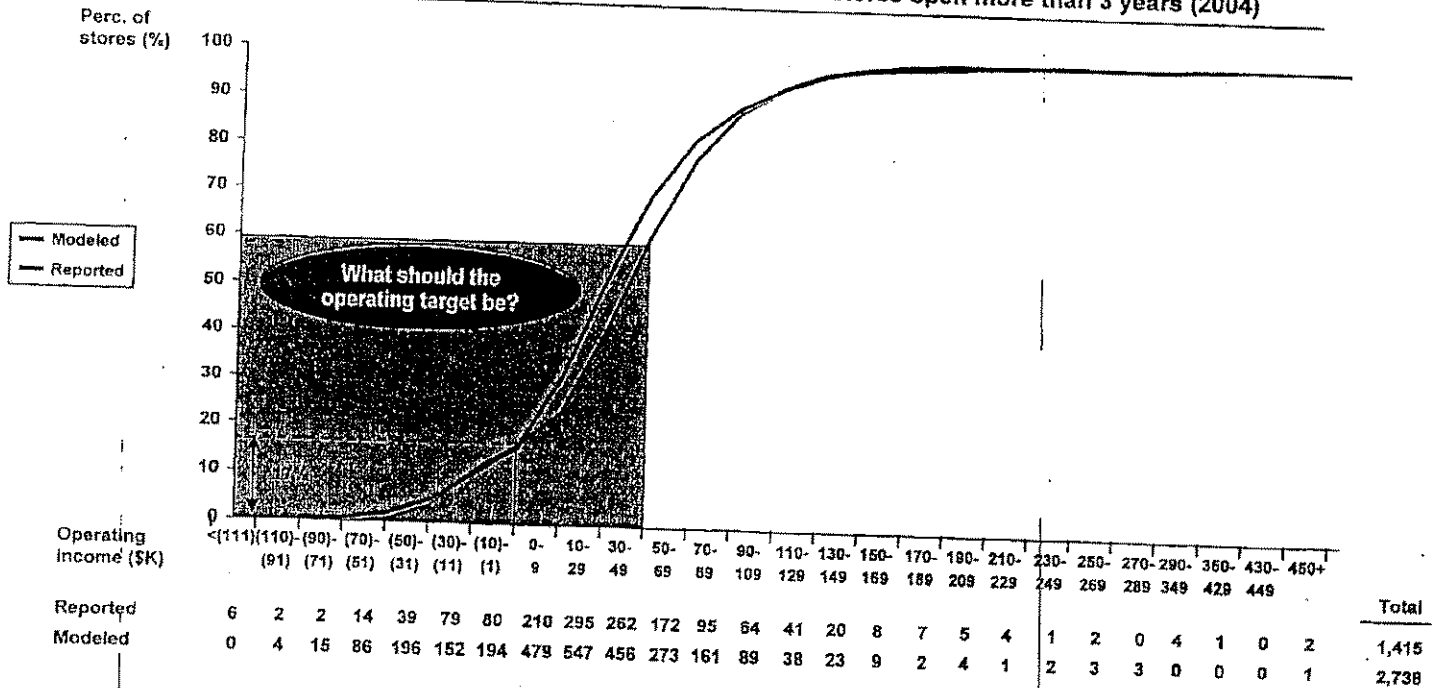


NETWORK OPERATING INCOME PERFORMANCE

17% Of Network Unprofitable; Need to Determine Operating Income Target

Cumulative distribution of operating income for stores open more than 3 years (2004)

