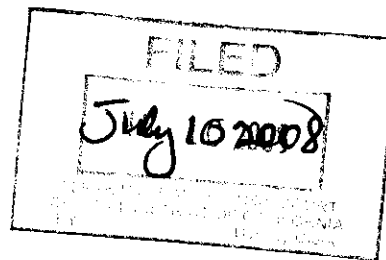


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L.P. and TRS ACQUISITION COMPANY, INC.



IN THE UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re:

eStyle, Inc.,

Debtor.

Case No. 2:08-bk-13518-~~SB~~ SB

(Chapter 11)

PURCHASER'S MEMORANDUM IN
SUPPORT OF FINDING OF ADEQUATE
ASSURANCE OF FUTURE
PERFORMANCE

HEARING DATE: July 15, 2008

HEARING TIME: 2:00 p.m.

Place: U.S. Bankruptcy Court
Courtroom 1575
255 E. Temple Street
Los Angeles, CA 90012

TRS Acquisition Subsidiary, Inc. (the "Purchaser") hereby submits this memorandum and accompanying Declarations and exhibits in support of the finding that it has demonstrated adequate assurance of future performance under Section 363(b)(3) of the Bankruptcy Code, in response to the objections filed by The Macerich Company, the Taubman Landlords (Short Hills Associates, LLC and Taubman Cherry Creek Shopping Center LLC), The Irvine Company, and Bellevue Square Managers, Inc. (collectively, the "Objecting Landlords") regarding certain of the

1 real estate leases (the "Leases") that are to be assumed and assigned under the Asset Purchase
2 Agreement.

3 As adequate assurance of future performance, the Purchaser has provided the following
4 (see the attached declaration of Kenton S. Van Harten):

5 1. The Purchaser agrees that it will be subject to all of the provisions of the Leases,
6 including provisions such as radius, use, location, or exclusivity. In addition, because the
7 Purchaser intends to continue to operate the stores under the same concept and trade name as
8 before, the assumption and assignment of the Leases will not disrupt any tenant mix or balance in
9 any of the Landlords' facilities. (Van Harten Decl., ¶ 6).

11 2. Although the Purchaser is a newly-formed entity, it has provided the commitment
12 from its corporate parent, Right Start Acquisition Company (the "Parent"), which owns 100
13 percent of the equity of the Purchaser, to guarantee the Purchaser's obligations under the Assumed
14 Leases. (Van Harten Decl., ¶ 7). Financial Statements of the Parent are attached as Exhibits C
15 and D.

17 While the Objecting Landlords have asserted that the financial statements of the Parent are
18 not sufficient, there are a number of points to be considered in that regard.

19 First, the Parent just completed a recapitalization of subordinated debt that it owed to
20 Hancock Park Capital II, L.P. (the "Fund"), which is the sole owner of the Parent. As a result of
21 this recapitalization, all of the subordinated debt previously owed to the Fund was converted to
22 equity. The effect of this recapitalization is a substantial improvement in the Parent's balance
23 sheet, as reflected by the updated balance sheet attached as Exhibit D. (Van Harten Decl., ¶ 5).

24 In addition, the Parent recently completed a merger transaction with another entity, Blue Lava
25 Group, Inc. involving consideration of \$5,000,000, which was contributed by the Fund in the form
26 of equity.
27
28

1 Section 365(b)(3)(A) requires that the financial condition and operating performance of the
2 assignee and its guarantors be similar to the Debtor's financial condition as of the time the Debtor
3 became the lessee under the leases.

4 Debtor entered into the Leases with the Objecting Landlords on the following dates: (a)
5 Kierland Residential/Retail I, LLC on July 2, 2004; (b) Scottsdale Fashion Square Partnership on
6 October 6, 2004; (c) Bellevue Square Managers, Inc. on October 24, 2005; (d) Taubman Cherry
7 Creek Shopping Center, LLC on August 23, 2007; (e) Short Hills Associates, LLC on December
8 14, 2004, and amended on May 1, 2006; and (f) The Irvine Company on February 27, 2003.

9
10 The Parent has performed significantly better than the Debtor performed at the time of the
11 execution of the Leases. While the financial statements of the Parent attached at Exhibit C
12 indicate that it has had net losses in 2007 and 2006, those losses (which reflect the operations of
13 over 30 retail stores) of \$2,618,698 (for the year ended July 7, 2007) and \$3,564,877 (for the year
14 ended July 7, 2006) are substantially less than those experienced by the Debtor, which suffered net
15 losses every year from 2003 through 2007 (see Exhibit A), with its best year resulting in a net loss
16 of \$4,979,456 in 2004. Debtor's losses in 2005 through 2007 exceeded \$8,000,000 each year. As
17 of the Petition Date, the Debtor operated 23 retail stores. In addition, the Purchaser and Parent
18 project that, including both the Blue Lava merger and the acquisition of the Debtor's assets herein,
19 the Parent and its subsidiaries will operate at a profit. (Van Harten Decl., ¶ 10).

20
21 The simple fact of the matter is that the Debtor was never profitable from the time it signed
22 the Leases, and in fact suffered substantial operating losses every year, resulting in its ultimate
23 bankruptcy filing.

24
25 In addition, as to the objection of Macerich, the Parent recently entered into a new 10 year
26 lease with Macerich to operate a Right Start store at Westside Pavilion in Los Angeles without the
27 requirement of a deposit or guaranty. (Van Harten Decl., ¶ 8).

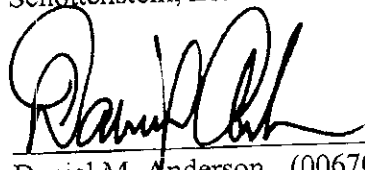
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1 Another important point regarding adequate assurance is that the Purchaser is not incurring
2 any debt other than the liabilities it is assuming under the Asset Purchase Agreement in acquiring
3 the assets of Debtor. In contrast, the Debtor appears to have had significant debt obligations.
4 (Van Harten Decl., ¶ 9). In that regard, it should also be noted that the Fund has supported the
5 Parent through the operating losses it has sustained since 2006, and between the Blue Lava merger
6 and the eStyle acquisition, the Fund will have invested \$10,500,000 in the Parent and its
7 subsidiaries in the past month alone. (Van Harten Decl , ¶ 11).

8 Finally, the Purchaser has offered, as additional assurance of performance, to provide
9 letters of credit sufficient to secure payment of three months' worth of rent for each Lease for
10 which a timely objection alleging lack of adequate assurance of future performance was filed.

