



Case # 146-C05-A-U

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### StudentCity.com

Back in the summer of 2003, having finally (after sixteen long years) built a profitable growth model for his student vacation travel business, Mario Ricciardelli could hardly believe what John Morris, his advisory board member, was suggesting.

“Look for a harvest strategy?” Mario exclaimed from across the small conference table, “But we’ve finally figured out how to really make this business work; and we’re having a great time doing it!”

“Exactly,” John replied with a smile, “and that’s why it’s time to think about moving the business to the next level while crafting a harvest strategy that gets you some security for your family after all your years of hard work.”

Mario folded his arms as he sat back.

“John, this year, as you know, we generated more than \$800,000 in free cash flow. With all that we’ve done to get ready for next season, we’re probably going to generate \$1.3 million of free cash in 2004. Why would we want to harvest now?”

His advisor shrugged.

“Well, because you can; the timing may be right.”

Mario was unconvinced.

“Look, instead, maybe we ought to continue growing the cash flow for the next three to five years; build up our infrastructure, and create the kind of business I’d always imagined we could be. Even if we did that for just this next season, we’d be able to sell

StudentCity for a very aggressive multiple of what would be a higher cash flow number, right?”

“You mean, if everything went as planned...”

“Well, yeah, but what could go wrong now?”

The long-time entrepreneur couldn't resist a grim smile. Knowing the difficulties he had encountered with this venture since the late eighties—and the dramatic fall-off in revenue after 9/11—Mario wasn't going to press the point. He leaned in over his coffee.

“What I mean is, given our strong position right now, we certainly aren't going to stumble on this next season coming up, and therefore, if we sold out or recapitalized the business prior to Spring Break 04, we'd be leaving quite a bit of money on the table.”

John nodded his agreement.

“That's certainly one way of looking at it.”

Three months later, Mario was still undecided. By early-January 2004, advance bookings suggested that revenue and profits would meet or even exceed the high-end of their projections. The best time to attract potential investors or buyers would be in April, just after StudentCity's peak season. Since those wheels would have to start turning now, Mario was faced with a decision that he could never have imagined would have been so difficult to make.

### **Dorm Room Beginnings**

Back in 1987, Mario and fellow Babson College student Ross Goralnick convinced a local travel agency to give them access to an airline computer terminal for the purpose of booking airline reservations for Babson students. In the first six months of operation, their dorm-room business, Take-A-Break Student Travel, generated just over \$105,000 of revenue and earned them the Babson College Student Business award.

Following his graduation from Babson, Mario decided to continue the venture on his own. Lack of experience, slim resources, an unscrupulous trip-package supplier, and the sudden bankruptcy of a charter airline, all conspired to make his first few years in business terribly difficult. Mario, who was close to abandoning the venture at several points along the way, remained certain that someone would find a way to create a profitable model in this space—and that he was going to be that person. After all, competition was weak and unorganized, and the domestic student market—at institutions of higher education and at secondary schools—had a tantalizing customer base in the millions, with an aggregate purchasing power in the billions.

As a target market, students presented a number of challenges for spring-break tour businesses. Students weren't around during the summer, and they typically didn't think

much about spring break until second semester was well underway. Since the customer base renewed itself every four to five years, the relatively low percentage of repeat customers kept marketing costs high, and margins low. In addition, land and air accommodations had to be bulk-purchased and secured with significant cash deposits well in advance of the frenetic selling effort. This made cash flow very difficult to manage.

### **Struggling through the 90s**

In 1993, the company sold just over \$2.5 million in college spring break travel packages. While take-one displays were effective in attracting clients, Mario had begun to focus on what he saw as a more sustainable method of distribution and sales; students, recruited during their own trips with Take-A-Break, and compensated with free trips and commissions.

In an effort to broaden their customer base and operational capacity, in summer of 1993 Mario merged his business with a small East Coast competitor—Gary Templeton—who also specialized in college spring break vacations. The strategy worked—sales ballooned to over \$7 million—but costs spiraled up proportionately, leaving bottom-line margins the same or slightly worse than before the merger. Over the next 2 years, sales continued to grow, but profits were erratic.

Forecasts for the 1997 season called for \$10 million of revenue and \$750,000 of operating income. By February 1997, sales were strong and it looked as if Take-A-Break was on track for its best year ever. As the spring break travel season was getting underway in March, however, disaster struck. Without any forewarning, the Federal Aviation Administration (FAA) issued an order effectively grounding AvAtlantic, the charter airline company that Take-A-Break-Travel had contracted with to carry the bulk of its student travelers. The stranding of students in Mexico not only required Mario and his team to pay top dollar to fly their clients home, but the situation was portrayed in the news as if Take-A-Break-Travel was as much to blame as the errant airline had been (see Exhibit 1). When his name appeared in a Boston newspaper exposé on student travel scams, Mario was as close as he had ever been to quitting the business.