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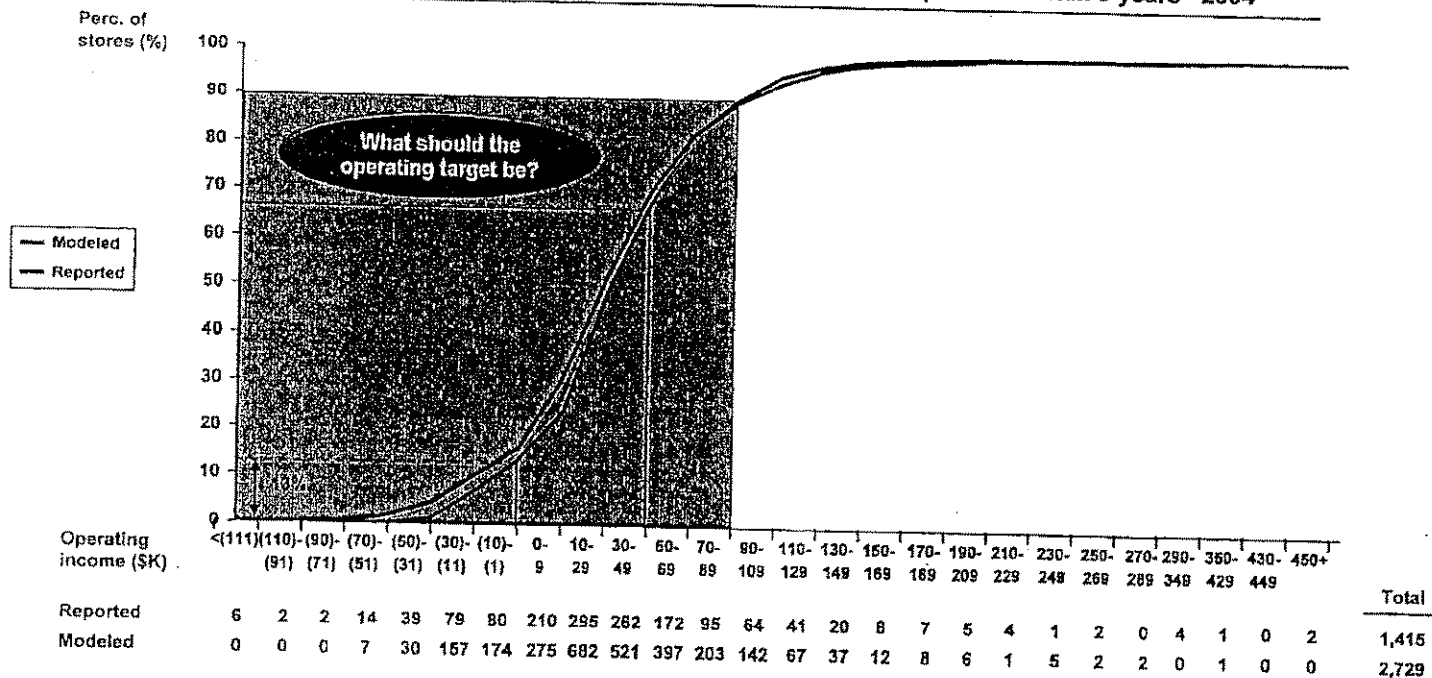
Note: Full year 2004 data for stores in operation for three years or longer
 Source: BCG analysis, TUPSS Franchise Offering Circular, Royalty Database 2004

BCG 000924

NETWORK OPERATING INCOME PERFORMANCE

13% Of Network Unprofitable; Need to Determine Operating Income Target

Cumulative distribution of operating income for stores open more than 3 years- 2004



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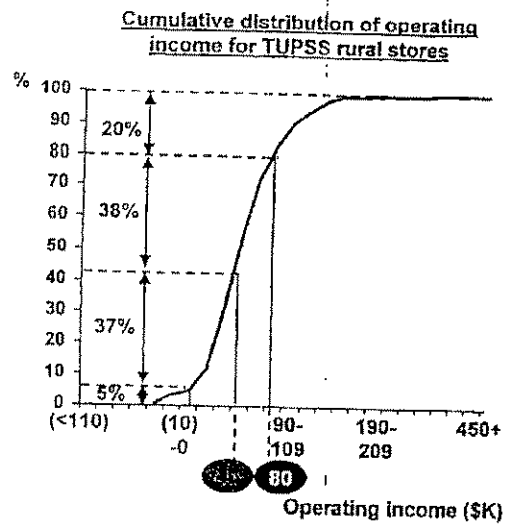
BCG 000945

Note: Full year 2004 data for stores in operation for three years or longer
 Source: BCG analysis, TUPSS Franchise Offering Circular, Royalty Database 2004
 76847-16 Economics M/Moffetta Update-10Dec05-GA-ATL.ppt

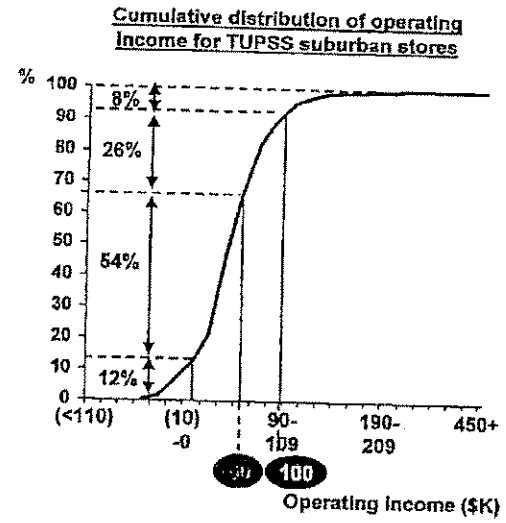
MAJORITY OF STORES UNDER TARGET

42% of Rural, 66% of Suburban, and 74% of Urban Stores Under Target

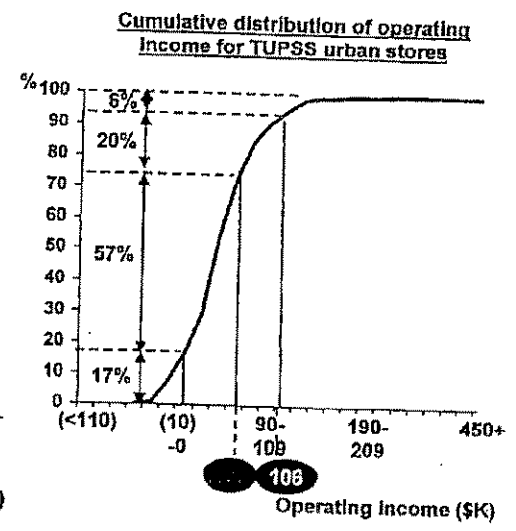
42% of rural stores under target



66% of suburban stores under target



74% of urban stores under target



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BCG 000958

Overall average: 68% of stores under the operating income target

● Target
● 2X Target

Note: Total of 2,729 stores used. Stores in operation for 3+ years with full year 2004 royalty data were included. However, stores without rent data are not included in sample.
 Source: BCG analysis - Network model Royalty database (2004), BQA survey data.
 78947-16 Economics M/Molletta Update-10Dec05-CA-ATL.ppt

