Road Rescue, Inc.
Confidential Financing Memorandum
Table of Contents

Preliminary

Confidential Financing Memorandum

for

Lone Pine Corporation's

proposed acquisition of

Road Rescue, Inc.

This document provides an overview of Road Rescue Inc., Lone Pine's proposed acquisition, and management's plans for the continued operation of the business. Since this document precedes a detailed due diligence period and much of the historical information included has been provided by the Sellers, this offering memorandum is a draft . It will be revised and redistributed prior to Lone Pine's request for final capital commitments.

Executive Summary

The Company

Road Rescue, Inc. (Mr. Rescue) was founded in March of 1987 to provide roadside assistance services to local Houston and Dallas area businesses. Soon after its founding, the Company expanded its marketing to include cellular phone carriers. Today, the Company is the leading provider of roadside assistance to cellular carriers in the country.

Mr. Rescue has approximately 20 three-year contracts with some of the nation's largest cellular carriers covering over 70 cities including 12 of the top 20 markets in the country. (See Appendix I) Under these contracts Mr. Rescue charges carriers a fixed monthly fee ranging from $.65 to $3.00 per month for each cellular customer subscribing to its roadside assistance program. Carriers typically generate a profit from these services by increasing the price of Mr. Rescue's package to their customers, as well as by promoting roadside assistance as a selling feature to the large number of cellular customers concerned with personal safety and security. (See Appendix II). Despite new competition for cellular business by traditional motor clubs and towing dispatch services, Mr. Rescue has maintained a perfect record in winning competitive bids and renewing cellular contracts.

To provide service to its subscribers Mr. Rescue uses both its own fleet of vehicles (located in major markets) and an extensive network of vendors. The Company's operations are simple. The primary operating activity consists of dispatching calls for assistance to Mr. Rescue's fleet or to contracted service providers. This activity is handled from the Company's dispatch office in Houston as well as from other satellite offices in major markets.

With adjusted pre-tax margins of over 20% and EBITD margins of approximately 25%, Mr. Rescue is highly profitable. (See Table 1) The Company has been growing by over 20,000 new subscribers per month which has increased annual revenue by 33% in 1993 and over 90% in 1994. (For a detailed financial history see Appendix III)

Table 1
Summary Financial Information
(1994)[1]

Total Revenue
Fleet Expenses
Contractor Expenses (Towing)
Other Expenses
Net Profit
EBITD

Lone Pine identified Mr. Rescue as an acquisition candidate following a detailed examination of the towing industry. Lone Pine approached the owners, and after lengthy discussions, negotiated a detailed letter of intent. (See Appendix IV)

The Transaction

The purchase price for Road Rescue, Inc. is $8.5 Million for 100% of the outstanding stock. We believe this price represents a favorable multiple of cash flow and earnings given the business' profitability, historical growth rate, and future earnings potential:

- 6.8 times adjusted 1994 pre-tax income
- 5.5 times annualized/adjusted fourth-quarter 1994 pre-tax income
- 5.9 times adjusted 1994 EBITD
- 4.7 times annualized/adjusted fourth quarter 1994 EBITD

Based on preliminary conversations with cash flow lenders, Lone Pine anticipates the following capital structure to finance this acquisition's purchase and closing costs:

- $4.2 million of senior debt (3 times adjusted 1994 EBITD)
- $3.8 million of investor capital (structured as 50% subordinated debt, 50% equity)
- $750 thousand of seller financing

To finance this transaction Lone Pine will assume additional debt financing to the extent that it is available on favorable terms and up to a prudent level of cash flow coverage. Using the above capital structure, conservative assumptions for growth and profitability, and a planned sale of Mr. Rescue in 5 years, Lone Pine forecasts an equity investor IRR of 36%. (See Appendix V)

[1]Adjusted for excess compensation to owner/managers.

Post-Acquisition Strategy and Activities

Following completion of the acquisition, the management of Lone Pine plans to continue Mr. Rescue's profitable participation in the cellular-provided roadside assistance business as well as to pursue new opportunities for profitable growth.

The last few years have shown that as cellular carriers have experienced quality service, increased profits, and mounting subscriber demand for Mr. Rescue's program, Road Rescue, Inc. has grown significantly. Lone Pine's management plans to continue this growth by:

- Entering new cellular markets
- Working with carriers to increase subscriber penetration
- Providing additional services to cellular carriers
- Benefiting from the continued growth of the cellular industry
- Exploring additional channels of distribution
- Seeking follow-on acquisitions in complementary businesses or attractive roadside assistance niches.

Lone Pine also intends to examine a number of initiatives to reduce overall operating costs <u>and</u> improve customer service performance. These activities include:

- Further centralizing after-hours dispatch services (currently out-sourced)
- Increasing attention to, and management of, the Company's vendor network
- Focusing greater attention on market-by-market operating costs.

Following the acquisition, Lone Pine's president, James Smith, (resume provided in Appendix VI) will assume the role of Mr. Rescue's president. In addition, as a condition to closing this transaction, Mr. Rescue's current president has agreed to enter into an employment contract with the Company for a period of not less than six months following the closing date. During this period, the Seller will facilitate a smooth transition of the Company's day-to-day operations and important relationships as well as continue to function as a key salesperson on a commission basis.

Pre-Closing Activities

Prior to signing the acquisition agreement and closing the transaction, Lone Pine will complete customary due diligence on the operations, finances, markets, customers, suppliers, and key personnel of Road Rescue, Inc. It is expected that this and other pre-signing activity will require between 60 to 90 days from the signing of the letter of intent. These activities will be performed primarily by James Smith and a group of contracted professionals as needed.

Pre-Closing Expenses

Reasonable and customary expenses for these activities are estimated as follows:

Cash Expenses***	60 Days* (In Thousands)	90 Day** (In Thousands)
Legal Expenses	15	40
Accounting Due Diligence	12	25
Good Faith Deposit w/Cash Flow Lender	15	30
Industry Expert/Consultant	2	3
Travel Expenses during Due Diligence	7	8
Phone & Office	1	2
Living Stipend	8	12
TOTAL	60	120

NOTES:

* 60 day expense estimate assumes approximately 60 days until the signing of an acquisition agreement and that most post-acquisition agreement and pre-closing expenses can be deferred until time of close.

** 90 day expense estimate assumes approximately 90 days until signing of an acquisition agreement and that most pre-close expenses will be paid at the time services are rendered.

***These figure do not include an estimated $100,000 to $130,000 in additional fees, expenses and commissions that are not likely to be pre-closing cash expenses but may be due at the time of close for a total transaction expense of $250,000.

Investors who are interested in participating in this opportunity will be asked to purchase shares in Lone Pine to finance necessary pre-closing cash expenses. Money to cover cash expenses will be raised in the form of 3 to 6 shares at a price of $20,000 each.[2] For each share purchased shareholders will receive a $25,000 carried interest in Mr. Rescue at the time of acquisition. Purchasing a share will also entitle investors to a pro-rata right of first refusal on an equity investment in the acquisition of Road Rescue, Inc. Shareholders will have the option of reviewing Lone Pine's due diligence and performing their own review as appropriate.

[2] If the transaction is not consummated as planned, all unspent capital will be returned to investors

The Transaction

Lone Pine Corporation has signed a detailed letter of intent (See Appendix IV) to acquire 100% of the outstanding shares of Road Rescue, Inc., a Texas registered C-corporation. This letter includes the basic provisions of the representations and warrantees for an acquisition agreement as well as a closing balance sheet containing sufficient working capital to finance the operations of the business.

The purchase price for the Company is $8.5 million, representing a favorable multiple of cash flow and earnings given the business' profitability, historical growth rate, and future potential. This price equates to a valuation for the Company of:

	1994 Actual	Multiple	Q4 1994	Q4 Run Rate	Multiple
• **Adjusted Pre-tax Profit**	$1,255,067	6.8	$385,072	$1,540,288	5.5
• **EBITD**	$1,453,294	5.9	$450,958	$1,803,832	4.7

The entire purchase price for the Company is to be paid to the Sellers at the time of closing with the exception of $750,000 that will be held by the Company in the form of a secured note to be used as a hold-back for indemnity claims under the representation and warranty provisions of the acquisition agreement. This $750,000 hold-back (plus interest, less any indemnification claims) will be paid to the Sellers in two equal installments, 6 and 12 months from the date of closing.

To finance the acquisition of Road Rescue, Inc., Lone Pine will be seeking senior debt in the amount of $4.2 million and investor capital of $3.8 million. (See Table 2)

Table 2
Acquisition Sources & Uses of Cash

Sources

Senior term debt
Senior revolver
Seller Note
Investor equity

Total Sources

Uses

Seller Note
Cash to Sellers

Total Price for Comp

Closing costs

Total Uses

Investor Returns

Form of Investment

Lone Pine plans to structure its equity capital to maximize after-tax returns to investors. To accomplish this, an initial composition of investor capital of 50% equity and 50% junior subordinated debt is anticipated.

Equity will be in the form of convertible, voting preferred stock. The subordinated debt will carry a market rate of interest of 24% (a 7% current coupon (subject to senior covenants) and a 17% carried interest). Non-current interest will be capitalized annually. This debt will have a 1-year holiday on any payment of interest or principle. With board approval, the subordinated debt will be refinanced as senior borrowing becomes available at more favorable terms.

Equity Participation by Management

For successfully completing the transaction and operating Road Rescue, Inc., Lone Pine management (James Smith) plans to participate in the equity of the Company. The level of Mr. Smith's participation will be calculated using the formula presented below, which takes into consideration Mr. Smith's and the Company's performance as well as investor rates of return.

Mr. Smith's equity participation will be calculated as follows:

- 9% of equity at the time of closing
- 8% to be vested based on Mr. Smith's tenure at the rate of 2% per year for the first four years of operation
- 8% to be allocated on an incentive based on achievement of EBITDA targets to be determined. (In addition to financial performance hurdles, repayment of 51% of the principal amount and carried interest of investor subordinated debentures will be required to trigger any allocation of Mr. Smith's incentive equity.)

In addition to Mr. Smith's equity position the board may also elect to set aside additional shares of no more than 5% of the Company in the form of Incentive Stock Options (ISO's) to attract additional high-quality managers as needed.

Projected Returns

Using the above structure and conservative base case assumptions for future growth and profitability, equity investors will receive:

- A 24% IRR on their investment in subordinate debentures
- A 44% IRR on their equity investment
- An overall blended rate of return of 36%**.**

To forecast returns under a range of possible outcomes, Lone Pine has modeled financial performance under three sets of assumptions:

1. Target

Assumes that growth for 1995 slows to one half the growth rate for 1994, and that growth thereafter lags the overall cellular subscriber growth by one year.

Under this assumption Mr. Rescue would have to secure only a few new contracts in some of the 8 of the top 20 markets the Company does not service or increase its penetration in undeveloped markets to that of its better performing areas.

2. Base Case

Assumes future growth is equal to the projected subscriber growth rate for cellular service.

This assumes Mr. Rescue secures no additional contracts in new markets, negotiates no price increases, and maintains but does not increase its penetration into existing markets.

