



UNIVERSAL EXPRESS, INC. (OTCBB: USXP)

Research Report

Jeff Howlett
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Symbol (OTCBB)	USXP
Recent Price:	\$0.008
52-week Price Range:	\$0.006 - \$0.2801
Avg. Daily Vol.	4,669,090
Industry:	Transportation / Postal Services
12 Month Target Price:	n/a
Market Capitalization:	\$2.7 million

Capitalization: 12/31/02 – 10Q	
Shares O/S	345,923,232
Cash & Equiv.	\$50,865
Net Working Capital:	(\$2,307,034)
Long Term Debt (net of current):	\$141,707
Shareholders Equity:	(207,444)

Fiscal Year Ending: June 30		
Year	Sales	Earn. - Continuing
2000A	102,802	(\$2,757,489)
2001A	1,780	(\$3,177,277)
2002A	431,199	(\$3,506,495)
6 mos/02	1,721,886	(\$3,262,429)
* Q2 02 booked revenue - netted against 1, 1,702,823 COS.		

Estimated 1999 – 2002E Annualized	
Growth Rate:	nmf
Dividend:	-
Yield:	-
Inside Ownership:	>10%

RATING - SPECULATIVE

BUSINESS DESCRIPTION

Universal Express has evolved over time into a conglomerate of companies that offer independent and franchised private postal store owners access to quality products and services at below market rates. The concept has been to create a buying service between these somewhat fragmented operators to offer the public a competitive variety of personal and business services. The company states that there are now about 8000 members in the network. Offerings now span a variety of products, including international delivery, financial services, and luggage movement.

HIGHLIGHTS

- Long history as resilient company. Development of concept over several years.
- Has in place access to network of thousands of independent postal outlets.
- Despite past attempts with many different products and services, the company has been unable to generate significant revenues, which has resulted in chronic \$3+ million losses annually. This has resulted in increasingly massive share issuances and dilution beginning roughly in FY 2001.
- New additions to management team are rethinking product / marketing / delivery strategies which marks a point of departure from past approaches.
- Several new product initiatives and acquisitions that have far reaching sales potential have been introduced over last quarter of 2002 and into 2003.

UNIVERSAL EXPRESS IS RATED SPECULATIVE FOR SEVERAL REASONS

There is clearly a mix of positives and negatives. For a variety of reasons there appears to have been a lack of adoption on the part of independent postal operators. However, new management with fresh ideas and revamped marketing methods with new product partners offers potential to reverse a weakening financial position. The company is actively seeking acquisitions in the transportation area to create its own domestic delivery system to support and strengthen its existing activities. We believe the stock does offer potential upside, but has very high risk. We therefore rate the stock as Speculative pending results from its new programs.

THE COMPANY

The Concept. Universal Express was incorporated in 1983 to create an association between an increasing number of independent and franchised postal stores throughout the U.S. and was intended to be similar in nature to the highly successful FTD network of florists. The concept was that these somewhat fragmented independent store owners could be brought together through creating a buying service that would offer members quality products and services at below market rates. However, members would be able to maintain their local or franchised identities.

Not only would members of the Private Postal Network provide the public with a complement to U.S. Post Offices for many retail postal services, through USXP they could offer individuals and businesses a variety of personal, business and communications services and merchandise.

Originally named the Association of Packagers and Carriers, on May 15, 1999, it was changed to its present form, the *Private Postal Network (PPN)*.

The Rationale. In the early 1980's, the U.S. Post Office underwent a transition – long waiting lines and limited shipping options were commonplace in most locations and in many areas there was a shortage of post office boxes. Due to continuing pressure on the U.S. Congress to reduce government subsidies, the number of U.S. Post Offices, branches and stations declined from 30,326 to 26,210. However, because mail volume increased over 40%, this created a massive opportunity and the independent postal station became a growth business.

Today, there are estimated to be upwards of 20,000 independent / local stores, of which USXP states that there are about 8,000 present PPN members.

Implementation. The “modern era” of Universal Express’ probably began in December 1991, when current President and CEO Richard Altomare took control of Universal Express. Formerly a reorganization specialist and investor, he sought to build a multi-faceted, synergistic company focused on creating a profitable partnership between packaging store owners and carriers. The vision was to take USXP beyond a simple franchise organization concept to involve all packaging and postal centers into one worldwide organization.

To that end, USXP became more active in acquiring businesses that would complement and improve the financial strength of the Private Postal Network.

