THE CATHOLIC UNIVERSITY OF AMERICA

SCHOOL OF BUSINESS AND ECONOMICS

HARVEY F. SEEGERS

Masters Specialty Bicycle Company

Bill and Karen Masters are the owners and managers of their own specialty bicycle company, appropriately named after the family. Married soon after finishing a well-known graduate *business analysis* program in Washington, D.C. a few years ago, both of these young entrepreneurs are avid cyclists, and compete regularly in local amateur races. In college, Bill majored in Design Engineering and Karen received honors in Behavioral Psychology. They attended graduate school in business analysis to obtain the practical knowledge, skills, values, and experience in *structured business thinking* they would need to start and operate their own specialty bicycle business. In their bicycle shop in Great Falls, Virginia, tacked prominently on the bulletin board above their shared office desk, is this excerpt from an article published by a leading bicycling industry magazine:

Look closely at yourself before taking on the difficult task of starting a bicycle business. Enthusiasm is important, but it is not enough. Make sure you can muster excitement and creativity for marketing, accounting, statistics, inventory control, advertising, employee relations, and sweeping the floor. You must want to serve people of all ages, types, colors, and creeds. You'll need some mechanical inclination and a strong constitution - not flinching from long hours, hard work, and setbacks.

Use all the resources you can find to learn about business basics. "Seat of your pants" business management can get you into a lot of trouble. Above all else, take your time to do your research and build a sound business plan. Ethics, planning, organizational skills, and high energy are prerequisites for success in the bicycle business.

Customer service affects almost every decision by a bicycle dealer. Each time a customer steps into your store, he or she is judging the experience. You and your store are performing and the showroom is the stage. Customers don't like to be ignored, bored, or manipulated. Attention to detail, good selection, knowledge, a caring attitude, ethical behavior, and good product presentations - these are all the keys to giving the customer that good experience.

Profits are not, by themselves, the only purpose of a bicycling business. But, outstanding customer service depends upon profitable operations. Profits do not happen by accident. Profits occur by creating superb customer value, which customers will reward with price premiums and shop loyalty - and by running the business productively, which means managing operating expenses and investment capital efficiently. The most successful bicycle dealers in the country live and breathe by these business principles every day. You should as well.

Visiting Assistant Professor Harvey F. Seegers prepared this case solely as the basis for class discussion. It is not intended to serve as an endorsement, source of primary data, or illustrations of effective or ineffective management. V1: July 7, 2014

Bill and Karen Masters often reflect upon this advice, and they take pride in their showroom, customer service, and cost efficiency. Over the years they have learned that intuition and common sense are important ingredients of management judgment. However, they both also have learned to use data and quantitative analysis to solve problems and make the most important decisions in their business.

Not surprisingly, therefore, the Masters run their business "by the numbers" as the saying goes. Having learned the fundamentals of accrual accounting, cash flow, and financial analysis in graduate school, they "keep the books" meticulously for operational control. **Exhibits (A1, A2, A3)** contain nine years of the financial and operating metrics for the business from startup (2009) through forecast (2017). **Exhibit (A4)** contains selected operating metrics by month for 2010 through 2013.

Looking back on the first five years of the business (2010-2014E), they are satisfied with the results, but feel that there is much more they could be doing. Their financial plan for the next three years (2015-2017) calls for exceeding the one million dollar mark in sales and delivering 5-10% growth rates. On one particular Monday afternoon (when the shop is closed), Karen and Bill sat down behind their office desk to read two **documents**: (1) a current Bicycle Industry Research Paper and (2) the original Executive Summary of their Business Plan composed when they first started their business. They wondered what, if anything, they needed to do differently going forward to meet their ambitious growth and profitability targets.

Document One
RESEARCH: U.S. BICYCLE INDUSTRY 2014

Industry Overview

Cycling is the seventh most popular recreational activity in the United States, behind exercise walking, swimming, camping, fishing, exercising with equipment, and bowling. The Bicycle Market Research Institute estimates that 73% of adult cyclists ride for recreation, 54% for fitness, 10% for commuting, 8% for racing, and 6% for sport. (The figures add to more than 100% because some cyclists ride in multiple ways.) According to the National Sporting Goods Association, 35 million Americans aged seven and older rode a bicycle six times or more in 2013. In 2012, this number was 39 million and, in the peak year of 1995, it was 59 million. **Exhibit (B)** compares bicycle-riding participants in the U.S. between the years 2000 and 2010.

Bicycles with wheels 20 inches in diameter or larger (the "mass market") basically come in two varieties: standard and specialty. Standard bicycles are mass-produced, single-purpose (on paved roads for recreational use), and sold in high volume "big box" national retail stores (e.g., Wal-Mart, Target, Sears, etc.). Specialty bicycles are designed for special purposes, such as mountain biking on dirt trails, long haul cross-country trips on paved roadway, or comfortable local recreation riding. There are over 150 different bicycle brands sold in the United States. The

most popular "standard bicycle" brands are: Schwinn, Mongoose, Roadmaster, Magna, Royce Union, Rand, and Kent. The most popular "specialty bicycle" brands are Trek, Giant, Specialized, Redline, Raleigh America, Haro, and Electra.

There is little brand crossover in the U.S. bicycle market – meaning the "standard" brands do not make or sell "specialty" bicycles, and vice versa. The only exception to this behavior is Schwinn, who has begun selling both "standard" and "specialty" models. In general, a "standard" bicycle is a normal performance ride and is affordably priced. A "specialty" bicycle, on the other hand, is a high performance ride and priced much higher.

Specialty Bicycle Demand

The U.S. market for Specialty Bicycles is profiled in **Exhibit (C)**. About 2.4 million specialty bikes were sold in 2013. But, as depicted in the Exhibit, the specialty bicycle market share by category differs substantially.

Mountain Bikes and ***Hybrid Bikes*** constitute roughly half of the U.S. specialty bicycle market. Mountain bicycles are designed for riding rough off-road trails. They have flat or upright handlebars, and a very low gear range for pedaling up steep hills. Most have some type of shock absorbers. Hybrid bicycles were originally conceived to provide the advantages of both road bikes and mountain bikes. Their large, padded saddles and upright handlebars provide a comfortable riding position. They are best for casual riding around the neighborhood on (paved or unpaved) bike paths, short-distance commuting, and errands around town. They can be ridden on paved roads, but are not as efficient or lightweight as a road bicycle.

Road bikes are the third most popular category of specialty bicycle. They are designed to be ridden fast on smooth pavement. They have smooth, skinny tires and "drop handlebars" and can be used for paved road racing. They are usually lighter than most other bicycle types and most people find them unstable on unpaved trails.

As the name implies, ***Comfort bikes*** – the fourth most popular category -- are comfortable transport vehicles with a laid-back riding position and plush suspension. Foam saddles on springs and high air volume tires combine to take the sting out of street bumps and other roadway imperfections.

Youth bikes have ultra-lightweight frames, handlebar braking, and 3-speed gearing. These relatively simple bikes are designed for either on-road or off-rode travel, and for simple stunts, such as "wheelies" that entertain the younger riders.

Cruiser bikes are similar to hybrid bikes in that they are designed for casual riding, and have a very comfortable, upright riding position and a large comfortable saddle. Cruisers usually have wide "balloon" tires and handlebars that are more upright and "swept back" than hybrids. Most also are single speed with the old-fashioned coaster brake (where you pedal backwards to stop). They are best for

short-distance commuting and neighborhood errands, as long as the route is fairly flat.

The final three categories of specialty bicycle, ***recumbent***, ***electric***, and ***folding***, are niche market segments with uncertain futures.

