COLUMBIA BUSINESS SCHOOL

REINVENTING TWEETER

On March 19th 2003, Tweeter Home Entertainment Group's CEO Jeff Stone walked into Uris 142 to lecture in Professor Kane's Retailing Leadership class at Columbia Business School. Accompanied by CFO Joe McGuire, Stone was prepared to speak candidly about the specialty consumer electronics retailer's growing difficulties—eight quarters of negative comp store growth, shrinking profits and a vanishing customer base. An open-minded leader, he was curious to hear what a roomful of MBAs thought of Tweeter's dilemma, and he looked forward to a lively discussion about his proposed solution.

One fact was certain: Any successful effort to improve Tweeter's performance would have to bring more traffic to its 174 stores. To Stone and McGuire, another point was equally obvious: Tweeter's strong gross margins, which, at nearly 36% of sales were five to ten percentage points above the industry average. He was questioning whether reducing that percent could produce top-line growth and increase earnings per share. Unlike the consumer electronics superstores with which it competed, Tweeter prided itself on its award-winning customer service, which though costly, had always been an important differentiator in the retail market. With its high costs, the retailer needed strong gross margins to earn an acceptable return on its invested capital.

Spring's early arrival made for an unseasonably warm lecture hall, its still air broken by a single fan near the podium. Unmoved by the heat, Stone stood before his audience and began his address.

Industry Overview

The consumer electronics (CE) industry spans several categories of manufactured goods, including televisions and video products, audio equipment and supplies, computers, cameras, games and home security. According to the Consumer Electronics Association (CEA), the industry's largest trade association, factory sales to retail in 2002 topped $96.2 billion, a 3.7% increase from the previous year (see **Exhibit I** for 2001 market composition and **Exhibit II** for 2001 market share of top product brands).

This case was written in July, 2003 by Edmund Lim, Charles Marcus and Juan Martinez, all MBA '03, under the supervision of Professor Alan Kane as the basis for class discussion, rather than to illustrate either effective or ineffective handling of a strategic situation.

Within the CE industry, the video and audio product categories represent about 25% of industry sales volume. Though this segment experienced strong growth in the late 1990s, sales had been decidedly sluggish since 2000, when DVD equipment sales began to reach their peak in a deteriorating economic environment. Unlike many other industries, the CE industry depends deeply on product innovation to fuel its expansion. Over the past 40 years, CE manufacturers and retailers have ridden waves of growth spurred by such innovations as color and remote control TVs, VCRs, camcorders, CD players, digital cameras and DVD technology. In the troughs of these waves, many manufacturers and retailers folded.

In 1972, when Tweeter was founded, CE retailers were relatively fragmented, with the largest 20 firms accounting for only 20% of overall industry sales. Competition intensified over the following thirty years, and today the top two retailers—Best Buy and Circuit City account for an estimated 30% of industry sales.[1] While men have historically been the primary target for most CE retailers, demographic trends show that women now account for half of industry sales.

Today's retail CE industry can be segmented as follows:

- **Category killers.** Best Buy and Circuit City are the undisputed leading category killers in retail consumer electronics, offering a broad selection of merchandise at a range of price points and across multiple product categories of consumer electronics. Together these two retailers command more than 45% of the retail market for video and audio-related products[2]. Stores range in size between 50,000 to 100,000 square feet, and tend to be stand-alone units or part of strip center malls.

- **National and regional specialty retailers**. These stores typically range from 5,000 to 20,000 square feet in size, and are usually located in strip centers and malls. They carry limited assortments that are consistent with the retailer's positioning. Examples include Tweeters, Radio Shack, Ultimate Electronics, BrandSmart and The Good Guys.

- **Mom & pop stores.** As in other retail segments, the single store proprietor is a dying breed in the consumer electronics space. With hundreds of such shops, New York City appears to be one of the last refuges for the segment.

- **Mass Merchandisers**. Walmart, Kmart and Target operate stores ranging from 50,000 to 200,000 square feet in size, though they dedicate little selling space to consumer electronics. Offering narrow assortments and little customer service, mass merchandisers typically only compete at the low end of the price scale, but the pressure these companies exert is sure to be felt across the whole retail spectrum.[3] Target and Walmart jointly command an estimated 8.5% of the retail CE market.

[1] *Business Week*, "The Promise of Consumer Electronics," Jan 22, 2003. Best Buy is estimated to have 20% market share in the retail sales of CE, and Circuit City, 10%.
[2] Consumer Electronics Retailers, Industry Report – Prudential Financial, April 2002.
[3] According to Stone, Walmart sold 1 million units of $99.99 DVD players over the 2002 Thanksgiving holiday, alone. DVD penetration in the US was estimated to be 25% in 2002.

The Growth of Price Promotion

Since the late 1980s price promotion has spelled the end of many CE retailers, including some of the biggest. In the New England market, which was home to more than a dozen Tweeter stores at the time, the 1985 arrival of warehouse electronics chains Highland Superstores, and Fretter Superstores, quickly put many small retailers out of business. In 1988 the dominant CE retailer in the region, Lechmere, signaled a new era of price promotion by instituting an ongoing series of weekend "sale" campaigns that conditioned consumers to expect year-round sale prices for merchandise.[4]

The period between the late 1980s to the mid-1990s, in addition to seeing more price promotion, witnessed little advancement in marketable product innovation. The sale of color TVs, VCRs and CD players had already peaked and the "next big thing" for consumers would not arrive until digital technology came to market. With high fixed costs and shrinking margins, Lechmere, Highland and Fretter soon found themselves unable to compete with broad market retailers Circuit City and—mostly outside of New England—Best Buy. By the mid-1990s, all three had filed for bankruptcy protection. (See **Exhibit III** for a description of competitors).

As most consumers have experienced, CE products are generally introduced at a relatively high retail price that falls rapidly depending on the speed and level of consumer adoption.[5] The product innovation cycle thus offers CE retailers a narrow time frame for selling higher-margin merchandise to early adopters and to the forward edge of the mass market. As product prices fall and the market penetration of new technology rises, specialty retailers have had either to match prices, increase their services offering—with warranty add-ons and financing, for example—or risk losing the sale to mass merchandisers. (See **Exhibit IV** for an example of the relationship between product pricing and market penetration).

Internet retailers have only heightened the challenge for their bricks and mortar competitors. The online sale of CE, not including computers, is projected to quadruple from 2000 to 2006, going from 2% to 8% of total sales for the category.[6] Emphasizing convenience and price competitiveness, online retailers allow for both product education and price comparison, making price the most important determinant of product selection.

The Promise of Digital Television

For many if not most CE retailers, 2003 and the years to follow offer new hope, thanks to advancements in video display technology and some welcome regulation from the Federal Communications Commission. On the technology front, flat-screen and high-definition television (HDTV) products have crossed a price threshold clearing the way for an accelerated pace of consumer adoption. Moreover, December 31, 2006 marks the current deadline for the DTV (digital television) conversion mandated for broadcasters and equipment manufacturers. Under the auspices of the Telecommunications Act of 1996, the FCC requires broadcasters to forfeit their assigned portions of the analog spectrum in exchange for the digital spectrum most

[4] Harvard Business School Case 9-597-028, Rev. April 15, 1997

[5] For example, the first VCRs, CD players and DVD equipment were priced over $1000 when introduced to the market.

[6] Jupiter Research, "Market Forecast Report—Retail, through 2007." Jupiter anticipates the US online consumer electronics market will reach $4.7billion in 2007, approximately four times the size of the market in 2000.

broadcasters have already acquired. Under this requirement, most broadcasters will have to cease transmission of their analog signal, sending a digital signal instead. Simultaneously, the FCC has mandated that TV manufacturers equip all new televisions with digital tuners, which will be necessary for receiving DTV broadcasts**.** (See **Exhibit V** for growth in DTV equipment sales).

Though it is widely accepted that the "digital convergence" will not be complete by the 2006 deadline, the regulation has sweeping implications for the CE industry. In Jeff Stone's words,

> "Over the next 10 to 15 years, because of the digitalization of the airwaves, all 250 million television sets are going to have to be replaced in the US…That's a huge opportunity."

Stone is not alone in his enthusiasm for digital television and the wave of product replacement its arrival will bring. Since the beginning of 2001, the strong sales growth of DTV equipment has been one of the brightest success stories in the consumer electronics business.

Tweeter's History—From Inception Until 1996 [7]

Early Beginnings

Tweeter was founded in 1972 when Sandy Bloomberg, the company's current chairman, and his cousin Michael opened a stereo store, Tweeter etc., near the Boston University campus. The 1970s saw much advancement in stereo technology and Tweeter quickly gained a reputation for carrying high-end brands and for having a knowledgeable and friendly staff. Under the corporate name, New England Audio Company, Inc., Tweeter began to open new stores in and around Boston in 1977. By the end of the decade the company had expanded to seven retail locations, with an average store size of 10,000 square feet—its current size—and the retailer's product line had grown to include high-end video equipment.

Tweeter's customer focus since its inception was on Baby Boomers. As late as 1999, according to Sandy Bloomberg, the average Tweeter customer was a 40-year-old male earning more than $70,000 a year. "The prime demographic for the audio/video business is 18 to 54," he added. "Our customer is someone who graduated college in 1968, who grew up with the Beatles and the Vietnam War, and who has a passion for music." [8]

Tweeter continued to grow through the mid-1980s, thanks to strong national and regional economies as well as to the growing demand for VCRs, camcorders and CD players. By 1986, the company owned 13 stores in Massachusetts and Rhode Island, and by the end of the 1980s it claimed 5% of Boston's CE market and 2% of New England's. All the while, Tweeter strengthened its reputation for offering premium products and service.

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[7] The following two sections draw heavily from the early company history detailed in Harvard Business School (HBS) Case 9-597-028, Rev. April 15, 1997. Unless otherwise cited, management's quotations and figures in these two sections come directly from HBS.