11 Dated: July 10, 2008

Schottenstein, Zox & Dunn Co., LPA

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15 Daniel M. Anderson (0067041)
16 (pro hac vice application pending)
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21 Telephone: (614) 462-2700
22 Facsimile: (614) 224-3126
23 Attorneys for TRS Acquisition Subsidiary, Inc.
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DECLARATION OF KENTON S. VAN HARTEN

1
2 I, Kenton S. Van Harten, declare as follows:

3 1. I am an individual over the age of eighteen and a citizen of the United States. I
4 have personal knowledge of the facts set forth herein, which are known to me to be true and
5 correct, and if called as a witness, I could and would competently testify thereto.

6 2. I am the President and Chief Executive Officer of TRS Acquisition Subsidiary,
7 Inc., the Purchaser herein. I am also the President and Chief Executive Officer of Right Start
8 Acquisition Company (the "Parent"), the sole owner of the Proposed Purchaser.

9 3. The Purchaser is a wholly-owned acquisition subsidiary of Right Start Acquisition
10 Company, a Delaware corporation. The Parent is a portfolio company of Hancock Park Capital II,
11 L.P. (the "Fund"), an approximately \$150 million institutional fund.

12 4. Attached hereto as Exhibit C are the audited financial statements of the Parent for
13 fiscal years 2006 and 2007 and the unaudited financial statements for the nine (9) months ended
14 March 2008, which were previously provided as part of the adequate assurance package submitted
15 to the Landlords on June 26, 2008. These financial statements were prepared by the Parent's
16 accounting department in the ordinary course of its business primarily for internal, but were also
17 distributed to, and used by, members of the Parent's board of directors and the Fund. I am
18 familiar with the financial statements, and I and other members of the Parent's management
19 regularly rely upon them.

20 5. In late June, the Parent (which has offered to guarantee the Purchaser's obligations
21 under the Assumed Leases) has substantially improved the Parent's balance sheet. This
22 transaction has resulted in all of the subordinated debt (in excess of \$12,500,000) reflected on the
23 Parent's April 5, 2008, balance sheet being converted to equity (see line labeled as "HIP Sub Debt"
24 on Exhibit C). This balance sheet was provided as part of the adequate assurance package. An
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1 updated balance sheet, reflecting this recapitalization, is attached hereto as Exhibit D. In addition,
2 last week the Parent closed a merger with Blue Lava Group, Inc., which will also improve the
3 Parent's balance sheet. The Blue Lava transaction involved consideration of \$5,000,000, which
4 was contributed by the Fund in the form of equity.

5 6. Each of the stores to be acquired by the Purchaser will be operated under the same
6 name and concept as they are currently. The Purchaser understands and agrees that it is subject to
7 all provisions in the Leases of the Objecting Landlords relating to use, radius, tenant mix, and
8 similar provisions.

9 7. Consistent with the June 26, 2008 submission regarding adequate assurance, the
10 Parent is prepared to guarantee the obligations of the Purchaser under the Assumed Leases. It is
11 my understanding that there were no guarantors for the Debtor's obligations under the Assumed
12 Leases.

13 8. The Parent recently entered into a new 10 year lease with Macerich to operate a
14 Right Start store at Westside Pavilion in Los Angeles without the requirement of a deposit or
15 guaranty.

16 9. The Purchaser's acquisition of eStyle, Inc.'s assets is being funded entirely by an
17 equity contribution from the Fund, made using funds contributed by the Fund's investors. The
18 Purchaser is not taking on any debt in order to fund this transaction. At closing, it has no
19 liabilities other than the liabilities (including the Assumed Leases) it is assuming under the Asset
20 Purchase Agreement. That appears to not be the case with eStyle, Inc., the balance sheets of
21 which show debt funding as far back as January 2004. (See Exhibit B).

22 10. While the financial statements of the Parent attached at Exhibit C indicate that it
23 has had net losses in 2007 and 2006, those losses (which reflect the operations of over 30 retail
24 stores) of \$2,618,698 (for the year ended July 7, 2007) and \$3,564,877 (for the year ended July 7,
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1 2006) are substantially less than those experienced by the Debtor, which suffered net losses every
2 year from 2003 through 2007 (see Exhibit A), with its best year resulting in a net loss of
3 \$4,979,456 in 2004. Debtor's losses in 2005 through 2007 exceeded \$8,000,000 each year. I
4 understand that, as of the Petition Date, the Debtor operated 23 retail stores. In addition, the
5 Purchaser and Parent project that, including both the Blue Lava merger and the acquisition of the
6 Debtor's assets herein, the Parent and its subsidiaries will operate at a profit.

7
8 11. While the Parent has experienced operating losses over the past two years, the Fund
9 has remained willing, and has in fact invested additional capital into the Parent in order to sustain
10 its operations. In addition, between the Blue Lava merger and the eStyle acquisition, the Fund
11 will have invested \$10,500,000 in the Parent and its subsidiaries in the past month alone. This
12 money has been contributed by the Fund's partners and is not borrowed money. While the Fund is
13 not guaranteeing the obligations under the Assumed Leases, the Fund has a 5-year history of
14 supporting the Parent's operations. Accordingly, I believe that the Purchaser is in better financial
15 condition than was the Debtor at the inception of the Leases, or at any time during the past five
16 years.

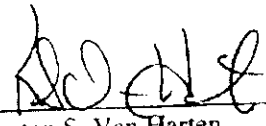
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18 12. In addition to the information provided above, the Purchaser is willing to provide to
19 each of the Landlords that filed a timely objection based upon lack of adequate assurance of future
20 performance a letter of credit sufficient to cover three months' rent, with such letters of credit
21 remaining in force during the remainder of the current term of the relevant leases. None of the
22 Objecting Landlords have security deposits under the original leases, so this offer will provide
23 them with security that they did not previously have.
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I declare under penalty of perjury of the laws of the United States that the foregoing is true

and correct.

July 10, 2008
Date


Kenton S. Van Harten

DECLARATION OF DEBORAH GIUST

1
2 I, DEBORAH GIUST, declare as follows:

3 1. I have personal knowledge of the facts set forth herein, which are known by me to
4 be true and correct, and if called as a witness, I could and would competently testify thereto. I am
5 the controller of eStyle, Inc., a Delaware corporation (the "Debtor"), and have held that position
6 since May, 2002. Prior to being promoted to the position of controller, I was Manager of Finance
7 and Accounting (November, 1999 through May, 2000), and thereafter was promoted to the
8 Director of Finance and Accounting (May, 2000 through May, 2002).

9 2. Attached hereto as Exhibit A, collectively are the Profit and Loss Statements (the
10 "Profit & Loss Statements") of eStyle for the years 2003 through the eleven months ending
11 December, 2007. The Profit & Loss Statements were prepared by the Debtor's accounting
12 department in the ordinary course of its business for internal use mainly, but were also distributed
13 to members of the Debtor's board of directors or to vendors or other creditors. I am familiar with
14 the Profit & Loss Statements, as it has been part of my duties as the Debtor's controller to
15 supervise their preparation, and to make sure that they are accurate, and updated as appropriate.