Given historical performance and current trends Lone Pine believes this scenario is conservative.

3. Pessimistic

Assumes Mr. Rescue maintains its revenue base at its current level for 1995 (annualized adjusted fourth quarter 1994 sales) and experiences 3% growth per year thereafter.

This disappointing, and unlikely, scenario assumes Mr. Rescue secures no additional contracts in new markets, negotiates no price increases, and decreases its penetration rate into existing markets over time.

Presented below are projected rates of return under the three scenarios described above:

Scenario	Avg. Annual Growth	Investor Equity IRR	Investor Blended IRR	Mgnt. Equity Participation
• Target		53%	42%	25%
• Base Case		44%	36%	18%
• Pessimistic		25%	24%	18%

These scenarios assume Lone Pine operates Mr. Rescue for a period of 5 years prior to selling the Company at the same multiple of EBITD as the purchase. Lone Pine believes that a number of realistic exit options exist for the Company following a few years of operation. The most likely of these is a sale of the Company to one of the large motor clubs that has unsuccessfully attempted to enter the cellular roadside assistance business in the past.

The Market for Roadside Assistance

The Roadside Assistance Industry

While Lone Pine believes that Mr. Rescue is not in direct competition with traditional motor clubs, an assessment of the market for Mr. Rescue's services would not be complete without examining the overall market for motor club members.

Studies have shown that the most important motor club feature for members is roadside assistance. In fact, the American Automobile Association (AAA) estimates that a majority of its members join AAA primarily for this service. However, members of AAA and other full service motor clubs pay from $22 to $69 per year for a menu of services that many people never use, such as trip mapping and bail bonds.

In addition, many people find that using the most important service, roadside assistance, can sometimes be complicated. According to Rudy Marcinko, Amoco's marketing director, "the biggest mistake that motorists make is joining a club without really understanding the benefits or how to access the emergency service" Unlike the emergency services of traditional motor clubs, Mr. Rescue's benefits are economical, simple to understand and extremely easy to access.

Because of these and other issues, there has been a recent trend in the distribution of roadside assistance and motor club services away from traditional retail clubs (e.g. AAA) and towards coverage or membership through third parties such as car manufacturers, insurance companies and cellular carriers.

Roadside Assistance and Cellular Phones

Wireless communications is one of the fastest growing industries in the country today. Cellular subscriber growth in 1993 and 1994 exceeded 45% per year (translating into 14,000 new subscribers per day in 1994) and double-digit growth is expected to continue through 2001. While today only about 8% of the nation's households have cellular phones (compared with 35% penetration of PC's and 85% penetration of VCRs)[3], it is estimated that by the year 2000 nearly 20% of households will be cellular subscribers.(See Table 3)

Table 3
Historical and Projected
Cellular Growth[4]

Year	% Growth In New Subs.	Total Subscribers	Penetration Rate
1992	46%	11,033,000	4%
1993	45%	16,009,000	6%
1994	33%	21,359,000	8%
1995	25%	26,709,000	10%
1996	19%	31,859,000	12%
1997	16%	36,959,000	14%
1998	14%	41,959,000	16%
1999	12%	46,959,000	17%
2000	11%	51,959,000	19%
2001	10%	56,959,000	21%
2002	8%	61,709,000	22%
2003	8%	66,459,000	24%

Mr. Rescue pioneered the cellular-provided roadside assistance business in the late 1980's with its GTE contract in Texas in 1989. Since that time, Mr. Rescue has continued to be the leader and dominant provider in this segment of the roadside assistance market.

Early in Mr. Rescue's history, contracted cellular carriers paid the Company a nominal fee per subscriber per month and offered roadside service free to all their cellular customers. In the early 1990's carriers decided to switch from including roadside assistance as part of basic monthly service to offering it as an *a al carte* option to customers. While the number of Mr. Rescue subscribers dropped in the early 1990's, the overall number of subscribers has dramatically rebounded over the past few years.

---

[3] The Seattle Times , December 11, 1994, Sunday, Final Edition, "Keeping In Touch -- Not Just For Business Anymore, Wireless Devices Help Us Stay Connected With Our Loved Ones", Pg. D1

[4]Donaldson, Lufkin & Jenrette, "The Wireless Communications Industry," Summer 1994

Today many cellular carriers have found that roadside assistance is not only a profitable add-on service but a useful selling feature. As a result, contracted cellular carriers now regularly promote Mr. Rescue as a safety-enhancing feature of cellular service in their marketing materials. (See Appendix VII) Some carriers have also found that by bundling roadside assistance as part of a safety and security package, or offering roadside coverage free as a bonus to high-use subscribers, the Company's ability to attract and retain customers is improved. As competition for the cellular market increases, carriers will continue to look for add-on features like roadside assistance to generate additional profits and attract users.

In a recent survey, a carrier found that its customer base rated roadside assistance the most desired of all other add-on features. In fact, this Company found that over 80% of its subscribers were interested in some type of roadside assistance program as part of their cellular phone service. It also estimated that if priced at rates equal to Mr. Rescue's current market rates, nearly 30-40% of their customers would be very interested in signing up for the service. The reason most often cited for this interest was safety and security.

Cellular Phones and Safety

"Personal safety is the largest force driving a tidal wave of customer demand for cellular phones."[5] In fact, in a study by the Cellular Telecommunications Industry Association (CTIA), 62% of cellular customers indicated that safety concerns prompted their decisions to purchase a cellular phone.[6] A *USA Today* study also showed that for nearly half of new cellular users, the number one reason for purchasing a phone was personal safety.[7] In recognition of this growing trend, the cellular industry has created "Cellular Safety Week" to highlight to industry participants and users the many safety and security benefits of cellular telephones. (See Appendix II for relevant articles).

Cellular roadside assistance is well recognized by carriers and their subscribers as a cost effective method of increasing safety and security for cellular phone users. For example, Motorola's "Subscribers Group" found that 30 to 40% of cellular customers had occasion to use their phone to call for roadside assistance for themselves or someone else. Surveys by carriers have concluded that customers like the safety and convenience of cellular-provided roadside assistance, and that, given the purchasing motivations of new cellular customers, demand for this service will certainly increase over time.

While cellular-provided roadside assistance is relatively new, it is a proven concept. Carriers traditionally test programs and marketing approaches in single markets before bringing them to other parts of the country. Over the years, carriers that have used Mr. Rescue have found it to be a profitable service and a feature subscribers value. As a result,

---

[5]"Cellular Changes Many Things in Home and at Work", The Columbian, December 5, 1994, P A9.

[6]Ibid., P A9.

[7]"Safety Spurs Cellular Phone Sales", USA TODAY, September 6, 1994, p 1A.

companies such as GTE Mobilenet and US West have expanded the number of markets in which they offer Mr. Rescue. McCaw Cellular is also offering its own branded roadside assistance service "Mobile Assist" in the Dallas area.

While some carriers are rapidly expanding the coverage of their roadside assistance program, growth opportunities are still abundant. Many carriers, including one or both of cellular carriers in the major markets where Mr. Rescue does not currently have contracts, have not yet adopted this service. Interviews with employees at these carriers suggested that roadside assistance is a service their companies are evaluating and are hoping or planning to offer soon.

Competition

Success breeds competition and in the last few years Mr. Rescue has seen considerable success. As a result, traditional motor clubs, as well as towing dispatch services, have attempted to enter the cellular segment of the roadside assistance market. Most have been unsuccessful, but others such as Cross Country Motor Club, and Auto Help Line have secured contracts. Because roadside assistance contracts with cellular companies have been exclusive agreements with carriers for a given market, competition has not negatively impacted Mr. Rescue's business. Rather it has increased the visibility of this service to carriers and subscribers alike, and has created demand on the part of some carriers who have sought out Mr. Rescue to inquire about offering the Company's services.

Lone Pine estimates there are between 25 and 30 motor clubs in the United States, ranging in size from AAA with over 35 million members to small regional clubs with only a few thousand enrollees. Mr. Rescue has been in competitive situations with virtually all of the current competitors for cellular contracts and has been successful on all occasions. In fact, in its 7-year history Mr. Rescue has never lost a competitive bid or failed to renew a cellular contract.

Despite the beneficial effects of competition in the past, the future may be different. Motor clubs will continue to attempt to attract new members to their organizations as roadside assistance offered through automobile insurance, manufacturers' warrantees and cellular carriers erodes their traditional retail membership base. Consequently, Lone Pine has surveyed the competition. Below are brief descriptions of some of the most important national competitors, in order of strength.

Cross Country Motor Club (CC)

Revenues: estimated between $30 and 60 million in 1993 (75% in motor club revenue)
Employees: 850 employees in Massachusetts and 150 in Arizona
Specialty: Largest provider of roadside assistance to automobile manufacturers and importers in the US

Expansion: Rapidly attempting to enter new markets (such as Mexico) and provide new services such as telemarketing
Cellular Contracts: Provides turnkey back-room service for McCaw Cellar's "Mobile Assist" program in Dallas

Cross Country Motor Club provides both retail motor club memberships to individuals and back-room motor club administration to third parties. Cross Country has contracts with over 20 automobile manufacturers and insurance companies across the US including: Chrysler, BMW, Rolls Royce, Liberty Mutual, and Farmers Insurance.

Cross Country has been on an aggressive growth campaign over the past few years. It has entered new lines of business (such as relocation assistance, change of address services, direct marketing, and insurance claims reporting) and targeted new niches for its motor club services, including cellular carriers. As a result, the company has recently grown at a rate of over 20% per year.

Most recently, Cross Country has become the back-room processor and dispatch service for McCaw Cellular's "Mobile Assist" program. If this contract with McCaw is not an exclusive arrangement, Cross Country is likely to compete with Mr. Rescue for additional cellular contracts in the near-term.

Indications are that Cross Country is a well-managed professional organization, that could be a strong competitor in the future.

Emergency Road Service (ERS)

Specialty: Dispatch service and close relationship with towing companies
Expansion: Aggressive in all third-party areas of roadside assistance
Cellular Contracts: None

ERS is more of a dispatch company than a traditional motor club. Over the years, ERS has developed an extensive network of contracted towing companies and a sophisticated dispatch and information system. While ERS markets its own retail motor club (Rapid Response) directly to members, its area of specialty has been in providing back-room services to third parties and other motor clubs. For example, ERS provides dispatch services to United States Auto Club (USAC), National Motor Club and other organizations such as NASCAR, Saturn, Mitsubishi, General Motors, and Budget Rent-A-Car. ERS even provided dispatch services for Mr. Rescue before Road Rescue, Inc. developed an in-house dispatch and information center in 1993. Mr. Rescue maintains a stand-by agreement with ERS to provide emergency dispatch service in the event that all of Road Rescue's systems, fail-safes, and back-ups fail.

ERS has recently attempted to secure cellular business, even hiring one of Mr. Rescue's managers to start a cellular marketing division. In all instances of which Lone Pine is aware, ERS has not been awarded a single contract. The former Mr. Rescue manager has left ERS.