PRELIMINARY: KEY ISSUES HIGHLIGHTED BY DATA

Gold Shield had a significant positive impact on the network

- Reversing the same store sales decline
- Increasing growth of new stores with better relative performance

Despite improvements, store profitability remains tenuous

- Average store profitability at ~350K STR level not sufficient
- Most of the network remains below this level of sales performance, given existing data...

Challenges exist in improving franchisee profitability

- Recent network improvements driven exclusively by increased shipping from existing customers
- New customer growth appearing to slow
- Unclear if shipping alone can continue to drive improved performance
- Moreover, drop-off volume is increasing, driving reduced revenue growth for stores

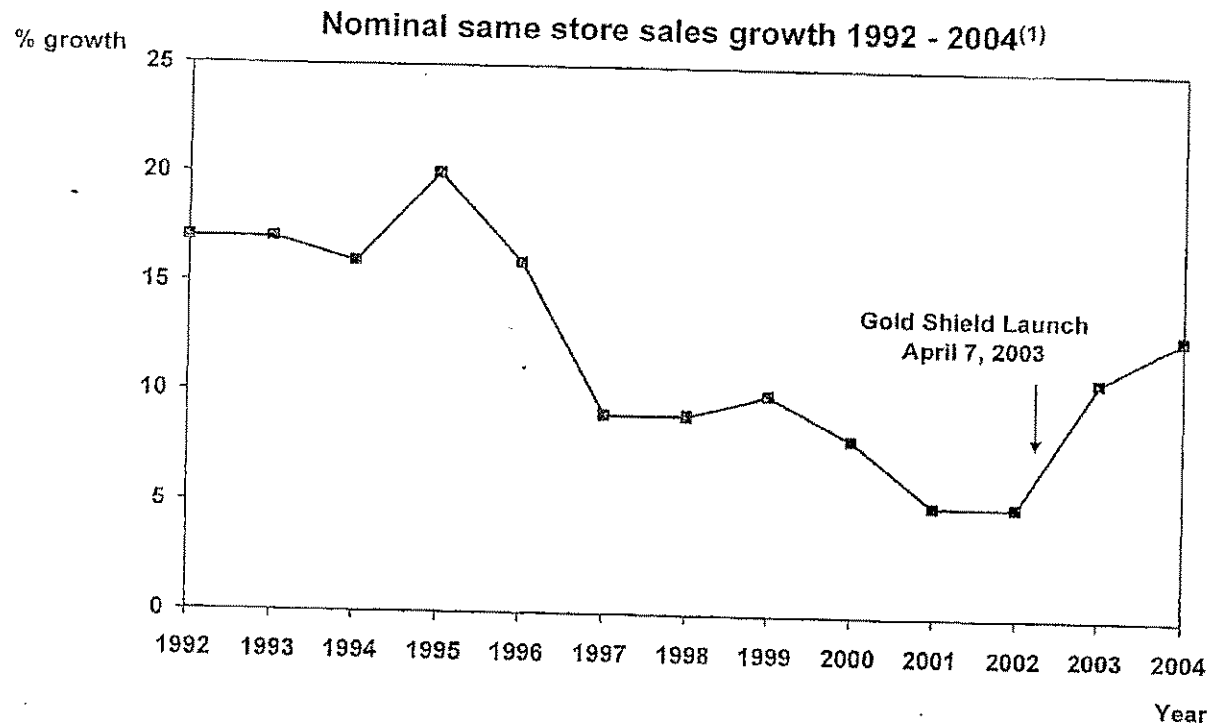
Necessary to address all potential growth drivers to attain significant growth in STR and franchisee profitability

- New customers, new products, and new formats/store concepts

Current momentum offers ability to address franchisee profitability from a position of strength