Packaging Plus Services, a full service corrugated box manufacturer, was created to offer members an alternative to basic corrugated boxes that would be offered through a centralized purchasing system, which would lower costs and storage requirements. This was intended to become a core business and manufacturing operations were put in place in NY State.

In 1994, the Company acquired an advertising agency, Images Design & Marketing, to be the in-house marketing and promotional department of the Company. The service was primarily utilized to maximize the Universal Express and the Private Postal Network's names and trademarks. This service was intended to reduce advertising costs for PPN members by eliminating the "agency commissions" paid to advertising agencies by printers and other sources of media.

Through the mid and late 1990's, the company underwent major transitions. In the e-commerce area, in 1996 the Company launched a venture called UniqueNet, an interactive, specialty gifts Web Site. In 1997, USXP purchased the entertainment division of U.S. Transportation Systems (later "Manhattan Concierge") to provide theater, sports and special events tickets and concierge services. The Company intended to incorporate this division into its expanding list of services to the members of its Private Postal Network. In March, 1999, the Company announced an Internet based strategic alliances with HouseHold Direct.com and Internet Advisory Corp.

Through 1998, the company formalized relationships with leading vendors to further strengthen the Private Postal Network.

Also, through the late 1990's, the company instituted a strategy focused on building a national name recognition and campaign for the APAC organization and various services were organized

to help create this – including business development seminars for members and a multifaceted marketing program. The Company also maintained a toll-free "Help Line" that members could utilize to solve operational problems. Through the use of a public relations firm, Centers would be aided in achieving local unpaid media coverage.

An important priority also became to organize a domestic fulfillment network combined with an affordable International Delivery System. To that end, a bold move was taken in May, 1999 to purchase SkyWorld International Couriers, Inc., the U.S. member of the SkyNet Worldwide Express Network, an alliance of independently owned and operated express courier services operating in 268 cities in 120 countries. The service provided 24 to 72 hour delivery throughout the world using scheduled commercial airlines at reduced international shipping rates over their present vendors. However, as liabilities mounted, management was forced to sell the operation one year later and concentrate on the core businesses and to seek growth in other areas. The company still retained its relationship with Skynet for WorldPost shipments, with revenues derived from selling Skynet discounted envelopes and services to the postal stores.

Over this long period, USXP has developed a variety of services and products to help increase Private Postal Network storeowners profitability. As of the latest reporting period (9/02), this was given as:

Product / Service	Provider
International Shipping:	Worldpost.com
Corrugated & Packaging:	Packaging Technologies
Lamination and Photo ID's:	D&K Laminex
Customized Rubber Stamps:	Thestampmaker.com
Equipment Leasing:	Advantage Leasing
Key Machines and Supplies:	LV Sales
Moving Supplies:	All Boxes Direct
Car Rental:	Hertz Rent-A-Car
Customized Corrugated:	Cactus Corrugated
ATM Machines:	E-trade
Business and Office Supplies:	PBCNBizsupplies.com
Parcel Insurance:	Universal Parcel Insurance Co.
Credit Card Processing:	Single Source Financial Services
Check Processing:	Echeck2000.com
Payroll and Tax Processing:	Paychex
Air Miles Incentive Program:	American Airlines
Travel and Entertainment:	Reslinx
Shredder Cushioning Systems:	Pac-mate
Air Purification Systems:	Air-tech
Free Software:	Freesoft Promotions
Internet Access:	PBC Private Label Services

More recently, USXP created Luggage Express, which enables consumers to have their baggage picked up at their home by a local PPN member store and delivered to the consumers' destination. Virtual Bellhop was also created as is a premier door-to-door luggage transportation service.

In addition, Universal Express Transportation Inc. is another new business created to develop and market the exclusive rights to the patented Neoplan Intermodal Coach, a new "over the road" bus vehicle designed to carry both passengers and express freight.

Universal Express announced that it has established strategic alliance relationships with nationally recognized quality coach fabricators and manufacturers with the specific purpose of retrofitting existing bus fleets to add freight to the carrying capability for buses to achieve, among other things, a less expensive form of movement of luggage packages and mail. Management stated its intent that Universal Express Capital would play an important role in the financing of these programs.

Earlier in 2002, USXP announced that subsidiary USXP Capital had completed the development of a nationwide van/truck leasing program to be available to the Private Postal Network and small businesses, thereby broadening the nature of its core business by entering the financial services industry.