Now forecasting a drop in sales for the 1998 season in excess of 30 percent, Mario concluded that the cost infrastructure needed to support this seasonal business would make it impossible to generate profits. To address this dilemma, Mario decided that Take-A-Break needed to move into the business of packaging graduation trips for high school seniors. This would enable him to generate sales in a new market and leverage the current infrastructure resulting in a high bottom-line contribution from this new line of travel packages.

Rather than entering this market on his own, however, Mario was able to negotiate a merger of Take-A-Break with a West Coast company that specialized only in the summer graduation trip business. In their first season together, the new combined business—re-branded as Class Travel America (CTA)—had projected sales for the year at over \$12

million. The bi-coastal team had also begun to articulate their unique place in the travel industry (see Exhibit 2). Mario believed that he had just engineered a miraculous turnaround.

Operating the combined business, however, proved to be much more difficult than the partners had expected. Seeing that they were still in dire need of tighter fiscal controls, the team began to concentrate on building a more efficient and profitable operation. Controlling overhead with two separate offices on opposite coasts proved to be a tremendous challenge. Revenue continued to grow, but increased expenses resulted in an overall loss for the year.

The fundamental problem, Mario recalled, was that the partnership was just not working:

The dilemma was that we had four principals trying to run a business on opposite coasts. Nobody was in charge, so it was like the lunatics were running the asylum. We had a lot of negative synergy; it cost more for meetings, more to get things done, and communication was strained to the point where we all ended up hating one other.

When the partnership was dissolved in 1999, Mario and Gary reformed their partnership and created StudentCity.com. With limited capital, their first order of business was to create the spring break industry's first online booking engine. After putting together a detailed business plan that focused on the value of a student-focused Web site for travel and travel-related e-commerce, the partners suddenly found themselves in the right place at the right time. Within a couple of months, StudentCity.com was caught up in the Internet frenzy.

### **In the Bubble**

Shortly after StudentCity had gone live with its enhanced booking capabilities in August of 1999, one of Mario's business development people put him in touch with MyCampus.com, a "venture-backed, higher-education campus resource portal" looking to acquire online businesses that were targeting students. Mario elaborated on the model:

MyCampus.com was an online tool for registration, and for facilitating interactions between professors and students. Like AOL, they were giving away the content for free and making money by selling expensive sponsorships and ad banners.

Looking back, it was classic Internet bubble talk like, 'we'll make money by monetizing the eyeballs through an e-commerce platform, and it will be the stickiest application in the world because the schools will require the students to go there.' Having commissioned a market study from a major Boston-area consulting firm, MyCampus had learned that travel was one of the 'killer categories' for online commerce, and they liked our concept of selling higher-margin package tours on the Web.

For Mario and Gary, the acquisition was appealing because MyCampus (which had attracted \$40 million from a group of well-known venture capitalists) was on a growth trajectory that could support the type of high-capitalization initial public offerings that had become almost common in the late 1990s. When their due diligence confirmed that MyCampus was indeed a significant player in the education space, the StudentCity partners agreed to do the deal.

What followed was a whirlwind of meetings with MyCampus officers, investors and numerous well-paid legal minds. Mario said that he and his partner struggled with the details as the momentum carried them along:

At the time, we knew very little about how to value their stock against ours, and quite frankly, we were not being given good advice. What made us feel okay about the deal was that the projected run up of MyCampus.com’s potential IPO stock price was so high that our agreement included a cap on the value of our shares at \$40 million—\$20 million each. Gary and I were so sure that this scenario was going to play out that it seemed almost embarrassing to talk about anything less than a homerun.

### **The View from Inside**

StudentCity was acquired in December 1999 in an all-stock deal that gave Mario ‘observer rights’ on the MyCampus board. There, he watched amazed as MyCampus executives, venture capitalists, and investment bankers crafted high-stakes macro-strategies involving hundreds of millions of dollars. Mario called his stint on the board and his participation in the IPO process his ‘de facto MBA’:

It was really fascinating stuff. I began to understand how valuations work, how big money is raised, what role the bankers play in planning an IPO, and how investors think about acquisitions and harvests.

I had always been in the trenches of growing a business, so what was most enlightening to me was that the level of sophistication—even among those top-tier players—was not that hard to grasp. There wasn’t any magic there. The shroud of mystery had been lifted.