SAME STORE STR GROWTH INCREASED POST GOLD SHIELD, REVERSING A DECLINING TREND

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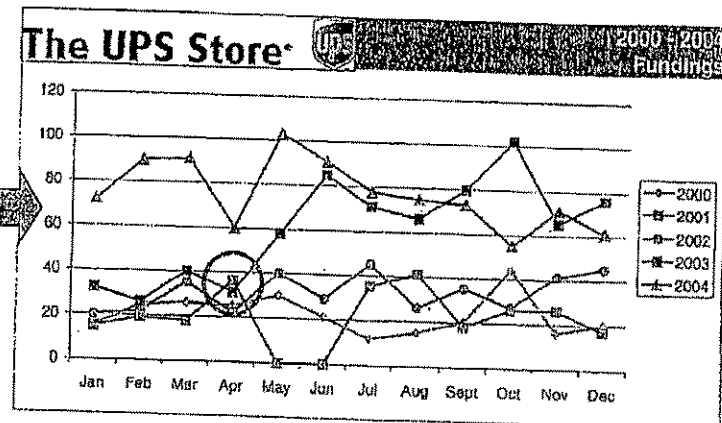
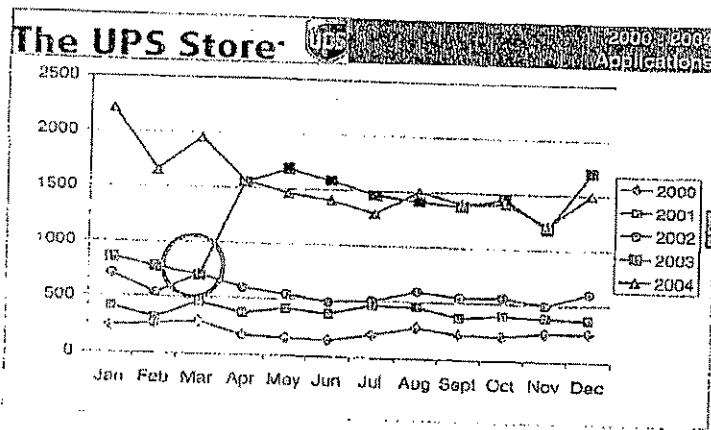
Source: FAC Meeting Report - Feb 23rd 2005; Canada Gold Shield Report

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NEW STORE GROWTH ALSO SIGNIFICANTLY IMPACTED BY GOLD SHIELD

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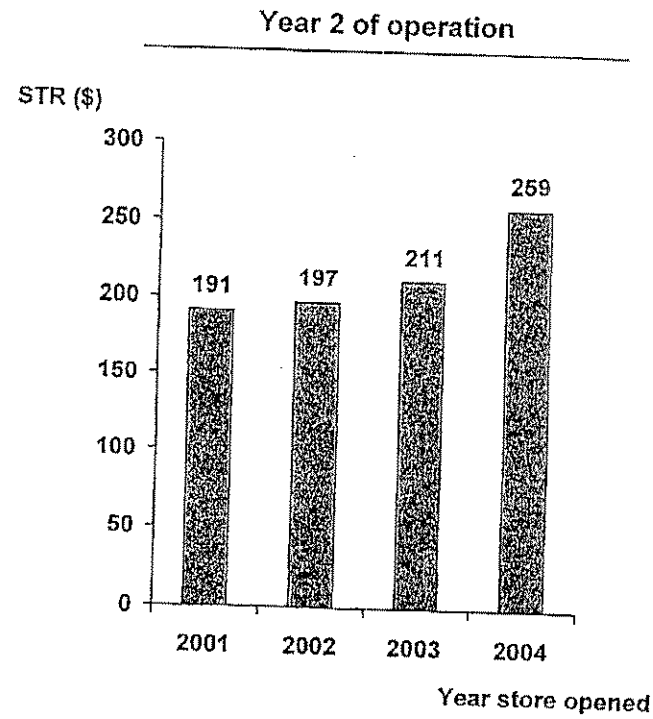
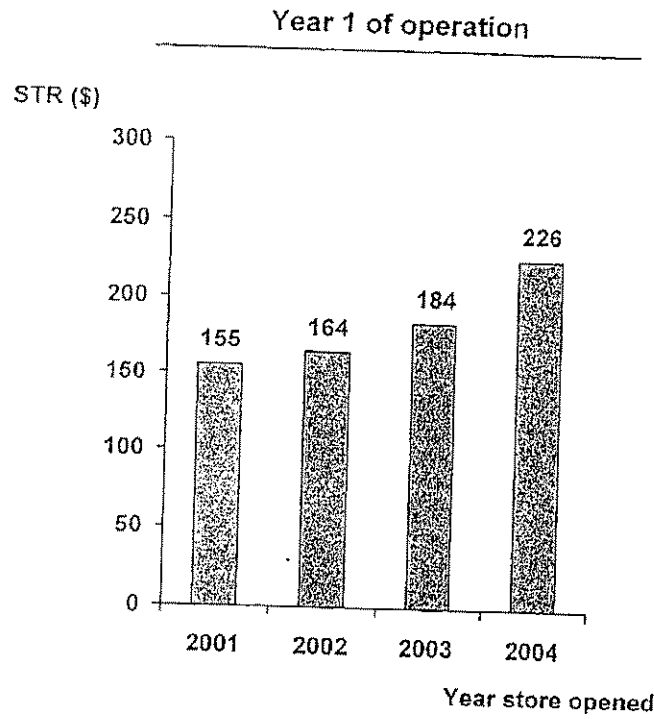
○ Gold Shield Launch
April 7, 2003

Note: Group include 433 stores that had 12 P&L entries for 2004
Source: FAC Meeting Report - Feb 23rd 2005