Recent Initiatives in Late 2002

USXP recently purchased a full service asset based transportation/equipment leasing company leasing company, renaming it Universal Express Capital Corp.

On September 4, 2002, the Company announced the acquisition of a majority interest in Swiss American Financing Corp., a stored value credit card provider. USXP can now offer an ATM stored value (MasterCard), called the "USXP Cash Express(TM)" card, to consumers nationwide through its subsidiary, Swiss American Financing Corp. It is a simple and inexpensive alternative to traditional bank accounts, conventional credit cards, and currency. It is intended that a myriad of credit, finance, and marketing applications will be offered to USXP cardholders.

On September 23, 2002, USXP announced an on-line vehicle finance partnership program with PeopleFirst.com, the largest on-line provider for lending on automobiles and motorcycles.

On October 4, 2002, USXP a letter of intent to acquire a majority interest in ATM Paycard LLC, which has established a product line and distribution method for ATM debit cards and stored value Visa cards.

On October 24, 2002, the Company announced the signing of a letter of intent to acquire a majority interest in ALS Financial, an equipment leasing company.

On October 25, 2002, the Company announced the signing of a letter of intent to purchase United States Coach, a leading manufacturer of commercial transportation vehicles. As stated, U.S. Coach has over 4500 constructed and historical revenues exceeding \$25 million annually and possesses the coveted QVM (Qualified Vehicle Modifier) and CMC (Cadillac Master Coachbuilder) status held by fewer than 20 firms worldwide. In January, 2003, USXP announced that it had executed a contract to acquire U.S. Coach.

On December 20, 2002, Universal Express announced a contract with American Business Management and National Benefit Advisory Association to allow PPN to sell health and consumer benefit savings programs for ABMI and NBAA. The program offers a series of quality health discounts, which are not health insurance, but rather an alternative to health insurance – which effectively allow uninsured, underinsured and even insured persons the opportunity to reduce healthcare expenses.

On December 23, 2002, USXP announced that it was considering acquiring assets out of receivership of a futuristic Cargo-Lifter concept, a German-based operation which has a lighter-than-air airship science library and technical base, as well as the largest self-supporting hanger in the world.

NEW APPROACH TO PRODUCTS, MARKETING & DELIVERY

Perhaps most importantly of all, over the last half of 2002, USXP has announced several new management appointments in key areas. We are now beginning to see USXP alter its approach in several fundamental ways. ***Primary among these is has been to revamp its marketing strategy within the Private Postal Network.*** For example, the new Director of the unit, has sought new opportunities which satisfy a modified set of criteria to ensure successful new product introductions to the stores rather than simply push new offerings to merchants. These include:

- Products must not compete with storeowners existing loyalties.
- Products must be able to be sold at the store with a minimum of disruption to core operations.
- It must be demonstrated that the storeowners are actually interested in the revenue potential of these new products by conducting market research at the store level.

- There must be proven implementation and/or delivery in place that is the responsibility of USXP product partners.

Fundamentally, new and much more close relationships with the postal stores are being instituted with much more active strategic partners – we believe that this approach should have a much better chance of success.

In addition, a new marketing approach is now being pursued that involves new marketing materials that reinitiate existing Private Postal Network members with the new strategy and rationale. Follow up will be taken with proactive new partners such as National Benefit Advisory Association and others. ***We believe that new and even more lucrative opportunities exist that new management will aggressively pursue and put in place.***

In areas such as financial services, USXP is not restricting itself to marketing to the Private Postal Network. For example, the new stored value cards will be offered not only to the postal stores, but outside the Private Postal Network to a variety of retailers – including QComm International and others – which we also see as positive.

We understand that USXP is also in test marketing mode with new and potentially very significant initiatives.

We are encouraged that the types of products and services now being focused on have broad appeal and therefore the potential for large scale revenues. This would serve to ensure that any meaningful adoption by merchants should result in significant, and potentially profitable operations, of USXP.

We believe that these new initiatives give USXP real potential for a turnaround in its fortunes.

FINANCIAL PERFORMANCE

Through September, 2002, USXP has clearly had experienced problems in establishing the buying network with the postal stores.