Specialty Bicycle Supply

The U.S. specialty bicycle market is dominated by imports. The National Bicycle Dealers Association estimates that 99% of specialty bicycles are manufactured in China or Taiwan and imported into the United States. Even where there is a U.S. company assembling specialty bicycles from components (such as drivetrains, derailleurs, brakes, bars, saddles, etc.), those components are manufactured in the Far East. As a consequence, U.S. bicycle dealers and cycling enthusiasts are heavily dependent on global free trade and favorable exchange rates. Trade sanctions or a weak dollar could pose serious problems for the supply or affordability of bicycles in the U.S.

Manufacturing bicycles is a labor-intensive business because most of the bicycle is assembled by hand. In order to keep costs low, Chinese manufacturers employ minimally skilled workers at extremely modest wage rates. As a consequence, U.S. distributors must be constantly vigilant about working conditions in their suppliers' factories.

Bicycle Distribution

Bicycle sales are accomplished in the U.S. through five primary and distinct channels of distribution: mass merchants, specialty bicycle retailers, full-line sporting goods stores, outdoor specialty stores, and online direct over the Internet. Average bicycle prices vary considerably by channel. **See Exhibit (D)**.

Mass merchants (department, discount, chain toy stores) sell standard price-oriented products. In 2013, approximately 74% of all U.S. bicycle unit sales (all sizes and types) were through this distribution channel. However, these unit sales only represented 30% of the dollar sales, at an average price per bicycle of $84.00. The "Big Five" mass merchants – Wal-Mart, Toys "R" Us, K-Mart, Target, and Sears Roebuck -- sold 60% of all the bicycles in this distribution channel in 2013.

The approximately 4,000 specialty bicycle retailers in the U.S. in 2013 commanded approximately 15% of all bicycle unit sales, but 52% of the dollar sales. Dealer price points generally start at around $200.00, with an average of $714.00, but with some bicycles priced into the thousands of dollars on the high end. While the number of specialty bicycle stores has declined in recent years due to consolidation, they are responsible for approximately the same amount of business. Or otherwise stated, the selling space lost due to consolidation has been replaced by expansion in the remaining stores. This channel's overall market share was flat in 2013 when compared against 2012, although the average selling price rose.

Chain sporting goods stores sold about 6.5% of the bicycles and 8 % of the dollars in 2013, with an average selling price of $254.00. These merchants include: The Sports Authority, Champs Sports, JumboSports, and Sportmart.

Outdoor specialty retailers sold 2.5% of the bicycles and 6% of the dollars in 2013, with an average retail-selling price of $577.

About 2% of bicycles were sold over the Internet in 2013, with an average retail-selling price of $345. There is fierce debate in the bicycle industry over how important, or how threatening, this new online channel will be in the future.

Specialty Bicycle Dealers

According to the National Bicycle Dealers Association (2011), the average specialty bicycle retailer had gross annual sales of $886,817 – up from an average of $550,000 in 2005. The typical average specialty retailer did business from a store of about 5,000 square feet in size. The average specialty bike shop sells 650 bicycles per year, carries 5 different bicycle brands, and many more bicycling accessory brands (helmets, biking apparel, etc.).

New bicycle sales represent 47% of total revenue for the average specialty bicycle shop. Parts, accessories, rentals, and service/repair comprise the rest. Specialty bicycle shops feature quality merchandise and add value through services such as bike fitting, assembly, repair, and community involvement.

The gross margin (price minus variable costs) on specialty bicycles averages 36%. The variable cost is the price the bike shop pays to its supplier. So, if a Bicycle Company buys a bike from one of its Chinese suppliers for $200.00 (a "cost" to the Company), and then sells it to a customer for $312.50, the gross margin is $112.50 ($312.50-$200.00=$112.50). When expressed as a percentage of price, the gross margin dollars ($112.50) are divided into the purchase price ($312.50). Here $112.50/$312.50 = 36%. The reason the $200.00 cost is called "variable" is because it varies with the volume of bikes sold. If the Company buy 5 bikes @ $200.00 each, the variable cost would be $1,000.00.

Conversely, there are "fixed costs" associated with running a specialty bicycle business. These costs are incurred regardless of how many bicycles (or anything else) are sold in the shop. The biggest single "fixed cost" in the specialty bicycle business is payroll expense, which amounts to 20.5% of sales. Payroll expenses include owner salary, as well as the wages of store employees. These costs must be paid independently of how many bicycles (or anything else) are sold, hence the term "fixed costs."

The other components of "fixed costs" in the typical specialty bicycle business are:

- Occupancy (rent, utilities) = 7.7% of sales
- Advertising = 3.0% of sales
- Store supplies/postage = 1.2% of sales
- Depreciation (lost value of owned equipment) = 0.9%
- Insurance = 0.8%
- Telephone = 0.6%
- Automobile/Delivery = 0.5%
- Professional Services (lawyers, accountants, etc.) = 0.5%
- Licenses and Taxes = 0.5%
- Travel and Entertainment = 0.4%
- All Other = 1.3%
-

Therefore, the total "fixed costs" in the typical specialty bicycle company are 37.9% of sales. In order to determine a company's profit before paying interest and taxes, a business subtracts its "fixed costs" from its "gross margin". In the specialty bicycle business, the average gross margin on a specialty bicycle is 36% of sales, and the average fixed costs are 37.9% of sales. When you do the math (36.0% - 37.9%) you find that the average specialty bicycle company makes no profit at all from bicycle sales – in fact, it loses money on bicycles!

Why would anyone run a business that loses money on its showcase product?

Part of the answer lies in the retail-marketing concept of *merchandise mix*. Specialty bicycle companies carry many bicycling accessories that have much higher gross margins than bicycles. These include helmets, handlebar horns, rearview mirrors, saddle cushions, racing attire, sunglasses, and the like. Interestingly enough, the typical specialty biker will spend weeks researching the prices of bicycles before deciding to buy. But, once that customer is inside the bike shop ready to buy the bike of his or her dreams, that customer buys accessories with little or no concern for their price. In the world of marketing, this behavior is called "planned purchasing" (the bicycle) and "impulse purchasing" (the accessories). Ironically, a specialty bicycle shop makes no money from planned purchasing, but relies almost exclusively on impulse purchasing to make a profit.

Another part of the answer lies in the difference between the profitability of *products versus parts and services*. In general, *parts and services* command higher gross margin percentages than products. In the bicycle business, this means repairing a broken specialty bicycle is a more profitable business than selling the new bicycle. Cycling enthusiasts have an emotional attachment to their specialty bicycles, and when the bicycle "hurts" the owner wants it "fixed" by a reputable dealer. Much like an impulse purchase, the customer needing parts and repair services is going to be more sensitive to the quality of the bike shop than the price of the parts and service.

This leads to the essence of the specialty bicycle business: personal service. Bicycling enthusiasts are demanding customers, and they choose their dealers based

upon the overall experience in the bike shop. Therefore, product presentation, employee attitude, and service quality are key success factors in this business.

Document Two

BUSINESS PLAN: MASTERS SPECIALTY BICYCLE COMPANY, LLC

1.0 Executive Summary

1.1 Company and Industry

Masters Specialty Bicycle Company is a specialty retail bike company headquartered in its store located in Great Falls, Virginia – a town known for its great bicycling paths. The company store operates under lease in a 5,000 square foot building in a prime shopping center location. The specialty bicycling industry nationwide is flat to slightly down, but in Northern Virginia it has been vibrant.