[8] Quoted in *TWICE (This Week In Consumer Electronics)*, September 20, 1999

The challenge of price promotion

The New England CE market became increasingly less hospitable in the second half of the 1980s, with the arrival of superstores Highland, Fretter, and later, Circuit City. Tweeter soon found itself struggling to convey its price competitiveness, in part because of its focus on higher-end merchandise. In the words of Noah Herschman, Tweeter's vice president of marketing,

> "The consumers just wanted price, price, price. But we didn't carry entry-level products like a $139 VCR or a $399 camcorder. We carried middle and high-end stuff. So people would look at our ads and they would look at Lechmere's ads…They'd have a $399 camcorder, and we'd have a $599 camcorder. Even though their middle and high-end equipment sold for the same price as ours, we seemed to be more expensive to the inexperienced consumer. Our print advertising was actually driving people away—doing more damage to our business than if we never used it."

In response to this growing challenge, Tweeter first broadened its product line to include a few lower-end models. Then, in 1988, it joined the Progressive Retailers Organization (PRO), a CE industry buying group capable of securing sale prices comparable to those obtained by the superstores. However, the company was unable to shake its reputation for premium products and prices, and it began to experience a decline in revenue and profitability in 1989.

In 1990 the company recruited a new President and COO, Jeff Stone, who had previously been the executive vice president of Boston-based Bread & Circus supermarkets. With a background in human resources, Stone was chosen to lead the company's turnaround. In addition to securing loans to ease through the cash crunch, Stone quickly cut the company headcount, increased training for store managers and put an end to the company's losses.

In 1991 Highland withdrew from the New England market, closing 10 stores, and Fretter followed suit in 1995. This might have been good news for Tweeter, were it not for the 1993 arrival of Circuit City, an aggressive category killer emphasizing both price and product selection. With Circuit City operating in its backyard, Tweeter found itself in search of a new approach.

New Strategies in 1993: EDFP, APP and a New Marketing Approach

In the spring of 1993, Tweeter's senior management team convened at a retreat in Vermont to develop a new game plan. Together they reviewed the results of customer survey and focus group research, which gave the company high marks for merchandise quality and customer service, and low marks for price competitiveness. The research also suggested that price really was the most important factor in purchase behavior, and that newspaper advertising—the principal forum for price promotion—was the most important factor in store selection.

Seeing an urgent need to be perceived as price competitive, management decided on a three-fold initiative to improve Tweeter's positioning:

1) Move to "Every Day Fair Pricing"

The first component of the new strategy was to put an end to the weekly sale promotions. Despite its advertising effort, Tweeter was clearly being overtaken by Lechmere and Circuit City. As Tweeter's Herschman put it:

> "Even though we were competitively priced, because of our high-price image, no one was listening. And, even more frustrating, was the fact that our increasing reliance on the weekend 'sale' drew attention from our unique selling proposition—high quality products and great customer service."

Abandoning sales for "Every Day Fair Pricing" (EDFP) would thus highlight Tweeter's quality edge without encouraging unfair comparisons with product makes and models not available elsewhere. Neither Tweeter nor its competitors had tried EDFP before.

2) A new approach: Automatic Price Protection

Automatic Price Protection (APP), a term coined by Bloomberg at the retreat, was a radical new concept, designed to communicate Tweeter's price competitiveness and commitment to customer service. The biggest challenge with APP would be getting customers to understand it. The idea behind the initiative was a low price guarantee with Tweeter's commitment to monitor competitors' prices and, upon finding a lower advertised price, to send rebate checks to customers for 100% of the price difference.

APP was a groundbreaking move. At the time most retailers in New England, including Tweeter, were practicing some form of price protection, offering customers a refund of 100% or more of the difference between the purchase price and the competitor's advertised lower price for a period of 30 days after the transaction. For example, if a consumer bought a TV at Tweeter and paid $499 for it, and then found it advertised by a competitor for $399, the consumer could bring the ad to a Tweeter store for a refund of $100. With APP, Tweeter would automatically send the check to the consumer unsolicited, with no action needed to be taken by the customer.

Historically, price guarantees had required an action on behalf of the consumer, as mentioned above, and consequently, only a small fraction of customers followed through. By contrast, APP only required consumers to cash the checks that came through the mail. Furthermore, to complement APP, Tweeter extended the former price protection plan to 60 days, re-labeling it "Regular Price Protection."

To cap administrative costs, APP applied to items over $50 and for price differences greater than two dollars. The APP program was managed by a dedicated department in corporate HQ. Every day, APP's staff would check every issue of eight major New England newspapers. Any product carried by Tweeter and advertised by a competitor was logged, with its price, model number and date of advertising entered into the APP database. This information was cross-referenced with order historical data, and checks were automatically generated and sent within five days. Stone estimated that the company sent out checks for $3,000 to $4,000 per month under this plan.

3) A new marketing mix

The third element of the new strategy was a shift in the marketing mix away from print advertising, which had long emphasized promotional pricing. In the past, Tweeter's marketing budget had averaged 8% of sales, mostly in the form of print inserts in local newspapers. (i.e. 80% of the 1993 $3.1M marketing budget). Now, without a blatant "on sale" message, it no longer made sense to advertise in circulars, so Tweeter shifted virtually its entire advertising budget to radio and TV to explain and build awareness for APP and EDFP.

The company also launched a direct marketing campaign centered on a seasonal "Buyer's Guide." Although, as Stone noted in his lecture, advertising "what's coming soon" can delay the purchase decision, the guide was produced quarterly with great success. By 1996, it had reached 325,000 homes, of which 270,000 were estimated to have purchased at Tweeter within the previous 18 months. By 1998, 10,000 of these homes made part of a newly created "frequent flyer" style customers loyalty program.

Performance Improves, but…was it thanks to APP?

Tweeter's management credited the strategy shift for a sharp improvement in financial performance. When Tweeter hired Stone in 1990, its annual revenue was approximately $25 million. By August of 1994, the company had opened its 14th and 15th stores and was on its way to record annual revenue of $47.4 million. In 1994, comparable store sales jumped 11.2%, followed by a 12.5% gain in 1995.[9]

By end of 1995, 2 ½ years after the initiation of the program, the company had mailed a total of 29,526 APP checks totaling over $780,000. However, Bloomberg wondered why they were sending out any checks at all, if Tweeter's prices were truly competitive. Furthermore, based on its current sales volume, was this an acceptable number? Was the message of price competitiveness really reaching potential customers? Some surveys in the Boston area showed continued perceptions of Tweeter's premium pricing, while others suggested that few people fully understood APP, and even fewer—only 22%—were aware that it was Tweeter who offered it. To complicate the picture, the same surveys also showed that after two years and extensive promotion of APP, only 32% of the market had heard of the program, while only 2% had shopped at Tweeter. What did this suggest about the program's overall effectiveness?

The Big Boom of the Late 1990s

The economic expansion of the late 1990s was a boom for much of the consumer electronics industry, and Tweeter was uniquely positioned to benefit from it. Low interest rates and unemployment, combined with a soaring stock market and the "hi-tech bubble" encouraged heavy consumer spending on big-ticket home audio and video equipment. From 1996 to 2002 Tweeter saw nearly a ten-fold increase in revenue from $80.6 million to $796 million. While much of the revenue gain could be attributed to the company's acquisition spending spree, Tweeter's comp store sales growth signaled the underlying strength of its business through 2000, when it topped 13%.[10]

[9] Tweeter, S-1, 1998.
[10] Tweeter 10K, 2001.

Aggressive Growth through Acquisition

After re-establishing itself in New England as a successful niche retailer emphasizing higher-end merchandise and outstanding customer service, Tweeter sought to extend its model through store expansion and consolidation (see **Exhibit VI** for Tweeter's acquisition timetable and **Exhibit VII** for its store footprint in 2002).

In May 1996 Tweeter completed its first strategic acquisition of Bryn Mawr Stereo & Video, a $35 million, 13-store chain headquartered in King of Prussia, PA. With a reputation for its high-end merchandise and strong customer service, Bryn Mawr also faced the consumer perception that it was premium priced, and thus not competitive with the superstores. Bloomberg convinced Bryn Mawr eight months before it acquired the company to move to APP. Bryn Mawr followed his advice, but at the time of acquisition, few results could firmly be attributed to the policy.

Talks between Tweeter and Bryn Mawr had gone on for years before Sandy Bloomberg felt comfortable moving ahead. Bloomberg envisioned taking Tweeter national by acquiring a select group of family-run businesses that also addressed the upper end of the CE market. Tweeter evaluated potential acquisition targets by looking at four aspects of the business: brand name, physical assets, market demographics and, most importantly, sales people. It is no surprise that Tweeter should be so focused on the human side of its business, given its long-standing reputation for customer service. Behind this reputation is an investment in employee training which, at $7,000 per store employee, management believes to be the highest in the industry.

Following the Bryn Mawr acquisition, Tweeter continued to expand its market reach to Georgia, Texas, California, Illinois, North Carolina, Florida and Arizona. In four years, the company acquired 11 companies, ranging from a two-store specialty retailer in Dallas to a 33-store chain operating throughout Florida and Arizona. The company also expanded is sales channel to the Internet, initially through a 1999 joint venture with online retailers Cyberian Outpost, and later by launching its own e-commerce initiative.[11]

Tweeter's acquisition plan call for the integration of acquired companies into its operating environment by applying Tweeter's sales and marketing strategies (including APP, high-margin product mix and customer service philosophy), in addition to utilizing its purchasing, distribution and administrative infrastructure. In practice, the pace of integration has depended on the individual acquisition; its largest acquisition to date, the $200 million Sound Advice retail chain out of Florida, was consummated in August 2001, but as of January 2003, Sound Advice still retained both its name and most of its corporate infrastructure.[12]

To finance store expansion and consolidation, Tweeter raised more than $160 million from 1996 to 2000. It obtained equity investments of $10.6 million from a group of private investors in 1996, and raised an additional $22 million in both equity and subordinated debt a year later. The company's IPO in July of 1998 raised $46 million, much of which went to repay its previous

[11] The joint venture with Cyberian was eventually terminated upon that company's acquisition by Tweeter's competitor Frys Electronics. The deal was written off in February of 2002. In September of 2002, Tweeter teamed with a leading outsourced e-commerce services provider to launch Tweeter.com.

[12] Tweeter, 10K, 2002.

investors, and a follow-on offering seven months later netted just over $24 million. The company's most recent public offering, in February 2000, raised close to $60 million.

