.5 million EBITDA operating loss for fiscal year 2002. The improvement was driven by the increase of 4.9% in sales revenues while holding operating expenses to a 1.2% increase. The company believes that EBITDA, a non-GAAP financial measure, is a useful metric for evaluating its financial performance because EBITDA closely approximates operating cash flows.

Early Bird's business model improved during 2003, as Early Bird experienced significant home delivery growth with several of its larger clients, including *The Town Journal, The Business Post* and *The Gazette.* Early Bird was also able to begin providing circulation services for many new clients, as the company now serves roughly 40 clients, up from about 25 clients during 2002.

The business was able to improve key performance indicators as follows:

- Direct deliveries increased from 427.4 million copies to 441.0 million copies, which represents 3.2% copy growth. Roughly 75% of the copy growth was due to new clients with the balance due to growth with existing clients. Copy volume is the most critical success factor to the revenue growth of the business.

- Complaints per thousand (CPM) for direct deliveries improved from 4.56 to 3.94, a 13.6% improvement. CPM is a key indicator of service quality to the subscriber base of our clients and is a widely used metric in the industry. A complaint is captured when subscribers call into Early Bird's customer care operations or the publisher's customer care operations.

- Total inbound calls handled increased slightly while service level improved from 78.9% to 80.0% and agent average handle time improved from 195 seconds per call to 177 seconds per call. Total calls handled is a key indicator of subscriber call volume for the customer care service Early Bird provides the subscriber base, while service level is an indicator of quality in terms of how quickly the call is handled and agent average handling time is measured in seconds to indicate efficiency of handling a subscriber's call.

- Outbound telemarketing sales volume increased from 589,600 to 717,800, or 21.7%, while sales per hour (SPH) productivity held steady at 1.9 SPH. Total sales are a key indicator of sales volume representing new subscriber acquisitions made by telemarketing agents on behalf of our clients, which is clearly connected to revenue generation. SPH is a productivity measure, which is important to monitor to understand how successful telemarketing agents are in selling certain products.

Net capital expenditures in fiscal year 2003 continued to be tightly managed. The company will continue to hold back on reinvesting in the business until operating cash flows improve enough to support higher reinvestment levels.

The revolving line of credit facility increased from a balance of $12.0 million as of December 29, 2002 to $18.0 million as of December 28, 2003. The increased balance primarily reflects the timing of funding working capital requirements coming out of fiscal year 2002 having experienced the wide operating loss coupled with funding capital expenditures during 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FORWARD-LOOKING INFORMATION

Early Bird Distributors, Inc. ("Early Bird") fiscal year 2004 revenues are expected to achieve $219.7 million, which is $7.4 million, or 3.5%, higher than fiscal year 2003, driven by continued growth in the distribution segment of the business. Growth with new clients will represent approximately 60% of the growth profile with the balance representing growth with existing clients. Fiscal years 2005 and 2006 are expected to significantly improve over fiscal year 2004, as Early Bird anticipates improved volume and pricing for services. Copy volume growth is anticipated to have a 50/50 growth split between new client growth and growth with existing clients. This favorable outlook expects to have revenues achieve $230.6 million and $238.4 million in fiscal years 2005 and 2006, respectively.

The fiscal year 2004 forecasted "EBIDTA" (earnings before interest, taxes, depreciation and amortization) operating profit of $2.5 million represents a significant improvement over the fiscal year 2003 breakeven result. EBIDTA operating profits are expected to reach $7.1 million in fiscal year 2005 and $9.5 million in fiscal year 2006, respectively. The company believes that EBITDA, a non-GAAP financial measure, is a useful metric for evaluating its financial performance because EBITDA closely approximates operating cash flows.