American Automobile Association (AAA)

Members: estimated over 35 Million (approximately 70% of the retail market)
Price: $22-80 depending on location and services covered
Specialty: Full service retail motor club
Expansion: Has experienced declining market share in recent years
Cellular Contracts: None, but does act as a cellular service reseller in some markets, offering discounts on monthly cellular fees to AAA members

We have ranked AAA as a significant competitor only because of its formidable size. The American Automobile Association is not a unified organization, but rather an affiliation of approximately 130 clubs and 1,000 offices. Insiders and outsiders alike describe this large not-for-profit organization as slow and bureaucratic. The pioneer of the motor club industry, AAA has stuck firmly to its premium-pricing and full-service policies. While its large size gives AAA extensive buying power in the contracted towing market, this is more than offset by high overhead costs. A bloated organization makes the company reluctant to cut prices and slow to adapt.

Nevertheless, AAA has attempted to enter arrangements with cellular carriers in some markets. In these conversations, AAA has offered cellular companies the "privilege" of including a "*AAA" option on subscribers' phones to allow AAA members to more easily contact their motor club. In essence, AAA's strategy has been to use the cellular carrier as a channel of distribution for their standard motor club package. AAA was unwilling to unbundle there services or customize features, and has refused to pay to carriers a commission or allow a mark-up in price for the new members attracted. Lone Pine has communicated with one carrier who indicated that it was disappointed by AAA's presentation, and commented that the association was not well suited for meeting carriers' or their subscribers' roadside assistance needs.

The foregoing not withstanding, AAA does have the size, network, and name recognition to be a formidable competitor.

Auto Help Line

Expansion: Mostly regional businesses and retail members
Cellular Contracts: Bell South in Georgia, Florida and Virginia

Auto Help Line has been in the roadside assistance and motor club businesses since 1976. In addition to retail club members, the company has a number of smaller corporate accounts. These include regional automobile dealerships, insurance brokers, and rental car agencies.

Auto Help Line has recently attempted to market to cellular companies and has secured contracts with Bell South in Georgia, Florida and Virginia. (Markets where Mr. Rescue currently has exclusive contracts with the other area cellular carrier.) In its marketing materials to cellular companies, Auto Help Line references letters and calls from Bell South cellular customers expressing satisfaction with Auto Help Line's service and loyalty to the carrier because of its motor club offering.

If Auto Help Line did not have contracts with Bell South, this company would not be listed as an important competitor. The company's marketing materials are poor and in contracts with other large motor clubs and service providers Auto Help Line has not been identified as an important or quality participant in the motor club or roadside assistance market.

Amoco Motor Club

Members: estimated over 3 million
Revenues: $150 million
Price: $39-49
Specialty: Distribution to Amoco credit card holders and through third parties
Expansion: Recent growth through third-party distribution and back-room processing
Cellular Contracts: Previously held one contract with a carrier in Illinois; through mutual agreement, the contract was terminated

Amoco motor club provides retail memberships to individuals and has third-party arrangements with large national organizations. In addition to the over 1.5 million Amoco motor club members, solicited primarily through Amoco Oil Credit Cards, Amoco Motor Club services another 1.5 million members through third parties. Amoco's national accounts include the American Association of Retired Persons (AARP), Volvo, Lexus, Range Rover, and Saab.

A few years ago, Amoco entered into an agreement with a cellular company in Illinois to market the Amoco Motor Club to the carrier's customers. However, both Amoco and the cellular company were dissatisfied with the result of trying to sell a traditional motor club package using the cellular phone subscriber database. Amoco found that its information systems were ill suited for tracking and servicing these customers and that the solicitation costs of attracting new motor club members in this way was prohibitive.

Other Motor Clubs

The companies listed above are those that present the most likely competitive threat to Mr. Rescue in the near-term. These players either have the potential to enter the cellular market or have had some success in this arena in the past.

In addition to the companies described above, there is a host of other motor club organizations that Lone Pine will monitor and research both prior to and after the acquisition.

These organizations include:

- Oil company affiliated motor clubs e.g., Exxon, Shell, Chevron, Sun, Texaco, Mobile.

- Other affiliated motor clubs e.g., All State Insurance, (3.5 million members), Montgomery Ward Auto Club (1 million members), Cigna Road & Travel.

- Other independent motor clubs e.g., National Breakdown, Canadian Tire and Auto, Golden West Auto Club, Motor Club of America Enterprises, Nation Safe Driver Auto Club, Road America Motor Club, Road Guard Motor Club, Safe Driver Motor Club, and Travelers' Motor Cub.

Overall Assessment

In recent years the cellular roadside assistance market has become fairly competitive. That competition is likely to persist and increase over the next few years. However, Mr. Rescue is well suited to successfully meet the competition. The Company has a proven track record and a history of building and maintaining relationships with cellular carriers.

In addition, competitors in the market today have not clearly demonstrated a desire or ability to meet the special needs of cellular carriers. Most motor clubs have attempted to use cellular carriers as a "mailing list" for soliciting new members. Some clubs have even required that they be allowed to retain and sell the cellular carrier's subscriber list (an extremely sensitive issue for cellular carriers).

While demand for cellular provided roadside assistance is growing, carriers have a unique set of needs from their contracted service providers. Even more important than price, cellular companies are concerned about the impact of any service they provide on their ability to attract and retain subscribers. One carrier described the attributes they would be looking for as:

- An ability to generate customer loyalty to the carrier, not simply use the carrier as a distribution channel for an existing product
- An ability to enhance the carrier's image:
    - -Quality
    - -Customer Service
    - -Reliability
- Reliability and dependability

- A product offering (price and features) that the sales force can sell
- An attractive feature for subscribers that will not cost the carrier money to offer.

Mr. Rescue is uniquely positioned in the roadside assistance business to meet these and other cellular carrier needs. The Company's organization and service offering focuses on the features most important to cellular subscribers and motor club members - roadside assistance. Because Mr. Rescue offers only this service and is not burdened with the overhead and distraction of supplying trip routing or other travelers' benefits, it can provide higher quality roadside assistance to carriers at prices other motor clubs could not afford. In summary Mr. Rescue is well positioned to serve its market:

- Mr. Rescue provides carriers a completely customized roadside assistance product, not a repackaged retail motor club.
- Mr. Rescue contracts exclusively with one cellular carrier in a given market. This enhances the "special" nature of the services and promotes joint marketing efforts.
- Mr. Rescue can increase a carrier's marketing presence locally by placing the cellular company's name on Mr. Rescue's vans in carriers' primary markets.
- Mr. Rescue operates its own vans which affords the Company a level of control over the provision of services that can not be matched by other motor clubs.
- For contracted service Mr. Rescue relies on the same network of service providers as other national motor clubs. However, unlike some of the larger clubs, such as AAA, which have poor reputations across the towing industry for paying extremely low rates to contracted towers, Mr. Rescue has made every effort to maintain good vendor relations and pay contractors higher, but competitive, rates in exchange for premium service.
- Because of lower costs in overhead and providing services in-house, Mr. Rescue can create an extremely economical service package that carriers can sell at a profit at prices subscribers will buy.
- Service to customers has been superior in the past, with Mr. Rescue experiencing a low incidence of customer complaints and an average response time to calls of 30 minutes or less.
- No other motor club or roadside assistance organization has the depth and breath of experience in meeting the special needs of cellular carriers and their subscribers.

The Company

Company Background

Road Rescue, Inc. was founded in 1987 in Houston, Texas, as a family business. Ray Hinsley, the Company's founder, financed with $160,000 from his parents, started Mr. Rescue to provide roadside assistance to local automobile dealerships. These dealerships offered Mr. Rescue's roadside assistance program to customers as an added feature to emphasize their products' reliability and their companies' dedication to service.

Shortly after securing contracts with a number of dealerships in the Houston and Dallas areas, Mr. Rescue approached GTE Mobilenet about supplying roadside assistance services to its cellular customers in specific markets in Texas. GTE agreed and rolled out Mr. Rescue on a trial basis. The test was successful, and Road Rescue, Inc. has consistently expanded the number of GTE markets that it serves.   From Texas the Company approached additional cellular carriers and entered into new contracts in Cleveland, San Francisco, Portland, and other major cities across the US.

Today Mr. Rescue is managed on a day-to-day basis by the Company's founder and president Ray Hinsley. Ray is a minority stockholder with 25% of the outstanding shares. Ray's parents are majority shareholders with 75% of the Company's equity.

When initially approached, the Hinsley family was not enthusiastic about selling the Company, but agreed to discuss the possibility of a sale. After lengthy negotiations, terms of sale were negotiated and agreed to. Lone Pine believes the Company's president views the sale as an opportunity to receive a significant amount of money, escape a lifestyle of frequent business travel, and spend time with his wife and children.

Contracts

Mr. Rescue's primary assets are a set of approximately 20 contracts with cellular carriers to provide roadside assistance service to their subscribers.[8] These contracts range in duration from two to three years, and most contain provisions for cancellation for cause following the first 18 to 24 months.   These arrangement cover over 70 markets across the US and include 12 of the top 20 cellular markets in the country. As a condition of closing the acquisition the Sellers have agreed to secure renewals, on terms the same or more beneficial to the Company, of the vast majority of cellular contracts including those in major markets. Appendix I provides a summary of Mr. Rescue's contracts.

---

[8]In addition to these cellular contracts, Mr. Rescue generates approximately $20,000 to $30,000 per month from long-standing arrangements with car dealerships and other local businesses in the company's larger Texas markets.

Contract Renewals

In the past, Mr. Rescue has been successful in renewing its cellular contracts. The Company has never failed to re-sign an agreement, and in most instances renewals have been accompanied by price increases or up-grades to service.

While contracts are not guaranteed to be renewed in the future, in talks with Lone Pine, cellular carriers have indicated that once a contract such as Mr. Rescue has been signed, the company would be reluctant to change providers if it were receiving satisfactory service, since changing providers would cause confusion, disruption, and switching costs for the carrier and its users.

Because Mr. Rescue is a branded name that appears in many carriers' promotional materials and the Company owns its own customer 800 numbers, carrier loyalty towards Mr. Rescue and switching costs are substantial. However, this is not true for all other programs. For example, McCaw's "Mobil Assist" program would be less painful for the carrier to switch from, since McCaw owns the telephone numbers and "Mobile Assist" brand name. Cross Country provides only the back-room processing and dispatch service.

Because of these factors, Lone Pine believes that Mr. Rescue is highly likely to retain its existing base of cellular contracts and quickly secure additional contracts in other markets over the next few years.

Pricing

Mr. Rescue offers cellular carriers the opportunity to provide their customers either local or national coverage that does or does not include free towing services. Prices are based on the options selected and the number of customers subscribing to Mr. Rescue. Prices to carriers for Mr. Rescue's services range from $0.65 to $3.00 per subscriber per month, depending on the geography, services provided, and specifics of the agreement. The typical agreement charges carriers:

- $0.70-$1.00 per subscriber per month for local roadside assistance
- $1.00-$1.20 per subscriber per month for national roadside assistance and towing coverage

Carriers on average charge customers between $1.75 and $3.95 per month for Mr. Rescue membership. Some of Mr. Rescue's contracts include target retail prices and escalation clauses that increase Mr. Rescue's monthly fee in the event that prices to users are raised.