16 3. The Profit & Loss Statements entitled "Consolidated - Condensed Income
17 Statement", are the income statements for the combined operation of the Debtor's retail, internet,
18 and wholesale business. The income (loss) listed in the consolidated statements ties to the
19 Debtor's audited financial statements within approximately a \$5.00 margin. The period of eleven
20 months ending December, 2007, has not been audited.

21 4. The Profit & Loss Statements entitled "Combined Retail Store Operations", are the
22 income statements covering only the retail operations of the Debtor (not including wholesale or
23 internet).

24 5. Attached hereto as Exhibit B, are the Debtor's balance sheets (the "Balance
25 Sheets") covering years 2003 through the eleven months ending December, 2007. The Balance
26 Sheets were prepared by the Debtor's accounting department in the ordinary course of its business
27 for internal use mainly, but were also distributed to members of the Debtor's board of directors or
28

1 accounting department in the ordinary course of its business for internal use mainly, but
2 were also distributed to members of the Debtor's board of directors or to vendors or other
3 creditors. I am familiar with the Balance Sheets, as it has been part of my duties as the
4 Debtor's controller to supervise their preparation, and to make sure that they are
5 accurate, and updated as appropriate.

6 I declare under penalty of perjury under the laws of the State of California that the
7 foregoing is true and correct.

8 Executed July 9, 2008, at Los Angeles, California.

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10 Deborah Giust
11 DEBORAH GIUST
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eStyle, Inc.
Consolidated - Condensed Income Statement
Eleven Months Ended - December 2007

(Unaudited)

	YTD Actual
Net Revenue	\$45,239,796
Cost of Goods Sold	27,827,245
Gross Profit	\$17,412,551
GP%	38.5%
Marketing	1,717,419
Selling, Opex. & Occupancy	12,647,665
Contribution	3,047,467
Corporate & Retail Homebase	10,102,073
EBITDA	(\$7,054,606)
Depreciation & Other Exp.	1,539,249
Retail Store Start-up	85,435
NET INCOME/(LOSS)	(\$8,679,290)

Company Confidential

eStyle, Inc.
Consolidated - Condensed Income Statement

(Unaudited)

	FY 2006	FY 2005	Better/ (Worse)	%
			B/(W)	
Net Revenue	\$48,222,444	\$49,964,805	(\$1,742,361)	-3%
Cost of Goods Sold	27,433,943	30,599,937	3,165,994	10%
Gross Profit	\$20,788,501	\$19,364,868	\$1,423,633	7%
GP%	43.1%	38.8%		
Marketing	2,671,544	4,862,414	2,190,870	45%
Selling, Opex, & Occupancy	12,760,102	11,059,127	(1,700,975)	-15%
Contribution	5,356,855	3,443,327	1,913,528	56%
Corporate & Retail Homebase	11,764,776	11,269,981	(494,795)	-4%
EBITDA	(\$6,407,921)	(\$7,826,654)	(\$1,418,733)	18%
Depreciation & Other Exp.	3,100,483	2,319,197	(781,286)	-34%
Retail Store Start-up	256,823	641,803	384,980	60%
NET INCOME/(LOSS)	(\$9,765,227)	(\$10,787,654)	(\$1,022,427)	9%

Company Confidential

eStyle, Inc.
Consolidated - Condensed Income Statement

(Unaudited)

	FY 2004	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	FY 2003	Better/ (Worse)	% B/(W)
Net Revenue	\$40,043,578	1,222,663	2,638,167	2,292,251	2,258,279	1,941,611	2,423,101	2,315,688	3,153,230	3,022,603	2,950,240	2,958,166	3,344,735	\$30,520,734	\$9,522,844	31%
Cost of Goods Sold	22,522,860	802,291	1,360,315	1,245,002	1,212,726	1,112,936	1,540,776	1,287,545	1,702,256	1,648,827	1,582,041	1,690,578	2,059,384	17,244,747	(5,278,133)	-31%
Gross Profit	\$17,520,698	420,372	1,277,852	1,047,249	1,045,553	828,675	882,325	1,028,143	1,450,974	1,373,776	1,368,199	1,267,588	1,285,341	\$13,275,987	\$4,244,711	32%
Operating Expenses	21,610,752	851,868	1,968,732	1,664,878	1,214,179	1,123,515	1,272,580	2,285,534	1,350,394	1,987,286	1,436,278	1,364,757	2,107,387	18,627,388	(2,983,364)	-16%
EBITDA	(\$4,090,054)	(431,496)	(690,880)	(617,629)	(168,626)	(294,900)	(390,255)	(1,257,391)	100,580	(513,510)	(68,079)	(97,169)	(822,045)	(\$5,351,401)	\$1,261,347	24%
Depreciation, Amortization & Other	889,402	102,624	106,880	94,245	108,611	105,805	88,438	101,495	94,286	138,766	79,357	82,093	251,008	1,353,608	464,206	34%
NET INCOME/(LOSS)	(\$4,979,456)	(534,120)	(797,760)	(711,874)	(277,237)	(400,705)	(478,693)	(1,358,886)	6,294	(752,776)	(147,436)	(179,262)	(1,073,054)	(\$6,705,009)	\$1,725,553	26%

Company Confidential

eStyle, Inc.
Combined Retail Store Operations
Eleven Months Ended - December 2007

(Unaudited)

	<u>Actual</u>
Total Stores	23
Net Revenue	\$27,393,155
Cost of Goods Sold	16,532,260
Gross Profit	\$10,860,895
GP%	39.6%
Store Expense	5,879,358
Marketing Expense	229,665
Rent Expense	4,637,815
Store Operating Expense	\$10,746,838
Store Contribution	\$114,057
Home Base Allocation - In**	1,162,598
	6,046,460
EBITDA	(\$7,095,001)
Depreciation	1,316,545
Start Up Expense	83,917
Operating Income	(\$8,495,463)

eStyle, Inc.
Combined Retail Operations - Condensed Income Statement

	(Unaudited)				
	FY 2006	FY 2005	Better/ (Worse)	%	
Total Stores	20	17			
Net Revenue	\$26,850,450	\$21,681,478	\$5,168,972	24%	
Cost of Goods Sold	15,063,175	12,651,682	(2,411,493)	-19%	
Gross Profit	\$11,787,275	\$9,029,796	\$2,757,479	31%	
GP%	43.9%	41.6%			
Store Expense	5,993,473	4,811,125	(1,182,348)	-25%	
Marketing Expense	406,137	542,737	136,600	25%	
Rent Expense	4,317,387	2,970,111	(1,347,276)	-45%	
Store Operating Expense	\$10,716,997	\$8,323,973	(\$2,393,024)	-29%	
Store Contribution	\$1,070,278	\$705,823	\$364,455	52%	
	4.0%	3.3%			