Early Bird expects to further improve key performance indicators as follows:

- Direct deliveries are forecast to achieve over 500 million copies by FY 2006, up 60 million copies or 13.6% over the FY 2003 level. Copy volume is the most critical success factor to the revenue growth of the business.
- Complaints per thousand (CPM) for direct deliveries are expected to improve from 3.94 to 3.20, an 18.8% improvement. CPM is a key indicator of service quality to the subscriber base of our clients and is a widely used metric in the industry. A complaint is captured when subscribers call into Early Bird's customer care operations or the publisher's customer care operations.
- Total inbound calls handled are expected to increase from 7.4 million in FY 2003 to 7.7 million over the outlook period, while service level is expected to further improve 2.5 percentage points from 80.0% to 82.5%. Total calls handled is a key indicator of subscriber call volume for the customer care service Early Bird provides the subscriber base, while service level is an indicator of quality in terms of how quickly the call is handled and agent average handling time is measured in seconds to indicate efficiency of handling a subscriber's call.

Outbound telemarketing sales volume is expected to temporarily fall and then recover over the outlook time horizon. The volume for telemarketing sales is challenging to forecast in light of the recent Do-Not-Call (DNC) legislation. The temporary fall in volume is primarily due to the immediate effect of DNC constraints, while the recovery reflects Early Bird's expectations that publishers will see Early Bird as a more favorable outsourcing option as Early Bird is clearly willing to stay in this segment and make the necessary investments to maintain compliance with the DNC regulations. Sales per hour (SPH) productivity is also difficult to predict, but is not expected to substantially change. While it may feel counter-intuitive, the DNC legislation effect may actually improve SPH, as those who did not sign up for the list may have a higher potential to listen to an offer and purchase a subscription to a newspaper. Total sales are a key indicator of sales volume representing new subscriber acquisitions made by telemarketing agents on behalf of our clients, which is clearly connected to revenue generation. SPH is a productivity measure, which is important to monitor to understand how successful telemarketing agents are in selling certain products.

The improved operating cash flows will be reinvested in the form of capital expenditure investments of roughly $4.0 million per year with the remaining available cash being used to begin paying down the $18.0 million revolving line of credit. Early Bird expects to maintain the revolving line of credit balance at no more than the current level of $18.0 million during fiscal year 2004, and then decrease the balance during both fiscal years 2005 and 2006.

KEY PERFORMANCE INDICATORS (KPI'S)

EBITDA

The company believes that EBITDA (earnings before interest, taxes, depreciation and amortization), a non-GAAP financial measure, is a useful metric for evaluating its financial performance because EBITDA closely approximates operating cash flows.

Furthermore, EBITDA is a common alternative measure of performance used by lenders, rating agencies, financial analysts, and others to estimate the value of a company and evaluate the ability of the company to meet its debt service requirements.

DISTRIBUTION KPI'S

Copy Volume

Copy volume is tracked by market, by client, and by channel to evaluate the trend in how the company is growing the business. Copy volume is the most critical success factor to the revenue growth of the business.

Complaints Per Thousand (CPM)

CPM is a key indicator of service quality to the subscriber base of our clients, measured in complaints per thousand deliveries made and is a widely used metric in the industry which is benchmarked among publishers and competitors of Early Bird. A complaint is captured when subscribers call into Early Bird's customer care operations or the publisher's customer care operations. Some typical complaint categories include:

- Wet Product (wet newspaper as opposed to dry)
- Wrong Product (subscriber received a Daily Voice instead of a Business Post, for instance)
- Misplaced Product (wrong driveway, in bushes, etc.)
- Ordered Not Started (subscriber ordered a newspaper that does not start)
- Late Delivery (arrival time later than promised time, i.e. arrives after 6:30am)
- Vacation Stop Not Started (after a vacation stop, the paper is not restarted)

INBOUND CUSTOMER CARE KPI'S

Total Calls Handled

Total calls handled is a key indicator of subscriber call volume for the customer care service Early Bird provides the subscriber base, which indicates the degree to which subscribers have a need to contact Early Bird, whether it is related to a service complaint, or a question they may have (about an offer, the product, a billing question, etc.). The volume of incoming calls is important for Early Bird to monitor to evaluate the capacity of its call handling capability and agent staffing levels. Note that Early Bird measures total contact handled through the IVR (interactive voice response system) and calls handled by CCA's (customer care agents).