Mario supplemented this view-in by reading all manner of books on Wall Street players and strategies. Concurrently, of course, he had a business to run—by himself—since his partner Gary had immediately abandoned StudentCity in favor of a position with the parent company<sup>1</sup>. During the first meeting following the acquisition, MyCampus’s CEO directed Mario to double StudentCity’s revenue that year. Although Mario left the session feeling overwhelmed, he devised a solution very much in keeping with the times:

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<sup>1</sup> As it turned out, Gary was let go from MyCampus.com after just 120 days.

We weren't being asked to improve profitability, we were just being asked to grow. So I went out and I bought one of my best competitors. I closed the deal within forty-five days, paid for the company with MyCampus stock, and boom; we doubled our revenue.

Jacqui Lewis, the owner of the acquired company, was a student travel industry veteran with a real passion for the business. Her interest in marketing, creative promotion, and understanding the customer provided an effective balance to Mario's preference for working with the numbers behind the scenes. Together with their administrative core of 30 employees, Mario and Jacqui acquired one additional travel company before setting out to fulfill their mission of becoming the primary e-commerce component in the MyCampus system. Soon, though, they found themselves battling forces that were entirely out of their control.

### **A False Harvest**

By the end of 2000, MyCampus had relationships with over 500 universities, and was projecting coming year revenue of \$65 million. StudentCity.com was expected to generate about \$22 million in revenue. When the stock market began to slip in early 2001, Mario recalled that the MyCampus board was slow to react:

The Internet bubble had burst, but the standard line from all the bankers was it would bounce back in maybe two quarters. So the recovery was always two quarters away. In Q1 it was going to come back in Q3, and in Q2 it was going to bounce back in Q4. It was almost comical, except that since it had become impossible to raise more capital, the entire company was faced with a cash crunch. It quickly became clear that StudentCity was not a top priority at MyCampus, and was now being viewed as a "non-core" piece of the overall business. The result was increasing animosity and tension between us and the parent company.

Since StudentCity was still in the process of working through its second acquisition, it was still in need of periodic cash to fund its growing operations. Meanwhile, MyCampus was now focusing on building Web-based applications for its higher education clients. Following the 2001 spring break season, StudentCity was one of the few divisions in the company with excess cash on hand. When MyCampus suddenly targeted StudentCity as a source of funding, Mario said that he came very close to walking out:

It was an extremely tense period to the point where they wanted to take some cash out of StudentCity to pay a tax bill, and I refused to wire it. It was at that point that we began to discuss how to sell the division. I had no interest in buying it back. I just wanted to be done with the student travel business. We made an agreement with MyCampus that I would sell the business for them, and that Jacqui and I would stay on for awhile in exchange for a percentage of the proceeds.

By mid-summer, the board put Mario in touch with a potential buyer in New York City. In August, the company offered \$5 million cash for StudentCity, along with an attractive employment agreement for the principals. As the final due diligence got underway in early September 2001, the 9-11 terrorist attacks instantly derailed the entire deal.

As was the case with most travel businesses in the fall of 2001, StudentCity was scrambling to lower costs in anticipation of a huge drop in sales in the coming year. At the same time, Mario had managed to restart negotiations with the buyer by proposing a minimal up-front payment with an earn-out contingent on future sales. When the principals backed away again, Mario took a hard look at his career prospects:

I decided to check out the job market, but I quickly discovered that a 35-year-old entrepreneur is virtually un-employable. Very few corporations want to hire a guy who has demonstrated such a strong willingness to work for himself. I either had to find a way to make StudentCity work, or start something new.

It took another month, and another last-minute rejection of an acquisition proposal before Mario finally gave up on selling the business to the New York group. With his third child on the way, and his wife pushing him to create some stability in their lives, Mario went to Jacqui to propose the only strategy that seemed to make sense.

### **Buying it Back**

Although StudentCity was far from being a stable enterprise, Mario decided that given his entrepreneurial resume and his utter lack of enthusiasm for starting over with a new venture, his best course of action would be to stick with what he knew. Jacqui was excited about the prospect of buying the company back, and in March of 2002 they met with the MyCampus board. They found the executives very receptive to the idea; MyCampus was in a very tight cash situation, and StudentCity didn't look as if it could make it through the summer without additional funding.