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NEW STORES PERFORMING BETTER THAN OLDER STORES

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Source: MBE



TMBE001129

HOWEVER, AVERAGE STORE PROFITABILITY DOES NOT GENERATE SIGNIFICANT RETURNS TO FRANCHISEES

Tipping Point at ~\$400K in STR, True Scale Realized at \$800K+

	n =	21		150		105		15		2		3	
		\$K	%	\$K	%	\$K	%	\$K	%	\$K	%	\$K	%
Average STR		140		306		471		677		865		1,238	
Gross margin		78	• 56%	168	• 55%	259	• 55%	352	• 52%	469	• 53%	607	• 49%
Variable expenses		46	• 33%	84	• 28%	131	• 28%	185	• 27%	251	• 29%	329	• 27%
Fixed expenses		39	• 28%	55	• 18%	63	• 14%	83	• 14%	61	• 7%	105	• 9%
Op. margin		(6)	• (4%)	29	• 9%	64	• 13%	85	• 13%	146	• 17%	171	• 14%
				Average STR ~\$315K		Margin level increase				Lowest expense ratio			

Note: Group include 296 stores that had P&L data for 2003 and 2004
Source: FAC Meeting Report - Feb 23rd 2005

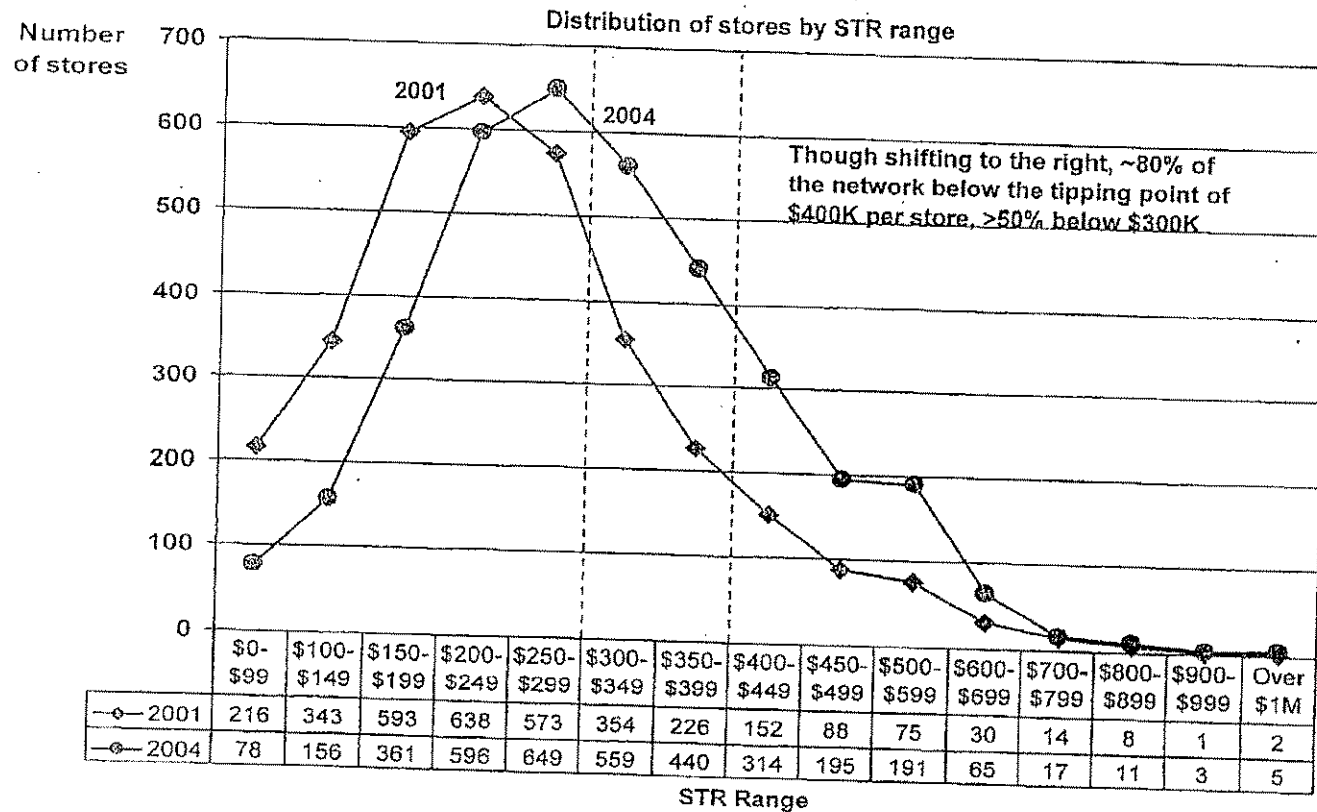
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AND MOST OF THE NETWORK COMPRISED OF STORES WITH LESS THAN \$300K REVENUE PER YEAR

