

ELOYALTY CORP  
Form 10-Q  
November 05, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**x** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 26, 2009**

**OR**

**..** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE TRANSITION PERIOD FROM** **TO**

**Commission File Number 0-27975**

**eLoyalty Corporation**

*(Exact Name of Registrant as Specified in Its Charter)*

Edgar Filing: ELOYALTY CORP - Form 10-Q

**Delaware**  
*(State or Other Jurisdiction of*

**36-4304577**  
*(I.R.S. Employer*

*Incorporation or Organization)*

*Identification No.)*

**150 Field Drive**

**Suite 250**

**Lake Forest, Illinois 60045**

*(Address of Registrant's Principal Executive Offices) (Zip Code)*

**(847) 582-7000**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [This requirement is not yet applicable to the registrant.] Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's Common Stock, \$0.01 par value per share, outstanding as of October 29, 2009 was 14,218,007.

---

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Part I. Financial Information</b>	
Item 1. <u>Financial Statements (unaudited)</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	36
<b>Part II. Other Information</b>	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 6. <u>Exhibits</u>	37
<u>Signatures</u>	38

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****eLoyalty Corporation****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share and per share data)**

	September 26, 2009	December 27, 2008
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 29,397	\$ 27,064
Restricted cash	3,746	3,655
Receivables, (net of allowances of \$79 and \$107)	11,394	10,005
Prepaid expenses	11,518	7,783
Other current assets	2,309	1,251
Total current assets	58,364	49,758
Equipment and leasehold improvements, net	6,978	6,424
Goodwill	2,643	2,643
Intangibles, net	493	611
Other long-term assets	8,905	4,787
Total assets	\$ 77,383	\$ 64,223
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Current Liabilities:		
Accounts payable	\$ 3,638	\$ 3,904
Accrued compensation and related costs	5,979	4,994
Unearned revenue	20,981	11,525
Other current liabilities	4,859	4,647
Total current liabilities	35,457	25,070
Long-term unearned revenue	13,522	5,274
Other long-term liabilities	2,060	2,572
Total liabilities	51,039	32,916
Redeemable Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,617,309 and 3,619,537 shares issued and outstanding with a liquidation preference of \$19,417 and \$19,107 at September 26, 2009 and December 27, 2008, respectively	18,448	18,460
Stockholders Equity:		
Preferred stock, \$0.01 par value; 35,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 14,843,887 and 14,152,702 shares issued at September 26, 2009 and December 27, 2008, respectively; and 14,210,245 and 13,661,746 outstanding at September 26, 2009 and December 27, 2008, respectively	148	142
Additional paid-in capital	202,477	198,853
Accumulated deficit	(188,020)	(180,201)

## Edgar Filing: ELOYALTY CORP - Form 10-Q

Treasury stock, at cost, 633,642 and 490,956 shares at September 26, 2009 and December 27, 2008, respectively	(3,172)	(2,457)
Accumulated other comprehensive loss	(3,537)	(3,490)
Total stockholders' equity	7,896	12,847
Total liabilities and stockholders' equity	\$ 77,383	\$ 64,223

See accompanying notes to the Condensed Consolidated Financial Statements.

**Table of Contents****eLoyalty Corporation****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited and in thousands, except per share data)**