Backed by an excellent team (see Exhibit 3), Mario and Jacqui believed that by eliminating all of the distractions that existed due to the acrimonious MyCampus relationship—and by concentrating hard on the core spring break business—they could achieve a modest improvement in their gross margin. They also planned to implement some best practices on purchasing inventory, and focus on growing their distribution through the higher margin, campus-rep model. Mario was so intent on making this venture work that he purchased a \$500 Mont Blanc pen that he planned to use only twice; first, to buy StudentCity back, and then, when the time was right, to finally harvest his equity after so many years of perseverance and hard work.

When the MyCampus.com group appeared open to the idea of a straight stock swap, Mario went looking for working capital:

Jacqui and I had done some projections and figured we were going to have a minimum cash need of a few hundred thousand dollars. We tried banks and investors, but in the spring of 2002, online travel companies weren't exactly pulling the highest valuations in the world. We passed on one offer that would have had cost us too much equity, and decided instead that when the time came, we'd find the money—which undoubtedly meant borrowing against our homes.

In mid-April the partners turned back their MyCampus shares in exchange for all of the shares of StudentCity.<sup>2</sup> By virtue of their unsuccessful search for investors, Mario and Jacqui owned all the equity and their company was debt free but running critically low on cash. The team immediately set out to aggressively tear down their cost structure and, most importantly, come up with a viable plan for sustaining the business.

### **Strategy by the Book**

Mario was feeling very overwhelmed. After working hard for two years as a division of a high-flying Internet venture, he felt as though he were back at square one. While StudentCity had built a solid online booking engine, they had never managed to develop a best-fit strategy for that capability. Still keen to make StudentCity a high growth business, Mario decided to seek outside help:

I had met Paul O'Malley, a strategy coach, awhile back when I was looking for other potential businesses to start up. When he called me after the buy back, I hired him to help us figure out what this business could be, and how this fit into a potential exit strategy. Paul was excited about all the opportunities in the online travel business, but I assured him that in this industry, it was a lot easier to spot opportunities than it was to make money.

By late summer 2002, it was apparent that Mario and Paul had very different ideas about how to grow the business. Mario was imagining a fast-growth, full-service student travel site with the breadth and potential to attract venture funding<sup>3</sup>. Paul, on the other hand, kept insisting that StudentCity's core competency lay in spring break travel. Mario explained how the stalemate was broken:

Paul was saying that the spring break niche seemed like a pretty fragmented market without any big players, and millions of potential customers. I kept saying to him; you just don't get it. I know you went to MIT and I know you are really smart, but trust me; there is no way to make money by focusing only on the spring break segment of the student travel market. He kept harping on the idea that this seemed like the real

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<sup>2</sup> Mario and Jacqui had an equity split in StudentCity of 75 percent and 25 percent, respectively.

<sup>3</sup> In addition to spring break trips, student travel products included high school graduation trips, discounted student airfare, educational travel, backpacking, ski trips as well as students traveling to and from school during various break periods.

business opportunity, and I kept pushing back. Eventually, he gave me a book to read called ‘Profit from the Core’<sup>4</sup>.

The book, which was based on a sweeping ten-year study of more than two thousand technology, service, and product companies in a variety of industries, argued that most growth strategies failed to deliver value—or even destroyed it—primarily because they wrongly diversified from the core business. As a beleaguered veteran of the student travel industry, Mario was intrigued, but far from convinced. Finally, during a planning session in the fall of 2002, Mario agreed to give the spring break strategy one last try. That’s when things started to move:

We began by breaking down our profit and loss based on the number of trips sold, and the per-trip contributions. Could we sell an additional 1,000 trips if all we did was focus on that all year? Well; sure we could, because then I wouldn’t be worrying about breaking into a bunch of new markets, and I wouldn’t be thinking about a whole plethora of issues that I had been contemplating in order to try to achieve a bigger vision.

I could now see that by just focusing on our core business, I would be leveraging all my experience, all of my partner’s experience, the experience of my entire team, plus all of the assets and the relationships that we’ve built up over the years.

When he decided to put these theories to the test by setting some lofty goals, Mario recalled that more than a few on his management team were just as skeptical as he had been:

They were thinking, okay, first he drags us in with this strategy consultant—some guy we are paying good money to when we should be conserving cash. But okay, whatever; he is the CEO, so maybe he knows what he is doing. Then I announced what to them seemed to be an outrageous target of a 30 percent growth in sales and one million dollars of operating profit—next season—for a business that has never done much better than slightly above break-even.