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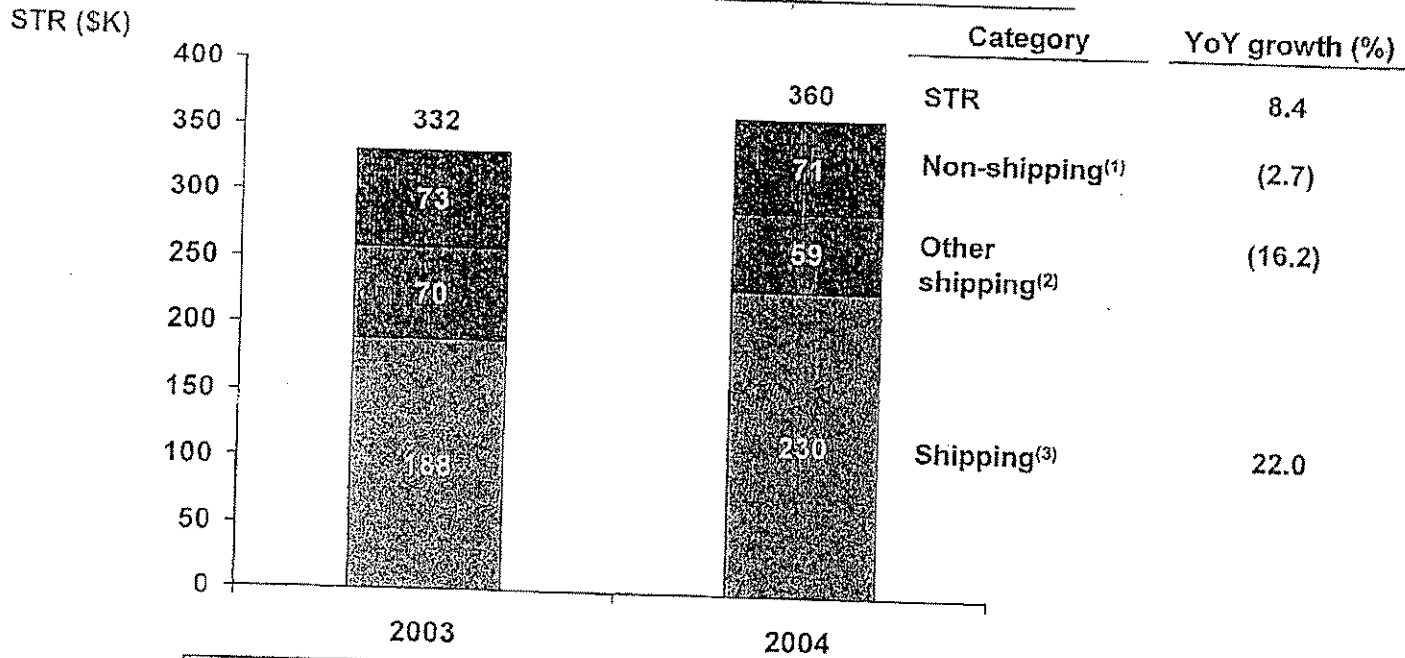
Source: FRAMIS - Royalty History Reports 2001, 2002, 2003, 2004

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 Project 600 - 20 May 06 - Wipet
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GROWTH IN STR DRIVEN EXCLUSIVELY BY SHIPPING

STR breakdown 2003 – 2004 (Sample of stores)



Can stores achieve significant increases in profitability through continued increases in shipping products and services alone?

Note: Group includes 3,427 stores

(1) Includes: Box Rental, Copies, Facs, Office Supply and Other. (2) Includes: Stamps, Metered Mail, Rapid Air, and Freight. (3) Includes: Shipping, Shipping Supplies and packing Materials and Packing Services

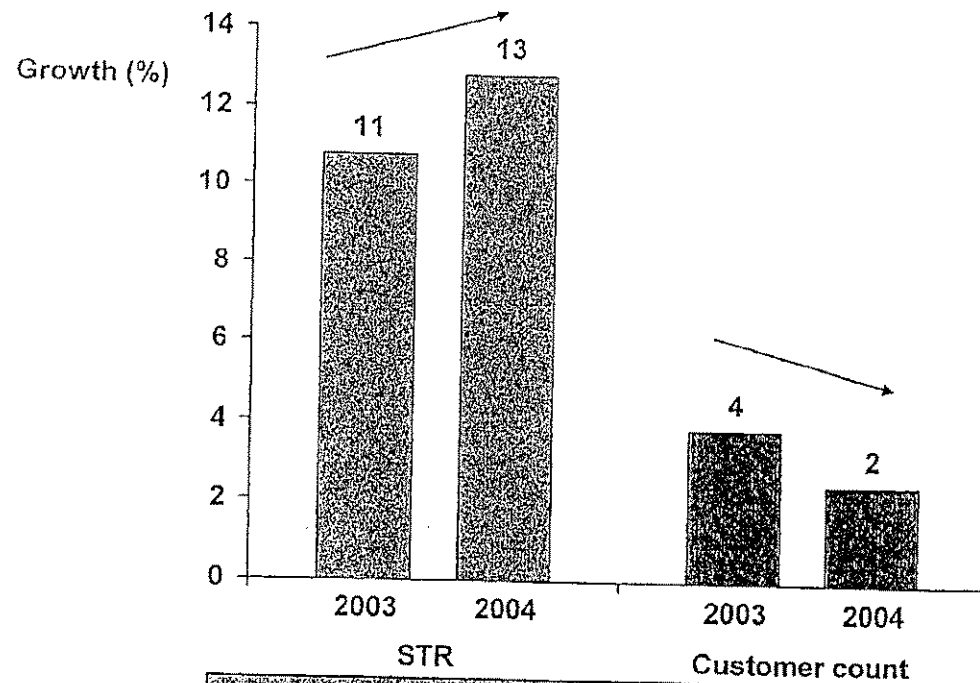
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SAME STORE SALES GROWTH INCREASING WHILE SAME STORE CUSTOMER GROWTH SLOWING

Same store comparison (sales vs. customers)



What will it take to drive significantly increase new customer growth?