1.2 Products and Services

The store sells all types of specialty bikes with an emphasis on mountain bikes, hybrids, road bikes, comfort bikes, and cruisers. In addition to bike sales, the shop offers configuration and repair services, accessories, and parts, which are installed by certified mechanics. Accessories include helmets, goggles, shoes, cycling apparel and the like. While special-purpose bicycles are the primary product for the company, profitable operations depend upon the sale of the higher margin services, accessories, and parts. Buyers tend to revisit the dealer who sold them their specialty bike, so strong bike sales are essential to "pull-through" sales of parts, services, and accessories.

1.3 Market and Competitor Analysis

Research from the Virginia Department of Transportation, the National Bicycle Association, and numerous Virginia Bike Clubs, paints a fairly complete picture of the bicycle market in Virginia. Virginia is home to 838 miles of biking trails, more than any other state. Bikers think of trails in 4 ways: (1) on-road paved, (2) off-road paved, (3) off-road unpaved, and (4) mountain. Northern Virginia has the most extensive biking trails in the state, and one of the most popular trails is the 125-mile off-road unpaved towpath along the C&O canal. The most common entry point to the towpath trail is at the National Park in Great Falls, Virginia, about three miles from the store. The park receives over 500,000 visitors annually.

Masters is the only specialty bicycle company with a store in Great Falls; however, several "big box" retailers (e.g., Wal-Mart, Target, Sears) are only miles away. To date, these big retailers have only sold standard, mass-produced bikes, at cheap prices and do not offer services or parts. Also, Masters has an exclusive

distribution agreement with 3 big specialty bike manufacturers for a 15-mile radius around its Great Falls store.

1.4 Strategy and Implementation

Exhibit (E) profiles the demographics of the participants in the bicycle industry, or, otherwise stated – the characteristics of bicycle customers.

Masters' target customers are frequent adult bicyclists who ride at least 110 days a year. Within this category, the company markets to men and women aged 25 to 44 with average household incomes of $50,000 - $100,000 a year. These customers demand knowledgeable salespeople, excellent product selections, friendly store atmosphere, and quality service. Our success depends upon gaining a reputation for providing a memorable customer experience every time a cyclist enters our store. Therefore, we will invest in our employees and pay above-market wage rates to attract and retain the best-suited people for this business model.

1.5 Management

Karen and Bill Masters manage the business, and are the company's sole owners and founders. They both have 15+ years of specialty bicycle riding experience, college degrees, and graduate business education. The company will employ full-time certified mechanics on staff and full-time salespersons.

1.6 Financial Plan

Masters projects sales in Year 1 of $200,000 and sales growth of 40-50% each year thereafter through Year 5. The company will become operating cash flow positive by Year 2. Bicycles will account for 40% of annual sales; parts, services, accessories, and equipment will account for other 60%.

1.7 Key Assets

Masters will maintain top-of-the-line inventory of specialty bikes, parts, and accessories. Other assets include tools, cash register, computer, retail displays, and signage. Intangibles, such as management experience, relationships, and location will also be important assets for the business.

Framing the Issues

After some discussion with her husband over the Industry Research Paper, Business Plan Executive Summary, and their ambitious goals for growing the business in the next three years, Karen stepped up to a whiteboard in the office and drew an isosceles triangle. Inside the top angle she wrote "enhance" – inside the

bottom left angle she wrote "expand" – inside the bottom right angle she wrote "extend" – and in the middle of the triangle she wrote "ethics." **See Exhibit (F).**

Bill looked at the diagram and asked Karen what it meant.

"Remember that business analysis course about how successful business leaders synthesize, communicate, and execute?" she replied. "Of course I do," Bill rejoined, "that's the one where we studied the leadership behaviors of great Chief Executive Officers like Steve Jobs and Meg Whitman." "Exactly," Karen pointed out, "and we need to start thinking like those leaders too." "What exactly are you suggesting?" Bill said with a quizzical look on his face. "We should structure our thinking about growing the business around these four ideas: ***enhance*** our core business, ***expand*** our products and services, ***extend*** our customer reach, and center everything we do around our personal and professional ***ethics,***" Karen declared. ""It is simple, understandable, and actionable."

"I like that a lot," Bill replied, "now we should compile a list of issues that correspond to each of those ideas." Over the next two hours they developed an extensive list of questions, problems, and decisions that needed to be addressed. Here is their list:

I. Enhance

- A. Market Selection. Men buy more specialty bikes from us than women. What should we do to increase the number of women who buy from us?

- B. Product Policy. Are we selling the right mixture of bikes, parts, accessories, and service? Are we over-emphasizing one category of bikes to the detriment of other? Should we continue sourcing all of our bikes from China? Since our business is seasonal, should we draw down our inventory in the slow months?

- C. Price Policy. Are we pricing our specialty bicycles correctly? They are the lowest profit margins in the business, but does it have to be that way? Is there room for us to raise prices? Or, maybe we should lower them and sell more bikes?

- D. Place Policy. Are we in the right location to attract the most customers? We are closed on Mondays and Tuesday, but should we be open instead? Are our store hours, 9am to 5 pm, appropriate? How should we conduct our research to gather the data to answer these questions?

- E. Promotion Policy. Is our brand identity optimal? Should we change our name to something more action-oriented? (More on this in Section IV on Ethics.)

II. Expand

- A. Market Selection. We have consciously targeted adult frequent bikers as our primary customers. But should we expand our horizons into specialty ***Youth*** bikes as well? Are there other segments of the specialty bicycle market we should be serving? Are we defining our "target customer" too broadly or too narrowly? We have finite resources and cannot be "all things to all people" but where is our "sweet spot" of customers?

- B. Product Policy. Should we also rent bikes out of our shop? Or, how about the company acting as a used bike broker (buying old bikes, fixing them up, and reselling them)? Where can we find research about the bike rental market?

- C. Price Policy. We determine our bicycle selling prices by "marking up" their cost to us from the supplier by 60% (e.g., buy a bike for $300 and sell it in the showroom for $480). Is there a better way to determine selling prices? Also, we never run discounts or offer rebates. Should this change?

- D. Place Policy. We devote 12 square feet (6' x 2') of showroom floor space for every bicycle. Is this too little or too much? The ceilings in the show room are 15 feet high. Should we invest in vertical bicycle racks and stack a second row on top of the bikes on the showroom floor?

- E. Promotion Policy. Are we communicating effectively to our customers? We have been relying on word of mouth to get our store recognized, but maybe now it is time to use newspapers, magazines, radio, TV, or the Internet to cast a wider message? How do we decide which media to use?

III. Extend

- A. Market Selection. Should we be planning to open another store soon? Annapolis, Maryland is a popular specialty biking territory – as is the Eastern Shore of Maryland. Starbucks Coffee Houses are on virtually every urban street corner, why shouldn't we extend into new bicycle markets?

- B. Product Policy. Should our service business include bike repair at home? Or, should we begin offering high-energy drinks for sale? How about fitness equipment? What other products make sense for a specialty bike shop to sell that we are missing? Is there research on what the typical bike shop sells besides bicycles?

- C. Price Policy. Should we offer "volume discounts" to our customers (e.g., 10% off a $500 purchase; 15% off a $750 purchase; 20% off a $1000 purchase)?

Should we pay our salespeople a "commission" on their sales (e.g., 5% of the total sale price)?

- D. Place Policy. There is vacant office space next door to our shop with 3,000 square feet of flooring. Should we lease that space and extend our showroom?

- E. Promotion Policy. What kinds of community activities should we participate in to demonstrate our commitment to the sport and the people?