Service Level

Service level is an indicator of quality in terms of how quickly the call is handled measured in terms of how often the call is handled within 30 seconds. Thus, an 80% service level indicates that 80% of the calls are handled within 30 seconds.

Agent Average Handling Time

Agent average handling time is measured in seconds to indicate efficiency of handling a subscriber's call. An average handle time of 180 seconds suggests that on average it takes a customer care agent three minutes to resolve and satisfy the subscriber's needs.

Agent Occupancy

Agent occupancy is a capacity utilization measure to indicate the amount of agent time required within the contact center's total capacity of seats available for agents to effectively satisfy subscribers incoming call volume. A 75% agent occupancy level suggests 75 agents would be required in a center that has 100 total seats available during a shift.

OUTBOUND TELEMARKETING KPI'S

Total Sales

Total sales are a key indicator of sales volume representing new subscriber acquisitions made by telemarketing agents on behalf of our clients, which is clearly connected to revenue generation.

Sales Per Hour (SPH)

SPH is a productivity measure which is important to monitor to understand how successful telemarketing agents are in selling certain products, which is affected by the quality and experience of the agents, product brand, campaign offer and the quality of the marketing list. An SPH of 2.0 suggests that on average it takes thirty minutes of sales time to make an acquisition.

Sales Per Contact Percentage

Sales per contact percentage represents a productivity measure which focuses on acquisition penetration across the contact population. A 3.5% contact percentage suggests that 3.5 new acquisitions occur on average for every 100 contacts made.

Credit Card Percentage

Credit card percentage is tracked because a credit card sale generally retains for a longer period of time than a sale that is directly billed to the subscriber. Credit card sales retain longer because subscribers generally don't reconsider canceling their subscription when the item is part of a larger credit card bill, as opposed to receiving the bill directly for the subscription only. The percentage reflects the percentage of new sales acquisitions that will be billed via credit card as a percentage of all total new sales acquisitions (with the rest being directly billed).

Copies Per Sale

Copies per sale reflects the effectiveness of the sale in terms of whether the subscriber agreed to take a full week delivery schedule as opposed to Sunday only, on some other combination of Monday through Saturday. Obviously, a sale that is for a full week is the most desirable for Early Bird and its clients.

BACKGROUND ABOUT THE COMPANY AND ITS SEGMENTS

Early Bird provides circulation services to the newspaper publishing industry, offering an outsource opportunity for publishers as opposed to the prevalent model of publishers performing circulation activities "in house". Early Bird provides circulation solutions to newspaper publishers with its integrated core services of distribution, customer care and telemarketing. Early Bird's national distribution network provides clients with an established framework to service and grow their circulation. Multiple contact centers provide clients with a variety of transactional, marketing and business services, which are designed to improve subscriber acquisition and retention.

Headquartered in Hanover, Maryland, Early Bird is a Maryland Close Corporation, incorporated December 27, 1983, and is led by Jim Smith, President and CEO. Over the years, Early Bird built a national infrastructure providing distribution, customer care and telemarketing services for the newspaper marketplace.

Distribution services have typically represented roughly 75% of Early Bird's revenues, with the primary service being home delivery of the newspapers for the client's subscribers. Early Bird operates roughly 150 distribution centers nationwide, with the heaviest concentration of distribution centers located in New York and Boston, with additional locations in approximately 25 other cities across the United States. Early Bird now serves over 1.5 million subscribers for roughly 40 different publishers, overseeing the delivery of over 500 million copies a year.

The company utilizes a "hub and spoke" system, whereby the publishers truck their newspapers to an Early Bird distribution facility, and Early Bird then coordinates the distribution of the newspapers to subscribers through the services of roughly 9,000 independent contractors.

Contact center services represent roughly 15% of Early Bird's revenues and include inbound customer care and outbound telemarketing. Early Bird operates six contact centers totaling approximately 650 seats, with 250 seats dedicated to inbound customer care and 400 seats dedicated to outbound telemarketing.