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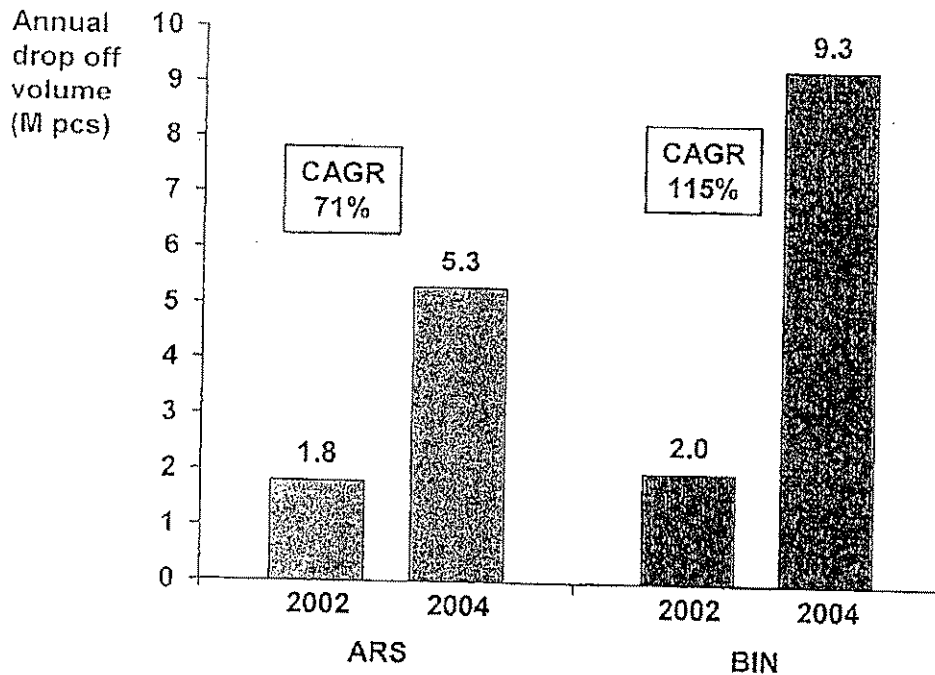
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DROP OFF VOLUME GROWING SIGNIFICANTLY

BIN ~15% of the TUPSS Volume, Growing Fastest, and Likely Most Cannibalistic

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Drop off volume growing significantly faster than normal shipping volume...

- ~70% growth from 2003 to 2004 vs. <20% for typical volume

... But yields lower revenue for the stores

- \$1.10 per piece handling fee vs. \$5.00 gross margin from shipping revenue



Will ultimately impact ability for stores to grow shipping revenue

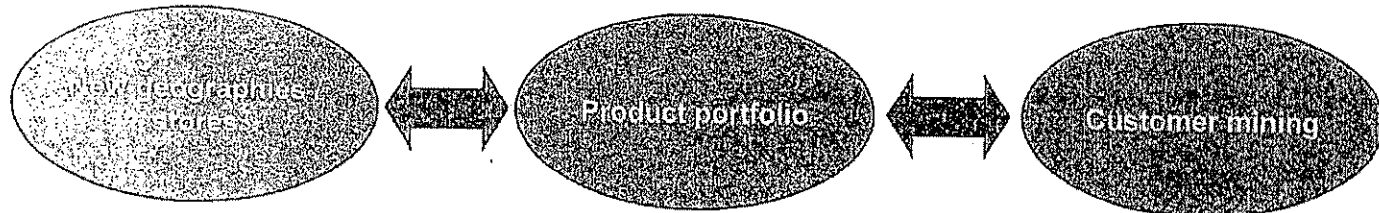
Note: ARS - Auto Return Service; BIN - Other drop-off volume (e.g., internet ship, etc.)
Source: UPS FAC materials, Feb 2005

UPS Retail Online Retail Project 600720 May 04 - W.D.P.
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TMBE001134

NECESSARY TO ATTACK ALL POTENTIAL AREAS OF GROWTH TO DRIVE STR AND FRANCHISEE PROFITABILITY

Areas Of Growth Linked To One Another



- Expand geographically**
- Increase number of stores
- Evolve store concept**
- New formats and locations

- Capture share from USPS / others**
- Increase counter revenue per store
- Grow beyond a counter**
- Increase non-counter revenue per store

- Gain share with existing customers**
- Further increase share of wallet
 - Stimulate demand
- Attract new customers**
- Steal share
 - Stimulate demand