Approximately 70% of Mr. Rescue's contracts include free towing service as part of the product offering, the remaining 30% cover free local roadside assistance and Mr. Rescue arranges, but does not pay for, towing. Mr. Rescue has been successful in upgrading carriers to more expensive and comprehensive coverage. For example, Mr. Rescue recently negotiated a 20% price increase for its contract in the Dallas market by offering national coverage instead of roadside assistance only in the primary cellular area. In addition to this potential for increasing prices, Mr. Rescue has also been able to arrange regular price increases and joint marketing initiatives at the time of contract renewals.

Under Lone Pine management, Mr. Rescue will continue to attempt to upgrade services and may provide new features that will increase the Company's revenues and product offering to carriers.

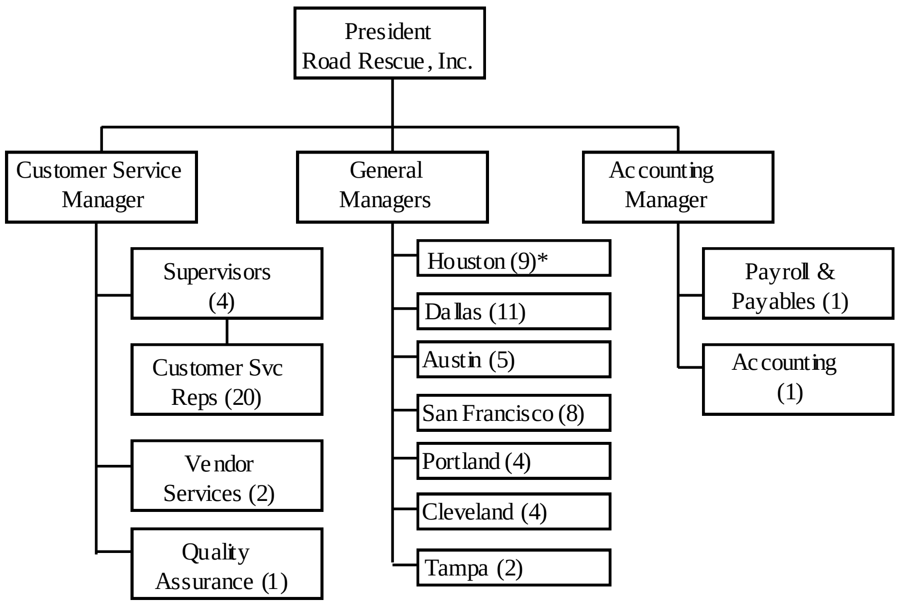
Billing and Accounts Receivable

Road Rescue, Inc. bills carriers monthly for its services, based on the number of cellular users subscribing to Mr. Rescue's roadside assistance program. Carriers send the Company a monthly tape or disk containing the names and cellular number of the customers receiving Mr. Rescue coverage. Cellular customers are billed monthly by the carrier either as part of a basic safety and security package or as an *a la carte* option. Based on the terms of the contract the carrier sends or wire transfers monthly payments to Mr. Rescue for the subscribers covered by Mr. Rescue during the previous month. Road Rescue receives payment for a subscribing cellular customer regardless of whether that customer pays his/her cellular bill. Receivables from carriers have been of the highest quality, with days outstanding on a monthly basis averaging 39 days in 1994.

Organization

Despite its range of coverage and increasing number of subscribers, Mr. Rescue has a simple organization with approximately 75 employees.

Organizational Chart
Mr. Rescue



* For all cities number includes: Manager, Supervisors, and Drivers.

Corporate Offices

The Company's corporate headquarters houses fewer than 10 people, including secretaries. Other than the office of the president and the accounting department all of Mr. Rescue's managers and employees are located in the dispatching center and field offices.

In addition to making overall strategic decisions for the Company, the primary role of Mr. Rescue's president has been to sell services to cellular carriers. In the past year, the Company's president has also spent a considerable amount of time overseeing the formation and operations of the new dispatch center, which was started in mid-1993.

Operations and Field Offices

In Mr. Rescue's seven largest markets, the Company operates its own service vehicles. In the past the Company has added additional trucks to an area based on the number of subscribers and average daily call volume. In addition, as part of most contracts, Mr. Rescue agrees to add one or more of its own trucks to an area once the number of subscribers reaches 10,000. Mr. Rescue's fleet of 27 (See Table 4) service vehicles typically responds to calls for assistance as a result of overheated engines, dead batteries, flat tires, lock outs, and empty gas tanks.

Table 4
Number and Location of
Mr. Rescue Service Vehicles

Location	Trucks
San Francisco	6
Dallas	5
Portland	4
Austin/San Antonio	4
San Antonio	2
Houston	5
Cleveland	2
Tampa	1
Total	27

To oversee drivers in these important markets, the Company has established local offices. Offices in the more established locations consist of a location manager, one or more supervisors, a clerical assistant (who also works as a local dispatcher during business hours), and a staff of drivers.

Location general managers handle all of the day-to-day operations in their area. They are responsible for hiring, training and reviewing drivers locally. They oversee the local dispatch of calls and respond to complaints or requests from their local cellular carrier. They also assist the carrier in its sales efforts by providing training on how to sell the Mr. Rescue service to vendors and subscribers. The location manager is also responsible for managing the Company's network of contracted service providers in their area. These managers are bottom line oriented and are compensated based on the financial performance of their area. Managers are paid a base monthly salary of $1,500, plus a quarterly bonus tied to area profits which results in some managers making as much as $100,000 a year.

Call Servicing

Typical usage rates for the roadside assistance services of motor clubs run as high as 60% (AAA) and as low as 10% for new car programs. Mr. Rescue's usage rates have historically been 12-24% per year depending on the market and services offered. Calls for assistance in an area are routed to the local Mr. Rescue office and are dispatched to either a Mr. Rescue driver or a contracted vendor.

Mr. Rescue estimates that a service van can respond to between 100 and 200 calls per month. Mr. Rescue estimates that the average fully-loaded cost of a service van is approximately $3,500 per month. The Company's average cost for contracted service calls is $36 per call. Therefore, once call volume that can be serviced by one truck exceeds 100 calls per month, Mr. Rescue increases its profitability and quality of service by adding additional vehicles.

Mr. Rescue drivers typically work 3-to 5-day shifts and are on call 24 hours a day during that time. For being on call drivers are paid a base monthly salary, plus an additional $5 per call commission for calls responded to within 30 minutes and completed to the satisfaction of the customer. Most Mr. Rescue drivers are retired policemen or military service men, are physically active and mechanically inclined and enjoy the free time and flexibility that their job allows.

To respond to calls that can not be adequately serviced by company vans, Mr. Rescue also maintains a network of over 4,000 vendors. Mr. Rescue strives to maintain a good relationship with these vendor by paying subcontractors higher (although competitive) rates than many of the other motor clubs and dispatch services. Mr. Rescue also uses its integrated dispatch, accounting, and customer service system to pay vendors weekly for the calls they service. In Lone Pine interviews with towing companies, owners and managers have expressed a great deal of animosity towards clubs like AAA that use their purchasing power to get rock bottom prices. Many towing companies use these calls to fill excess capacity in their fleet but give better customers preferential treatment.

With its approach of maintaining its own high-quality fleet and good relationships with suppliers, Mr. Rescue achieves an average response time of 30 minutes and has high levels of customer satisfaction.

Dispatch Operations

Nearly 60% of all Mr. Rescue calls are serviced initially by the Houston dispatch office. The remaining calls are routed directly to local offices or a contracted answering service during off hours.

Until recently, the Company's entire dispatch operation was out-sourced to ERS. In 1993 the Company undertook a major year-long project in Houston to bring dispatching and systems in-house. An investment of over $100,000 and a considerable amount of the president's time have brought the new system on-line. It is working well, and operates 24 hours a day, 365 days a year.

The dispatching and systems facility is a modular office with an integrated telephone and computer system. Based on a caller's cellular number and location, dispatchers can assign a call to a Mr. Rescue vehicle or one of the Company's contracted vendors. These providers are automatically ranked by service history, average response time and cost. Dispatchers then contact an appropriate service provider, establish an estimated time of arrival and, if the call is assigned to a vendor, assign a purchase order number. The system is fully linked with accounts payable and uses dispatch logs to generate and validate invoices and payments.

The system has dual file servers with fail-safe backups and emergency generators. In addition Mr. Rescue maintains a stand-by contract with ERS for last-resort dispatching in the event of a complete disaster. The Company has never experienced a significant system problem or any unscheduled down-time. Current management estimates that the existing system has the capacity to handle twice the daily call volume currently received by the Company with no significant expansion expenses.

Key Employees

Following the completion of the acquisition, Mr. Smith, Lone Pine's President will assume the role of Mr. Rescue's president. (Resume provided in Appendix VI) In the first months of operation, he will be assisted by Road Rescue's current president, Randall Hinsdale who has agreed to work for the Company for a period of no less than 6 months. Mr. Hinsdale has also agreed to continue on a commission basis as a salesperson to key accounts as appropriate.

In addition to these resources, Lone Pine plans to carefully investigate the potential benefits of hiring an experienced and dedicated marketing manager to meet the most pressing needs of the business.

Because of the current timing of due diligence, Lone Pine has not had the opportunity to talk with all of the Company's key managers and provide potential investors with the necessary first-hand observations. This section of the offering memorandum will require additional investigation and will be completed shortly.

In addition to hands-on managers at the Company, Lone Pine plans to put together a strong board of directors and corporate advisors that will include a number of the major investors in the acquisition.

Growth Opportunities/Post Acquisition Activities

Lone Pine believes that a significant amount of the value to investors in this transaction will be generated by the future growth of the Company. In the past two years, Mr. Rescue has experienced considerable top and bottom line growth. Lone Pine's management plans to continue this growth by:

- Entering new cellular markets
- Working with carriers to increase subscriber penetration
- Providing additional services to cellular carriers
- Benefiting from the continued growth of the cellular industry
- Exploring additional channels of distribution
- Seeking follow-on acquisitions in complementary businesses or attractive roadside assistance niches.

New Market Opportunities

As mentioned earlier, Mr. Rescue is the dominant provider of cellular roadside assistance in the US. Despite this, the Company has contracts with carriers in only 12 of the top 20 markets in the country. Many carriers have not yet adopted this service, including one or both cellular carriers in the remaining 8 top markets in which Mr. Rescue does not currently have contracts. This list includes the top 2, and 5 of the top 10 markets in the country. (See Appendix I)

Given Mr. Rescue's experience and unique ability to meet the needs of cellular carriers and subscribers, Lone Pine believes that the Company has the ability to secure contracts in some or all of these remaining large markets. For example, Mr. Rescue has already begun talks with NYNEX regarding New York City and AirTouch regarding Los Angeles. Prospects look strong for the AirTouch contract as a result of the joint venture with US West and that Company's already strong relationship with Mr. Rescue.