Information technology plays a significant role in the success of the company's business processes to service clients and their subscriber base, as the daily maintenance of the 1.5 million-subscriber distribution system is a critical success factor to ensure the proper delivery of the newspaper to each subscriber with the appropriate product. The contact center technology is as equally compelling, as customer relationship management tools and new telephony capabilities are constantly being upgraded and installed to provide our client's subscribers the most effective and efficient channels of communication.

Early Bird employs roughly 2,200 people, or the equivalent of roughly 1,700 people on a full-time basis, as many positions are part-time, such as customer care representatives and telemarketing agents, along with certain part-time distribution employees.

Early Bird provides fulfillment services to some of the most influential national and regional publications throughout the United States. Early Bird believes that its growing national distribution profile, state-of-the-art contact centers, its philosophy of creating strategic partnerships, and the commitment to operational excellence positions the company to be the national fulfillment company of choice.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Years

The Company's fiscal year ends on the last Sunday in December. Fiscal years 2003 and 2002 were both 52 weeks.

Cash and Cash Equivalents

For purposes of financial statement presentation, the company considers all highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents. At December 28, 2003 and December 29, 2002, cash equivalents consisted of repurchase agreements collateralized by FNMA securities.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Fixed Assets and Depreciation

The company capitalizes fixed assets over $5,000 at cost. Expenditures for repairs and maintenance are charged to expense as incurred. The cost of fixed assets is depreciated using the straight-line and double declining balance methods over their estimated useful lives. The useful lives for both financial statement and tax purposes are the same.

Advertising – Employment

Advertising costs are expensed as incurred and are primarily related to employment advertising.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. A valuation allowance is established when necessary to reduce the deferred tax asset to the amount expected to be realized.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from the estimates that were used.

ENTERPRISE RISK MANAGEMENT

INDUSTRY SPECIFIC

The industry that Early Bird provides services for is the newspaper publishing industry, which has certain elements of risk which Early Bird is sensitive to. The fact that hard copy readership of newspapers has been in decline as a general trend, in part due to the internet, is naturally a concern for Early Bird. Although consistently downward, the trend has been slow and gradual, with current daily circulation being roughly 48 million copies. Early Bird currently distributes only 1.5 million copies per day, which allows plenty of room for growth, albeit in a shrinking pool.

The newspaper publishing industry has been experiencing a long period of "trough" advertising revenues, with a sense that advertising revenues will not return to peak levels when the cycle pulls up - - in effect recognizing a permanent downward shift in top-line expectations. Thus, cost-cutting efforts on the part of newspaper publishers will be a double-edge sword for Early Bird, on the one hand publishers will put pressure on Early Bird's pricing of services, but on the other hand may find Early Bird's outsourcing model even more appealing over the course of time.

BUSINESS SPECIFIC

<u>Strategic</u>

The company has a significant concentration with The Metro and Daily Voice newspapers, which together represent over 80% of Early Bird's total net revenues. Growth with other clients over the course of time will continue to mitigate the concentration, but this will take a long period of time unless an unforeseen amount of significant growth occurs beyond management's forecasts.

The company also has a significant concentration of its service profile in distribution services, which is approximately 75% of total net revenues. The significant concentration in distribution services relative to contact center services is not likely to significantly change over the foreseeable future.

The company's general strategy is to leverage its core competencies, as opposed to a diversification strategy. The company does not market itself or intend to "be all things to all people". However, the company is strategically evaluating offering a larger portfolio of services over the long-range time horizon, but will take a conservative and disciplined approach to broadening its service offerings. The company has been in discussions and is evaluating several merger and acquisition targets as a means of "buying" as opposed to "building" certain potential services. The company will only broaden its service portfolio where it makes strategic and financial sense to do so.

In general, the company's pricing policy is to price its services competitively, meaning that its pricing is competitive relative to the market rate in the various metropolitan geographies with an ability to price above the commodity rate in situations where Early Bird's service level warrants a premium price differential. Some of Early Bird's contracts have pricing incentives whereby Early Bird enjoys a premium price for above-average service levels.