IV. Ethics

- A. Profit Maximization**.** We have always believed that we should run our business for the common good of our customers, suppliers, employees, investors, and community. This means that we do not seek to squeeze every penny of profit out of our business. Some of our cycling buddies call this lazy management. A few people we approached for start-up money said "no" because we were not profit-maximizing animals. Is our mindset too idealistic? Do we need to get more aggressive in managing the business for profit?

- B. Equitable Compensation. Both of our certified mechanical technicians do the same work for us. One, however, supports a large family with some health issues. The other is a young bachelor who lives with three unrelated roommates in a small apartment. Should we take their personal circumstances into account in determining what we pay them?

- C. Working Conditions. One of our largest suppliers in China employs children as young as 10 years old to perform manual labor. They work 12-hour days and 6 days a week. They barely get paid subsistence wages. However, many of these children are the only person in the family who makes money. Should we stop doing business with this supplier?

- D. Marketing Integrity. An advertising agency we have been seeing is recommending that we change our brand image from "high-performance biking" to "swinging-singles recreation." They want us to incorporate sexually suggestive images in a media campaign, such as scantily clad women riding alongside shirtless men sporting 6-pack abs. Are there moral limits to this sort of innuendo in marketing imagery?

- E. Religious Accommodation. Weekends are our busiest selling days. We need to be open most of the daylight hours. We have a mixture of religious faiths represented in our employee population. A number of them have requested "time-off" on Saturday or Sunday to attend worship services. Do we have a moral obligation to give them that time? Would it be immoral to only hire people who need no such special accommodation?

Business Analysis

After hours of brainstorming the long list of issues facing the business as it enters a new stage of growth, Bill and Karen felt a bit overwhelmed. "And I thought we were doing a pretty good job," lamented Karen. Bill was a bit more sanguine. "We have been doing well," he observed, "but this is all about doing even better."

"How in the world are we going to find the time and energy to do all this business analysis and still manage day-to-day operations?" asked Karen. Bill was silent for over a minute. Then almost simultaneously the couple shouted out: "interns!"

Back at home that evening, Bill logged on to his computer and typed the following e-mail:

Dear Sir:

We are the co-owners of a specialty bicycle company located in Great Falls, Virginia. We are also graduates of your* Master of Science in Business Analysis Program*. Do you have any students who might be interested in joining us as interns and helping us solve problems essential to our company's future growth?

Here are the characteristics we are looking for in our interns:

- ***Smart, energetic, enthusiastic graduate business students willing to learn the specialty bicycle business fast and thoroughly.***
- ***Structured thinkers who can: (1) prioritize issues in order of importance to the business; (2) organize data in a manner to logically represent the underlying problem or opportunity needing a solution; (3) conduct research as necessary to complement the data on hand in the business; (4) employ the correct analytical tools for deriving a solution; and (5) communicate the analysis and solution to management in a clear, crisp, and concise manner.***
- ***Character and values beyond reproach. Care genuinely about others. People who overcome obstacles and take personal satisfaction in a job well done.***

Sincerely,

Bill and Karen Masters

After sending the e-mail, Bill and Karen spoke about how much they hoped that the school would receive their request for interns favorably.

The next morning the phone rang, Karen answered, and the voice on the other end asked, "How soon would you like your interns to start?"

Exhibit (A1)

Masters Specialty Bicycle Company												
Financial Statements (2009 - 2016F)												
	start-up year	<---------- past actuals---------->				current year	<----------forecast---------->			CAGR	CAGR
	2009	2010	2011	2012	2013	2014E	2015F	2016F	2017F	(2010-2014E)	(2014E-2017F
Income Statement ($000)											
Sales	$ -	$ 201.63	$ 333.85	$ 501.78	$ 652.78	$ 817.48	$ 947.25	$ 1,054.75	$ 1,206.25	42%	8.4%
Cost of Sales	$ -	$ (110.65)	$ (175.89)	$ (255.29)	$ (326.99)	$ (400.79)	$ (461.61)	$ (516.16)	$ (597.12)	38%	9.0%
Gross Margin	$ -	$ 90.98	$ 157.96	$ 246.49	$ 325.78	$ 416.68	$ 485.64	$ 538.59	$ 609.13	46%	7.8%
Operating Expenses	$ -	$ (102.80)	$ (125.80)	$ (175.80)	$ (254.90)	$ (318.90)	$ (358.40)	$ (420.00)	$ (430.00)	33%	6.3%
Operating Margin	$ -	$ (11.83)	$ 32.16	$ 70.69	$ 70.88	$ 97.78	$ 127.24	$ 118.59	$ 179.13	nmf	12.1%
Interest Expense	$ -	$ (3.75)	$ (3.75)	$ (3.75)	$ (3.50)	$ (3.00)	$ (2.00)	$ (1.50)	$ (1.00)	-5%	-20.6%
Taxes	$ -	$ -	$ -	$ (22.09)	$ (22.24)	$ (31.28)	$ (41.33)	$ (38.64)	$ (58.78)		12.5%
Net Income	$ -	$ (15.58)	$ 28.41	$ 44.85	$ 45.15	$ 63.50	$ 83.91	$ 78.45	$ 119.35		12.5%
Balance Sheet ($000)											
Assets											
Cash	$ 85.00	$ 49.43	$ 39.83	$ 46.68	$ 50.83	$ 75.33	$ 120.24	$ 149.69	$ 220.04	11%	22.3%
Accounts receivable	$ 5.00	$ 20.00	$ 33.00	$ 46.00	$ 59.00	$ 69.00	$ 79.00	$ 89.00	$ 99.00	36%	7.8%
Inventories	$ 40.00	$ 40.00	$ 60.00	$ 85.00	$ 110.00	$ 135.00	$ 160.00	$ 185.00	$ 210.00	36%	9.5%
Plant and Equipment (net)	$ 50.00	$ 65.00	$ 80.00	$ 85.00	$ 90.00	$ 95.00	$ 100.00	$ 105.00	$ 110.00	10%	3.2%
Total	$ 180.00	$ 174.43	$ 212.83	$ 262.68	$ 309.83	$ 374.33	$ 459.24	$ 528.69	$ 639.04	21%	11.6%
Liabilities											
Current liabilities	$ 5.00	$ 10.00	$ 15.00	$ 20.00	$ 27.00	$ 33.00	$ 39.00	$ 45.00	$ 51.00	35%	9.4%
Non-current liabilities	$ 75.00	$ 75.00	$ 75.00	$ 70.00	$ 60.00	$ 50.00	$ 40.00	$ 20.00	$ -	-10%	-100.0%
Total liabilities	$ 80.00	$ 85.00	$ 90.00	$ 90.00	$ 87.00	$ 83.00	$ 79.00	$ 65.00	$ 51.00	-1%	-13.6%
Shareowner Equity	$ 100.00	$ 89.43	$ 122.83	$ 172.68	$ 222.83	$ 291.33	$ 380.24	$ 463.69	$ 588.04	34%	15.6%
Total	$ 180.00	$ 174.43	$ 212.83	$ 262.68	$ 309.83	$ 374.33	$ 459.24	$ 528.69	$ 639.04	21%	11.6%
Cash Flow from Operating Activities ($000)											
Net Income	$ -	$ (15.58)	$ 28.41	$ 44.85	$ 45.15	$ 63.50	$ 83.91	$ 78.45	$ 119.35		
Depreciation	$ -	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00		
Increase in Accounts Payable	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 7.00	$ 6.00	$ 6.00	$ 6.00	$ 6.00		
Increase in Accrued Income Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
(Increase in Accounts Receivable)	$ (5.00)	$ (15.00)	$ (13.00)	$ (13.00)	$ (13.00)	$ (10.00)	$ (10.00)	$ (10.00)	$ (10.00)		
(Increase in Inventory)	$ (40.00)	$ -	$ (20.00)	$ (25.00)	$ (25.00)	$ (25.00)	$ (25.00)	$ (25.00)	$ (25.00)		
Net Cash Flow From Operations	$ (40.00)	$ (20.58)	$ 5.41	$ 16.85	$ 19.15	$ 39.50	$ 59.91	$ 54.45	$ 95.35		
Cash Flow from Investing Activities ($000)											
Proceeds From the Sale of Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
(Purchases of Property and Equipment)	$ (50.00)	$ (15.00)	$ (15.00)	$ (5.00)	$ (5.00)	$ (5.00)	$ (5.00)	$ (5.00)	$ (5.00)		
Net Cash From Investing Activities	$ (50.00)	$ (15.00)	$ (15.00)	$ (5.00)	$ (5.00)	$ (5.00)	$ (5.00)	$ (5.00)	$ (5.00)		
Cash Flow from Financing Activities ($000)											
Net Borrowing Under Line of Credit	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Proceeds From New Borrowing	$ 75.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Owner Capital Contributions	$ 75.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Proceeds From Issued Stock	$ 25.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
(Repayment of Loans)		$ -	$ -	$ (5.00)	$ (10.00)	$ (10.00)	$ (10.00)	$ (20.00)	$ (20.00)		
(Dividends Paid)		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Net Cash From Financing Activities	$ 175.00	$ -	$ -	$ (5.00)	$ (10.00)	$ (10.00)	$ (10.00)	$ (20.00)	$ (20.00)		
Change in Cash Balance	$ 85.00	$ (35.58)	$ (9.59)	$ 6.85	$ 4.15	$ 24.50	$ 44.91	$ 29.45	$ 70.35		