Jacqui immediately seized on the concept of differentiating our trips by fully utilizing the inroads that she had already made in a number of youth-oriented celebrity and entertainment venues. Within a couple of months, she announced that StudentCity would now be the exclusive travel provider for contestants on MTV reality shows like *Real World* and *Road Rules*. In addition, she arranged to have those young and vibrant celebrities participate in StudentCity spring break parties. Mario smiled as he recalled that his partner then went one step further:

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<sup>4</sup> “Profit From the Core: Growth Strategy in an Era of Turbulence” by Chris Zook with James Allen. Published by Harvard Business School Press, February 2001

Jacqui set up these special events where these celebrities would go to hang out, and the only students that would be allowed to hang out with them would be our reps. So what did that do? It got everyone to want to be a StudentCity rep, and to organize trips for next year. Imagine having someone of Jacqui's caliber—a smart, former owner who knows this business as well as anybody—focusing *only* on making the spring travel experience the best it can be. How could anyone compete with that?

## **Breakthrough**

While Jacqui concentrated on making StudentCity the cool choice for spring break, Mario spent his time trying to optimize the cost structure of the business by minimizing empty seats on the charters, raising prices a bit, and offering sales incentives to fill the highest-margin packages first. He also continued to automate various selling and operational processes that would give the business strong operating leverage as revenue grew. To further leverage their Web technology structure, he pushed customers to make their reservations and payments online.

By their year ending in June 2003, StudentCity had increased their gross margin by five percentage points, grown sales from \$13.2 million to \$17.6 million—and since they had successfully held the line on fixed costs—they increased operating income by over 800 percent. The bottom line was equally encouraging; a net income loss of over \$30,000 in 2002 had been transformed into a gain in 2003 of over \$785,000 (see Exhibit 4).

All the while, the team concentrated on coming up with a list of what Paul had dubbed 'asset goals'; unique assets created throughout the year—in advance of the next season—that would give StudentCity a leg up on its competition. A videographer, for example, would now accompany every tour and capture compelling images that could be used to sell trips for the coming season. Students would be recruited during their StudentCity vacations to be campus reps for the following year. In addition, Jacqui populated the Web site with glowing testimonials, and photographs of students partying en masse—and with well-known MTV celebrities. While these efforts seemed to be a logical marketing strategy that any company might adopt, Mario explained that the last-minute, frenetic nature of the spring break travel business precluded such pre-planning measures:

Most companies in this industry are thinking, 'We've got to send 20,000 people away on vacation, and we don't have time to mess around with a photographer—we'll worry about that later.' But of course, that window of opportunity is gone once the trip is over. By thinking about our trips a year in advance, we were quickly able to build better relationships with students and suppliers, and accumulate a bunch of digital assets to help market our trips. By the time our trips were over, we had built up a war chest of assets that would enable us to go on the attack before any of our competitors had even recovered from the previous season.

Flush with cash, a collection of colorful marketing assets, and a strategic mission (see Exhibit 5), Mario decided to push harder:

After the 2003 season, I had given everyone bonuses beyond what I think they were expecting. It was my way of saying thank you; we're a team and we are all in this together. All of a sudden, everyone believed.

I could see that our whole effort had been simple blocking and tackling all the way. It hadn't been one home run or a grand slam. Instead, it was tweaking a point here and there; dialing all the knobs properly, and having the time to think, and to execute the plan. But of course, when I set the goal for the next year of over \$23 million and an operating income of over \$2 million, everyone figured that now I was really delusional. I was having a lot of fun, and we were all looking forward to next season.

### **Time to Harvest?**

When schools opened in the fall of 2003, StudentCity.com, and its sister site for high-school seniors, GradCity.com, were ready for business. The company had a \$1 million cash reserve, 52 full time employees, and 900 Campus/Manager representatives at 700 schools across the country eager to begin selling their fellow students. Mario said that once again, his lead advisory board member began suggesting an unexpected course of action:

John's advice to me was to take some money off the table. He offered to help me interview investment bankers who could guide us through the process of recapitalizing or selling the business. I thought about that a lot. I talked to my wife about it, and to the people around me. They were all saying, 'You just bought it back, it's working, so why do you want to go down this road? Why go looking for problems like you had at MyCampus?'

Since a large corporate buyer would almost certainly require him to 'run the division' for an extended earn-out period, this final point was a real concern. Mario felt that if he had indeed developed a formula for success, whatever valuation they negotiated this year would be far less than if they were able to post another couple of seasons of significant growth. If he didn't exit, Mario estimated that by the end of the 2004 spring season he and Jacqui could take nearly \$2 million out of the business and pay very generous bonuses to his team. Then, with that financial cushion, he could recapitalize with venture funds and retain a significant equity stake as the company grew:

Warren Buffet said that if you sell your business, you haven't changed your level of wealth; you have simply exchanged one form of value for another. The recession seemed to be letting up, but interest rates were not that great. That meant that if we continued to grow, I could make a better

return with StudentCity stock than if I had cash. But then again, cash is cash.