In addition, there are still a large number of smaller markets that Mr. Rescue does not currently service, but with which it has begun negotiating. First drafts of agreements with carriers in Buffalo and Syracuse, New York are underway.

Penetration Increases

With Mr. Rescue's rapid growth and new systems/dispatch initiatives, senior management's attention over the last year has been focused on keeping up with business pursuing Mr. Rescue rather than looking for new opportunities. As a result, the Company has no marketing or growth plan other than a brief 1993 study conducted by an outside consultant. This study projects dramatic growth through 1997 but offers no major insights.

For the markets in close proximity to Mr. Rescue's headquarters the Company has been able to achieve a penetration rate into the subscriber base estimated at 18% for Dallas and nearly 50% for Houston. In other more distant markets, the Company's penetration into the contracted carrier's customer base has been weak. Chicago for example is the third largest cellular market in the country yet Mr. Rescue has just over 6,000 subscribers in that area (estimated penetration approximately 2%). Washington DC which is the fourth largest cellular market and also has just over 6,200 Mr. Rescue subscribers (estimated penetration approximately 2%). Lone Pine's belief is that these disappointing penetration rates are a product of a lack of attention by the carriers' and Mr. Rescue's management.

Mr. Rescue has recently negotiated with these carriers to increase the marketing attention to these areas. These initiatives include packaging Mr. Rescue as part of a safety and security product and increasing sales training. Lone Pine believes that with greater attention to carriers needs and the development of new initiatives and programs, penetration can be significantly increased.

New Market Segments

While cellular roadside assistance will be Lone Pine management's first and largest priority, other growth opportunities for Mr. Rescue do exist. Management plans to be cautious in approaching these opportunities to avoid disrupting the Company's current base of business. Importantly, management will not risk core business and relationships to enter new markets. However, Lone Pine believes that there are significant growth and profit opportunities in areas other than cellular. For example, Lone Pine has already spoken with used car finance agencies that are interested in offering a roadside assistance package to improve customer service and their Company's image. Other opportunities include:

- Rental car agencies
- Local and national fleet businesses
- Parking garages
- Using electronic methods of solicitation (Internet, cable, etc.)
- Targeting third-party contracts of other motor clubs.

Lone Pine is also monitoring emerging technologies such as Personal Communication Systems (PCS) for individuals and Global Positioning Systems (GPS) for vehicles. Management will watch these developments closely and attempt to leverage the Company's existing relationships with wireless communication companies to explore possibilities for distributing Mr. Rescue's services through these channels.

Lone Pine will also consider growth into new markets through acquisition. As competition increases in the market for roadside assistance and more and more services are distributed through large third parties such as car manufacturers and cellular carriers, there is likely to be consolidation in the industry. Given the number of motor clubs and dispatch companies in the market today, there are certain to be companies available for purchase in the coming years. Lone Pine plans to actively pursue and examine acquisition opportunities that would create value for the Company and its shareholders.

These opportunities will mean significant operating leverage from new customers and increased utilization of Mr. Rescue's existing infrastructure and service network.

Operating Improvements

Lone Pine also intends to examine a number of initiatives to reduce overall operating costs <u>and</u> improve customer service performance. While improvements in the Company's operating performance and profitability are untested, Lone Pine believes they could be achieved by:

- Further centralizing after-hours dispatch services (currently out-sourced)
- Increasing attention to, and management of, the Company's vendor network
- Paying greater attention to market-by-market fleet costs

Exit Strategy

Lone Pine plans to operate and grow the Company for a period of approximately five years. At that time management believes that a number of realistic exit options exist for the Company. The most likely of these would be a sale of the business to one of the large motor clubs that has unsuccessfully attempted to enter the cellular roadside assistance business in the past. Other possibilities include sale to an aggressive cellular carrier, a merger with another growing organization such as ERS or Cross Country or an IPO.

Investment Considerations

The acquisition of Mr. Rescue is an opportunity to make above market returns on a strong investment:

- Mr. Rescue is the leading Company in a growing market:
  - Cellular is one of the fastest growing industries in the country with double digit growth projected through the year 2002
  - Mr. Rescue pioneered the cellular-provided roadside assistance business
  - Mr. Rescue has over 20 contracts covering more than 70 cities, including 8 of the top 20 cellular markets in the country.

- Mr. Rescue's service is well suited to the needs and wants of cellular carriers and their customers:
  - Mr. Rescue is a high quality and custom service that reflects positively on any cellular carrier's image
  - The Company's product assists carriers in building customer loyalty and increasing their subscriber base
  - Mr. Rescue's low cost allows carriers to offer roadside assistance at a price users can afford while still generating a profit for the Company
  - More and more new cellular customers are increasingly concerned with safety and security; concerns well addressed by Mr. Rescue's services.

- There are significant growth opportunities for the Company in the near and long-term:
  - A number of the most important cellular markets in the country do not currently have cellular-provided roadside assistance
  - Mr. Rescue has a significant potential to increase penetration into existing markets through better initiatives, training, and increased management attention
  - Mr. Rescue will certainly benefit from explosive cellular growth even without adding new markets or increasing subscriber penetration rates
  - Many new channels of distribution exist for Mr. Rescue's service that have not been fully exploited by competitors.

- Mr. Rescue's revenue stream occurs on a recurring revenue basis:
  - Carriers contract with the Company for a minimum of 2 to 3 years, and have expressed a reluctance to switch providers
  - Individual subscribers make their purchasing decision once and are billed a nominal monthly amount until they terminate service
  - Mr. Rescue has never lost, or failed to renew a cellular contract.

- Company operations are simple and require limited specialized knowledge or experience.
    - The risks of unproven management are minimized
    - Simple operations allow senior management to focus attention on sales and marketing.

Risks exist but Mr. Rescue is well equipped to meet the potential challenges

- Mr. Rescue's success has attracted competition for cellular business
    - Large and small motor clubs have recently made attempts to secure cellular business, and some have been successful
    - Large and aggressive competitors have the potential to win some contracts in untapped markets as well as compete for Mr. Rescue's existing business

    However:
        - Mr. Rescue's service is economical and targeted to meet customer needs
        - Mr. Rescue has considerably more cellular roadside assistance experience than any company in the country
        - Because there are two cellular carriers per market an opportunity for more than one roadside assistance provider will continue to exist
        - Mr. Rescue is a formidable competitor with a perfect record of contract renewals and success in competitive-bid situations.

- Mr. Rescue's business is concentrated in the cellular market and currently only consists of 20 contracts

    However:
        - Carriers face high switching costs away from Mr. Rescue
            - Carriers have assisted in developing Mr. Rescue's brand equity, which could be used to the benefit of a carrier's competition if a contract were not renewed
            - Switching from Mr. Rescue's service would create disruption and confusion for subscribers
        - No Mr. Rescue account comprises more than 18% of the Company's revenues
        - Renewals of substantially all contracts, including all major markets, have been guaranteed by the Sellers as a condition to close

- Operational changes could adversely affect the profitability of the business.
    - As the penetration of cellular into the general population increases, there is a possibility that Mr. Rescue will experience higher usage rates which could increase the Company's operating costs.

    However:

        - Given Mr. Rescue's low cost structure and overhead, Mr. Rescue will continue to have a price advantage over its competitors
        - Cellular penetration is not expected to exceed 20% until after the year 2000 and at least until that time it will continue to attract more affluent user group who historically have had lower usage rates
        - As more markets mature a greater portion of calls will be serviced by Mr. Rescue's lower cost in-house vehicles.

- The major assets of Mr. Rescue are contracts which have been developed by the founder and president. When this manager leaves, there is a risk the Company will lose the benefit of these relationships which may affect Mr. Rescue's ability to generate new, and renew existing, contracts.

    However:

        - Lone Pine believes (and will thoroughly investigate before concluding) that the key relationships have been developed with the Company and not with the Company's president
        - Carriers also have ongoing interaction with Mr. Rescue's local managers who also support and maintain the company's relationships
        - Mr. Rescue's president will remain with the company under an employment agreement for a minimum of 6 months to facilitate a smooth transition
        - Prior to close, virtually all of Mr. Rescue's contracts will have been renewed, thereby providing sufficient time for new management to reinforce key relationships.

Appendix

Summary of Top 20 Cellular Markets and Mr. Rescue Coverage
Relevant Articles re: The Cellular Industry
Road Rescue, Inc. Financial History
Letter of Intent between Lone Pine and Road Rescue, Inc.
Model of Financial Projections and Investor Returns
Resume of James Smith
Sample Cellular Marketing Material Including Mr. Rescue

Attachment I:
New Developments

Road Rescue, Inc. has continued to grow in both revenue and profitability. Based on the Company's performance in the first quarter of 1995 we believe that Mill River is paying a very favorable price for Road Rescue as a multiple of cash flow:

	LTM*	Multiple	Q1 1995	Q1 Run Rate	Multiple
EBITDA (000)	$1,537	5.5x	$ 484	$1,936	4.4x

* Latest Twelve Months.

In addition to continued improvements in the Company's top and bottom line, there have been a number of developments not reflected in the attached financial projections that will continue to provide long-term benefits to the Company and its shareholders:

- Southwestern Bell (SWB) markets, Buffalo (MSA #33), Rochester (MSA #39), and Syracuse (outside the top 100 MSA's), were just signed to a three year contract at $1.50/subscriber per month.
    - At an average[1] penetration and gross margin these larger markets equate annually to:

Market	Revenue	Gross Margin
Buffalo	$330,000	$73,000
Rochester	$280,000	$62,000

- Mr. Rescue is close to signing Southwestern Bell in Boston to a three year contract at $1.50/subscriber per month
    - At average[1] penetration and gross margin this market equates annually to:

Market	Revenue	Gross Margin
Boston	$1,000,000	$220,000

- In 1995 Mr. Rescue also signed two new contracts covering:
    - Southeastern Alabama (Southeastern Cellular)
    - RSA's in southern Illinois (First Cellular of Southern Illinois)
- Mr. Rescue is also in the final stages of negotiating an agreement to service 5 MSA's throughout Illinois, including Springfield and Peoria.
- Washington DC, a market once of great concern because of its high potential but poor performance, has experienced explosive growth following changes in marketing practices:
    - Management of the Mr. Rescue service was moved to the marketing department as of the first of the year.

[1] Assumes $1.50/subscriber/month price to the carrier, subscriber penetration of 25%, and a 22% net margin excluding fixed corporate overhead.

[redacted]

    - Cellular One also began bundling Mr. Rescue into its low cost safety and security plan.
    - Since January of 1995, the number of Mr. Rescue subscribers has increased to three times (3X) the 1994 subscriber level.

- Chicago, another underperforming market, has increased its number of subscribers by 50% in April of this year.

- In some markets, including San Francisco, the renewed Mr. Rescue contracts will include an "Automatic Option" by which all new cellular subscribers will receive the Mr. Rescue service unless they specifically request not to have it:
    - This has significantly increased penetration in other markets such as St. Louis where this "Option" has been implemented.