Exhibit (A2)

Revenue Mix Detail		start-up year	<---------- past actuals---------->				current year	<----------forecast---------->			CAGR	CAGR
		2009	2010	2011	2012	2013	2014E	2015F	2016F	2017F	(2010-2014E)	(2014E-2017F)
Bicycle Units Sold												
	Mountain Bikes		100	150	200	225	250	275	300	350	26%	8.4%
	Hybrid Bikes		75	100	150	225	300	325	350	400	41%	7.2%
	Road Bikes		50	60	70	80	90	100	110	130	16%	9.1%
	Comfort Bikes		25	30	35	40	45	50	55	60	16%	6.3%
	Cruiser Bikes		10	15	20	25	30	40	50	60	32%	14.5%
			260	355	475	595	715	790	865	1000	29%	8.2%
Average Sale Price												
	Mountain Bikes		$ 800.00	$ 800.00	$ 750.00	$ 750.00	$ 700.00	$ 725.00	$ 750.00	$ 775.00	-3%	2.2%
	Hybrid Bikes		$ 550.00	$ 525.00	$ 500.00	$ 475.00	$ 450.00	$ 475.00	$ 500.00	$ 525.00	-5%	3.4%
	Road Bikes		$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	0%	0.0%
	Comfort Bikes		$ 175.00	$ 170.00	$ 165.00	$ 160.00	$ 155.00	$ 150.00	$ 150.00	$ 150.00	-3%	0.0%
	Cruiser Bikes		$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	0%	0.0%
Bicycle Dollar Sales												
	Mountain Bikes		$ 80,000	$ 120,000	$ 150,000	$ 168,750	$ 175,000	$ 199,375	$ 225,000	$ 271,250	22%	10.8%
	Hybrid Bikes		$ 41,250	$ 52,500	$ 75,000	$ 106,875	$ 135,000	$ 154,375	$ 175,000	$ 210,000	35%	10.8%
	Road Bikes		$ 20,000	$ 24,000	$ 28,000	$ 32,000	$ 36,000	$ 40,000	$ 44,000	$ 52,000	16%	9.1%
	Comfort Bikes		$ 4,375	$ 5,100	$ 5,775	$ 6,400	$ 6,975	$ 7,500	$ 8,250	$ 9,000	12%	6.3%
	Cruiser Bikes		$ 1,500	$ 2,250	$ 3,000	$ 3,750	$ 4,500	$ 6,000	$ 7,500	$ 9,000	32%	14.5%
			$ 147,125	$ 203,850	$ 261,775	$ 317,775	$ 357,475	$ 407,250	$ 459,750	$ 551,250	25%	10.6%
Bicycle Gross Margin %												
	Mountain Bikes		40%	39%	38%	37%	36%	36%	36%	36%		
	Hybrid Bikes		38%	38%	38%	38%	38%	38%	38%	38%		
	Road Bikes		35%	35%	33%	33%	30%	30%	30%	30%		
	Comfort Bikes		32%	32%	32%	32%	32%	32%	32%	32%		
	Cruiser Bikes		30%	30%	30%	30%	30%	30%	30%	30%		
Gross Margin $												
	Mountain Bikes		$ 32,000	$ 46,800	$ 57,000	$ 62,438	$ 63,000	$ 71,775	$ 81,000	$ 97,650	18%	10.8%
	Hybrid Bikes		$ 15,675	$ 19,950	$ 28,500	$ 40,613	$ 51,300	$ 58,663	$ 66,500	$ 79,800	35%	10.8%
	Road Bikes		$ 7,000	$ 8,400	$ 9,240	$ 10,560	$ 10,800	$ 12,000	$ 13,200	$ 15,600	11%	9.1%
	Comfort Bikes		$ 1,400	$ 1,632	$ 1,848	$ 2,048	$ 2,232	$ 2,400	$ 2,640	$ 2,880	12%	6.3%
	Cruiser Bikes		$ 450	$ 675	$ 900	$ 1,125	$ 1,350	$ 1,800	$ 2,250	$ 2,700	32%	14.5%
	Total		$ 56,525	$ 77,457	$ 97,488	$ 116,783	$ 128,682	$ 146,638	$ 165,590	$ 198,630	23%	10.6%
	Wtd GM %		38.42%	38.00%	37.24%	36.75%	36.00%	36.01%	36.02%	36.03%		
Parts Sales $			$25,000	$75,000	$150,000	$175,000	$220,000	$250,000	$275,000	$300,000	72%	6.3%
Accessories Sales $			$17,500	$25,000	$50,000	$80,000	$120,000	$150,000	$160,000	$175,000	62%	5.3%
Service Sales $			$12,000	$30,000	$40,000	$80,000	$120,000	$140,000	$160,000	$180,000	78%	8.7%
Total PAS Sales $			$54,500	$130,000	$240,000	$335,000	$460,000	$540,000	$595,000	$655,000	70%	6.6%
GRAND TOTAL SALES $			$201,625	$333,850	$501,775	$652,775	$817,475	$947,250	$1,054,750	$1,206,250	42%	8.4%
Bike % of Total Sales			73.0%	61.1%	52.2%	48.7%	43.7%	43.0%	43.6%	45.7%		