If StudentCity continued on its current trajectory, Mario calculated that he and Jacqui could bank millions while the value of their equity rose (see Exhibit 6).

*If...*

After sixteen years in this difficult industry, Mario was well aware that the strong competitive position they had established could be as fleeting as the fame and fortunes of reality show contestants. Mario reached in his drawer for that special pen—his \$500 promise to himself to finally harvest his venture as soon as the time was right. Was the time right?

## QUESTIONS

1. Should Mario take his advisor's advice and immediately begin looking to harvest the company? If not, how long should he wait? What factors would you consider in making your decision? If you were Mario, how would set about harvesting this business?
2. What is your estimate of the market value of StudentCity? What are the critical factors that determine its value? Which valuation method(s) did you use and why? Does your value depend on how the market valuation is realized?
3. What challenges will StudentCity likely face if it succeeds in growing from \$20 million to over \$57 million in sales? Consider internal and external factors.



## 'U' students remain stranded in Cancun after FAA grounding

By Alice Robinson  
Daily Staff Reporter

The Take-a-Break Travel agency may have taken their name a little too seriously this spring break. Students who planned their Mexican vacations with the agency expected to make it home in time for Monday classes, but before they boarded the plane home, Take-a-Break told them to take a hike.

Citing numerous violations, The Federal Aviation Administration halted all flights Friday on AvAtlantic, the airline used by Take-a-Break. The FAA's charges included flying a plane with a cracked windshield and using an aircraft while the engine oil was low.

"We took action on Friday," said Fraser Jones of the FAA's public affairs department. "We issued an emergency order suspending their air carrier certificate."

LSA sophomore Jenny Sekerka, who booked through Take-a-Break but scheduled her own flight back yesterday, said word began to circulate Friday night at her Cancun hotel that AvAtlantic was on shaky ground.

On Saturday night, a sign in their hotel lobby informed Sekerka and other students that their flight was delayed two hours. The

group was then mistakenly informed that their flight would leave Sunday afternoon. The company finally arranged for the students to fly back today on Tower Airline at 9:30 a.m.

"People were upset because they were out of money and they wanted to get back for classes," Sekerka said. "It just got annoying because we didn't know who to trust and who to believe."

LSA sophomore Michelle Kramer's roommate was also a victim of AvAtlantic's violations. She said LSA sophomore Ladan Shahabi is probably concerned about the delay affecting her classes.

"I know she has a physics exam on Thursday," Kramer said.

This marks the second time AvAtlantic has been cited for safety concerns.

Last year, the corporation found itself in hot water because of problems with its flight attendant training methods. Neither Take-a-Break Travel nor AvAtlantic could be reached for comment yesterday.

*-The Associated Press contributed to this report. 03-11-97*

## Exhibit 2: The Class Travel America Business Model

### **Differentiated travel products**

CTA is not a travel agency; it does not sell a commodity product. Rather, CTA tailors its products specifically for the student market. Its product development officers select growth strategies that deepen the company's relationships with students. Product customization leads to high demand within the same demographic group, which enables CTA to provide a more valuable product than mainstream tour operators and, consequently, win higher market share.

### **Exclusive partnerships with sought-after student travel destinations**

CTA maintains a network of exclusive relationships with hotels and entertainment providers at popular student destinations. These providers benefit from access to CTA's student relationships, and in return are required to book all their rooms with CTA customers. Travel providers leverage this critical mass of student customers by tailoring their products to student preferences with guidance from CTA management. Similarly, students wishing to book a trip at the venue must use CTA as their tour provider. CTA leverages its partnerships with students and their preferred travel destinations to achieve higher than average margins.

### **Extensive one-on-one relationships with students and schools**

The company develops and maintains its current set of customer relationships through a process of repeated interaction both with school officials and representatives and with student travelers. At university campuses, CTA uses student representatives to act as the company's on-campus marketing and sales employees; in exchange, the company gives these representatives the opportunity to earn free trips. At high schools, CTA uses full-time sales representatives to nurture a trusted relationship with school administrators and parents, which dramatically increases the company's access to this demographic group. Its relationships at both universities and high schools are the prime reason CTA has experienced continual business growth.

### **Unique knowledge of student marketing strategies**

CTA's top management and sales staff have focused for the past 11 years on refining one core competency more than any other: their understanding of what sells in the student market. The extensive network of student relationships has enabled CTA to obtain constant feedback about its products, and adjust them accordingly. The company's ear towards this market allows them to sense the direction of evolving student preferences and respond with adjustments to their services.