Tweeter's Merchandise Assortments

Beginning in 1997 most consumer electronics retailers began to experience a dramatic change in their sales mix, with the lower-margin video equipment category growing in size relative to the higher-margin audio and other product categories (See **Exhibit VIII** for company sales revenue by product category). This shift reflected both the dearth of product innovation in audio equipment and the robust demand for DVD players and other video products. But even with this shift toward lower-margin merchandise, Tweeter managed to maintain its gross margins at an industry-leading 35.7%, and maintain its status as one of the most profitable CE retailers. [13] (See **Exhibit IX** for trends in company financial and operating performance and **Exhibit X** for 2002 financials).

What helped the company maintain good results was its formalized "Sell Audio With Video" strategy, which emphasized audio equipment as a performance enhancement to video and home theater equipment purchases. Referring to this important cross-selling initiative, merchandising executive Bernie Sapienza noted at the time,

> "We're highly focused on selling audio with video…You're doing an injustice to the consumer to sell them a big-screen TV without an audio system that will allow them to enjoy the full experience…Now people are buying six speakers instead of two." [14]

Consistent with the company's historical positioning, Tweeter continued to focus on selling mid- to high-end audio and video consumer electronics, an approach management believed was critical for differentiating the retailer from mass merchandisers and superstores. While these other retailers typically carried a large portion of their product lines at introductory price points, Tweeter carried few if any in this price range. (See **Exhibit XI** for an industry price point comparison). The emphasis on higher-end products won favor with manufacturers selling more advanced products or seeking limited distribution—an important concern for Tweeter's early adopter customer base.

With most of Tweeter's consolidated (i.e. acquired) stores also using EDFP and APP, the company maintained its focus on gross margin management, which Stone had considered a key to the company's success. As a result, it consistently led the industry in profitability, as measured by net margin as a percentage of sales.

A Sharp Turn in 2001: Is a New Strategy Needed?

After introducing himself to his audience at Columbia Business School, Jeff Stone began a brisk slide presentation about his company and its market conditions, the latter he summarized with a

[13] From 10K filings for Tweeter, Best Buy, Circuit City, Ultimate Electronics and The Good Guys.
[14] TWICE, September 20, 1999.

photograph of a toilet bowl—a visual synopsis of the poor market conditions troubling most retailers in 2003.

Despite its remarkable run, in 2001 Tweeter ended the year with flat same store sales, and entered what would mark the beginning of at least eight consecutive quarters of negative comp store growth. The company ended FY 2002 with particularly disappointing results, missing its fourth-quarter sales target by a whopping $37 million. The trend worsened in the following quarter, when Tweeter experienced a year-over-year decline in quarterly revenue, and a 10.4% decline in comp store sales. Making matters worse, Tweeter's declining sales prevented the company from earning coveted manufacturers rebates, which could be as high as four or five percentage points of sales, depending on the manufacturer and the volume achieved. Not surprisingly, the company's stock performance relative to its peers also declined (see **Exhibit XII** for Tweeter stock price performance).

To Stone, one of Tweeter's problems stood out against the rest:

> "The single biggest issue we face today is customer loss…We know customers like us, we know that when they come in they get a good experience, but how do we attract more of them?"

In support of his comment, he presented a chart detailing Tweeter's loss of customers across regions. In one region, for example, between 1998 and 2002, the customer count had fallen from 176,000 to 169,000, even while the number of stores had expanded from 24 and 30 doors. Across six select regions during the same time frame, the total number of customers had grown from 493,000 to 511,000 while the number of stores in the region had jumped 75 to 112. This equated to a 30% drop in the average number of customers per store from 1998 to 2002 (see **Exhibit XIII** for detail on its declining customer count across eight of the company's nine regions).

Contributing to Tweeter's poor performance were the recent economic downturn and the lingering effects of the events of 9/11 on consumer confidence and spending. In Jeff Stone's view these two factors, in addition to limiting consumer purchases of big-ticket electronics, had made consumers increasingly value conscious—a trend that did not favor Tweeter, despite the previous successes attributed to APP. Stone pointed out an all-to-familiar problem: "We are known as having high prices on the good stuff, and in this particular economy, that doesn't play too well."

Tweeter's trouble was compounded by the apparent failure of its radio and TV advertising to communicate the retailer's "value" message and drive traffic into stores. This fact, Stone claimed, was one of the biggest teachings of the company's acquisition history. He summarized the challenge during the company's Q2 2003 earnings conference call:

> "[The] problem today with our strategy is it's not driving foot traffic, because we don't look like we have those values everybody else has, when in fact we do. When Sony has a price drop, we have those same price drops; we just don't have a good vehicle for telling the customer…Really what we've done with our

> existing strategy is, we sit there and wait for the customers to come in and say, 'I was shopping and I saw it priced at so-and-so,' and we say, 'Yeah, we know, we have it priced that way too."[15]

Although Tweeter's declining sales were part of a larger industry and economic trend, Tweeter's debt burden and acquisition spree were certainly not meant to help prepare it for such dire times. As of the beginning of 2003, Tweeter had not managed to gain real synergies from its acquisition of Sound Advice, which, with its 40 stores and revenues in 2001 of more than $200 million, accounted for a substantial chunk of Tweeter's business. One indication of integration trouble could be seen through the proportional *increase* of SG&A expense ratios following the acquisition (see **Exhibit XIV** for an analysis of SG&A expense both before and after the Sound Advice acquisition). By most standards of measurement, a successful acquisition of this magnitude would result in substantial cost savings to the company, as duplicative costs are eliminated.

Many Potential Options

A Need for Sales Expansion and Margin Protection

Management's sensitivity analysis indicated that if they expanded sales by simply slashing prices, the company's bottom line would quickly suffer. Instead, Stone presented a model allowing for a modest drop in gross margins, from 36% to 34%, and a 15% increase in sales, which, for a typical store, could result in a 12% increase in net income. However, with lower margins and high fixed costs, Tweeter's bottom-line performance would become more susceptible to any shortfall in the projected increase in sales. In other words, the risks were enormous. What would happen if prices were reduced to gain sales and they did not materialize? (See **Exhibit XV** for a sensitivity analysis of net income for a typical store).

A growing concern for Tweeter was Best Buy's move toward higher-end merchandise, a trend that was evident from the competitor's escalating product margins and price points. Stone speculated that discounters like Walmart, who had recently begun selling low-priced DVD players, were forcing Best Buy toward a higher end of the price spectrum.

Best Buy was already the market leader in the sale of $149-$999 handheld digital products like the Apple iPod, which is seen as an important driver of traffic into stores. Tweeter, by contrast, long held a bias towards "the big game hunt"— the sale of big-ticket items like home entertainment systems. With traffic such a concern, should Tweeter expand its assortments to include more handheld electronics?

Flat Panel Television: Holding on to Market Leadership

With an estimated 23% share of the flat-panel TV market in FY 2002, Tweeter in 2003 was an undisputed leader in the retail market for this emerging technology.[16] While Tweeter's historical approach would have been to de-emphasize the category as price points and margins creep downward, the retailer's experience in the DVD player market of the late 1990s encouraged a new line of thinking. With DVD players, according to Stone, Tweeter gave up its market

[15] Quoted from Tweeter's Q2 2003 earnings conference call, April 24, 2003.
[16] SG Cowen market analysis, April 21, 2003.

leadership when the average price point was $499, and as Exhibit IV indicates, this was the price point at which industry sales began to accelerate dramatically.

Stone was certain that Tweeter had left a fortune on the table by not expanding its DVD equipment offering toward lower price points, and he did not wish to repeat this mistake with the hottest product category of the new millennium. Citing the last 400% Q4 growth in plasma TV sales, he noted,

> "We own emerging television, we always have. But what we have typically done, is when a product comes down to the commodity level, we let it commoditize and stay on the higher end. If we are going to own this space, we think we need to change our strategy, and stay with the product as it comes down in price."

By management's estimates, the digital and flat-panel TV opportunity alone could increase comp sales up to 30% per year for the next five years. Even with a shrinking product margin for these TVs, Tweeter might make up the difference by selling the complementary audio equipment—including profitable private label accessories and installation services—that maximize the perceived value of these sophisticated video displays. Finally, flat-panel displays, in Stone's view, were critical for generating sorely needed foot traffic into stores.

An Uncertain Future for Automatic Price Protection

From the customer's viewpoint, according to Stone, APP was no easier to understand in 2003 than it was 10 years prior. What should be one of the company's most powerful marketing weapons was still not fully understood by customers.

In effect, APP guarantees the customer the lowest price (within its stated provisions), but APP does not make the lowest price apparent until the customer receives his or her rebate check. In other words, APP ensures that Tweeter offers the most competitive price, but it does not allow Tweeter to advertise the most competitive price. Without seeing a competitive price advertised in the newspaper, management questioned whether customers were simply concluding that the price competitiveness was never there in the first place. However, when APP was first introduced, the company saw enormous comp store increases, so did the policy not give the impetus to growth? Stone also wondered how difficult it would be to eliminate APP.

Unanswered Questions

To redress its problems, should the company continue its high gross margin full service strategy? Or should it ride prices down on flat panel TVs and other products in order to increase customer traffic and to use formerly untouched vendor volume rebates? To be sure, the opportunity existed, but should the company not just focus on its existing customer base of early adopters and patiently wait for the next new product cycle? However, periods between brand new product waves are long, while customer adoption rates were getting shorter and shorter.

Private label for accessories was a huge success, but it only dealt with commodity products. Should the company (as its competitor Radio Shack did) lever on its image to introduce private label equipment?

And, of course, there remained the question of APP: Did it really work? It seemed to give the company an edge in controlling its competitor moves and in portraying a superior image, but it did not seem to have been properly communicated. APP remained an elusive concept to explain. Should its name be changed so customers could better understand its meaning? Should it be modified and integrated with sales promotions? How would Tweeter's most loyal customers react to a modified APP? Would they accept anything different? And then, how could any change be implemented and supported? Would a shift in the media mix back to newspaper advertising address the company's concerns about traffic?

Finally, should Tweeter's assortments be modified, by bringing in more opening price points? Would this hurt the image of the company or would it expand the customer base? Conversely, should the assortments be moved up to avoid competition from Best Buy and Circuit City? Would this solidify the image as the high quality, high service store?

Stone acknowledged that something fundamental had to change: "We are currently, potentially, in the throes of reinventing ourselves."