Exhibit (A3)

		start-up year	<---------- past actuals ---------->				current year	<---------- forecast ---------->			CAGR	CAGR
		2009	2010	2011	2012	2013	2014E	2015F	2016F	2017F	(2010-2014E)	(2014E-2017F)
Gross Margin % Mix Detail												
	Bicycles		38.42%	38.00%	37.24%	36.75%	36.00%	36.01%	36.02%	36.03%		
	Parts		60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%		
	Accessories		70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%		
	Service		60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%		
Gross Margin $ Mix detail												
	Bicycles		$ 56,525	$ 77,457	$ 97,488	$ 116,783	$ 128,682	$ 146,638	$ 165,590	$ 198,630	23%	10.6%
	Parts		$ 15,000	$ 45,000	$ 90,000	$ 105,000	$ 132,000	$ 150,000	$ 165,000	$ 180,000	72%	6.3%
	Accessories		$ 12,250	$ 17,500	$ 35,000	$ 56,000	$ 84,000	$ 105,000	$ 112,000	$ 122,500	62%	5.3%
	Service		$ 7,200	$ 18,000	$ 24,000	$ 48,000	$ 72,000	$ 84,000	$ 96,000	$ 108,000	78%	8.7%
	Total		$ 90,975	$ 157,957	$ 246,488	$ 325,783	$ 416,682	$ 485,638	$ 538,590	$ 609,130	46%	7.8%
	GM%		45.1%	47.3%	49.1%	49.9%	51.0%	51.3%	51.1%	50.5%		
Operating Expense $$ Detail												
	Masters Salary		$ -	$ 20,000	$ 60,000	$ 80,000	$ 120,000	$ 130,000	$ 150,000	$ 160,000	#DIV/0!	7.2%
	Hourly Wages		$ 41,600	$ 41,600	$ 41,600	$ 83,200	$ 83,200	$ 83,200	$ 124,800	$ 124,800	19%	14.5%
	Occupancy		$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	0%	0.0%
	Advertising		$ 10,000	$ 12,000	$ 20,000	$ 35,000	$ 50,000	$ 75,000	$ 75,000	$ 75,000	50%	0.0%
	Supplies/Postage		$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	0%	0.0%
	Depreciation		$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	0%	0.0%
	Insurance		$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	0%	0.0%
	Telephone		$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 1,200	0%	0.0%
	Automobile		$ 1,000	$ 1,000	$ 2,000	$ 3,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	50%	0.0%
	Prof Services		$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 4,000	$ 4,000	$ 4,000	$ 4,000	19%	0.0%
	Licenses & Taxes		$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	0%	0.0%
	Travel & Entertainment		$ 1,500	$ 1,500	$ 1,500	$ 3,000	$ 5,000	$ 7,500	$ 7,500	$ 7,500	35%	0.0%
	All Other		$ 3,000	$ 4,000	$ 5,000	$ 5,000	$ 8,000	$ 10,000	$ 10,000	$ 10,000	28%	0.0%
	Total		$ 102,800	$ 125,800	$ 175,800	$ 254,900	$ 318,900	$ 358,400	$ 420,000	$ 430,000	33%	6.3%
Operating Expense % Detail												
	Salary		0.0%	6.0%	12.0%	12.3%	14.7%	13.7%	14.2%	13.3%		
	Hourly Wages		20.6%	12.5%	8.3%	12.7%	10.2%	8.8%	11.8%	10.3%		
	Occupancy		14.9%	9.0%	6.0%	4.6%	3.7%	3.2%	2.8%	2.5%		
	Advertising		5.0%	3.6%	4.0%	5.4%	6.1%	7.9%	7.1%	6.2%		
	Supplies/Postage		2.5%	1.5%	1.0%	0.8%	0.6%	0.5%	0.5%	0.4%		
	Depreciation		1.5%	0.9%	0.6%	0.5%	0.4%	0.3%	0.3%	0.2%		
	Insurance		1.2%	0.7%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%		
	Telephone		0.6%	0.4%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%		
	Automobile		0.5%	0.3%	0.4%	0.5%	0.6%	0.5%	0.5%	0.4%		
	Prof Services		1.0%	0.6%	0.4%	0.3%	0.5%	0.4%	0.4%	0.3%		
	Licenses & Taxes		1.0%	0.6%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%		
	Travel & Entertainment		0.7%	0.4%	0.3%	0.5%	0.6%	0.8%	0.7%	0.6%		
	All Other		1.5%	1.2%	1.0%	0.8%	1.0%	1.1%	0.9%	0.8%		
	Total		51.0%	37.7%	35.0%	39.0%	39.0%	37.8%	39.8%	35.6%		
Headcount & Wage Detail												
Headcount	Managers		2	2	2	2	2	2	2	2		
	Salespersons		1	1	1	2	2	2	3	3		
	Mechanics		1	1	1	2	2	2	3	3		
Wage Rate/Hr	Managers		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
	Salespersons		$9.00	$9.00	$9.00	$9.00	$9.00	$9.00	$9.00	$9.00		
	Mechanics		$11.00	$11.00	$11.00	$11.00	$11.00	$11.00	$11.00	$11.00		
Hours Worked	Managers		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Per Person Per Year	Salespersons		2080	2080	2080	2080	2080	2080	2080	2080		
	Mechanics		2080	2080	2080	2080	2080	2080	2080	2080		
Wages/Year	Managers		$0.00	$20,000.00	$60,000.00	$80,000.00	$120,000.00	$130,000.00	$150,000.00	$160,000.00		
	Salespersons		$18,720.00	$18,720.00	$18,720.00	$37,440.00	$37,440.00	$37,440.00	$56,160.00	$56,160.00		
	Mechanics		$22,880.00	$22,880.00	$22,880.00	$45,760.00	$45,760.00	$45,760.00	$68,640.00	$68,640.00		
	Total Hourly Wages		$41,600.00	$41,600.00	$41,600.00	$83,200.00	$83,200.00	$83,200.00	$124,800.00	$124,800.00		
	Pct of Sales		21%	12%	8%	13%	10%	9%	12%	10%		

Exhibit (A4)

Masters Specialty Bicycle Company Monthly Operating Results (2010-2013)

Sales by Month (2010-2013)($000)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
2010	4.30	12.50	21.30	25.70	33.61	36.50	17.12	15.30	12.90	8.40	5.00	9.00	201.63
2011	2.00	8.70	45.60	45.90	65.10	45.70	37.10	25.30	21.36	13.91	8.28	14.90	333.85
2012	5.02	20.57	41.65	81.29	70.25	78.28	67.24	28.10	28.60	29.61	22.58	28.60	501.78
2013	15.67	22.85	75.07	74.42	112.93	108.36	68.54	52.22	29.38	31.99	20.89	40.47	652.78

Sales by Month as % of Annual Sales (2010-2013)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
2010	2.1%	6.2%	10.6%	12.7%	16.7%	18.1%	8.5%	7.6%	6.4%	4.2%	2.5%	4.5%	100.0%
2011	0.6%	2.6%	13.7%	13.7%	19.5%	13.7%	11.1%	7.6%	6.4%	4.2%	2.5%	4.5%	100.0%
2012	1.0%	4.1%	8.3%	16.2%	14.0%	15.6%	13.4%	5.6%	5.7%	5.9%	4.5%	5.7%	100.0%
2013	2.4%	3.5%	11.5%	11.4%	17.3%	16.6%	10.5%	8.0%	4.5%	4.9%	3.2%	6.2%	100.0%

Inventory by Month (2010-2013)($000)

	January	February	March	April	May	June	July	August	September	October	November	December
2010	40	34	23	50	35	35	40	40	40	40	40	40
2011	40	45	50	60	60	60	60	60	60	60	60	60
2012	60	60	45	45	50	55	60	65	70	75	80	85
2013	85	85	85	70	75	80	85	90	95	100	105	110

Inventory by Month as % of Annual Sales (2010-2013)

	January	February	March	April	May	June	July	August	September	October	November	December
2010	19.8%	16.9%	11.4%	24.8%	17.4%	17.4%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%
2011	12.0%	13.5%	15.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
2012	12.0%	12.0%	9.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	14.9%	15.9%	16.9%
2013	13.0%	13.0%	13.0%	10.7%	11.5%	12.3%	13.0%	13.8%	14.6%	15.3%	16.1%	16.9%

