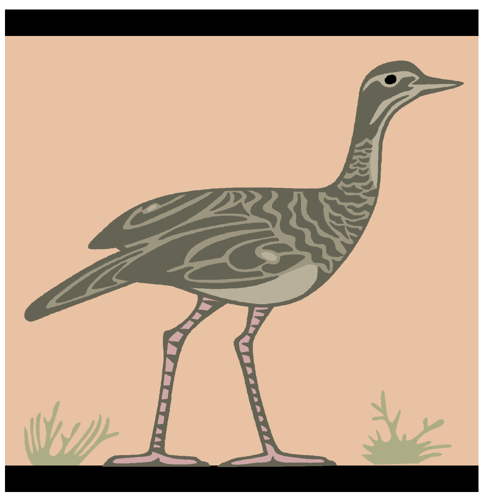
EARLY BIRD DISTRIBUTORS, INC.

2003 ANNUAL REPORT

Framework 2



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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					
Issuance (Redemption) of Stock					
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.

Business Questionnaire

Business Name: **Early Bird Distributors, Inc.**	
Address:	
Telephone:	Tax ID Number:
Year Established: **1983**	Entity Type: **C Corporation**

Products or Services

The Company 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”. The Company’s core set of integrated services include distribution, customer care, and telemarketing sales.

Markets

The Company operates roughly 150 distribution centers nationwide within the contiguous United States, with the heaviest concentration of distribution centers located in New York and Boston, with additional locations in approximately 25 other cities.

The Company also operates six contact centers, which have a total capacity of roughly 650 seats, with 250 seats dedicated to inbound customer care and 400 seats dedicated to outbound telemarketing. Two centers are located near New York City, two are located near Boston, and one is near Chicago and one is in Pensacola, Fl.

Methods of Operation

The Company uses 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.

Significant Recent Changes

Recent “Do-Not-Call” legislation has required the company to comply with the registry of phone numbers that are not to be called for telemarketing solicitation on behalf of our clients. The company’s sophisticated software technology and automated dialer systems have been able to accommodate the “scrubbing” of marketing lists to prevent having telemarketing agents call households that have registered on the “Do-Not-Call” list.

The “Do-Not-Call” legislation limits the marketing capability of our client’s who will continue to evaluate telemarketing relative to other marketing channels. Early Bird will continue to monitor the volume of demand for its telemarketing services and is prepared to adjust capacity accordingly.

Significant Anticipated Changes

Early Bird anticipates an ability to continue to grow the business, particularly in the distribution segment of the operation, as “critical mass” is expected to be achieved and improve operating margins significantly.

Energy spikes and a continuing rising health care cost environment will challenge the company to maintain balance in its pricing of services relative to the desire to achieve volume growth.

Top 5 Customers Name and Address	Credit Terms	% of Sales
The Metro	Net 7	62%
Daily Voice	Net 7	23%
Town Journal	Net 14	4%
Business Post	Net 10	3%
The Gazette	Net 7	1%

Top 5 Suppliers Name and Address	Credit Terms	Credit Limit
Voice Communications Companies (3-5 companies)	Net 30	$100k
Property Lessors (150 properties negotiated individually)	Varies	Varies
Vehicle Fleet Lessor (approximately 75 vehicles in fleet)	Net 30	$100k
Office Supplies Vendors (3 companies)	Net 30	$25k
Packaging Companies(providers of plastic bags/strapping)	Net 30	$25k

Examinations by Taxing Authorities	Any Delinquent Payments?	Current Examination	Last Examination
Federal - IRS	No	No	2000
State Income	No	No	2001
Sales & Use	No	No	1999

Lawsuits or Pending Litigation

The Company is involved from time to time in claims, proceedings and litigation arising from the operation of its business. The Company does not believe that any such claim, proceeding, or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position or results of operations.

Ownership Succession Plans

In July 2002, the company and its stockholders entered into a buy-sell agreement. Under the terms of the agreement, the company has the option (but not the obligation) to purchase the common stock owned by stockholders who wish to sell their shares, at a price specified in the agreement. Upon the death of a stockholder, the company shall purchase all of the common stock owned by the deceased stockholder, at this same specified price.

Insurance Coverages	Amount	Insurance Company
Property	$15 million	
General Liability	$2 million	
Business Interruption	$13 million	
Automobile Liability	$1 million	
Crime	$2 million	
Fiduciary	$5 million	
Umbrella	$10 million	
Excess Liability Umbrella	$20 million	
Workers Compensation	State Statutory	
Key Person Life	$3 million	

Shareholders Name	Position(s)	% Owned	2003 Compensation	2002 Compensatio n
Jim Smith	President & CEO	80%	$250,000	$230,000
Bill Quick	Vice President & COO	10%	$180,000	$170,000
Penny Wise	Vice President & CFO	10%	$180,000	$170,000

Notes Receivables from Shareholders or Related Parties	Amount	Rate/Maturity/Collateral
None		

Federal and State Regulations

The Company is currently in compliance with all regulations in the jurisdictions in which it operates.