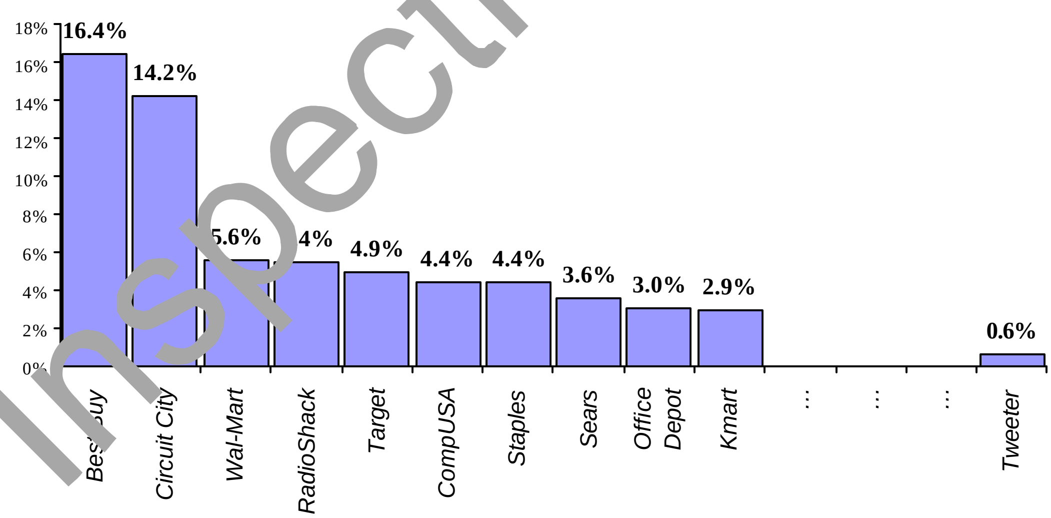
Exhibit I: The Consumer Electronics Industry in 2001

Industry Growth by Segment

$93B CE 2001 industry	% of Total	5 yr CAGR	3 yr CAGR
Video and Audio[17]	25%	1.9%	3.3%
Home Information[18]	36%	4.1%	1.5%
Mobile Electronics	17%	15.0%	12.0%
Accessories & Batteries	6%	11.0%	13.4%
Electronic Gaming	11%	14.0%	15.6%
Blank Media	3%	7.6%	7.9%
Home Security	2%	6.5%	5.0%

Source: Prudential Industry Coverage Report, 04/22/02

Estimated CE Market Share in 2001



Source: Deutsche Bank – Consumer Electronics Initiation, 2003

[17] Of which are 75% in Video and 25% in Audio. Top 2 Video players hold 41% of Video sales and 47% of Audio.
[18] Of which 53% Computer Hardware and Software and 47% Accessories

Exhibit II: Top Brand by Share of Market for Audio and Video Equipment

Share of Market 2001 for Audio

% value companies (brands)	2001
Sony Corporation	23
Sharp Corporation	14
Royal Philips Electronics	12
Matsushita Electric Industrial Co Inc	11
Pioneer Electronic Corporation	8
Kenwood Corporation	
Others	32

Source: Euromonitor

Share of Market 2001 for TV, VCRs and Camcorders

% value companies (brands)	2001
Sony Corporation	20
Philips Group NV	13
Matsushita Electric Industrial Co Inc	11
Sharp Corporation	9
Zenith Electronics Corporation	3
Others	44

Source: Euromonitor

Exhibit III: Tweeter's Primary Competitors in 2003

Best Buy

Founded in 1966, by Chairman Richard Schulze, the company began as a small electronics store in St. Paul, Minnesota, known as Sound of Music. Although originally geared towards audio enthusiasts, Best Buy expanded its product offering and number of stores gradually up to 40 superstores around the nation in 1990. Just before it changed its name to Best Buy in 1983, a key store in the company was destroyed by a tornado. This led to the clearance sale in the company which then gave birth to its every day low pricing concept.

Since its inception, Best Buy differentiated itself through a different shopping experience for its customers. It was the first store in its industry to introduce noncommissioned sales force, to add entertainment products such as music, movies and computer hardware and software to its product mix, and to introduce interactive merchandising with hands-on displays and demonstrations of new products.

It has rapidly expanded in recent years and, as of the end of 2002, had 481 superstores across the country, with an average size of 45,000 square feet. Its latest purchases of Musicland and Magnolia Hi-Fi strengthened its position in music and movie retail and in the high-end consumer electronics business.

Circuit City

In 1949, when the first TV broadcasting station in the region went on the air, Sam Wurtzel started selling televisions out of a tire-recapping store in Richmond, VA called Ward's TV. Over the next several decades, Ward's TV went on to expand through the acquisitions of audio specialty retailers, stand-alone discount stores, and warehouse showrooms into what would come to be known as Circuit City Stores.

By 2002, Circuit City had expanded to 580 superstores around the country averaging 40,000 to 60,000 square feet per store. Its phenomenal growth was tied to the successful credit card operations that it had established in 1991. This operation, now known as First North American National Bank (FNANB), is a wholly owned subsidiary with over 1,760 employees. To further boost their online sales, Circuit City also forged an online partnership with Amazon in January 2002.

Lately, the company's financial performance has suffered. In an effort to bring about a turnaround, the company moved from a commission-based compensation scheme to a non-commission-based scheme for its sales staff. The move remains questionable in a falling sales environment amid stiff competition.

The Good Guys

Ronald Unkefer founded The Good Guys in 1973, opening his first store in the Marina district of San Francisco. He chose the name to reflect the low-pressure, entertaining atmosphere he hoped to offer. The company had five stores by 1983 and went public three years later to finance expansion. In 1993 Unkefer resigned as CEO but remained chairman until 1996, handing the position to president Robert Gunst. Having established a presence throughout California, Good Guys moved into the Pacific Northwest in 1995 with stores in Washington and Oregon.

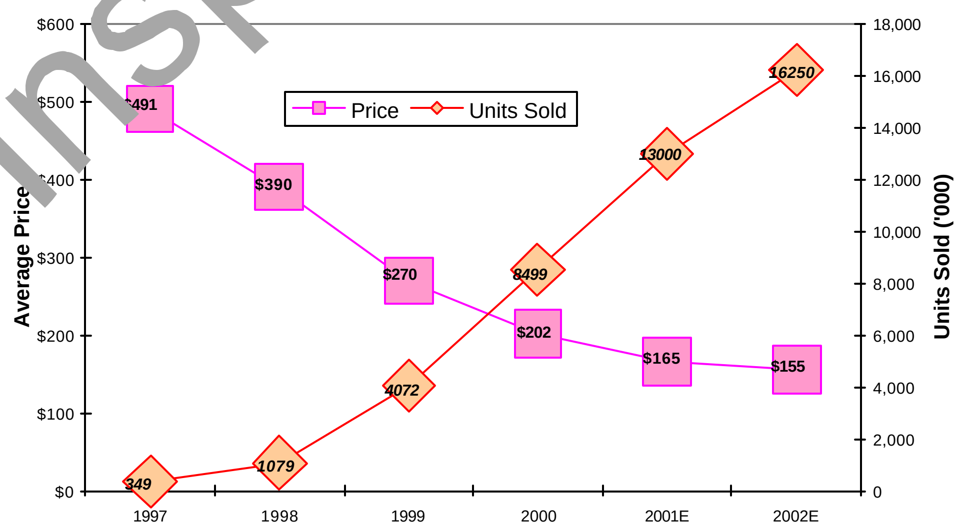
The company began selling music, videos, computer software, and magazines in conjunction with Tower Records through its first WOW! Multimedia Superstore in Las Vegas. A ill-fated move into computer retailing led the company into losses since 1997. Gunst resigned, and Unkefer returned as chairman and CEO. He cut Good Guys' low-margin computer and home office offerings in favor of communications and Internet-related products. Unkefer also launched a restructuring that included job cuts—up to 15% of the workforce—and other moves to reduce costs by 20%. The company has repositioned itself towards high end audio & video, radically changing their store design on the way. As of the beginning of 2003, The Good Guys owned and operated 79 stores, with a typical store size ranging from 15,000 to 25,000 square feet.

Ultimate Electronics

Ultimate Electronics first two stores were opened in Utah in 1993. Its founders, William Pearse, its current chairman, and his wife Barbara had earlier owned and operated a store called SoundTrack in Denver, CO since 1974. By 2002, Ultimate Electronics had grown to 47 stores in 11 states, with a typical store size of 30,000 to 34,000 square feet. Ultimate Electronics' product mix is focused on the mid- to high-end spectrum of audio, video, television, communication, and mobile electronics products, as well as on a limited selection of home office products.

The company has developed a differentiated business strategy in the highly competitive CE retailing sector by becoming the destination for its customers to purchase the latest-technology consumer electronics product categories that it offers. It also employs a highly trained, knowledgeable, full-time sales force and installation team and offers a comprehensive package of value-added services, including home delivery, home-theater design, and regional service centers, all believed to be strong competitive advantages. Ultimate was perceived by Tweeter's management to be a direct regional competitor of Tweeter.

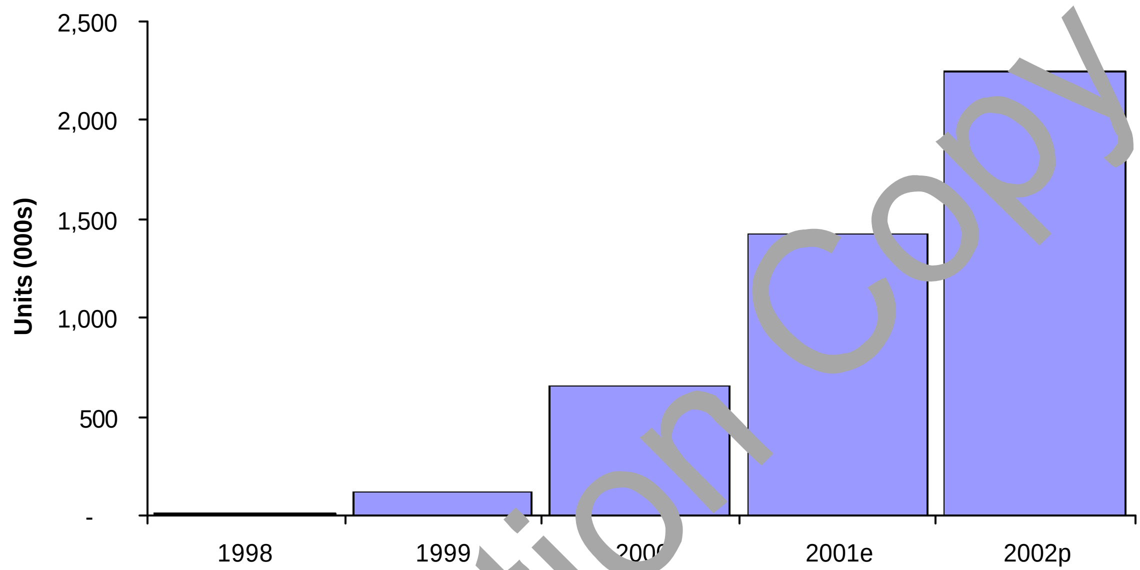
Exhibit IV: Pricing and Sales Growth of DVD Players in the U.S.