Some of the company's pricing contracts have fixed and/or variable rebates associated with certain clients that contract for significant volumes of services with Early Bird. The company desires to be able to "bundle" its pricing for the three core services of distribution, customer care and telemarketing over the course of time, but the market has not typically had that model as an industry practice with wide acceptance. Early Bird has the desire to grow the business, but will not compromise pricing to do so, meaning that Early Bird is only willing to grow profitably, and will not compromise its gross margin.

Geography

The company's operations are all within the contiguous United States, and thus have country-specific risk limited to that associated with doing business in the United States without any foreign currency exposure.

Early Bird's distribution activities, however, are concentrated primarily in New York City and Boston, followed by Philadelphia, Washington, D.C. and San Francisco. These major metropolitan areas tend to be "high profile" in nature with respect to potential terrorism threats.

The contact centers risk exposure to potential terrorism is similar in that most of the centers are located near high-profile areas such as New York City, Boston, and Chicago. The corporate office in Hanover, MD is located just south of Baltimore, MD and is considered to be in the general "high profile" Baltimore-Washington corridor.

Business Planning, Monitoring and Control

The company prepares and updates a long-range plan each year to ensure the alignment of business objectives across and down the organization. The company then prepares an annual operating plan to further define the specific programs and initiatives to be executed during the year, with accountability under the direction of the appropriate vice president and or director. Quarterly reviews are conducted to monitor progress against objectives with recommended adjustments considered to keep the business on track. Weekly conference calls and monthly reporting are also part of the communication process.

Financial projections and forecasts are prepared in conjunction with the long-range plan, the annual operating plan and quarterly forecast process, with reporting of actual results each month-end.

Insurance Coverage

The business has insurance programs that mitigate the general risk associate with conducting business activities, such as:

- Group life, health, dental, vision and disability
- Workers' compensation
- Commercial property
- Business interruption
- Comprehensive auto liability
- Comprehensive crime
- Directors and officers liability
- Key man life insurance (for Jim Smith, President and CEO)
- General liability and umbrella

INFORMATION ABOUT MANAGEMENT

Early Bird is governed by a three-member executive leadership team, which is comprised of the President & CEO, VP/COO and VP/CFO. The executive leadership team works with the broader leadership team comprised of an additional seven vice presidents to oversee the development and execution of Early Bird's business plans.

Early Bird has an Audit Committee, Compensation Committee, and Capital Committee, comprised of members of the executive leadership team along with selected members of the leadership team and others in the company as deemed appropriate. The committees meet quarterly.

EXECUTIVE LEADERSHIP TEAM

Jim Smith, President & CEO

Jim is 48 years old and has been with the company since its inception in 1983, and has served as Early Bird's visionary leader, transforming the company into the full-service, national organization that it is today. Jim has established himself in the industry as a respected and seasoned executive who is clearly taking Early Bird to the next level.

Jim attended the University of Florida where he earned a Bachelor of Science degree in Business Administration.

Bill Quick, Vice President & COO

Bill is 44 years old and joined Early Bird in April 2001, responsible for leading the integration of new growth into Early Bird's operations while enhancing operational excellence.

Bill earned his Bachelor of Arts degree from The Citadel and also has a Juris Doctorate from Temple University.

Penny Wise, Vice President & CFO

Penny is 44 years old and joined Early Bird in March 2001, responsible for leading the business planning and financial activities of the company.

Penny has a Masters degree in Business Administration from the Fuqua School of Business, Duke University, where she was also an undergraduate. Penny is a CPA, CMA, and CFM.

LEADERSHIP TEAM

- J.T. Snow, Vice President – Distribution Services
- Frank Abbott, Vice President – Contact Center Services
- Mary English, Vice President – Marketing & Sales
- Ed Hurley, Vice President – Business Development
- Cynthia Cummins, Vice President – Business Development
- Rick Abel, Vice President – Information Technology
- Terry Howard, Vice President – Human Resources

SHAREHOLDERS

- Jim Smith, President & CEO 80%
- Bill Quick, Vice President & COO 10%

- Penny Wise, Vice President & CFO 10%

Benchmarking