eStyle, Inc.
Combined Retail Operations - Condensed Income Statement

	(Unaudited)			
	FY 2004	FY 2003	Better/ (Worse)	% B/(W)
Net Revenue	\$9,621,972	\$3,652,069	\$5,969,903	163%
Cost of Goods Sold	4,936,895	1,751,153	(3,185,742)	-182%
Gross Profit	<u>\$4,685,077</u>	<u>\$1,900,916</u>	<u>\$2,784,161</u>	146%
Store Expense	2,009,474	819,990	(1,189,484)	-145%
Rent	975,412	340,209	(635,203)	-187%
Store EBITDA	<u>\$1,700,191</u>	<u>\$740,717</u>	<u>\$959,474</u>	130%
Store Operating Income	<u>\$1,213,213</u>	<u>\$526,230</u>	<u>\$686,983</u>	131%
Home Base Expense	1,054,702	449,991	(604,711)	-134%
Start-up Expense	235,291	293,373	58,082	20%
NET INCOME	<u><u>(\$76,780)</u></u>	<u><u>(\$217,134)</u></u>	<u><u>\$140,354</u></u>	65%

Corporate expenses were not allocated in the above years.

Company Confidential

eStyle, Inc.
Consolidated Balance Sheet

(Unaudited)

DEC-07

Assets

Current Assets:	
Cash	\$1,933,553
Accounts Receivable	765,178
Inventory, Net	6,810,398
Prepaid	1,865,363
Total Current Assets	<u>\$11,374,492</u>
Property, Plant & Equipment, Net	6,172,619
Other Assets	1,736,246
Total Assets	<u>\$19,283,357</u>

Liabilities And Shareholders' Equity

Current Liabilities:	
Accounts Payable	3,733,886
Other Current Liabilities	7,661,814
Total Current Liabilities	<u>\$11,395,700</u>
Non-Current Liabilities	1,481,791
Total Liabilities	<u>\$12,877,491</u>
Shareholders' Equity:	
Total Shareholders' Equity	<u>\$6,405,866</u>
Total Liabilities And Shareholders' Equity	<u>\$19,283,357</u>

Company Confidential

eStyle, Inc.
Consolidated Balance Sheet

(Unaudited)

	JAN-07	JAN-06	JAN-05	JAN-04
Assets				
Current Assets:				
Cash	\$1,266,725	\$911,605	\$8,350,072	\$3,738,946
Accounts Receivable	184,239	304,355	470,130	156,762
Inventory, Net	5,554,731	5,191,132	5,145,979	3,436,760
Prepaid	647,614	782,563	725,410	876,276
Total Current Assets	<u>\$7,653,309</u>	<u>\$7,189,656</u>	<u>\$14,691,591</u>	<u>\$8,208,743</u>
Property, Plant & Equipment, Net	6,936,666	8,018,628	4,622,963	2,249,922
Other Assets	345,506	147,914	149,487	161,859
Total Assets	<u>\$14,935,481</u>	<u>\$15,356,197</u>	<u>\$19,464,041</u>	<u>\$10,620,524</u>
Liabilities And Shareholders' Equity				
Current Liabilities:				
Accounts Payable	3,618,381	3,438,877	2,277,575	1,652,722
Other Current Liabilities	5,826,932	5,254,378	3,801,525	3,107,048
Total Current Liabilities	<u>\$9,445,313</u>	<u>\$8,693,255</u>	<u>\$6,079,100</u>	<u>\$4,759,770</u>
Non-Current Liabilities	1,630,709	1,647,944	669,219	250,648
Total Liabilities	<u>\$11,076,022</u>	<u>\$10,341,199</u>	<u>\$6,748,319</u>	<u>\$5,010,418</u>
Shareholders' Equity:				
Total Shareholders' Equity	<u>\$3,859,459</u>	<u>\$5,014,998</u>	<u>\$12,715,722</u>	<u>\$5,610,106</u>
Total Liabilities And Shareholders' Equity	<u>\$14,935,481</u>	<u>\$15,356,197</u>	<u>\$19,464,041</u>	<u>\$10,620,524</u>

Company Confidential

CONFIDENTIAL

RIGHT START ACQUISITION COMPANY

**FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006**



**WINDE & McLAUGHRYP
ACCOUNTANCY CORPORATION**

*Certified Public Accountants
& Consultants*

CONFIDENTIAL

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CONFIDENTIAL



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**

*Certified Public Accountants
& Consultants*

Landmark Square
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in
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Right Start Acquisition Company

We have audited the accompanying balance sheets of Right Start Acquisition Company as of July 7, 2007 and July 1, 2006, and the related statements of operations, changes in stockholder's deficit, and cash flows for each of the years ended July 7, 2007 and July 1, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Right Start Acquisition Company as of July 7, 2007 and July 1, 2006, and the results of its operations and its cash flows for each of the years ended July 7, 2007 and July 1, 2006 in conformity with accounting principles generally accepted in the United States of America.

Long Beach, California
December 5, 2007

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RIGHT START ACQUISITION COMPANY

BALANCE SHEETS

ASSETS

	<u>July 7, 2007</u>	<u>July 1, 2006</u> (As Restated)
CURRENT ASSETS		
Cash	\$ 30,261	\$ 31,421
Credit card receivables	339,204	317,331
Merchandise inventory	6,939,177	7,097,911
Other receivables	28,240	84,842
Prepaid expenses	644,010	881,293
Other current assets	-	59,575
	<u>7,980,892</u>	<u>8,472,373</u>
EQUIPMENT AND IMPROVEMENTS	1,917,863	1,604,722
OTHER ASSETS	<u>138,657</u>	<u>150,630</u>
TOTAL ASSETS	<u>\$ 10,037,412</u>	<u>\$ 10,227,725</u>

LIABILITIES AND STOCKHOLDER'S DEFICIT

CURRENT LIABILITIES		
Bank overdraft	\$ 795,183	\$ 713,161
Accounts payable and accrued expenses	4,681,172	4,311,645
Line of credit	4,326,826	4,617,498
Long-term debt, current portion	11,982	-
	<u>9,815,163</u>	<u>9,642,304</u>
LONG-TERM DEBT, net of current portion	<u>11,643,019</u>	<u>9,587,493</u>
COMMITMENTS (Note 8)		
STOCKHOLDER'S DEFICIT		
Common stock, \$.001 par value; 6,000,000 shares authorized, 3,000,000 issued and outstanding	3,000	3,000
Additional paid-in capital	3,197,000	2,997,000
Accumulated deficit	<u>(14,620,770)</u>	<u>(12,002,072)</u>
	<u>(11,420,770)</u>	<u>(9,002,072)</u>
TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIT	<u>\$ 10,037,412</u>	<u>\$ 10,227,725</u>

The accompanying notes are an integral part of these financial statements.