Source: Prudential Research, 2002

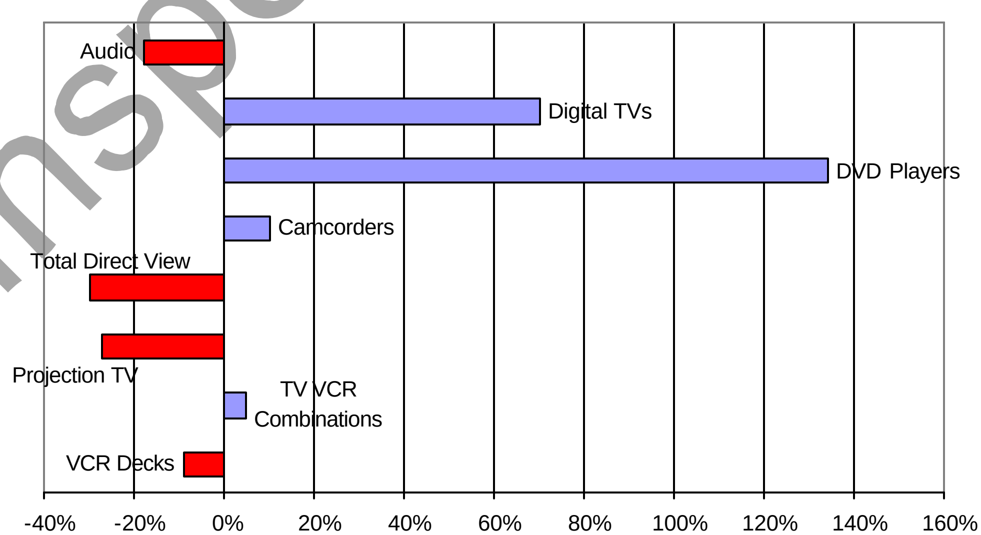
Exhibit V: Accelerating Growth of Digital Television

Digital TV Sets and Displays Unit Sales (000s)



Source: Consumer Electronics Association, "US Consumer Electronics Sales & Forecasts," January 1, 2001.

Category Units 2002 vs. 2001 % Change



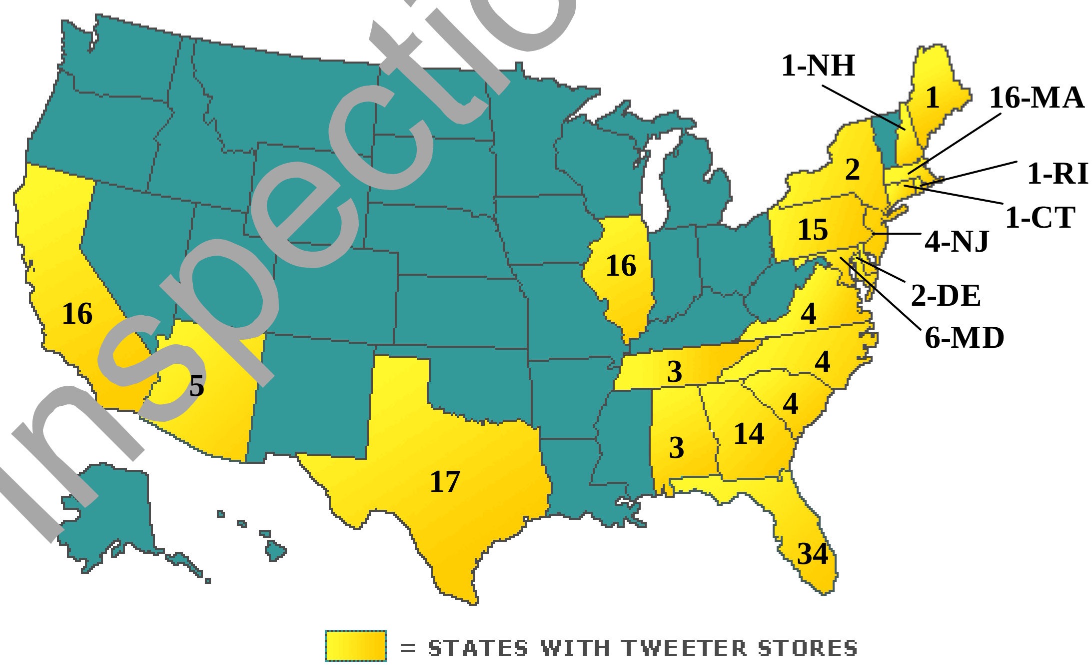
Source: Deutsche Bank – Consumer Electronics Initiation, 2003

Exhibit VI: Tweeter's Acquisitions Timetable

Date	Company Name	Number of stores[19]	Revenue	Location	Tweeter name change	APP implementation
05/96	Bryn Mawr	13	$35M	PA	YES	YES
06/97	HiFi Buys	10	n/a	GA	NO	YES
02/99	Home Entertainment	9	$25M	CA	YES	YES
07/99	DOW	7	$38M	TX	YES	YES
04/00	United Audio Ctrs.	7	$48M	IL	YES	YES
10/00	Douglas TV	4	$30M	IL	YES	YES
05/01	Big Screen	4	$16M	CA	YES	YES
06/01	Audio Video	3	$15M	NC	YES	YES
08/01	Sound Advice	32	$200M	FLA AZ	NO	NO
03/02	Hillcrest	2	$14M	TX	NO	NO

Source: Tweeter S-1 and 10K filings, 1996 to 2002

Exhibit VII: Tweeter's Store Footprint in 2002



Source: Tweeter 10K, 2002.

[19] At the time of acquisition.

Exhibit VIII: Sales Revenue by Product Category in the Audio & Video Segment

Percentage of Retail Revenues by Product Category

Tweeter	1996	1997	1998	1999	2000	2001	2002
Audio equipment	35%	33%	33%	32%	31%	28%	25%
Video equipment	36%	36%	43%	42%	45%	50%	51%
Other	29%	31%	24%	26%	24%	22%	24%

Best Buy	1996	1997	1998	1999	2000	2001	2002
Audio equipment	13%	12%	11%	11%	11%	11%	n/a
Video equipment	18%	17%	15%	16%	19%	22%	n/a
Other	69%	71%	74%	73%	70%	67%	n/a

Circuit City	1996	1997	1998	1999	2000	2001	2002
Audio equipment	19%	[illegible]	[illegible]	[illegible]	16%	16%	15%
Video equipment	30%	30%	31%	[illegible]	32%	35%	39%
Other	51%	[illegible]	[illegible]	52%	52%	49%	46%

Ultimate Electronics	1996	1997	1998	1999	2000	2001	2002
Audio equipment	[illegible]	22%	23%	24%	24%	22%	20%
Video equipment	42%	42%	42%	46%	48%	51%	56%
Other	35%	36%	35%	30%	28%	27%	24%

Good Guys	1996	1997	1998	1999	2000	2001	2002
Audio equipment	n/a	n/a	n/a	16%	18%	16%	15%
Video equipment	n/a	38%	41%	45%	53%	56%	58%
Other	n/a	n/a	n/a	39%	29%	28%	27%

Source: 10K filings, 1996 to 2002.

Exhibit IX: Trends in Performance—1996 to 2002

Best Buy

	Revenue $ MM	Gross Margin %	Operating Profit %	Net Income %	# of Stores	Comps Growth
1996	7,217	13.0%	1.7%	0.7%	251	5.5%
1997	7,771	13.6%	0.7%	0.0%	272	-4.7%
1998	8,338	15.7%	2.0%	1.0%	284	2.0%
1999	10,065	18.0%	3.5%	2.1%	311	13.5%
2000	12,494	19.2%	4.3%	2.8%	357	11.1%
2001	15,327	20.0%	3.9%	2.6%	419	4.9%
2002	17,115	21.2%	5.2%	3.3%	481	1.9%
	Average	*17.2%*	*3.0%*	*1.8%*		

Does not include MusicLand or Magnolia Hi-Fi

Average store size is 45,000 square fee (SF)

Circuit City

	Revenue $ MM	Gross Margin %	Operating Profit %	Net Income %	# of Stores	Comps Growth
1996	6,753	23.9%	4.7%	2.7%	419	5.0%
1997	7,154	24.0%	3.6%	1.9%	493	-8.0%
1998	7,996	24.6%	3.2%	1.4%	556	[illegible]
1999	9,344	24.4%	4.1%	1.6%	587	8.0%
2000	10,600	24.7%	5.1%	1.9%	616	[illegible]
2001	10,460	24.1%	2.4%	1.1%	629	[illegible]
2002	9,590	24.4%	2.3%	1.3%	[illegible]	[illegible]
	Average	*24.3%*	*3.6%*	*1.7%*		

Does not include CarMax

Average store size is between 40,[illegible] and 60,[illegible]

Good Guys

	Revenue $ MM	Gross Margin %	Operating Profit %	Net Income %	# of Stores	Comps Growth
1996	926	23.1%	-1.0%	-0.7%	75	-8.0%
1997	[illegible]	25.1%	-2.1%	-1.3%	76	-8.0%
1998	[illegible]	24.6%	-1.8%	-1.3%	77	3.0%
1999	916	24.3%	-4.4%	-4.4%	79	-4.0%
2000	851	29.0%	-2.0%	-2.0%	79	5.0%
2001	874	28.1%	-0.1%	-2.0%	79	2.9%
2002	820	28.7%	-4.3%	-4.9%	79	-6.2%
	Average	*26.1%*	*-2.3%*	*-2.4%*		