### **Powerful scale advantages**

CTA's customer focus rests squarely on the 14 – 25 year old demographic groups. Most of its customers pick similar destinations and travel products for similar time periods (e.g., Spring Break, graduation week). CTA exploits economies of scale rare in the specialized tour market. It charters planes to establish a price advantage over its competitors and focuses its marketing efforts on one group to reduce its marginal cost of marketing.

## Exhibit 3: The StudentCity.com Management Team

### **Mario Ricciardelli, President & CEO**

As the founder of StudentCity, Mario has more than 16 years of experience in the student travel industry. An Entrepreneurial Studies and Finance major graduate from Babson College, Mario founded the school's first on-campus student travel agency in 1987, generating over \$100,000 in sales from his dorm room and earning him the Babson Student Business Initiative award. In early 1999, he developed the student travel industry's first online booking engine for distributing spring break tours on the web.

### **Jacqui Lewis, Executive Vice President**

Starting in 1988 as Student Government President at Penn State University, Jacqui organized travel programs for over 700 of her fellow students. With over 16 years of experience in all aspects of student travel sales, marketing and operations, Jacqui is responsible for coordinating StudentCity's entertainment and promotional events as well as strategic relationships with partners such as MTV.

### **William Irwin, Chief Financial Officer**

Bill Irwin brings a strong financial background to the StudentCity team. Graduating with a BS in Finance from Bentley College and an MBA from Babson College, Bill spent over 11 years in various accounting and finance positions at Raytheon Corporation. In 1998, he joined the StudentCity team overseeing all aspects of finance and accounting.

### **Michael Rush, Vice President of Operations**

A graduate of Cornell University, Mike brings over 14 years of experience in managing student travel operations. Prior to joining the StudentCity team, Mike spent 9 years as the Vice President of Operations for Student Travel Services. His primary responsibility is to secure air transportation for StudentCity travelers and oversee hotel inventory management.

### **Joe Bush, Vice President of High School Division**

Joe began his career in the student travel industry in 1993 as a student travel sales representative on the campus of Colorado State University, where he graduated with a major in Marketing and Resort Management. With 11 years of student travel experience, Joe is responsible for overseeing sales management, marketing and product development for all high school travel packages.

### **Bryan Lewis, National College Sales Director**

Bryan is responsible for the overall sales and marketing of StudentCity's college spring break programs. Starting in 1996 as a student sales rep on the campus of Bemidji State University in Minnesota, Bryan joined the StudentCity team in 1999 as a regional sales manager and was promoted to National College Sales Director in 2001.

### **Mark Dvorak, Vice President – Midwest Regional Sales Office**

Responsible for overseeing StudentCity's regional sales office in St. Cloud, MN, Mark brings over 14 years of experience in the travel industry. Having spent considerable time in Mexico operating student tours, Mark directs hotel and event contracting for various StudentCity programs. He is a graduate of St. Cloud State University.

### **Bryan Deptula, Director of Outside College Sales**

Bryan has been involved in the student travel industry since 1999 and is responsible for recruiting, hiring and training for StudentCity's CampusManager program. A University of Delaware graduate, Bryan is also in charge of overseeing the operation of StudentCity's travel programs in Acapulco, Mexico.

Exhibit 4: Income Statement

	<b>Actual 2002</b>	<b>Actual 2003</b>	<b>Projected 2004</b>	<b>Projected 2005</b>	<b>Projected 2006</b>	<b>Projected 2007</b>
<b>Revenues</b>	\$13,223,138	\$17,599,369	\$23,410,273	\$31,374,748	\$42,569,577	\$57,579,817
<b>Cost of Sales</b>	9,565,930	11,867,036	15,765,253	21,122,422	28,625,788	38,755,842
<b>Gross Margin</b>	3,657,208	5,732,333	7,645,020	10,252,326	13,943,789	18,823,975
<b>Operating Expenses</b>						
Selling, general & administrative	3,491,367	4,376,910	5,555,041	6,938,436	8,885,777	11,496,808
<b>Operating Income</b>	165,841	1,355,423	2,089,979	3,313,890	5,058,012	7,327,167
<b>Depreciation &amp; Amortization</b>	(62,246)	(62,246)	(62,246)	(62,646)	(13,332)	(19,998)
<b>Other income/(expenses)</b>	(134,144)	19,276	65,388	114,438	155,271	210,020
<b>Net income before provision for taxes</b>	(30,549)	1,312,453	2,093,121	3,365,682	5,199,951	7,517,189
<b>Provision for taxes</b>	-	524,981	837,248	1,346,273	2,079,980	3,006,876
<b>Net Income (Loss)</b>	(\$30,549)	\$787,472	\$1,255,873	\$2,019,409	\$3,119,971	\$4,510,313

## Exhibit 5: Mission and Strategic Priorities

StudentCity.com's mission is "to help students organize and promote trips which enable them to celebrate youth through travel." Helping students celebrate their youth through travel is a key component of the StudentCity.com brand message.