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RIGHT START ACQUISITION COMPANY
STATEMENTS OF OPERATIONS

	<u>For the Year Ended July 7, 2007</u>	<u>For the Year Ended July 1, 2006 (As Restated)</u>
NET SALES	\$ 36,867,067	\$ 29,747,609
COST OF SALES	<u>21,600,460</u>	<u>17,616,865</u>
GROSS PROFIT	15,266,607	12,130,744
OPERATING EXPENSES	<u>16,218,700</u>	<u>14,398,505</u>
LOSS FROM OPERATIONS	(<u>952,093</u>)	(<u>2,267,761</u>)
OTHER INCOME (EXPENSE)		
Interest income	12,057	10,273
Interest expense	(1,662,763)	(1,251,386)
Other	(<u>15,899</u>)	(<u>56,003</u>)
	(<u>1,666,605</u>)	(<u>1,297,116</u>)
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,618,698)	(3,564,877)
PROVISION FOR INCOME TAXES	<u>None</u>	<u>None</u>
NET LOSS	(\$ 2,618,698)	(\$ 3,564,877)

The accompanying notes are an integral part of these financial statements.

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RIGHT START ACQUISITION COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDER'S DEFICIT

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	
			<u>Capital</u>		
BALANCE AT JULY 2, 2005	3,000,000	\$ 3,000	\$ 2,997,000	(\$ 8,437,195)	(\$ 5,437,195)
NET LOSS (as restated)				(3,564,877)	(3,564,877)
BALANCE AT JULY 1, 2006 (as restated)	3,000,000	3,000	2,997,000	(12,002,072)	(9,002,072)
CAPITAL CONTRIBUTION			200,000		200,000
NET LOSS				(2,618,698)	(2,618,698)
BALANCE AT JULY 7, 2007	<u>3,000,000</u>	<u>\$ 3,000</u>	<u>\$ 3,197,000</u>	<u>(\$ 14,620,770)</u>	<u>(\$ 11,420,770)</u>

The accompanying notes are an integral part of these financial statements.

CONFIDENTIAL**RIGHT START ACQUISITION COMPANY****STATEMENTS OF CASH FLOWS**

	<u>For the Year Ended July 7, 2007</u>	<u>For the Year Ended July 1, 2006 (As Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(\$ 2,618,698)	(\$ 3,564,877)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	814,839	807,374
Noncash interest expense converted into stockholder loan principal	1,121,310	999,576
Loss on asset disposal	1,521	
Decrease (increase) in:		
Credit card receivables	(21,873)	29,348
Merchandise inventory	158,734	(1,788,800)
Other receivables	56,602	(84,842)
Prepaid expenses	237,283	(226,376)
Other assets	11,973	(109,499)
Increase in:		
Accounts payable and accrued expenses	369,527	1,284,119
Net Cash Provided By (Used In) Operating Activities	<u>131,218</u>	<u>(2,653,977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(1,069,926)	(390,411)
Net Cash Used In Investing Activities	<u>(1,069,926)</u>	<u>(390,411)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital contribution	200,000	
Proceeds from stockholder loan	910,000	1,300,000
Borrowings from long-term debt	39,004	
Principal payments on long-term payable	(2,806)	
Net change in line of credit	(290,672)	1,405,736
Net change in bank overdraft	82,022	318,035
Net Cash Provided By Financing Activities	<u>937,548</u>	<u>3,023,771</u>
NET CHANGE IN CASH	(1,160)	(20,617)
CASH AT BEGINNING OF PERIOD	<u>31,421</u>	<u>52,038</u>
CASH AT END OF PERIOD	<u>\$ 30,261</u>	<u>\$ 31,421</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	\$ 516,601	\$ 347,718
Income taxes	\$ 19,057	\$ 3,862

The accompanying notes are an integral part of these financial statements.

RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 1 – Summary of Significant Accounting Policies

Business Description

Right Start Acquisition Company (the Company) was incorporated in December 2003 in the state of Delaware. The Company is engaged in the retail sale of developmental, educational and care products for infants and children throughout the United States.

Accounting Period

The Company's fiscal year consists of fifty-two or fifty-three weeks ending on the Saturday closest to June 30. The Company generally uses a 4-4-5 calendar to manage its accounting periods, which is a standard calendar structure for the retail industry. The 4-4-5 calendar divides a year into four quarters. Each of these quarters has thirteen weeks which are grouped into two four-week months and one five-week month, resulting in a fifty-two week year. However, every seven years, the Company's fiscal year consists of fifty-three weeks in order to capture complete months/years as close to the month-end/year-end as possible; in this case, the last quarter would consist of six weeks instead of five weeks. The current fiscal year was a fifty-three week year and ended on July 7, 2007.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Fair Value of Financial Instruments

The carrying values of accounts receivable, accounts payable, and accrued expenses approximate fair value due to the short-term nature of these instruments. The carrying values of the Company's line of credit and notes payable approximate fair value as the obligations' interest rates approximate the current market rates.

Credit Card Receivables

Credit card receivables consists of balances due from credit card sales, principally American Express, Visa, Mastercard, and Discover. These amounts are typically collected within a few days.

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Merchandise Inventory

Merchandise inventory consists principally of finished goods ready for sale and is stated at the lower of cost or market. Cost is determined on a weighted-average basis.

Equipment and Improvements

Equipment and improvements are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized on the straight-line method using the shorter of the useful lives of the assets or the terms of the leases.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In the event that facts and circumstances indicate that equipment or other long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future discounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment charge is necessary. The amount of long-lived asset impairment, if any, is charged to operations in the period in which long-lived asset impairment is determined. At July 7, 2007 and July 1, 2006, management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products will continue, which could result in impairment of long-lived assets in the future.

Revenue Recognition

The Company recognizes revenue when products are shipped and the customer takes ownership, assumes risk of loss, persuasive evidence of an arrangement exists, and the sales price is fixed and determinable.

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Advertising

Most advertising costs are expensed as incurred except certain catalog costs that are included in prepaid expenses and are amortized over their useful lives of four months. Advertising expense for the years ended July 7, 2007 and July 1, 2006 was \$1,460,000 and \$1,032,000, respectively.