Average store size is between 15,000 and 25,000 SF

Tweeter

	Revenue $ MM	Gross Margin %	Operating Profit %	Net Income %	# of Stores	Comps Growth
1996	81	35.7%	2.4%	2.2%	33	5.6%
1997	133	34.9%	1.5%	0.1%	47	-7.2%
1998	229	35.4%	5.3%	2.4%	52	[illegible]
1999	280	35.9%	5.4%	3.2%	73	5.0%
2000	400	36.6%	6.4%	4.1%	90	[illegible]
2001	540	35.6%	5.1%	3.1%	147	[illegible]
2002	796	36.0%	3.7%	2.2%	[illegible]	[illegible]
	Average	*35.7%*	*4.3%*	*[illegible]*		

Average store size is approxim[illegible] 10,[illegible] SF

** 2002 Net Income % excludes imp[illegible]men ch[illegible]e of $165MM. With the impairment charge, N/I % is [illegible]%.*

Ultimate Electronics

	Revenue $ MM	Gross Margin %	Operating Profit %	Net Income %	# of Stores	Comps Growth
1996	244	27.7%	2.7%	0.8%	18	-2.0%
1997	[illegible]	26.5%	1.4%	0.1%	18	-16.0%
1998	298	27.0%	1.0%	-0.2%	30	-6.0%
1999	329	29.0%	2.2%	0.7%	30	2.0%
2000	385	30.0%	4.0%	2.2%	31	16.0%
2001	484	31.4%	4.9%	3.0%	36	13.0%
2002	580	31.0%	3.4%	2.1%	46	-2.0%
	Average	*29.0%*	*2.8%*	*1.2%*		

Average store size is 30,000 to 34,000 SF

Source: 10K filings, 1996 to 2002

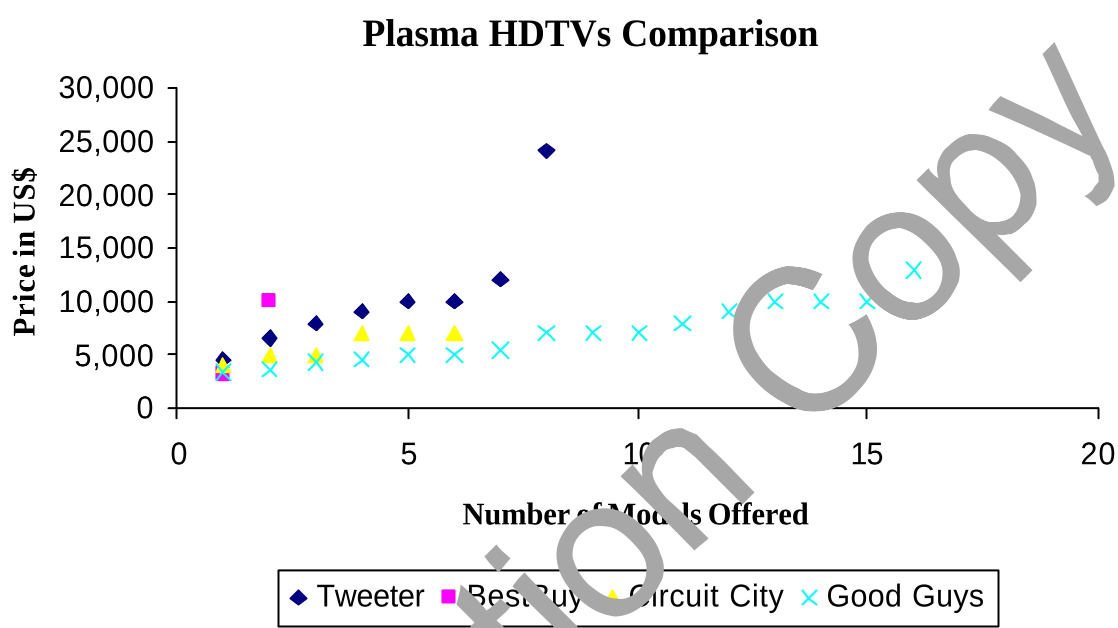
Exhibit X: Company Financials 1998 to 2002

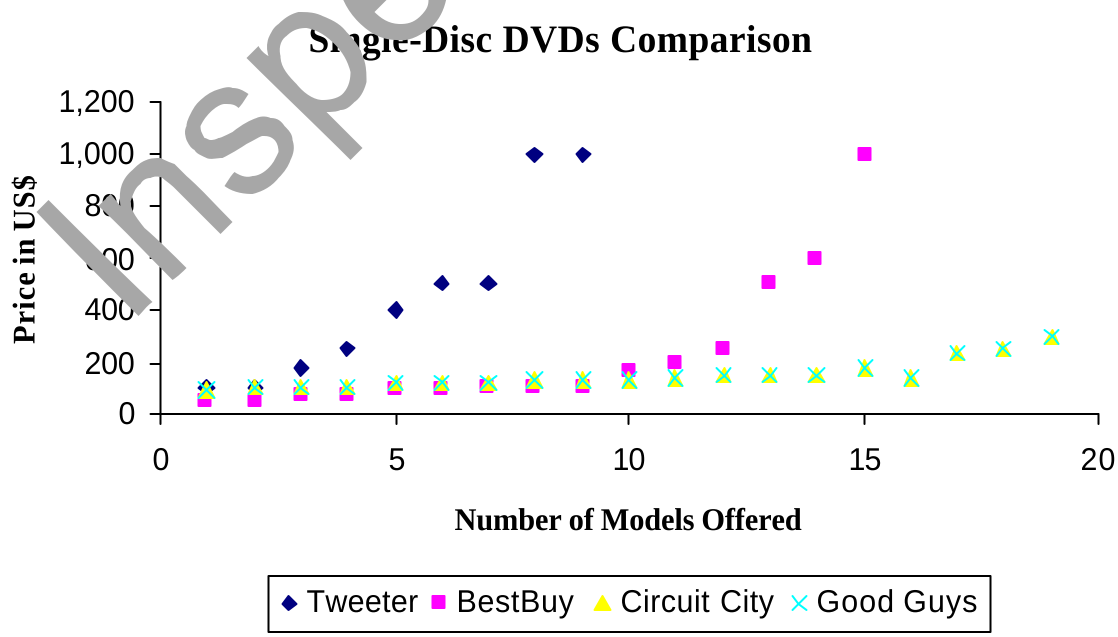
Income Statement	**1998**	**1999**	**2000**	**2001**	**2002**
Total revenue	$228,946	$279,562	$399,926	$540,123	$796,072
Cost of sales	147,938	179,227	253,672	347,942	509,258
Gross profit	81,008	100,335	146,254	192,181	286,814
Selling expenses	56,907	69,225	99,645	135,766	213,663
Corporate, general and administrative expenses	11.128	14.822	19.342	26.250	41.437
Amortization of intangibles	917	1,056	1,522	2,380	1,573
Impairment charge	--	--	--	--	[illegible]
Income (loss) from operations	12,056	15,232	25,745	27,785	[illegible]
Income (loss) from joint venture	--	--	518	843	[illegible]
Loss on investment	--	--	--	[illegible]	--
Interest income (expense), net	(2,737)	(106)	1,147	[illegible]	[illegible]
Income (loss) before income taxes	9,319	15,126	27,410	28,158	[illegible]
Income tax expense (benefit)	3,724	6,050	[illegible]	[illegible]	(1,913)
Extraordinary item	(340)	--	--	[illegible]	--
Net income (loss)	**5,255**	**9,076**	**16,446**	**16,895**	**(165,129)**

Balance Sheet	**1998**	**1999**	**2000**	**2001**	**2002**
Current Assets					
Cash and cash equivalents	$776,709	[illegible]	$34,292,555	$3,277,969	$2,282,635
Accounts receivable	[illegible]	[illegible]	14.662.914	31.251.444	23.116.040
Inventory	38.362.311	[illegible]	85.967.261	129.172.638	143.234.060
Deferred tax assets	[illegible]	1.899.604	2.424.294	4.054.489	3.943.838
Prepaid expenses and other current assets	[illegible]	678,804	1,578,893	11,490,313	17,084,739
Total current assets	[illegible]	75,270,265	138,925,917	179,246,853	189,661,312
Property and equipment, net	[illegible]	34.243.241	51.937.902	109.141.981	134.310.705
Long-term investments	--	1.846.366	4.867.560	4.592.147	1.103.280
Intangible assets, net			--	7,604,832	2,606,667
Other assets, net	35,789	191,616	1,262,874	536,675	8,196,237
Goodwill, net	20,093,107	30,067,691	38,043,290	186,546,849	--
Total	$91,643,011	$141,619,179	$235,037,543	$487,669,337	$335,878,201
Current Liabilities					
Current portion of long-term debt	--	$35,551	$63,074	$305,594	$288,745
Amount due to bank	4,071,310	6,023,056	8,865,870	8,464,682	4,520,513
Accounts payable	10.663.216	18.377.139	21.499.910	50.650.219	51.550.051
Accrued expenses	12.006.824	16.197.306	19.509.166	34.816.712	27.449.859
Customer deposits	1,422,557	2,440,090	5,153,801	13,998,996	16,259,734
Deferred warranty	1,109,325	673,139	294,477	532,681	301,583
Total current liabilities	29,273,232	43,746,281	55,386,298	108,768,884	100,370,485
Long-Term Debt	5.250.000	5.716.805	13.638	35.936.306	50.073.501
Rent related accruals	2.821.202	3.197.657	3.489.645	9.326.705	10.338.737
Deferred warranty	1,066,251	338,238	72,504	1,048,562	484,673
Deferred tax liabilities	1,423,283	1,095,527	1,124,656	197,353	--
Total other long-term liabilities	5,509,396	4,910,922	4,686,805	10,572,620	10,823,410
Total liabilities	40,032,628	54,374,008	60,086,741	155,277,810	161,267,396
Stockholders' Equity	53.617.198	89.158.036	176.845.695	334.269.784	176.462.712
Less treasury stock: and	(2.006.815)	(1.912.865)	(1.894.893)	(1.878.257)	(1.851.907)
Total stockholders' equity	51,610,383	87,245,171	174,950,802	332,391,527	174,610,805
Total	$91.643.011	$141.619.179	$235.037.543	$487.669.337	$335.878.201