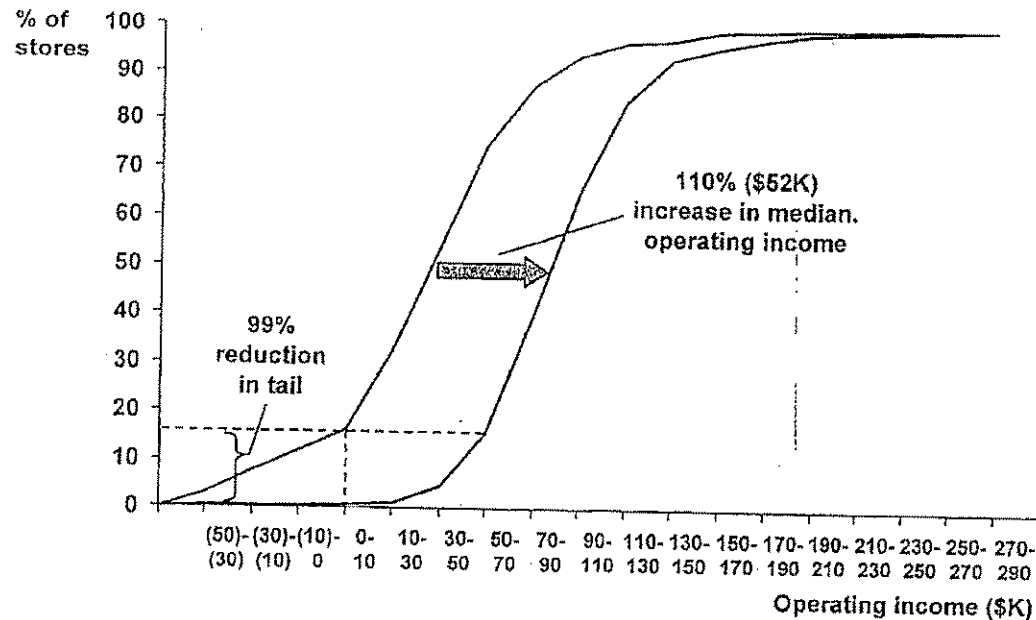
EXECUTING THE STRATEGY SHOULD IMPROVE UNIT LEVEL ECONOMICS

Recommendations Will Drive 110% Increase In Operating Income Of Average TUPSS Store

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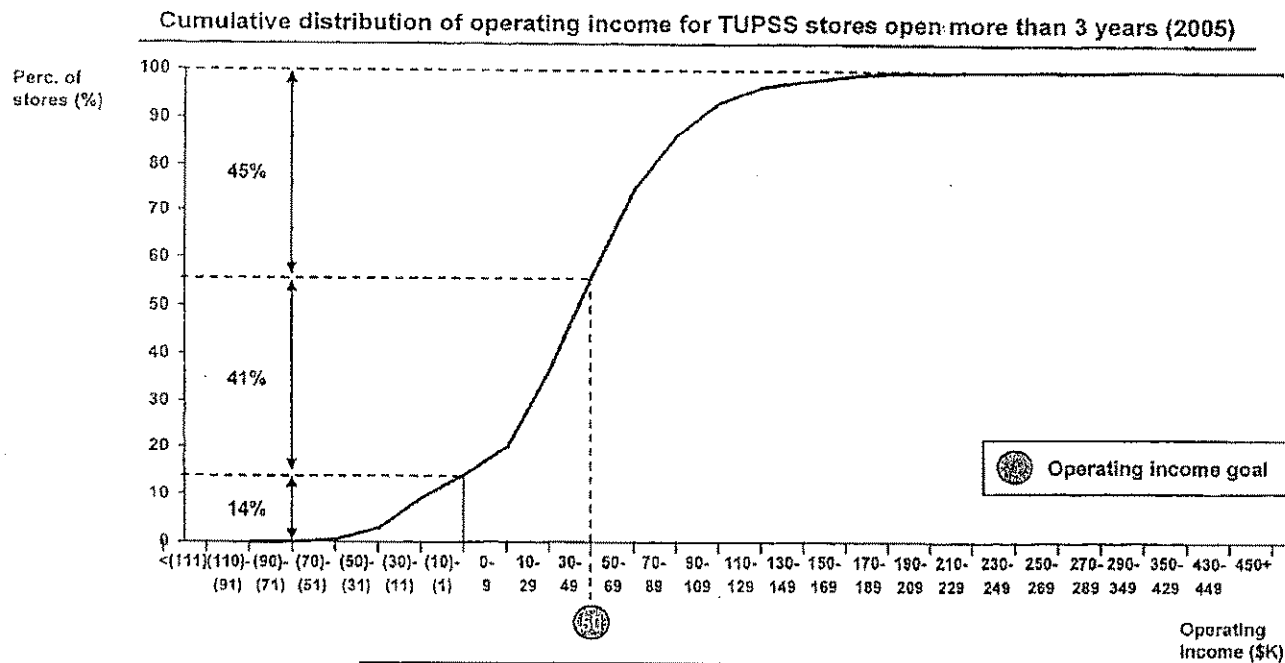
Operating Income Distribution for TUPSS Network: 2010



Source: BCG Analysis

MAJORITY OF STORES UNDER OPERATING INCOME GOAL

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Overall average: 55% of stores under the operating income goal

Note: Total of 2,729 stores used. Stores in operation for 3+ years with full year 2005 royalty data were included. However, stores without rent data are not included in sample. Model assumes not store manager, adding store manager would increase operating income goal by ~\$15K
 Source: BCG analysis – Network model; Royalty database (2005), BQA survey data.

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