Accounting Policies & Procedures

	Yes	No	N/A	Comments
<u>Cash Accounts</u> All bank accounts reconciled monthly?	◆			
Cash Equivalents –The Company considers all highly liquid debt instruments with maturities of three months or less when acquired to cash equivalents. Cash equivalents consist of repurchase agreements collateralized by FNMA securities.				
<u>Accounts Receivable</u> Aging prepared monthly?	◆			
Aging reviewed monthly for possible bad debts?	◆			
All credit memos approved in writing?	◆			
All credit memos issued by someone other than the person who posts cash receipts?	◆			
Are unusual sales terms offered?		◆		
Allowance for Doubtful Accounts – The Company recognizes bad debts on unpaid trade accounts receivable as each account is deemed to be uncollectible. 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.				
<u>Inventory</u> Perpetual inventory records maintained?			◆	The company does not maintain any inventory requiring perpetual record-keeping.
Physical inventories taken monthly?			◆	
Inventory turnover rates calculated quarterly?			◆	
Signed shipping receipts obtained and kept?			◆	
<u>Accounts Payable</u> Aging prepared monthly?	◆			
Payables posted by someone other than the person who disburses funds?	◆			
<u>Taxes</u> Outside payroll preparation service used?	◆			ADP
Accrued payroll taxes set aside at the time payroll checks are issued.	◆			EFT day of payroll
Any tax returns delinquent?		◆		
Income tax estimates filed and paid quarterly?	◆			
<u>Leases</u> Assets leased from owners evidenced by written agreements?	◆			

	Yes	No	N/A	Comments
Loans from Owners Debts to owners evidenced by signed notes?			◆	
Debts to owners formally subordinated to other creditors?			◆	
Financial Statements Financial statements prepared internally on a monthly basis?	◆			
Cash, accounts receivable, inventory and accounts payable reconciled to the general ledger on a monthly basis?	◆			

Consolidation – The financial statements have been prepared in conformity with generally accepted accounting principles. At this time the Company does not have any wholly owned subsidiaries, investments in joint ventures and/or less than majority-owned affiliates.

Revenue Recognition – The Company recognizes revenue as earned. Certain revenues are billed and received in advance and are recognized on a pro-rata basis each month as services are performed.

Property, Plant and Equipment – Property, plant and equipment is stated at cost. The cost of additions and substantial improvements to property, plant and equipment, which significantly extend the useful life, are capitalized. The cost of maintenance and repairs to property, plant and equipment is charged to operating expenses in the period incurred. Depreciation is calculated using accelerated methods, over the shortest allowable, depreciable lives. These lives are generally are as follows:

* Leasehold Improvements	15 – 39 years, or remaining life of lease if less than 15 years
* Machinery and Equipment	5 – 10 years
* Transportation Equipment	3 – 7 years
* Computer Equipment and Software	3 – 7 years
* Furniture and Fixtures	5- 10 years

The Company reviews property, plant and equipment for impairment on an annual basis or whenever changes in the business circumstances indicate that the carrying amounts of the assets may not be fully recoverable. Upon retirement, sale or disposal of property, plant and equipment, the original cost and any accumulated depreciation are removed from the accounts, and any resulting gain/(loss) is recognized in the period in which the event occurs. Idle assets remain on the books of the Company until they are retired or disposed of through sale, exchange or involuntary loss.

Income Taxes – Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. In 2003, a valuation allowance was established to reduce the total deferred tax asset to an estimated amount that will, more likely than not, be realized in the future. Realization of the remaining deferred tax asset is dependent upon the Company generating sufficient future taxable income against which its net operating loss carry forwards can be offset. The amount of the deferred tax asset considered realizable, therefore, could change if the near-term estimates of future taxable income are reduced.

Leases – Certain facilities and automobiles used in operations are leased under operating and capital leases, depending on the terms of the lease agreements. Rental expenses under operating leases for 2003 and 2002 were $10,305k and $9,452k, respectively. At December 31, 2003, the future minimum rental payments under non-cancelable operating leases for the years 2004 through 2007 were $7,297k, $4,425k, $3,572k and $2,929k. The net book value of capital leases as of December 31, 2003 was $660k and as of December 31, 2002 was $911k.

Pension – Effective January 1, 1987, the Company adopted a profit sharing plan (the Plan) to provide for contributions made under salary deferral agreements pursuant to Section 401(k) of the Internal Revenue Code. All employees shall be eligible to enter the Plan, if they are at least age 18 and have completed 90 days of service.

The Company contributes 50% of the salary deferred by the participant up to permissible limits under Rules and Regulations promulgated by the Internal Revenue Service. The Company's total contributions are 50% of the first 6% contributed by each participant. All deferred compensation and Company contributions are placed in a trust to be held and invested by the trustee. The profit sharing expense was $501k and $558k for 2003 and 2002, respectively.