Source: Tweeter 10K filings

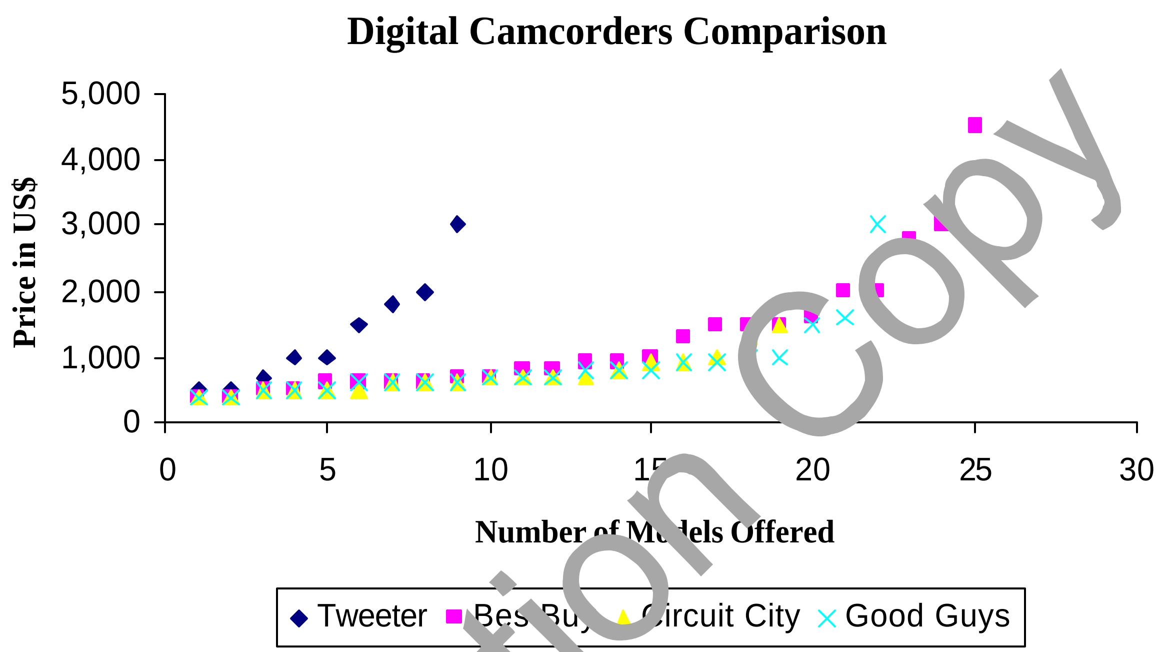
Exhibit XI: Industry Price Point Comparison for Select Product Categories

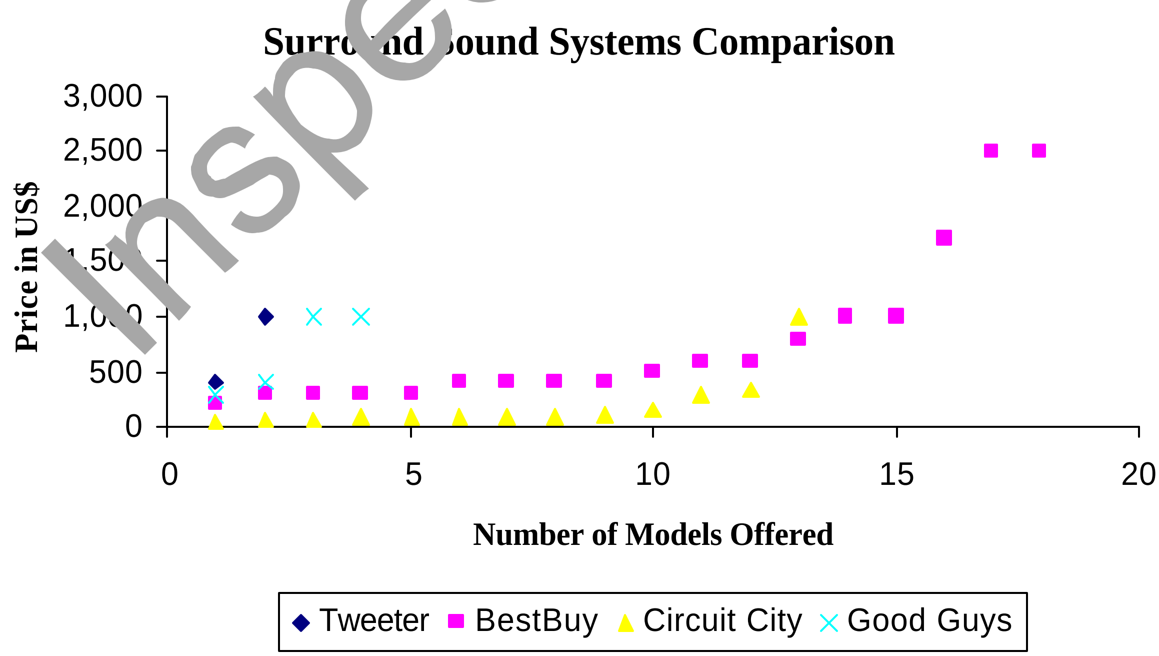




Source: Internet comparison of products and prices in the week of May 9th, 2003

Exhibit XI (continued): Industry Price Point Comparison for Select Product Categories





Source: Internet comparison of products and price made the week of May 9th, 2003

Exhibit XI (continued): Industry Price Point Comparison for Select Product Categories

Plasma HDTVs

Manufacturer	Model	Tweeter	Best Buy	Circuit City	Good Guys
BenQ	PDP46W1		$4,000		
Daewoo	DP-42SM		$3,300		
Hitachi	32HDT20			$5,000	
	42HDT20A			$7,000	
Panasonic	PT-37PD4-P	$4,500			$4,600
	PT-42PD3-P	$5,000	$4,500	$5,000	$4,280
	PT-42PHD4-P			$7,000	$6,700
	PT-50PHD4-P	$10,000			$10,000
Philips	32FD9954	$4,000		$4,000	
	42FD9954		$5,500		$5,500
	42FD9934	$6,500			
	50FD9955	$10,000			
Pioneer	PDP-4330HD	$8,000		$7,000	$6,700
	PDP-5030HD		$10,000		$10,000
	PDP-610MX	$24,000			
	PRO-800HD	$9,000			
	PRO-1000HD	$12,000			
Sampo	PME-42S6		$3,300		
Samsung	HPL5025K				$10,000
	SPL4225K		$3,200		$3,700
	SPN4235		$4,000		$5,[illegible]00
Sony	KE-32TS2	$5,000	$5,000		$5,000
	KE-42TS2		$7,000		[illegible]00
Toshiba	42HP82				$7,[illegible]
	50HP82				[illegible]0,000
Viewsonic	VPW425				$3,500
	VPW505				$8,0[illegible]

Singe-Disc DVD Players

Manufacturer	Model	Tweeter	Best Buy	Circuit City	Good Guys
Aiwa	XDAX1			$90	
Apex	AD-1200			[illegible]50	
Denon	DVD-900				$250
	DVD-1600	$450			$500
	DVD-2800				$700
	DVD-2900				$1,000
	DVD-3800				$1,200
Harman Kardon	DVD-25			$300	
	DVD-101			$350	
Initial	DV[illegible]			$58	
JVC	[illegible]V-N30BK				$90
	[illegible]V-N50BK		$120		$120
	[illegible]-N55SL				$120
	XV[illegible]02SL				$130
	XV-S5[illegible]				$120
KLH	KD-1220		$50		
Magnavox	MDV-410SL			$70	
	MDV-421SL		$70		
Mintek	DVD-1600		$50		
[illegible]tsub[illegible]i	DD-4030		$90		
	DD-6030	$180			
[illegible]nasonic	DVD-S35S		$100	$100	
	DVD-S55S				$130
	DVD-RP62S		$90		
	DVD-RV32K	$100	$90	$110	
Philips	DVD-Q35				$140
	DVD-Q50	$400			$300
	DVD-724AT		$80		
	DVD-795SA				$250
	DVD-963SA				$500
Pioneer	DV-45A	$500			
	DV-47AI	$1,000			
Samsung	DVD-P231P		$90		
Sharp	DV-S2U				$180
Sony	DVP-NS315B				$100
	DVP-NS325S	$100		$100	$100
	DVP-NS415S				$130
	DVP-NS715P			$150	$150
	DVP-NS725P				$150
	DVP-NS755V	$250			$250
	DVP-NS999ES	$1,000			
Toshiba	SD-1800		$70		
	SD-2900		$80		
	SD-3900		$100		$100
	SD-4800		$180		$230
Zenith	DVB-211			$79	
	DVB-312			$80	

Source: Internet comparison of products and price made the week of May 9th, 2003

Exhibit XI (continued): Industry Price Point Comparison for Select Product Categories