To carry out this mission, StudentCity.com is committed to building the nation's dominant student travel brand by:

1. **Achieving superior distribution by continuing to develop and grow the StudentCity.com CampusManager program.** Traditional media such as TV, Radio and Newspapers provide inefficient reach to students and result in unsustainably high customer acquisition costs. The heart of StudentCity's strategy is to increase feet-on-the-street through a highly incentivized and well-trained army of students who promote travel to their peers.
2. **Building customer loyalty by being helpful as students plan their trips and by delivering fun and excitement before, during and after every StudentCity.com vacation.** Because students are concentrated in groups and cliques, word-of-mouth is of paramount importance in driving new customer acquisition and repeat business.
3. **Developing technology to deliver the highest level of service and satisfaction for customers and campus representatives.** By tailoring the total user experience to match the unique needs and characteristics of student travelers, StudentCity builds trust with students, which ultimately translates into loyalty.
4. **Maintaining close relationships with key inventory partners that cater to and value student travelers.** Ensuring a positive customer experience means choosing hotels, airlines and other partners who appreciate the economic value student travelers bring them. Through its years of experience, StudentCity has developed close relationships with key student travel suppliers and a core competency in evaluating prospective suppliers for new programs.

## Exhibit 6: Balance Sheets

<b>ASSETS</b>	Actual 6/30/2002	Actual 6/30/2003	Projected 6/30/2004	Projected 6/30/2005	Projected 6/30/2006	Projected 6/30/2007
<b>Current Assets</b>						
Cash and Marketable Securities	358,343	1,076,814	2,370,040	4,537,088	7,865,390	12,640,702
Notes and Accounts Receivable	3,100	115,126	100,000	100,000	100,000	100,000
Prepaid Air & Hotel	111,026	201,905	240,000	290,000	340,000	390,000
Other Current Assets	4,621	33,386	35,000	35,000	35,000	35,000
<b>Total Current Assets</b>	<b>477,091</b>	<b>1,427,231</b>	<b>2,745,040</b>	<b>4,962,088</b>	<b>8,340,390</b>	<b>13,165,702</b>
<b>Property and Equipment</b>						
Property and Equipment	325,914	340,855	360,855	380,855	400,855	420,855
Accum. Depreciation and Amortization	(169,614)	(222,649)	(284,895)	(347,521)	(360,853)	(380,851)
<b>Net Property, Plant and Equipment</b>	<b>156,300</b>	<b>118,206</b>	<b>75,960</b>	<b>33,334</b>	<b>40,002</b>	<b>40,004</b>
<b>Other Assets</b>						
Total Other Assets	3,577	9,231	9,231	9,231	9,231	9,231
<b>Total Assets</b>	<b>636,967</b>	<b>1,554,668</b>	<b>2,830,231</b>	<b>5,004,653</b>	<b>8,389,624</b>	<b>13,214,937</b>
<b>LIABILITIES AND CAPITAL</b>						
<b>Current Liabilities</b>						
Accounts Payable	348,037	258,144	200,000	250,000	350,000	500,000
Accrued Expenses	26,867	194,441	225,000	250,000	275,000	300,000
Customer Deposits	247,130	326,130	400,000	480,000	620,000	760,000
Capital Lease	8,020	-	-	-	-	-
Due to Shareholder	45,026	26,593	-	-	-	-
<b>Total Current Liabilities</b>	<b>675,080</b>	<b>805,309</b>	<b>825,000</b>	<b>980,000</b>	<b>1,245,000</b>	<b>1,560,000</b>
<b>Shareholders' Equity</b>						
Common Stock	1	1	1	1	1	1
Retained Earnings	(38,114)	749,358	2,005,230	4,024,652	7,144,623	11,654,936
<b>Total Shareholders' Equity</b>	<b>(38,113)</b>	<b>749,359</b>	<b>2,005,231</b>	<b>4,024,653</b>	<b>7,144,624</b>	<b>11,654,937</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>636,967</b>	<b>1,554,668</b>	<b>2,830,231</b>	<b>5,004,653</b>	<b>8,389,624</b>	<b>13,214,937</b>