# of Customer Visits by Month (2010-2013)

	January	February	March	April	May	June	July	August	September	October	November	December
2010	200	300	435	500	550	525	345	375	400	345	200	325
2011	225	330	479	550	605	578	380	413	440	396	356	321
2012	250	363	526	605	666	635	417	454	484	436	392	353
2013	275	399	579	666	732	699	459	499	532	479	431	388

# of Customers Purchasing by Month (2010-2013)

	January	February	March	April	May	June	July	August	September	October	November	December
2010	10	21	39	45	55	53	28	30	32	24	14	33
2011	11	23	43	50	61	58	30	33	35	32	29	26
2012	8	25	47	54	67	64	33	36	39	35	31	42
2013	11	28	46	60	73	70	37	60	43	38	34	43

Customer Conversion Rate by Month (2010-2013); Conversion % = (# Purchasing/ # Visiting)

	January	February	March	April	May	June	July	August	September	October	November	December
2010	5.0%	7.0%	9.0%	9.0%	10.0%	10.0%	8.0%	8.0%	8.0%	7.0%	7.0%	10.0%
2011	5.0%	7.0%	9.0%	9.0%	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
2012	3.0%	7.0%	9.0%	9.0%	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	8.0%	12.0%
2013	4.0%	7.0%	8.0%	9.0%	10.0%	10.0%	8.0%	12.0%	8.0%	8.0%	8.0%	11.0%

Average Checkout Ticket Value by Month (2010-2013); ACTV = (Sales/ # Customers Purchasing)

	January	February	March	April	May	June	July	August	September	October	November	December
2010	$ 430.00	$ 595.24	$ 544.06	$ 571.11	$ 611.00	$ 695.24	$ 620.29	$ 510.00	$ 403.13	$ 347.88	$ 357.14	$ 276.92
2011	$ 382.22	$ 541.13	$ 494.60	$ 519.19	$ 555.45	$ 632.03	$ 563.90	$ 766.67	$ 606.80	$ 439.09	$ 290.36	$ 580.72
2012	$ 573.33	$ 491.93	$ 449.64	$ 471.99	$ 504.96	$ 574.58	$ 512.64	$ 774.10	$ 738.67	$ 849.55	$ 719.96	$ 675.51
2013	$ 390.91	$ 447.21	$ 459.86	$ 429.08	$ 459.05	$ 522.34	$ 466.03	$ 871.90	$ 689.69	$ 834.43	$ 605.49	$ 947.98

Exhibit (B)

U.S. Bicycle Riding Participants by Age & Sex 2000 and 2010

(Numbers in thousands)	2000	2010	Change	Change %
Total U.S. Population	281,421	308,745	27,324	9.7%
Bicycle Riders (6 times/yr or more)	43,135	39,789	(3,346)	-7.8%
Percent of Total U.S. Population	15.3%	12.9%		
Total Child Population (ages 1-17)	72,293	74,181	1,888	2.6%
Child Bike Riders (ages 7-17)	18,509	14,587	(3,922)	-21.2%
Child Bike Riders as % of Total Children	25.6%	19.7%		
Child Bike Riders as % of All Bike Riders	42.9%	36.7%		
Total Adult Population	209,128	234,564	25,436	12.2%
Adult Bike Riders (6 times/yr or more)	24,626	25,202	576	2.3%
% of Adult Population	11.8%	10.7%		
% of All Bike Riders	57.1%	63.3%		
Total Adult Male Population	100,996	113,836	12,840	12.7%
Adult Male Bike Riders (>6 times/yr)	11,742	13,589	1,847	15.7%
% of All Adult Males	11.6%	11.9%		
% of All Adult Bike Riders	47.7%	53.9%		
Total Adult Female Population	108,133	120,728	12,595	11.6%
Adult Female Bike Riders (>6 times/yr)	12,884	11,608	(1,276)	-9.9%
% of All Adult Females	11.9%	9.6%		
% of Adult Bike Riders	52.3%	46.1%		
Source: U.S. Census Bureau; National Sporting Goods Association				

Exhibit (C)

U.S. Bicycle Industry Retail Sales (2005-2012)										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	CAGR
Sales ($ Billions)(all wheel sizes)(see note 1)	$6.10	$5.80	$6.00	$6.00	$5.60	$6.00	$6.00	$6.10	$5.80	-0.63%
Units (Millions) (all wheel sizes)	19.80	18.20	18.20	18.50	14.90	19.80	15.70	18.70	16.20	-2.48%
Units (Millions) (20"diameter wheels and larger)	14.00	12.70	12.80	13.40	10.20	13.50	11.00	13.00	11.30	-2.64%
Units (Millions) (wheels smaller than 20" diameter)	5.80	5.50	5.40	5.10	4.70	6.30	4.70	5.70	4.90	-2.09%
Big Wheels as Pct of Total Bicycle Units Solds	70.71%	69.78%	70.33%	72.43%	68.46%	68.18%	70.06%	69.52%	69.75%	
Note: (1) retail sales of of new (not used) bicycles, related parts and accessories, through all distribution channels										
Specialty Bicycle Units Sold 2005-2013 (millions)	2.97	2.73	2.73	2.775	2.235	2.97	2.355	2.805	2.43	
Specialty Bicycles Unit Market Share by Category 2005-2013										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	
Mountain	29%	24%	25%	26%	24%	22%	23%	25%	25%	
Hybrid	14%	19%	17%	18%	21%	21%	20%	24%	24%	
Road	16%	18%	21%	20%	20%	23%	24%	20%	20%	
Comfort	14%	17%	15%	16%	15%	13%	14%	13%	13%	
Youth	15%	14%	12%	12%	13%	12%	12%	12%	12%	
Cruiser	6%	6%	7%	6%	6%	6%	6%	5%	5%	
Recumbent	2%	1%	3%	1%	1%	2%	1%	2%	2%	
Electric						0.6%	0.3%	0.5%	0.5%	
Folding						0.2%	0.4%	0.4%	0.4%	
Specialty Bicycles Average Gross Margin by Category 2005-2013										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	
Mountain	50%	49%	47%	45%	43%	41%	39%	37%	36%	
Hybrid	45%	44%	43%	42%	41%	40%	39%	38%	38%	
Road	40%	39%	38%	37%	36%	35%	33%	32%	30%	
Comfort	35%	35%	35%	34%	34%	33%	32%	31%	30%	
Youth	40%	40%	40%	40%	40%	40%	40%	40%	40%	
Cruiser	35%	35%	35%	34%	34%	33%	33%	31%	30%	
Recumbent						15%	15%	15%	15%	
Electric						20%	20%	20%	20%	
Folding						10%	10%	10%	10%	
Source: Bicycle Manufacturers Association, U.S. Department of Commerce, National Bicycle Dealers Association, Gluskin Townley Group, LLC.										