Shipping and Handling Costs

Shipping and handling costs associated with outbound freight are included in operating expenses and totaled approximately \$641,000 for the year ended July 7, 2007 and \$653,000 for the year ended July 1, 2006.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that all, or some portion of, such deferred tax assets will not be realized. All components of deferred taxes are subject to a valuation allowance as disclosed in Note 7.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the current year presentation.

NOTE 2 – Management's Plans

As of July 7, 2007, the Company has incurred losses from operations resulting in an accumulated deficit of approximately \$14.6 million and working capital deficit totaling approximately \$1.8 million. The Company has been dependent on funds advanced from its stockholder and from its line of credit with its lender. (See Notes 5 and 6.) Management's long-term plan over the next five years is to continue to expand sales to provide profitable operations.

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 3 - Equipment and Improvements

Equipment and improvements consists of the following:

	<u>July 7, 2007</u>	<u>July 1, 2006</u>
Computer hardware	\$ 416,599	\$ 351,043
Computer software	616,735	554,341
Furniture and fixtures	858,986	638,127
Leasehold improvements	<u>2,007,658</u>	<u>1,548,733</u>
	3,899,978	3,092,244
Less accumulated depreciation	(<u>2,232,393</u>)	(<u>1,564,817</u>)
	1,667,585	1,527,427
Construction in progress	<u>250,278</u>	<u>77,295</u>
	\$ <u>1,917,863</u>	\$ <u>1,604,722</u>

Depreciation and amortization expense was \$755,264 and \$732,216 for the years ended July 7, 2007 and July 1, 2006, respectively.

NOTE 4 - Deferred Loan Fees and Costs

Deferred loan fees and costs included in other assets consist of loan costs that are being amortized over the life of the related loan. Deferred loan fees and costs are as follows:

	<u>July 7, 2007</u>	<u>July 1, 2006</u>
Cost	\$ 225,475	\$ 225,475
Less accumulated amortization	(<u>225,475</u>)	(<u>165,900</u>)
	<u>None</u>	\$ <u>59,575</u>

Amortization expense was \$59,575 and \$75,158 for the years ended July 7, 2007 and July 1, 2006, respectively.

RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

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NOTE 5 – Line of Credit

The Company has an agreement with a lender for a line of credit of up to \$7,500,000, which expired August 31, 2007. Available borrowings are limited to a percentage of eligible credit card receivables and inventories, as defined by the credit agreement. From time-to-time, the Company may issue standby letters of credit, which further reduces available borrowings. The maximum borrowing under the line of credit was \$5,017,927 at July 7, 2007. The interest rate on outstanding borrowings under the agreement is the lender's prime rate (8.25% at July 7, 2007), which is determined based on the nature of borrowings under the agreement. In August 2007, the Company entered into a five-year, \$10,000,000 credit and security agreement (the "new credit facility"), which replaced the credit facility that terminated in August 2007. The Company may elect to request each advance against the new credit facility using either the LIBOR rate or the "floating rate," which is the annual interest rate equal to the sum of the Prime Rate minus one-half of one percent (0.5%).

NOTE 6 – Long-Term Debt

Long-term debt consists of the following:

	<u>July 7, 2007</u>	<u>July 1, 2006</u>
Note payable to stockholder, with quarterly interest due at 10%, unpaid principal and accrued interest due on July 4, 2009	\$11,618,803	\$ 9,587,493
Note payable to finance company, secured by licensed software, with monthly payments of \$1,267 including interest at 10.45%, due on April 7, 2010	36,198	
	<u>11,655,001</u>	<u>9,587,493</u>
Less current portion	<u>(11,982)</u>	<u>None</u>
	<u>\$11,643,019</u>	<u>\$ 9,587,493</u>

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 6 - Long-Term Debt (Continued)

The notes payable to stockholder represent borrowings from the Company's stockholder, Hancock Park Capital II, L.P. The notes are unsecured and subordinated to outstanding borrowings under the line of credit. The notes to the stockholder and accrued interest of \$1,121,310 were aggregated into a single amended and restated subordinated promissory note at July 7, 2007.

Maturities of long-term debt are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2008	\$ 11,982
2009	11,632,099
2010	<u>10,920</u>
	<u>\$ 11,655,001</u>

NOTE 7 - Provision for Income Taxes

The Company is subject to various minimum state taxes which have been recorded in operating expenses for the years ended July 7, 2007 and July 1, 2006.

A reconciliation of the provision for income taxes with tax at the effective federal statutory rate is as follows:

	<u>For the Year Ended</u>	
	<u>July 7, 2007</u>	<u>July 1, 2006</u>
Federal statutory rate	(\$ 890,357)	(\$ 1,212,058)
State income taxes	(209,496)	(285,190)
Increase in taxes resulting from:		
Permanent differences	6,769	4,770
Change in valuation allowance	817,942	1,200,000
Other	<u>275,142</u>	<u>292,478</u>
	None	None

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 7 - Provision for Income Taxes (Continued)

The Company's total deferred tax assets are as follows:

	<u>July 7, 2007</u>	<u>July 1, 2006</u>
Deferred tax assets relating to:		
Section 263A adjustment	\$ 190,041	\$ 201,502
Accrued vacation	54,448	58,091
State taxes	16,320	13,930
Charitable contribution carryforwards	6,256	3,226
Inventory reserve	22,680	
Federal and state net operating loss carryforwards	5,675,964	4,835,864
Deferred tax liabilities relating to:		
Accumulated depreciation and amortization	(242,982)	(139,552)
Prepaid expenses	(200,055)	(324,805)
Other	(356,602)	(300,128)
Net deferred tax asset	<u>5,166,070</u>	<u>4,348,128</u>
Valuation allowance	<u>(5,166,070)</u>	<u>(4,348,128)</u>
	<u>None</u>	<u>None</u>

At July 7, 2007, the Company had federal and state net operating loss carryforwards totaling approximately \$13,514,000 which are available to reduce future years' taxable income. These carryforwards expire at various years through 2024. Realization of the deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences are expected to be available to reduce taxable income. Some of these carryforward benefits may be subjected to limitations imposed by the Internal Revenue Code.

NOTE 8 - Commitments

Leases

The Company has entered into various operating leases for retail store facilities. The lease terms range from five to ten years and expire in various years through 2011. The terms of the leases provide for payment of minimum annual rentals and, on certain leases, taxes, insurance and maintenance costs. The total amount of base rent payments is being charged to expense on the straight-line method over the terms of the agreements. Lease expense totaled \$2,585,489 (base rent-\$2,443,051; percentage rent-\$142,438) for the year ended July 7, 2007 and \$2,535,665 (base rent-\$2,466,495; percentage rent-\$69,170) for the year ended July 1, 2006.