- The Dallas location manager for Mr. Rescue is negotiating with SWB's PCS division in Dallas to provide Mr. Rescue as a service to their subscribers.
    - This has the potential for $1.20/subscriber per month and 7,000-15,000 new subscribers monthly

Two additional new developments have arisen that Mill River anticipates will have a short-term negative impact on the Company:

- In January 1995, GTE Portland was the last cellular customer to switch from 100% free coverage for all its subscribers to offering Mr. Rescue as an elected option.
    - This switch has resulted in two meaningful changes for the Company's operations in Portland:
        - The price to GTE for Mr. Rescue has increased from 65¢/subscriber to $1.20/subscriber per month.
        - The number of total Mr. Rescue subscribers in Portland has decreased from approximately 100,000 (100% of subscribers) to 10,250.
            - Mr. Rescue has negotiated a minimum monthly payment of $32,500 until such time as the actual revenue from subscribers electing the service exceeds that amount.
            - Based on the Company's experience in other similar markets and the high response rates from initial bill inserts, we expect Portland to experience higher than average growth in subscribers, revenue, and profitability over the next twelve months.

- For the last month the Company has been in discussions with US West to renew its contract. Recently in this process, the responsibility for negotiating this agreement within US West was transferred to the purchasing department. Even though Road Rescue and US West's marketing representatives were close to signing a document (all terms had been agreed upon except price), the new purchasing representative has decided to request bids from Road Rescue as well as other roadside assistance providers for this contract. While this is not the renewal process that we had anticipated:
    - Interviews conducted by our consultants indicate that US West is very pleased with Mr. Rescue's service. Therefore, it is unclear whether this is truly a competitive bid situation or an attempt to extract a price reduction from Road Rescue.

[redacted]

- Mill River and the seller believe Road Rescue has a very strong position in the bid process. However, there are no guarantees that this contract will be renewed, or if it is renewed that the terms of this agreement will be as favorable for Road Rescue as the existing arrangement.
- Despite the loss of subscribers, revenue, and profitability that would result from losing US West as a customer, Mill River believes the potential impact on Road Rescue and its ability to meet its projections is limited from such an occurrence:
    - The US West agreement is the least profitable of Road Rescue's contracts and represents only 6.7% of the Company's subscribers.
    - New contracts (discussed earlier) have the potential to more than offset the potential loss of subscribers, revenue and profitability from a failure to renew the US West agreement.

Attachment II:
Summary of Due Diligence Findings

Mill River has completed an extensive due diligence process on the Company and its customers as well as the overall market and competitors. Due diligence activities consisted of interviews with cellular customers of Mr. Rescue, cellular carriers offering a competitor's service, cellular carriers not currently offering roadside assistance, former and current employees of competitors, industry experts, and Wall Street cellular industry analysts. In addition, Mill River has conducted secondary research on roadside assistance, Road Rescue, Inc., selected motor clubs, the cellular industry, and automobile manufacturers.

Mill River has also engaged Ernst & Young to conduct an audit of Road Rescue's financials for 1994 and the first quarter of 1995 and to perform additional due diligence at Mill River's request.

The results of these efforts have substantiated many of Mill River's initial hypotheses:

<u>Company</u>
- Company operations are simple and easy to understand.
- The creation (in 1993) of a new integrated dispatch system has reduced costs and decreased the organization's demands on senior management time.
- While the Company is highly profitable, additional opportunities exist to improve both efficiency and service while increasing margins.
- Because of its low overhead and proprietary fleet, Mr. Rescue continues to remain the low cost provider in the business.
- In mature markets where Mr. Rescue operates its own fleet, operating margins can, and do, exceed 50%.
    - Approximately six of Mr. Rescue's existing markets have reached subscriber levels that justify the introduction of Company-owned vehicles into these locations.

<u>Marketplace</u>
- Safety and security are the most important factors to cellular phone purchasers today and experts predict that these concerns will continue to drive growth in the cellular industry.
- Carriers and subscribers believe that roadside assistance provided through cellular service greatly enhances the safety features of mobile phones.
- Carriers and competitors, alike, have confirmed: first mover advantage is very important in securing contracts, costs to carriers for switching vendors are high, and contract turnover is extremely rare.
    - The already high switching costs for carriers are increased in the case of Mr. Rescue because of the impact of Company/carrier joint marketing efforts and the branded nature of Mr. Rescue's service.
- Mr. Rescue's carriers and individual customers are very pleased with the Company's services.

<u>Substitutes and Competition</u>
- Competition for cellular contracts is increasing. The companies outlined in the preliminary financing memorandum are the only active participants in this niche besides Road Rescue, Inc.

[redacted]

- Mr. Rescue continues to dominate the market for cellular provided roadside assistance -- outnumbering its closest competitor in markets served by a factor of more than 10:1.
- Mr. Rescue does not compete directly with other roadside assistance carriers or substitutes such as manufacturers' warranties.
    - Mr. Rescue is offered to a safety and security conscious consumer when he/she is making a safety and security purchase decision. Mr. Rescue is an add-on feature that enhances the safety and security of owning a cellular phone. Mr. Rescue is not a standalone product and consequently customers tend not to comparison shop for another service before selecting Mr. Rescue.
- Industry experts, competitors, and automobile companies view free manufacturers' roadside assistance warranties as <u>increasing</u> opportunities for smaller motor clubs and alternative channels of distribution for roadside assistance by weakening AAA's monopoly and familiarizing consumers with alternatives to AAA.
- In general, industry experts, including AAA insiders and cellular carriers who have received proposals from AAA, characterize the association of 130 different non-profit clubs as large, bureaucratic, unresponsive, and completely unwilling to accommodate the specific needs of cellular carriers or other wholesale customers of roadside assistance.
    - However, in specific markets, the local AAA affiliate could represent a significant competitive threat. In Portland, for example, McCaw offers its subscribers a discounted AAA membership for $39/year. McCaw appears to be pleased with the results of the program but was unaware, until recently, that roadside assistance can be a large profit center instead of the cost center that it is currently with AAA.
    - There are some preliminary indications that AAA has attempted to coordinate its affiliate clubs to market motor club memberships through other companies and national organizations. To date, the Association has had no major successes that Mill River is aware of.

Extensive, detailed results of Mill River's due diligence are available upon request.

Attachment III:
Cellular Contract Renewals

Cellular Contract	Sub %	Renewal Process
GTE Master Agreement		

The GTE Master Agreement covers all GTE service areas with separate exhibits for individual markets. As represented by the Seller and confirmed through consultant interviews, the terms of this contract are negotiated and administered by the corporate GTE office while marketing decisions are made separately by management at each location. Individual market managers determine if, and how, they want to offer Mr. Rescue. The GTE Master contract, as well as those market exhibits not already signed, will be renewed prior to Close.

Cellular Contract	Sub %	Renewal Process
• GTE Houston/Austin	19.8%	Renewed for two years beginning 8/94.
• Contel South Region	13.0%	To be renewed prior to Close.
• GTE San Francisco	8.4%	To be renewed prior to Close.
• GTE Tampa	5.5%	To be renewed prior to Close.
• Contel National Region	5.1%	To be renewed prior to Close.
• GTE Cleveland	4.1%	To be renewed prior to Close.
• GTE Indianapolis	2.9%	To be renewed prior to Close.
• GTE Hawaii	2.4%	To be renewed prior to Close.
• GTE Portland	1.6%	Renewed for 3 years beginning 2/95.
• GTE Southeast Region	0.9%	To be renewed prior to Close.

Southwestern Bell

All Southwestern Bell markets are independent and autonomous. All decisions with respect to Mr. Rescue are determined and executed at the market level.

Cellular Contract	Sub %	Renewal Process
• SWB Dallas	12.9%	Renewed for 3 years beginning 2/95.
• SWB St. Louis	4.1%	Expires 10/95. Due to the short time frame and limited availability of SWB management, this contract may not be renewed prior to close.
• SWB Wash DC/Baltimore	3.0%	To be renewed prior to Close.
• SWB San Antonio	2.4%	Mr. Rescue serves this market without a written contract.
• SWB Kansas City/Wichita	1.9%	Renewed for 3 years beginning 2/95.
• SWB Oklahoma City	1.9%	Current contract runs through 5/96. Will not be renewed.
• SWB Chicago	1.0%	To be renewed prior to Close.
• SWB West Texas	0.9%	Renewed for 3 years beginning 2/94.
• SWB Buffalo, Rochester, Syracuse	Ω	New 3 year contract beginning 4/95.

US West

The US West contract is centralized. All marketing and administrative functions are handled at the corporate level.

Cellular Contract	Sub %	Renewal Process
• US West	6.7%	Currently accepting bids. As discussed earlier, this contract may or may not be renewed prior to Close.

PCI

Cellular Contract	Sub %	Renewal Process
• PCI Dallas	1.5%	Renewed for 3 years beginning 2/95.
• PCI San Antonio	0.3%	Mr. Rescue serves this market without a written contract.
First Cellular	Ω	New 3 year contract beginning 1/95.
Southeastern Cellular	Ω	New 3 year contract beginning 2/95.
TOTAL	**100%**	**Approximately 653,000 subscribers**

---

[12] Subscriber numbers not yet available for these new contracts that together represent less than 1% of Mr. Rescue's current subscribers.

[redacted]

Attachment IV:
The Transaction and Investor Returns

Overview

Mill River is planning to capitalize the acquisition of Road Rescue, Inc., with senior debt in the amount of $4.2 million and investor capital of $3.8 million. The purchase price of $8,500,000 is to be paid to the Sellers at closing less $750,000 that will be held by the Company in the form of a secured note or escrow to be used as a hold-back for indemnity claims under the representation and warranty provisions of the acquisition agreement. At closing, the Sellers will also sign a five year noncompete agreement covering the entire North American region.

Mill River Corporation is seeking $3,800,000 from its existing shareholders as well as additional investors to acquire the stock of Road Rescue, Inc., a Texas C corporation. It is proposed that these funds be raised as either subordinated debt and/or common stock. Mill River requests that each investor consider his respective preference for Notes, Common Stock or a combination of Notes and Common Stock. For example a suggested breakdown of the total investment is detailed below.

Subordinated Debt	$1,900,000	50.0%
Common Stock	1,900,000	50.0%
Total	$3,800,000	100.0%

Sources & Uses of Funds

	Amount	Source
Senior term debt	$4,200,000	Society National Bank
Seller note	750,000	Seller Hold-back Agreement
Subordinated debt	1,900,000	Investor Group
Common stock	1,900,000	Investor Group
Total Sources	*$8,750,000*	
		Use
Seller Note	$750,000	Seller Hold-back Agreement
Cash to Sellers	7,750,000	Cash
Closing costs	250,000	Expenses
Total Uses	*$8,750,000*	

Senior Term Debt

Society National Bank has committed to provide the senior financing for the acquisition. The senior debt, a $4,950,000 five-year term loan, will consist of the following: $4,200,000 to be drawn down at close and a $750,000 escrow account to pay down the seller note. This facility will be structured as follows:

Amount: $4,950,000

Term: 5 years

Rate: Prime + 2%

[redacted]

Repayment:	Interest only until 12/31/95, and $250,000 principle amortization per quarter thereafter.
Collateral:	First priority liens on all tangible and intangible assets of Road Rescue, Inc. and pledge of all ownership interests in Road Rescue, Inc.