Exhibit (D)

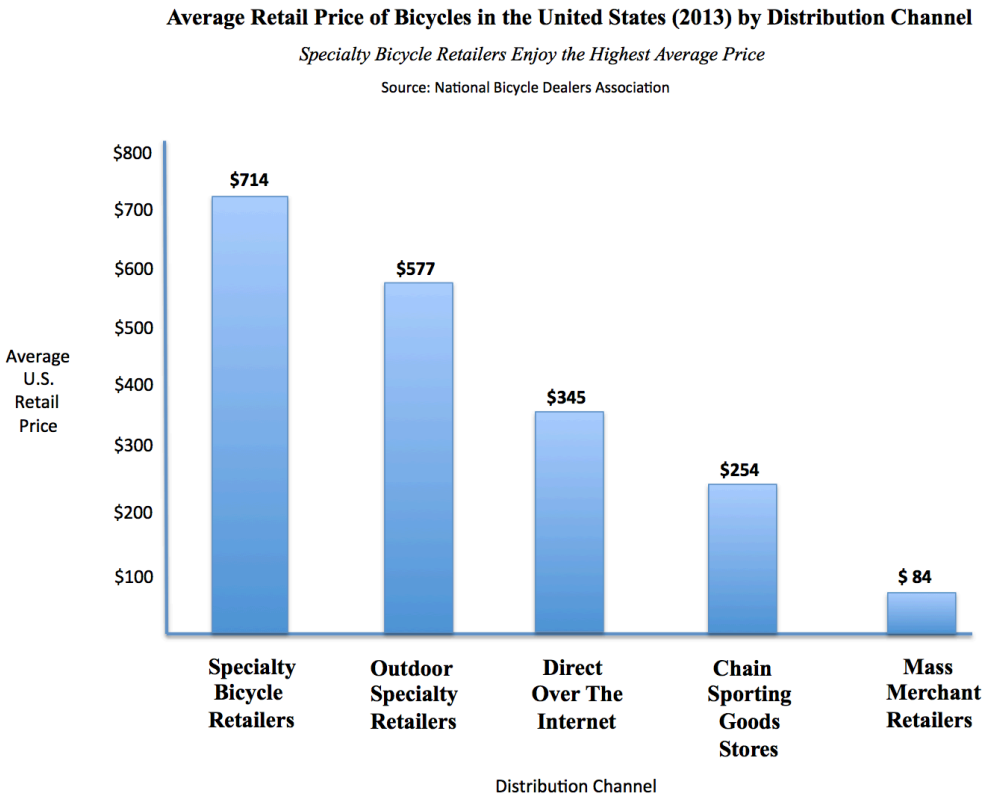

Average Retail Price of Bicycles in the United States (2013) by Distribution Channel
Specialty Bicycle Retailers Enjoy the Highest Average Price
Source: National Bicycle Dealers Association
Average U.S. Retail Price
$800
$700
$600
$500
$400
$300
$200
$100
$714
$577
$345
$254
$ 84
Specialty Bicycle Retailers
Outdoor Specialty Retailers
Direct Over The Internet
Chain Sporting Goods Stores
Mass Merchant Retailers
Distribution Channel

Exhibit (E)

Bicycle Riding Participants and Frequent Participants who ride >= 110 days a year (in thousands) by sex, 2000 & 2010

	2000	2010	Change	% Change
Total Adult Bike Riders	24,626	25,202	576	2.3%
Frequent Adult Riders (>= 110 days/yr)	3,008	3,379	371	12.3%
Frequent % of All Riders	12.2%	13.4%		
Male Adult Frequents	1,739	2,004	265	15.2%
% of All Frequents	57.8%	59.3%		
Female Adult Frequents	1,269	1,375	106	8.4%
% of All Frequents	42.2%	40.7%		

Bicycle Riding Participants and Occasional Participants who ride 25-109 days a year (in thousands) by sex, 2000 & 2010

	2000	2010	Change	% Change
Total Adult Bike Riders	24,626	25,202	576	2.3%
Occasional Adult Riders(25-109 days/yr	10,893	10,671	(222)	-2.0%
Occasional % of All Riders	44.2%	42.3%		
Male Adult Occasionals	5,290	5,862	572	10.8%
% of All Occasionals	48.6%	54.9%		
Female Adult Occasionals	5,603	4,809	(794)	-14.2%
% of All Occasionals	51.4%	45.1%		

Bicycle Riding Participants and Infrequent Participants who ride 6-24 days a year (in thousands) by sex, 2000 & 2010

	2000	2010	Change	% Change
Total Adult Bike Riders	24,626	25,202	576	2.3%
Infrequent Adult Riders (6-24 days/yr)	10,639	11,149	510	4.8%
Infrequent % of All Riders	43.2%	44.2%		
Male Adult Infrequents	4,713	5,725	1,012	21.5%
% of All Infrequents	44.3%	51.3%		
Female Adult Infrequents	5,926	5,424	(502)	-8.5%
% of All Infrequents	55.7%	48.7%		

Source: Gluskin Townley Group

Average Number of Riding Days Among Bicycle Riding Participants by Age & Sex

	Total	18-24	25-34	35-44	45-54	55-64	65-74	75+
Male	57.0	44.6	48.4	53.1	59.5	63.9	73.0	87.4
Female	49.1	46.6	37.6	43.3	61.2	58.6	58.0	71.1

U.S. Adult Bicycle Riding Participants by Age and Sex (in thousands)

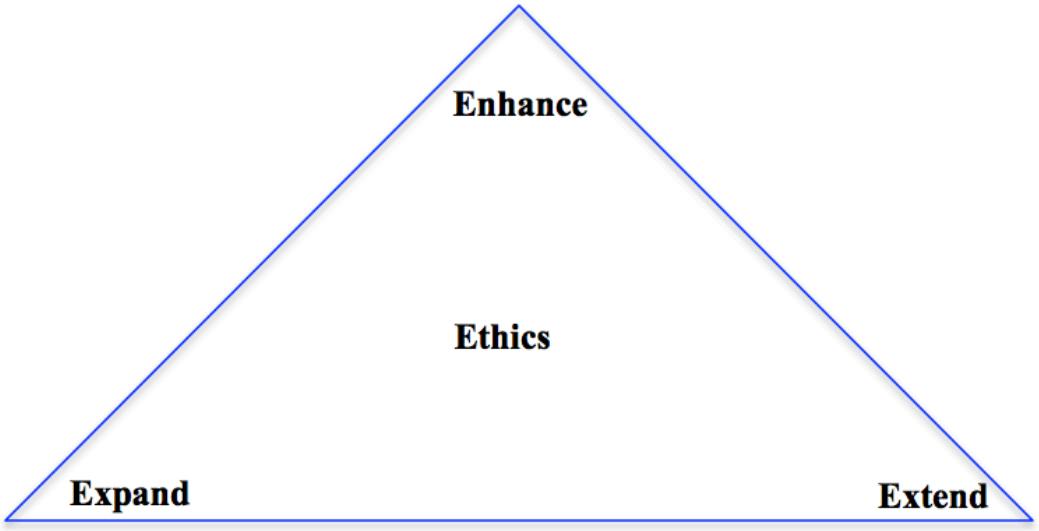
	18-24	25-34	35-44	45-54	55-64	65-74	75+	All Ages
Total	3,868	4,804	6,096	4,926	3,417	1,313	778	25,202
Percent of All Ages	15.3%	19.1%	24.2%	19.5%	13.6%	5.2%	3.1%	100.0%
Male	2,056	2,480	3,302	2,584	1,960	764	446	13,592
Female	1,812	2,324	2,794	2,342	1,457	549	332	11,610
Male % of Total	53.2%	51.6%	54.2%	52.5%	57.4%	58.2%	57.3%	53.9%
Female % of Total	46.8%	48.4%	45.8%	47.5%	42.6%	41.8%	42.7%	46.1%

Bicycle Riding Participants by Median Household Income and Participation Frequency

	Median Household Income =	0-$50,000	$50,000 +	$100,000+
All US Households		50%	50%	20%
All Bike Riders		25%	65%	31%
Frequent Riders		46%	54%	26%
Occasional Riders		34%	67%	31%
Infrequent Riders		33%	67%	32%

Source: Gluskin Townley Group

Exhibit (F)



Masters Specialty Bicycle Company

Cognitive Model for Growth