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 8 - Commitments (Continued)

Leases (Continued)

The following is a schedule by year of future minimum rental payments required under non-cancelable operating leases:

<u>Year Ending</u> <u>June 30,</u>	
2008	\$ 2,043,427
2009	1,848,009
2010	1,045,736
2011	<u>518,577</u>
	<u>\$ 5,455,749</u>

NOTE 9 - Related-Party Transactions

The Company reimburses its stockholder for certain administrative and insurance expenses which totaled approximately \$452,000 and \$360,000 for the years ended July 7, 2007 and July 1, 2006, respectively.

The Company also shares certain marketing expenses with an affiliated company that is wholly owned by the Company's stockholder. Amounts due from the affiliated company totaled approximately \$2,500 and \$52,000 at July 7, 2007 and July 1, 2006, respectively, and are included in other receivables.

NOTE 10 - Employee Benefit Plan

During the year ended July 1, 2006, the Company established a 401(k) profit sharing plan covering the majority of its employees. An employee can make voluntary contributions to the plan, up to the maximum set by the Internal Revenue Service. The Company will match 25% of employee contributions up to 6% of compensation and may also make discretionary contributions. The Company's contribution to the plan was approximately \$9,800 and \$7,000 for the years ended July 7, 2007 and July 1, 2006, respectively.

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RIGHT START ACQUISITION COMPANY
NOTES TO THE FINANCIAL STATEMENTS
JULY 7, 2007 AND JULY 1, 2006

NOTE 11 - Prior-Period Adjustment

During the year ended July 7, 2007, the Company determined that amounts received from its shareholder during the year ended July 1, 2006 totaling \$800,000 had been misclassified as capital contributions instead of debt. As such, the Company increased its note payable to stockholder and recorded additional accrued interest of \$16,858 at July 1, 2006.

The effect of the restatement on the year ended July 1, 2006 is as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Balance Sheet		
Accounts payable and accrued expenses	\$ 4,294,787	\$ 4,311,645
Long-term debt, net of current portion	\$ 8,787,493	\$ 9,587,493
Additional paid-in capital	\$ 3,797,000	\$ 2,997,000
Accumulated deficit at July 1, 2006	(\$ 11,985,214)	(\$ 12,002,072)
Statement of Operations		
Interest expense	\$ 1,234,528	\$ 1,251,386
Net loss	\$ 3,548,019	\$ 3,564,877
Statement of Cash Flows		
Increase in accounts payable and accrued expenses	\$ 1,267,261	\$ 1,284,119
Proceeds from capital contribution	\$ 800,000	
Proceeds from stockholder loan	\$ 500,000	\$ 1,300,000

The Right Start
Monthly Operational Rollup
Unaudited

	FY2008 March	FY2007 March	FY2008 9 Months ending March	FY2007 9 Months ending March	Comp State Performance March comp* 3.1% March YTD comps 4.2%
Revenue:					
Retail net sales	\$3,091,048	\$3,083,781	\$23,749,106	\$22,989,144	
DIC net sales	977,755	843,403	5,964,484	4,515,132	
Total net sales	4,068,803	3,927,184	29,713,590	27,504,274	
Cost of Sales					
CCS - Retail	1,725,938	1,749,770	13,524,169	13,157,504	
GM	1,365,610	1,314,012	10,224,937	9,830,639	
GM%	44.2%	42.9%	43.1%	42.8%	
COGS - DIC	667,570	585,606	4,141,178	3,068,172	
GM	370,186	762,797	1,623,206	1,446,957	
GM%	31.7%	31.0%	30.6%	37.0%	
Operating Expenses:					
Retail - Payroll	321,867	288,179	2,613,755	2,253,285	9.8%
Retail - Payroll Invo	111,397	89,011	796,146	696,451	3.0%
Retail - Freight out	67,707	62,220	533,124	491,188	2.1%
Retail - Other	155,863	143,349	1,396,086	1,267,336	5.4%
Retail - Occupancy	315,523	222,852	2,726,394	2,395,904	10.4%
Retail - Administration	34,987	53,665	370,779	348,014	1.5%
Total Retail Operating	1,007,244	906,287	8,438,690	7,432,142	32.2%
Call center product	161,155	221,665	1,185,632	1,258,504	
Retail Contribution	358,165	407,730	1,786,248	2,394,496	10.4%
DIC Contribution	146,990	41,732	633,274	396,453	8.6%
Distribution Marketing	59,651	62,296	527,020	513,969	1.9%
Marketing	102,275	66,654	787,049	694,520	7.5%
Overhead:					
Manufacturing	75,547	65,059	638,373	527,601	1.9%
Retail Management	12,504	12,363	101,469	110,921	0.4%
Logistics	18,662	18,007	138,833	144,044	0.5%
Finance	97,283	107,540	690,457	650,337	2.4%
Executive	6,485	13,574	256,908	151,815	0.5%
Information Systems	26,112	22,501	246,805	240,420	0.9%
Information Systems	236,615	232,044	2,066,845	1,805,344	6.6%
EBITDA, excluding non-recurring costs	\$1,068,614	\$88,468	\$960,892	\$529,883	0.8%
Non-recurring costs (income)	4,756	9,652	183,937	49,196	0.2%
Interest, net	156,403	133,482	1,262,487	1,100,251	4.0%
Depreciation expense	88,374	57,629	664,277	580,101	2.1%
Income (loss), before taxes	(142,919)	92,977	(3,101,593)	(1,865,039)	6.6%
Provision for taxes	4,000	4,000	36,000	36,000	0.1%
Net Income	(146,919)	96,977	(3,137,593)	(1,901,039)	6.6%

* Adjusted for the Easter holiday shift in the comp for March are 0.1%

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Right Start Acquisition Company
Balance Sheets
April 5, 2008