	June/97	June/98	June/99	June/00	June/01	June/02	Q2 -Dec/02
Revenues - From Current Ops.	246,136	508,764	502,251	102,802	1,780	431,199	1,721,886
Revenues - Including Disc. Ops.	1,397,744	2,509,442	2,626,215	5,881,967			
Income From Cont. Ops				(\$2,757,489)	(\$3,177,277)	(\$3,506,495)	(\$3,262,429)
Income From Ops - Incl. Disc. Ops	(\$3,460,300)	(\$3,904,928)	(\$4,415,995)	(\$5,431,329)			

Note:

Revenue for Q2 in current fiscal year is substantially comprised on leasing bookings, against which Cost of Sales were 1,702,823, for Net Revenue of 19,063.

USXP has been successful in continually raising funding to meet the consistent \$3+ million in annual losses. In the past, this has been sustainable, but over more recent years, this has begun to result in increasingly high share issuances, totaling some 50 million in the quarter ending 9/02 and appears to hold potential to become runaway type of situation.

	June/98	June/99	June/00	June/01	June/02	Sept/02
Shares O/S (millions)	1.8	7.2	18.8	84.9	224.1	345.9

News releases relating to significant future funding have been announced over the recent past (11/21/02 - \$25 million targeted for a cargo airline acquisition, 7/10/02 - \$100 million) but we are not aware that these have closed.

Also from a financial point of view, on July 25, 2001 the Company was awarded a \$389 million dollar damage verdict by a jury in Dade County, Florida, upon which judgment was entered, against Select Capital, Ronald G. Williams and Walter Kolker. The company has stated that the judgment, which is non-appealable, is substantially collectible. On July 23, 2002, USXP announced that additional legal proceedings had been undertaken against additional co-

conspirators and co-conspirator firms. Obviously while collection of any substantial award would prove extremely positive for USXP shareholders, we cannot ascribe a firm value to this at this point in time.

From a financial point of view, we believe that USXP must fundamentally change its financial position simply by becoming profitable because simply continuing to raise capital through issuing more and more shares could be expected to become untenable at some point. We are encouraged that the quest for profitability over the immediate term is in fact how being pursued.

ANALYSIS

It seems clear that USXP has a fairly lengthy history of repeated attempts to build the Private Postal Network into a meaningful branded network of products and services. Through the latest reporting period (9/02), this had not been successful as measured by the financial statements – storeowners appear reluctant to undertake new businesses that: ❶ are not known to be in high demand by their customers, ❷ deviate much from their core business, ❸ in any way could be seen to conflict with and potentially jeopardize existing arrangements for delivery of goods and/or other services, ❹ represent business formats that deviate from their franchise operations. Lower costs associated with the USXP buying network has not seemed to represent a sufficiently high value proposition for the store owners to adopt it.

We believe that the answer to this is two fold:

- Institute a set of product criteria and delivery systems that overcome these obstacles. *We believe that over the last quarter of 2002 that USXP has begun to institute these measures which can be viewed as very positive.*
- Put in place its own transportation assets with which to offer a complete solution to storeowners. This is obviously the long term objective of the company and such a reality is successful would be extremely positive for shareholders.

One of the real problems now facing the company is that there could be increasing pressures on the financial side, which arise as a result of its weak Balance Sheet and runaway share structure. The key will be to determine whether the company can be turned around in the near term, something we see as quite possible but not assured.

INVESTMENT MERITS

- Long history, resilient company.
- Access to large number of independent operators that provide opportunities for the right mix of product, delivery, and marketing mechanisms.
- Several new management appointments with successful track records.
- New approaches to products, marketing, and strategic partners more in line with the particular needs and wants of storeowners.
- Additional future acquisitions, if realized, could offer far reaching opportunities for the PPN – this is particularly so in the transportation area.

INVESTMENT DRAWBACKS

- Lack of large scale adoption by store owners in the past.
- High level of financial risk.
- Runaway share structure could begin to create problems of its own.

OVERALL CONCLUSION

USXP has clearly had its troubles in the past from a financial point of view and clearly needed to make some changes to meet the clear need to become profitable. We believe that measures have been taken to accomplish this – over the last half of 2002 USXP has put in place new

management with fresh ideas and innovative marketing / delivery approaches with new partners to offer potential for a turnaround in its financial fortunes. If successful, there are clear opportunities for investors, particularly in view of the current share price. However, the results are not in as of yet and investors should bear in mind that in the absence of positive results that risks are high.

Investrend Research Div., Investrend Communications, Inc., 603 W. 13th Street, Suite 1A-277, Austin, Texas 78701 Phone (718) 896-5060, Fax (718) 896-5316, e-mail: info@investrend.com Web site: www.investrend.com and www.investrendresearch.com.

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