Digital MiniDV Camcorders

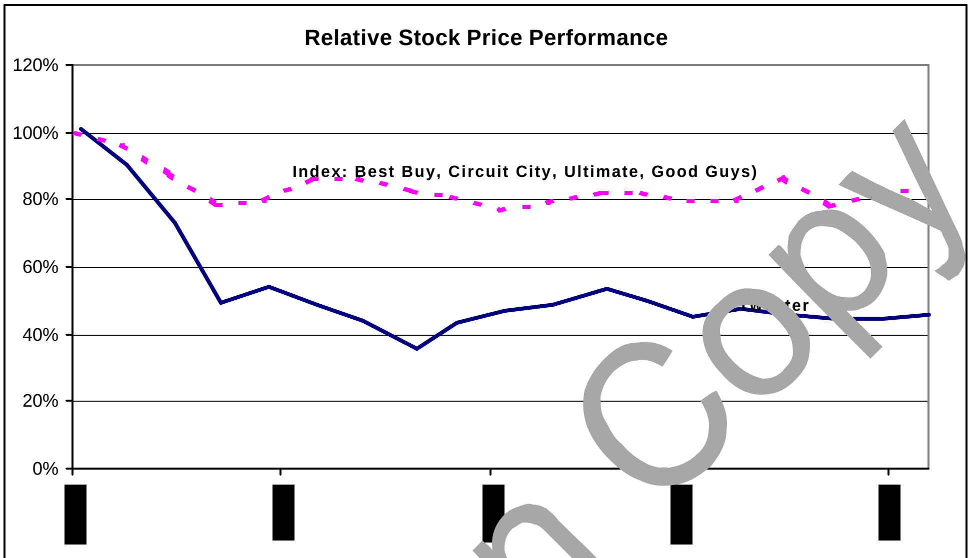
Manufacturer	Model	Tweeter	Best Buy	Circuit City	Good Guys
Canon	XL1S		$4,500		
	GL2		$2,800		
	ELURA 40MC				$1,000
	OPTURA 20MC		$900		$900
	OPTURA 200MC		$1,500		
	ZR-60		$500		$500
	ZR-65MC		$600		$600
	ZR-70MC		$700	$700	$700
Hitachi	DZ-MV350A			$900	
	DZ-MV380A			$1,000	
JVC	GR-D30				$400
	GR-D70		$500	$500	$500
	GR-D90US		$600	$600	$600
	GR-DV500U			$700	
	GR-DV800U		$800		$800
	GR-DV2000U				$1,600
	GR-DV3000U		$1,500		
	GR-DX95				$800
Panasonic	PV-DV53			$400	
	PV-DV102	$500			$600
	PV-DV103			$500	
	PV-DV203			$600	
	PV-DV402	$700			$800
	PV-GS50S			$700	
	PV-VM202		$2,000		
Samsung	SC-D23		$400		
	SC-D27			$500	
Sharp	VL-Z5U		$600		
	VL-Z7U				[illegible]
Sony	DCR-PC101	$1,000			$1,000
	DCR-PC120	$1,800			
	DCR-TRV19		[illegible]	[illegible]	
	DCR-TRV22		$700	$700	$700
	DCR-TRV33		$800	$800	
	DCR-TRV38		[illegible]	$900	$900
	DCR-TRV39		$1,000		
	DCR-TRV50		$1,600		
	DCR-TRV70			$1,300	
	DCR-TRV80		$1,500		$1,500
	DCR-TRV950		$2,000		
	DCR-VX2000	$3,000	$3,000		$3,000

Home Theater Systems (w/out DVD)

Manufacturer	Model	Tweeter	Best Buy	Circuit City	Good Guys
Athena	Point 5 II		$500		
Bose	AM6 IIIB	$700			
	AM10 IIIB	$1,000	$1,000		
	AM15 II	$1,300	$1,300		$1,300
	AM16B	$1,500			
	VCS-30II	$320			
Boston Acoustics	SYS-8000B	$500			
	SYS-9000B	[illegible]			
	SYS-9500B	$1,500			
Denon	TAKE-1603	[illegible]			$1,000
Energy	TAKE-5				$600
	TAKE-6				$700
Harman Kardon	[illegible]			$400	
Infinity	HTS-20			$600	
Jensen	JHT-525			$130	
JBL	SCS-135SI		$350		
	SCS-150SI		$500		
	[illegible]		$400		
Kenwood	HTB-205		$300		
	HTB-505		$400		
KHL	HT-300AW		$180		
	HT-9930		$100		
Magnavox	MMX-45037			$250	
Onkyo	GXW-51			$250	
	HTS-650			$550	
	SKS-HT500			$300	
Panasonic	SC-HT400				$400
Polk	RM-6005			$300	
	RM-6700			$600	
	RM-7200			$1,300	
Sharp	SD-AT1000				$300
Sony	HTDD-W750			$300	
	HTDD-W840	$400	$400		
	SAVE-335			$300	
	SAVE-445			$400	
	SAVE-535			$500	
Tivoli	TDHT1	$280			
	TDHT1S	$280			
Velodyne	80-DECO8			$1,200	
Wharfedale	MOVIESTAR 60		$400		
Yamaha	YHT-340		$400		
	NS-P220		$200		

Source: Internet comparison of products and price made the week of May 9th, 2003

Exhibit XII: Tweeter (TWTR) Stock Price Performance Relative to an Index of Best Buy, Circuit City, Ultimate Electronics and The Good Guys, 12-02 to 4-03



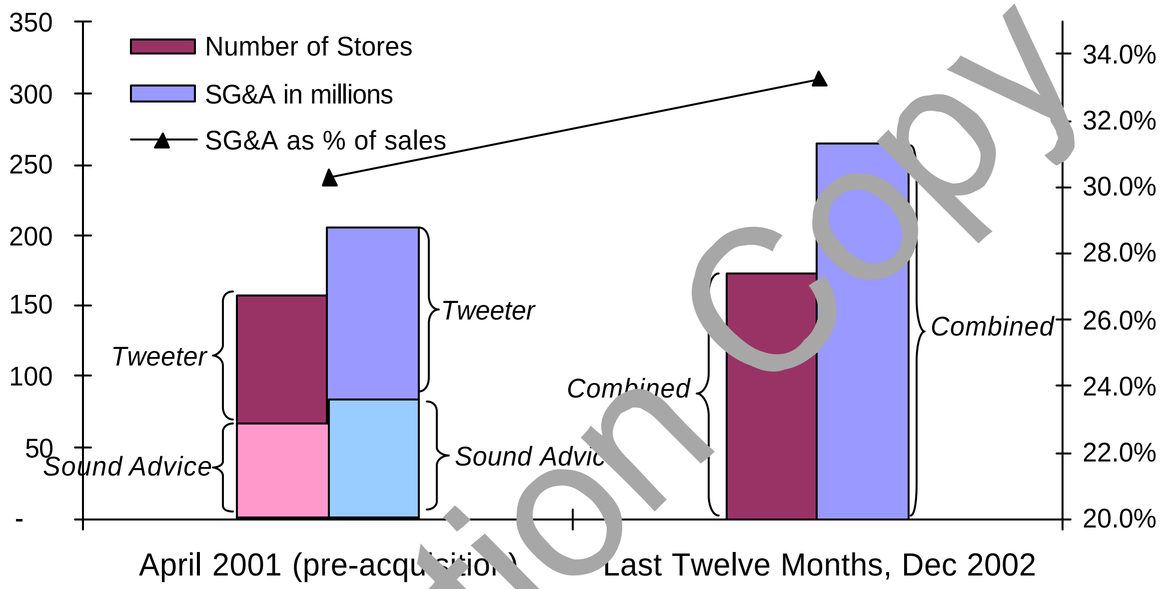
Source: Bloomberg

Exhibit XII: Tweeter's Declining Customer Count per Store in Select Regions, 1998 to 2002

	Customer Count		Store Count	
	1998	2002	9/98	9/02
Region 1	176K	169K	24	30
Region 2	89K	102K	18	25
Region 3	105K	98K	10	20
Region 5	19K	37K	7	11
Region 6	57K	54K	9	14
Region 8	47K	51K	7	12
TOTAL	493K	511K	75	112

Source: Information provided by Tweeter management .

Exhibit XIV: SG&A Analysis Before and After Acquiring Sound Advice



Source: Tweeter and Sound Advice 10K filings

Exhibit XV: Management Sensitivity Analysis of Income

Base Case		Typical Store Data	Assumptions % Sales basis
SALES - TOTAL	$	4,873,614	
COGS - TOTAL	$	3,095,067	63.5%
GROSS MARGIN	**$**	**1,778,547**	**36.5%**
TOTAL PAYROLL	$	543,750	11.2%
TOTAL FRINGE	$	110,543	20.3%*
TOTAL COMPENSATION	$	654,293	13.4%
TOTAL SUPPLIES	$	19,760	0.4%
TOTAL SMALL ASSETS	$	1,329	0.[illegible]
TOTAL MAINTENANCE	$	7,644	0.2%
TOTAL BANK CHARGES	$	117,483	2.[illegible]
TOTAL OTHER EXPENSES	$	7,8[illegible]	0.2%
TOTAL UTILITIES	$	[illegible],145	0.[illegible]
TOTAL CONTROLLABLE	**$**	**8[illegible],494**	**17.5%**
NET DEPARTMENT OPERATING CONTRIBUTION	**$**	**92[illegible]053**	**19.0%**
TOTAL RENT	$	213,[illegible]8	Fixed Costs
TOTAL DEPRECIATION & AMORTIZATION	$	67,829	
TOTAL INSURANCE	$	22,140	
TOTAL ADVERTISING	$	72,360	
TOTAL VEHICLES	$	-	
TOTAL NON-CONTROLLABLE EXPENSES	**$**	**375,797**	
NET INCOME BEFORE INTEREST AND TAXES	**$**	**549,256**	**11.3%**

** Based on % of payroll*

Gross Margin drop: 2%
Leads
Sales increase: 15%

Sales Up 15%, Gross Margin Down 2%		Improvements	Assumptions % Sales basis
SALES - TOTAL	$	5,604,657	
COGS - TOTAL	$	3,671,420	65.5%
GROSS MARGIN	**$**	**1,933,236**	**34.5%**
TOTAL PAYROLL	$	591,042	10.5%
TOTAL FRINGE	$	120,158	20.32%*
TOTAL COMPENSATION	$	711,200	12.7%
TOTAL SUPPLIES	$	22,724	0.4%
TOTAL SMALL ASSETS	$	1,528	0.0%
TOTAL MAINTENANCE	$	8,791	0.2%
TOTAL BANK CHARGES	$	135,106	2.4%
TOTAL OTHER EXPENSES	$	9,015	0.2%
TOTAL UTILITIES	$	51,917	0.9%
TOTAL CONTROLLABLE	**$**	**940,281**	**16.8%**
NET DEPARTMENT OPERATING CONTRIBUTION	**$**	**992,955**	**17.7%**
TOTAL RENT	$	213,468	Fixed Costs
TOTAL DEPRECIATION & AMORTIZATION	$	67,829	
TOTAL INSURANCE	$	22,140	
TOTAL ADVERTISING	$	72,360	
TOTAL VEHICLES	$	-	
TOTAL NON-CONTROLLABLE EXPENSES	**$**	**375,797**	
NET INCOME BEFORE INTEREST AND TAXES	**$**	**617,158**	**11.0%**

** Based on % of payroll*

Total Net Income Improvement for Store	$67,902
% Net Income Increase	12.4%
Total number of stores	174
Potential Impact Across Company	$11,814,908
EPS IMPACT $	$0.47
EBIT IMPACT %	39.2%

Source: Excel file of sensitivity analysis provided by Tweeter.