Seller Note

Agreement has been reached with the seller whereby Mill River Corporation will withhold $750,000 of the sale price in the form of a secured note or escrow account. This amount is to be used as a hold-back for indemnity claims under the representation and warranty provisions of the acquisition agreement. The principle of this $750,000 hold-back (plus interest, less any indemnification claims) will be paid to the Sellers in two equal installments, 6 and 12 months from the date of closing. The interest rate on this note is 7%.

Search Fund Investment

Mill River's existing equity capitalization is $210,100, as shown below:

	Shares	Cost	Ownership
Preferred Stock (old)	210,000	$210,000	Mill River Investors
Common Stock	1,000	100	Management
Total		$210,100	

The existing Preferred Stock (old) held by Mill River investors will be converted into instruments in the same ratios as the instruments being purchased for the acquisition. (For example, Subordinated Debt: 50%, Common Stock: 50%.)

The value of the basket of instruments created by the conversion process described above will be an aggregate of $280,000. Assuming search fund investors select a 50:50 ratio of Notes and Common Stock, the initial search fund investment will be converted into Road Rescue securities as follows:

	$ Value	% Value
Subordinated Debt	$140,000	50.0%
Common Stock	140,000	50.0%
Total	$280,000	100.0%

Subordinated Debt

In addition to the up to $3,800,000 of subordinated notes which may be sold, up to $280,000 of the same notes may be issued to Mill River's existing shareholders as part of the exchange for the old Preferred Stock as described previously.

These Subordinated Notes shall be deeply subordinated to Society's senior debt and shall have no acceleration rights until Society is paid in full. Payment on the subordinated debt shall not be permitted without the express, written consent of Society. While Mill River plans to pay investors as much of the interest as practical on a current basis, the subordinated debt will carry a total interest of 24%; a 10% current coupon and a 14% carried interest. (Non-current interest will be capitalized annually.) In the event that Society does not allow Road Rescue to pay the current interest as planned investors may incur some tax liability for the carried interest due them on these notes.

With board approval, the subordinated debt will be refinanced as senior borrowing becomes available on more favorable terms.

Common Stock

Investors may request to purchase up to an aggregate of $1,900,000 of Common Stock, and up to an aggregate of $140,000 of Common Stock may be issued to Mill River's existing shareholders as part of the exchange for the old Preferred Stock described above. After completion of the transaction, if the maximum amount of Common Stock is purchased, this Common Stock will represent 68% of the Company's issued Common Stock.

Management Equity Participation[2]

The level of management's equity participation will be calculated using the formula presented below, which takes into consideration individual and Company performance as well as investor returns. Management's equity participation will be calculated as follows[3]:

- 8% of equity at the time of closing
- 8% to be vested based on management's tenure at the rate of 2% per year for the first four years of operation
- 11% to be allocated as an incentive, based on repayment of 100% of the principle amount and carried interest of investor subordinated notes and on attainment of the following milestones impacting investor returns:
  - 4% based on achievement of Base Case EBITDA in the year of subordinated debt repayment (Investor IRR: 38.1%)
  - 4% additional based on achievement of Target Case EBITDA in year five (Investor IRR: 42.4%)
  - 3% additional based on achievement of Optimistic Case EBITDA in year five (Investor IRR: 47.8%)

In addition to management's equity position, it is proposed that Common Stock, of no more than 5% of the Company, be reserved to attract high-quality managers as needed. If the entire 5% of equity for new management is not required to attract high-quality candidates, it may be allocated to Mr. and Mr. only after board approval and/or achievement of performance objectives to be determined.

---

[2] In addition to their equity participation, Messieurs and will receive annual salaries of approximately $100,000 to $110,000.

[3] Subject to board approval, management equity will be allocated using a straight-line formula for performance results that fall between the scenarios described earlier. In the event of a sale of the company prior to year five, the board may elect to allocate management equity based on its evaluation of management and company performance.

Capitalization Summary

Assuming a 50:50 ratio of investor Notes and Common Stock, the proposed structure of investor capital is summarized below:

Instrument	New Money	Exchange of old Preferred	Total	% of Total
Subordinated Debt	$1,900,000	$140,000	$2,040,000	50.0%
Common Stock	1,900,000	140,000	2,040,000	50.0%
Total	$3,800,000	$280,000	$4,080,000	100.0%

Management currently owns 1,000 shares of Common Stock. Mill River proposes that the existing Common Stock be split 270:1 prior to the transaction to achieve the capitalization outlined below with a total of 1,000,000 common shares issued.

Owner	Shares	% of Total
Investor Equity Group	680,000	68.0%
Management	270,000	32.0%
Available for Options	50,000	5.0%
Total	1,000,000	100.0%

While management shares, including those available for options, will amount to 32.0% of the total issued shares at closing, these shares will be subject to a restricted stock agreement whereby the actual number of shares owned by management is dependent upon management's tenure, achievement of performance milestones described earlier and/or board approval.

Projected Returns

Using the above structure and conservative base case assumptions for future growth and profitability, equity investors will receive:

- A 24.0% IRR on their investment in subordinate debentures
- A 45.7% IRR on their equity investment
- An overall blended IRR of 38.1%

To forecast returns under a range of possible outcomes, Mill River has modeled financial performance under four scenarios:

1. Optimistic

Assumes the Company achieves extraordinary revenue and profit growth. Under this scenario Mr. Rescue increases penetration in underperforming markets to the average level, signs contracts in new markets, as well as improves operating margins.

2. Target

Assumes that growth for 1995 slows to approximately one half the growth rate for 1994, that growth thereafter lags overall cellular subscriber growth by one year, and that margins improve annually as a result of increased utilization of Company vehicles. Under this scenario Mr. Rescue would have to secure only a few new contracts among the top 20 markets the Company does not service (currently 8) or increase its penetration in underdeveloped markets to that of its better performing areas.

3. Base Case

Assumes growth for 1995 slows to approximately one half the growth rate for 1994, growth thereafter is equal to the projected subscriber growth rate for cellular service, and margins remain constant. This assumes Mr. Rescue secures no additional contracts in new markets, negotiates no price increases, and maintains, but does not increase, its penetration into existing markets. Given historical performance and current trends, Mill River believes this scenario is conservative.

4. Pessimistic

Assumes Mr. Rescue maintains its revenue base at its current level for 1995 and experiences flat 3% growth per year thereafter. This disappointing, and unlikely, scenario assumes Mr. Rescue secures no additional contracts in new markets, negotiates no price increases, decreases its penetration rate in existing markets over time, and derives no benefits from the new developments outlined in Attachment 1.

Assuming a 50:50 ratio of investor capital in Notes and Common Stock, as well as the financial projections and management equity participation presented above, Mill River forecasts the following investor returns:

Scenario[4]	Average Sales Growth	Average EBITDA Growth	Year 5 EBITDA Goal	Investor Equity IRR	Investor Blended IRR	Mgmt. Equity Particip	Key Employee Equity Particip
Optimistic	28.6%	34.3%	5,300,000	58.6%	47.8%	27%	5.0%
Target	24.2%	28.7%	4,200,000	51.5%	42.4%	24%	5.0%
Base Case	21.5%	23.8%	3,500,000	45.7%	38.1%	20%	5.0%
Pessimistic	7.0%	9.1%	1,800,000	18.7%	20.3%	16%	2.5%

[4] These scenarios assume Mill River refinances the subordinated debt in year 3 (if possible) and operates Mr. Rescue for a period of 5 years prior to selling the Company at the same multiple of EBITDA as the purchase.

Attachment V:
Timeline for Pre-Closing Activities

The major activities between the signing of the acquisition agreement and closing will consist of: finalizing documentation with senior lenders, completing the financial audit process, interviewing middle management and key customers, and preparing shareholder documentation.

To facilitate a smooth completion of this process we have outlined the following target schedule of pre-closing activities affecting investors: *(The dates for transfer of funds and closing are dependent on the Sellers' renewals of cellular contracts and should be viewed as tentative.)*

Pre-Close Activity	Target Date
• Circulation of subscription agreements	6/5
• Distribution of final audited financials	6/8
• Appointment of Board of Directors	Ongoing
• Receipt of funds from shareholders	6/13
• Close	6/16

Mt. Rescue Base Case

Attachment VI: Financial Projections

Financing Structure and Returns
($000's)

Sources	Beginning Amount	% of Total	Current Interest Rate	Carried Interest Rate	Uses	
Senior Debt*	4,200	48.0%	11.0%	0.0%	Cash to Seller	7,750
Revolver	0	0.0%	11.0%	0.0%	Seller Debt	750
Seller Debt	750	8.6%	9.0%	0.0%	Closing costs	250
Junior Subordinated Debt	1,900	21.7%	10.0%	14.0%		
Equity	1,850	21.2%	NA	NA		
Total	8,750	100.0%			Total	8,750

* Floating rate at prime+2%

Purchase/Sale Multiple	
Purchase Price	8,500
LTM EBITDA **	1,537
LTM EBITDA Multiple at purchase	5.53 X
LTM EBITDA Multiple at sale	5.53 X

** Latest twelve months

Assumptions		
Debt Prepayment	0	(1=yes 0=no)
Search Fund Equity	280	
Marginal Corporate Tax Rate	40%	
Cash on Balance Sheet at Close	340	
Mill River Cash	100	
Goodwill Amortization	15	years
Closing Costs Amortization	5	years
Loss Carryforward	110	

Equity Returns

	Year 1	Year 2	Year 3	Year 4	Year 5
Value of Firm @ Assumed Exit Multiple	11,067	13,160	15,276	17,415	19,505
Less Outstanding Debt	6,616	5,910	5,265	3,702	1,689
Plus Excess Cash	484	421	624	386	54
Equals Pre-Tax Value of Equity	4,945	7,671	10,635	14,099	17,870
Less Management Share 25%	1,236	1,918	2,659	3,525	4,468
Equals Pre-Tax Value of Equity to Investors	3,709	5,754	7,976	10,575	13,403
Equity Return	82%	68%	58%	51%	46%

Blended Returns

	Year 1	Year 2	Year 3	Year 4	Year 5
Sub-debt interest & principle payments	199	213	3,062	0	0
Value of sub-debt and carried interest at sale	2,166	2,469	0	0	0
Equity proceeds at sale	3,709	5,754	7,976	10,575	13,403
Total cash flows	6,069.7	8,439.4	11,038.3	10,574.6	13,402.5
Blended Return	49%	46%	42%	40%	38%

Attachment VI: Financial Projections

Mr. Rescue Base Case

Income Statement
($000s)