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	Actual	Budget	Prior Year	Variance	
	04/05/08		04/07/07	to Budget	to Prior Year
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$37,119	\$35,400	\$35,187	\$1,719	\$1,932
Accounts Receivable net	706,393	400,000	466,203	306,393	240,190
Merchandise Inventories, net	8,035,399	8,244,787	7,639,738	(209,388)	395,661
Prepaid Catalog Expenses	321,866	234,000	163,317	87,866	158,549
Prepaid Expenses	1,004,845	223,000	709,476	781,845	295,369
Other Current Assets	94,699	159,400	144,653	(64,701)	(49,954)
Total Current Assets	10,200,321	9,296,587	9,158,574	903,734	1,041,747
Noncurrent Asset					
Property, Plant and Equipment	3,435,942	2,370,345	1,834,615	1,065,597	1,601,327
Goodwill, net	13,200	13,200	13,200	0	0
Total Assets	\$13,649,463	\$11,680,132	\$11,006,389	\$1,969,331	\$2,643,074
LIABILITIES AND EQUITY					
Current Liabilities					
Bank Overdraft	\$830,559	\$700,000	\$534,135	\$130,559	\$296,424
Accounts Payable	5,157,131	3,399,031	3,383,323	1,758,100	1,773,808
Accrued Expenses	1,444,198	2,075,974	1,790,938	(631,776)	(346,740)
Accrued Payroll Related	279,160	300,000	256,090	(20,840)	23,070
Notes Payable	273,365	7,000	189,129	266,365	84,236
Total Current Liabilities	7,984,413	6,482,005	6,153,615	1,502,408	1,830,798
NonCurrent Liabilities					
Revolving Line of Credit	5,637,267	5,980,453	4,890,942	(343,186)	746,325
Deferred Rent	860,080	637,432	167,449	222,648	692,631
LT portion of Notes Payable	16,394	22,000	0	(5,606)	16,394
HP Sub Debt	12,509,672	9,686,000	9,587,493	2,823,672	2,922,179
Commitments and Contingencies					
Total Liabilities	27,007,826	22,807,890	20,799,499	4,199,936	6,208,327
Shareholders' Equity:					
Opening Bal Equity	2,997,000	0	2,997,000	2,997,000	0
Additional Paid in Capital	1,400,000	4,907,000	1,110,000	(3,507,000)	290,000
Common Stock at par value	3,000	3,000	3,000	0	0
Beginning Retained Earnings	(14,620,770)	(14,062,215)	(12,002,072)	(558,555)	(2,618,698)
Current Year	(3,137,593)	(1,971,698)	(1,901,039)	(1,165,895)	(1,236,554)
Retained Earnings	(17,758,363)	(16,033,913)	(13,903,111)	(1,724,450)	(3,855,252)
Shareholders' Equity	(13,358,363)	(11,123,913)	(9,793,111)	(2,234,450)	(3,565,252)
Total Liabilities and Equity	\$13,649,463	\$11,683,977	\$11,006,388	\$1,965,486	\$2,643,075

Right Start Acquisition Company
Balance Sheets Pro Forma Presentation for June 30 Sub-Debt Conversion
May 31, 2008

	<u>ProForma Actual</u>
	<u>05/31/08</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$35,356
Accounts Receivable, net	610,265
Merchandise Inventories, net	7,596,286
Prepaid Catalog Expenses	55,483
Prepaid Expenses	880,580
Other Current Assets	102,286
Total Current Assets	9,280,256
Noncurrent Asset:	
Property, Plant and Equipment	3,290,573
Goodwill, net	13,200
Total Assets	\$12,584,029
LIABILITIES AND EQUITY	
Current Liabilities:	
Bank Overdraft	\$775,894
Accounts Payable	4,443,027
Accrued Expenses	1,394,003
Accrued Payroll Related	292,927
Notes Payable	224,971
Total Current Liabilities	7,130,822
NonCurrent Liabilities:	
Revolving Line of Credit	4,940,934
Deferred Rent	844,585
LT portion of Notes Payable	14,328
Commitments and Contingencies	
Total Liabilities	12,930,669
Shareholders' Equity:	
Common Stock	3,000,000
Convertible Preferred Stock Series A	15,236,570
Retained Earnings	(18,583,211)
Shareholders' Equity	(346,641)
Total Liabilities and Equity	\$12,584,028

PROOF OF SERVICE

STATE OF OHIO, COUNTY OF FRANKLIN

At the time of service, I was over 18 years of age and **not a party to this action**. I am employed in the County of Franklin, State of Ohio. My business address is 250 West Street, Columbus, Ohio 43215.

On July 10, 2008, I served the following document(s) described as **“PURCHASER’S MEMORANDUM IN SUPPORT OF FINDING OF ADEQUATE ASSURANCE OF FUTURE PERFORMANCE”** on the interested parties in this action as follows:

SEE ATTACHED SERVICE LIST

BY MAIL: I enclosed the document(s) in a sealed envelope or package addressed to the persons at the addresses listed in the Service List and placed the envelope for collection and mailing, following our ordinary business practices. I am readily familiar with Schottenstein, Zox & Dunn’s practice for collecting and processing correspondence for mailing. On the same day that the correspondence is placed for collection and mailing, it is deposited in the ordinary course of business with the United States Postal Service, in a sealed envelope with postage fully prepaid.

BY E-MAIL OR ELECTRONIC TRANSMISSION: Based on a court order or an agreement of the parties to accept service by e-mail or electronic transmission, I caused the document(s) to be sent from e-mail address sheaberlin@szd.com to the persons at the e-mail addresses listed in the Service List. I did not receive, within a reasonable time after the transmission, any electronic message or other indication that the transmission was unsuccessful.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct and that I am employed in the office of a member of the bar of this Court at whose direction the service was made.

Executed on July 10, 2008, at Columbus, Ohio.



Sandra Heaberlin

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SERVICE LIST

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OFFICE OF THE UNITED STATES TRUSTEE

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23	Bodker, Ramsey, Andrews, Winograd & Wildstein	c/o Taubman Realty Group Limited The Taubman Company
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8	Burlingame Drug Inc. 2501 Poppy Drive Burlingame, CA 94101	Fashion Mall Partners LP MS Mgmt Assoc National City Ctr 115 W Washington Indianapolis, IN 46204
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11	Fashion Mall Partners, L.P. c/o Simon Property Group, Inc. Attn: Ronald M. Tucker, Esq. 225 W. Washington St. Indianapolis, IN 46204 rtucker@simon.com	Glendale I Mall Associates LLC Glendale Galleria 2828 Payscale Cir Chicago, IL 60674
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14	Glendale Galleria c/o Kristen N. Pate, Assistant Gen. Counsel General Growth Management, Inc., as Agent 110 N. Wacker Chicago, IL 60606 Tel: (312) 960-2940 Fax: (312) 442-6374 ggpbk@ggp.com	Iron Mountain Information Management c/o Frank F. McGinn Bartlett Hackett Feinberg P.C. 155 Federal Street, 9 th Floor Boston, MA 02110 Tel: (617) 422-0200 ffm@bostonbusinesslaw.com
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2	(Successor-in-interest from The Manufacturers Life Insurance Company)	One Union Square West, Ste. 402
3	c/o Anthony A. Friedman, Esq.	New York, NY 10003-3386
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25	The Taubman Company	
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	Bloomfield Hills, MI 48303-0200	Fashion Island 03631
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14 The Retail Property Trust
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17 The Retail Property Trust
18 c/o Simon Property Group, Inc.
19 Attn: Ronald M. Tucker, Esq.
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24 VF Mall LLC
25 Bank of America Valley Fair
26 File #55702
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