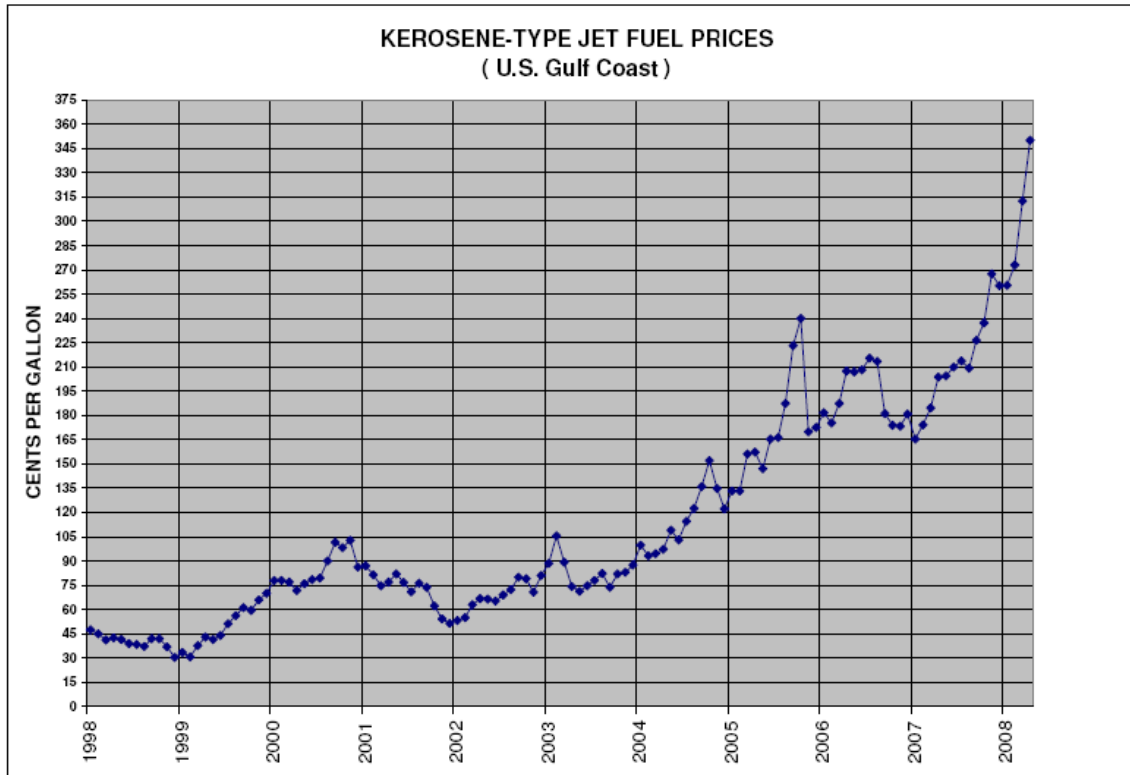


# Fuel Prices Rise 69%

April 27, 2008

The March numbers are in and they are not good. The price of jet fuel used by FedEx to carry our packages averaged \$3.12 per gallon in March, a 69% increase over March of 2007. The first few days in April show a continuation of the unrepresented rise in the price of fuel. (*Daily Fuel Prices*) The potential impact on our economy is mind boggling. The experts are still scratching their heads trying to figure out why these prices are still going up at a time of the year when they traditionally pull back.

The following chart shows the dramatic increase not only for this year but for the last 10 years. The chart shows fuel prices in cents per gallon instead of dollars. A word of caution. This is shocking data! The last data point is for the end of April and we totally made that up, but if prices follow the current trend it will not be to far off the mark. Hopefully this will be just a spike like the one that occurred in 2005. Hopefully the shippers will cap their surcharge as they did in 2005. We will have to wait and see.



Fedex does not just pay these high fuel prices and forget about them. They impose a fuel surcharge on our shipments so we, the consumer of their service, have to pay for the higher priced fuel. The fuel surcharge has gone from 18.5% last month to 20.0% this month. Next month, although they haven't

announced it yet, will probably be 25% and the following month could be as high as 30%. FedEx, as they feel they must, are passing the high cost of jet fuel to our stores, and ultimately to you, the consumer. Remember, businesses do not ever pay for anything, it just gets added to the price of products. The consumer, one way or another, pays for it all. On top of the fuel surcharge FedEx also charges an additional fee for residential delivery. If you live a ways outside of town they also tack on another fee as a delivery area surcharge.

If you add all this up and look at the demographics for our stores, which is the percentages of our customers that are residential, or rural, and the mix of service types, such as next day, second day, etc. then we can calculate the total impact of these rates on our shipping costs. Up to now we have rolled all these costs, plus our own cost of paying our employees to prepare your packages, into one flat fee for each FedEx service that we use. Due to the volatile changes in fuel surcharges we are changing our shipping price method to a base rate plus a fuel surcharge just like FedEx does. That way we can move up and down with fuel prices without having to change all our shipping tables every month.

Starting in April our shipping prices, as they must, will go up, due primarily to the rapidly increasing fuel surcharge. If the surcharge goes back down, then our prices will track that back down as well. Our new base rate + fuel surcharge (in parenthesis) and the total price [in brackets] is shown in the table below. May and June are estimates and subject to change.

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	Base Rate	April 20% fs	May 25% fs	June 30% fs	
Three Day	\$18.60	+\$2.10 = [\$21]	+\$2.70 = [\$21]	+\$3.20 = [\$22]	
Two Day	\$20.90	+\$2.80 = [\$24]	+\$3.50 = [\$24]	+\$4.20 = [\$25]	
Next Day	\$28.00	+\$4.00 = [\$32]	+\$5.00 = [\$33]	+\$6.00 = [\$34]	
Priority AM	\$29.70	+\$4.40 = [\$34]	+\$5.50 = [\$35]	+\$6.50 = [\$36]	

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Now if you really look closely at this chart you might say "Hey, why is the fuel surcharge on Priority AM so much higher than on Three Day? Isn't the package the same weight and the same size so they would use the same amount of fuel?" That's a good question and the answer is, it's just how they decided to do it. They calculate the fuel surcharge on the net shipping price so the more expensive services get hit the hardest.

Here is an interesting factoid. The United States Postal service is prohibited by law from charging a fuel surcharge. They have to raise their rates to cover their costs. In May the cost of USPS Express Mail, a 1 to 2 day express service, is being increased, by a quarter, which is only a 1.5% increase. FedEx and the other big shippers have increased their prices by more than 10 times that amount in the last year. Another interesting factoid is that the USPS contracts with FedEx to carry their express service. So the Express Mail is carried around the country on FedEx airplanes, without a fuel surcharge. This is making Express Mail, more and more, an attractive service for express shipping, and they deliver on Saturday for free. That's hard to beat, so we are making Express Mail our default service instead of FedEx Two Day. To cover our labor costs we add \$3.50 to the Express Mail price of \$16.50 for a total price of \$20. That is our best deal for 1 to 2 day shipping.

As always we are striving to give our customers the best price we possibly can. Compare our prices to the other internet stores for the same product and we think you will agree that we have met that goal.

Thank You

Mds Customer Service

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