	Historical (Unaudited)					Projected*				
	1991	1992	1993	1994	5 mos 1995	Year 1	Year 2	Year 3	Year 4	Year 5
				Reviewed	**Estimated**					
Revenue	2,534	2,294	3,062	5,889	3,283	8,834	10,513	12,195	13,902	15,570
Service Call Expenses	915	890	1,670	2,982	1,597	4,293	5,109	5,927	6,756	7,567
Gross Profit	1,619	1,404	1,392	2,907	1,686	4,541	5,404	6,268	7,146	8,003
Operating Expenses	1,277	1,154	1,120	1,693	821	2,540	3,022	3,506	3,997	4,476
EBITDA	342	250	272	1,214	865	2,001	2,381	2,762	3,149	3,527
Depreciation	35	22	19	25	12	21	31	45	63	81
Amortization of Closing Costs	0	0	0	0	0	50	50	50	50	50
Amortization of Goodwill	0	0	0	0	0	482	482	482	482	482
EBIT	307	228	252	1,189	853	1,448	1,818	2,185	2,554	2,914
Interest Expense (Income)	20	15	12	16	3	941	954	917	493	296
Other Expense (Income)	0	0	0	(35)	0	0	0	0	0	0
Add-backs**	0	0	0	1,022	586	0	0	0	0	0
Pre-Tax Income	287	214	240	182	264	507	864	1,268	2,061	2,618
Taxes	0	0	0	72	106	351	538	700	1,017	1,240
Net Income	287	214	240	109	158	156	326	568	1,044	1,378
Revenue Growth	NA	(9.5%)	33.4%	92.4%	62.0%	50.0%	19.0%	16.0%	14.0%	12.0%
EBITDA Margin	13.5%	10.9%	8.9%	20.6%	26.3%	22.7%	22.7%	22.7%	22.7%	22.7%
EBIT Margin	12.1%	9.9%	8.2%	20.2%	26.0%	16.4%	17.3%	17.9%	18.4%	18.7%

* Projections are post closing. Assumes a June 1 1995 closing. Years are twelve months from 6/1 to 5/31.
** marketing, sales consulting and management services

Attachment VI: Financial Projections

Mr. Rescue Base Case

Balance Sheet
($000s)

	Historical (Unaudited)				Projected					
	1991	1992	1993	1994 Reviewed	Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Current assets										
Cash	383	352	415	695	440	744	721	974	786	504
Accounts receivable - trade	0	57	182	818	818	1,226	1,459	1,693	1,930	2,161
Accounts receivable - other	3	3	4	9	9	13	15	18	20	23
Other current assets	44	83	36	6	6	9	11	12	14	16
Current Assets	431	496	638	1,527	1,272	1,993	2,207	2,697	2,751	2,704
Fixed assets										
Equipment	63	69	69	97	97	107	117	127	137	147
Furniture	30	32	32	40	40	40	40	40	40	40
Computer	12	24	34	57	57	77	117	177	257	337
Capital lease-vehicle	465	395	389	0	0	0	0	0	0	0
Acc. depreciation-leases	(225)	(253)	(257)	0	0	0	0	0	0	0
Acc. depreciation-other	(82)	(96)	(106)	(117)	(117)	(138)	(120)	(215)	(278)	(360)
Fixed assets, net	263	179	161	77	77	85	104	129	155	164
Other assets										
Goodwill	0	0	0	0	7,224	6,743	6,261	5,780	5,298	4,816
Closing costs	0	0	0	0	250	200	150	100	50	0
Other assets	75	44	48	9	9	9	9	9	9	9
Other assets	75	44	48	9	7,484	6,952	6,420	5,889	5,357	4,825
Total Assets	768	710	846	1,613	8,832	9,030	8,731	8,714	8,263	7,693
Current liabilities										
Current portion Senior debt	6	0	0	0	0	1,000	1,000	1,563	2,013	1,689
Revolver	0	0	0	0	0	0	0	0	0	0
Accounts payable	0	0	0	77	77	353	420	487	555	622
Income taxes payable	0	0	0	15	0	0	0	0	0	0
Accrued liabilities	3	9	46	10	0	0	0	0	0	0
Accrued corporate commissions	0	0	0	753	0	0	0	0	0	0
Current Liabilities	9	9	46	855	77	1,353	1,420	2,050	2,568	2,311
Senior Term Debt	0	0	0	0	4,200	3,450	2,450	3,702	1,689	0
Seller Debt	182	164	161	161	750	0	0	0	0	0
Junior Subordinated Debt	0	0	0	0	1,900	2,166	2,469	0	0	0
Capital lease obligations	222	121	112	0	0	0	0	0	0	0
Deferred taxes	0	0	0	5	5	5	10	12	12	11
Shareholders' Equity										
Capital Stock	1	7	11	5	1,900	1,900	1,900	1,900	1,900	1,900
Retained Earnings	200	306	386	586	0	156	481	1,050	2,094	3,471
Net profit/loss	154	102	131	0	0	0	0	0	0	0
Total Shareholders' Equity	355	416	528	591	1,900	2,056	2,381	2,950	3,994	5,371
Total Liabilities & Equity	768	710	846	1,613	8,832	9,030	8,731	8,714	8,263	7,693

Attachment VI: Financial Projections

Mr. Rescue Base Case

Cash Flow Statement

($000s)

	Historical (Unaudited) 1991	1992	1993	1994 Reviewed	Projected Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows from operating activities:									
Net income	287	214	240	109	156	326	568	1,044	1,378
Depreciation and amortization	35	22	19	25	553	563	577	595	613
Deferred income taxes	0	0	0	0	0	5	2	0	(1)
(Increase) decrease in assets:									
Accounts receivable - trade		(57)	(125)	(635)	(409)	(233)	(233)	(237)	(232)
Accounts receivable - other		0	(1)	0	(4)	(2)	(2)	(3)	(2)
Other current assets		(39)	47	27	(3)	(2)	(2)	(2)	(2)
Other assets		30	(4)	0	0	0	0	0	0
Increase (decrease) in liabilities:									
Accounts payable		0	0	30	276	67	67	68	67
Income taxes payable		0	0	6	0	0	0	0	0
Accrued liabilities		6	37	39	0	0	0	0	0
Accrued corporate commissions		0	0	222	0	0	0	0	0
Net cash from operating activities		176	214	340	568	724	977	1,466	1,821
Cash flows from investing activities:									
Vehicles		0	0	0	0	0	0	0	0
Capital expenditures		(20)	(9)	(74)	(30)	(50)	(70)	(90)	(90)
Net cash used by investing activities		(20)	(9)	(74)	(30)	(50)	(70)	(90)	(90)
Cash flow before debt amortization		156	205	266	538	674	907	1,376	1,731
Beginning Cash Balance					440	744	721	974	786
Cash Available from B/S					190	444	371	574	336
Increase (Decrease) in debt									
Revolver					0	0	0	0	0
Senior Term					250	(1,000)	1,815	(1,563)	(2,013)
Seller					(750)	0	0	0	0
Junior Subordinated Debt					266	303	(2,469)	0	0
Total					(234)	(697)	(654)	(1,563)	(2,013)
Cash flow after debt amortization					494	421	624	386	54
Ending Cash Balance					744	721	974	786	504
Minimum Cash Balance					250	300	350	400	450

Mr. Rescue Base Case

Attachment VI: Financial Projections

Debt Repayment Analysis
($000s)

	Projected				
	Year 1	Year 2	Year 3	Year 4	Year 5
Senior Debt					
Beginning Balance	4,200	4,450	3,450	5,265	3,702
Additional Drawdown (re. seller debt and jr sub. debt)	750	0	2,815	0	0
Interest	435	435	325	493	296
% Amortization per Year	10.1%	20.2%	20.2%	31.6%	40.7%
Amortization	500	1,000	1,000	1,563	2,013
End Bal. before Prepayments	4,450	3,450	5,265	3,702	1,689
Optional Prepayments	0	0	0	0	0
Ending Balance	4,450	3,450	5,265	3,702	1,689
Seller Debt					
Beginning Balance	750	0	0	0	0
Interest (including escrow fees)	51	0	0	0	0
% Amortization per Year	100.0%	0.0%	0.0%	0.0%	0.0%
Amortization	750	0	0	0	0
End Bal. before Prepayments	0	0	0	0	0
Optional Prepayments	0	0	0	0	0
Ending Balance	0	0	0	0	0
Junior Subordinated Debt					
Beginning Balance	1,900	2,166	2,469	0	0
Current Interest	190	217	247	0	0
Carried Interest	266	303	346	0	0
% Amortization per Year	0%	0%	0%	0%	0%
Amortization	0	0	0	0	0
End Bal. before Prepayments, Refinancings and Carried Interest	1,900	2,166	2,469	0	0
Refinancings	0	0	2,815	0	0
Optional Prepayments	0	0	0	0	0
Ending Balance	2,166	2,469	0	0	0
Total Beginning Debt Balance	6,850	6,616	5,919	5,265	3,702
Total Current Interest	675	651	571	493	296
Total Interest	941	954	917	493	296
Required Amortization	1,250	1,000	1,000	1,563	2,013
Required Debt Service	1,925	1,651	1,571	2,056	2,309
Total Debt Service	1,925	1,651	1,571	2,056	2,309
Total Ending Debt Balance	6,616	5,919	5,265	3,702	1,689

Mr. Rescue Base Case

Attachment VI: Financial Projections

Financial Ratios

	Historical (Unaudited)					Projected				
	1991	1992	1993	1994	5 mos 1995	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue Growth	NA	(9.5%)	33.4%	92.4%	62.0%	50.0%	19.0%	16.0%	14.0%	12.0%
Expenses as a % of Revenue										
Service Call Expenses	36.1%	38.8%	54.5%	50.6%	48.6%	48.6%	48.6%	48.6%	48.6%	48.6%
Operating Expenses	50.4%	50.3%	36.6%	28.7%	25.0%	28.7%	28.7%	28.7%	28.7%	28.7%
Balance Sheet										
Days Receivable	0	9	22	51		51	51	51	51	51
Days Payable	0	0	0	9		30	30	30	30	30
Coverage ratios										
EBITDA/Interest						2.13	2.50	3.01	6.39	11.90
(EBITDA-main.CAPX)/Interest						2.09	2.44	2.94	6.20	11.59
(EBITDA-Cash Taxes Paid)/Interest						2.44	2.83	3.61	4.32	7.71
Senior Debt Fixed Charge: (EBITDA - main. CAPX) ÷ (Senior Debt Principal + Current Interest)						1.68	1.41	1.71	1.49	1.49
Required Debt Fixed Charge: (EBITDA - main. CAPX) ÷ (Required Debt Principal + Current Interest)						1.68	1.41	1.71	1.49	1.49
Total Debt Fixed Charge: (EBITDA - main. CAPX) ÷ (Total Debt Principal + Current Interest)						1.68	1.41	1.71	1.49	1.49
Current Ratios										
Including current portion of debt						1.47	1.53	1.32	1.07	1.17
Excluding current portion of debt						5.65	5.25	5.54	4.95	4.35
Debt/Equity										
(Senior and Seller Debt)/Equity						2.16	1.45	1.78	0.93	0.31
Total Debt/Equity						3.22	2.49	1.78	0.93	0.31