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>Sept. 26, 2009</b>	<b>Sept. 27, 2008</b>	<b>Sept. 26, 2009</b>	<b>Sept. 27, 2008</b>
Revenue:				
Services	\$ 19,688	\$ 18,198	\$ 59,764	\$ 57,769
Product	1,977	956	14,847	5,851
Revenue before reimbursed expenses (net revenue)	21,665	19,154	74,611	63,620
Reimbursed expenses	1,033	941	2,996	2,487
Total revenue	22,698	20,095	77,607	66,107
Operating expenses:				
Cost of services	12,507	11,673	38,027	38,598
Cost of product	1,353	1,041	12,470	4,865
Cost of revenue before reimbursed expenses	13,860	12,714	50,497	43,463
Reimbursed expenses	1,033	941	2,996	2,487
Total cost of revenue, exclusive of depreciation and amortization shown below:	14,893	13,655	53,493	45,950
Selling, general and administrative	8,870	10,608	27,609	33,285
Severance and related costs	276	686	1,028	1,138
Depreciation and amortization	1,114	1,094	3,373	3,149
Total operating expenses	25,153	26,403	85,503	83,522
Operating loss	(2,455)	(5,948)	(7,896)	(17,415)
Interest and other income (expense), net	287	(95)	93	(13)
Loss before income taxes	(2,168)	(6,043)	(7,803)	(17,428)
Income tax benefit (provision)	18	(27)	(16)	(76)
Net loss	(2,150)	(6,070)	(7,819)	(17,504)
Dividends related to Series B convertible preferred stock	(322)	(324)	(969)	(973)
Net loss available to common stockholders	\$ (2,472)	\$ (6,394)	\$ (8,788)	\$ (18,477)
Basic net loss per common share	\$ (0.19)	\$ (0.63)	\$ (0.66)	\$ (1.93)
Diluted net loss per common share	\$ (0.19)	\$ (0.63)	\$ (0.66)	\$ (1.93)
Shares used to calculate basic net loss per share	13,317	10,171	13,218	9,562
Shares used to calculate diluted net loss per share	13,317	10,171	13,218	9,562

## Edgar Filing: ELOYALTY CORP - Form 10-Q

Stock-based compensation, primarily restricted stock, is included in individual line items above:

Cost of services	\$	34	\$	682	\$	419	\$	2,682
Selling, general and administrative		1,222		2,376		4,262		9,144
Severance and related costs				58		248		103

See accompanying notes to the Condensed Consolidated Financial Statements.

**Table of Contents****eLoyalty Corporation****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited and in thousands)**

	<b>For the Nine Months Ended</b>	
	<b>Sept. 26, 2009</b>	<b>Sept. 27, 2008</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (7,819)	\$ (17,504)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,373	3,149
Stock-based compensation	4,681	11,826
Provision for uncollectible amounts	10	(16)
Severance and related costs	248	229
Changes in assets and liabilities:		
Receivables	(1,339)	2,110
Prepaid expenses	(8,323)	(325)
Other assets	(1,456)	(2,836)
Accounts payable	(270)	2,391
Accrued compensation and related costs	957	(903)
Unearned revenue	17,678	2,081
Other liabilities	(502)	2
 Net cash provided by operating activities	 7,238	 204
 <b>Cash Flows from Investing Activities:</b>		
Capital expenditures and other the transactions contemplated by the framework agreement do not close, including due to the failure to receive required stockholder and warrantholder approvals, or the failure		



to  
meet  
other  
closing  
conditions.  
Sports  
Properties  
cautions  
that  
the  
foregoing  
list  
of  
factors  
is  
not  
exclusive.  
Additional  
information  
concerning  
these  
and  
other  
risk  
factors  
is  
contained  
in  
Sports  
Properties  
most  
recent  
filings  
with  
the  
Securities  
and  
Exchange  
Commission.  
All  
subsequent  
written  
and  
oral  
forward-looking  
statements  
concerning  
Sports  
Properties,  
the  
framework  
agreement,  
the  
related  
transactions  
or  
other  
matters  
and  
attributable  
to  
Sports

Properties  
or  
any  
person  
acting  
on  
its  
behalf  
are  
expressly  
qualified  
in  
their  
entirety  
by  
the  
cautionary  
statements  
above.  
Sports  
Properties  
cautions  
readers  
not  
to  
place  
undue  
reliance  
upon  
any  
forward-looking  
statements,  
which  
speak  
only  
as  
of  
the  
date  
made.  
Sports  
Properties  
does  
not  
undertake  
or  
accept  
any  
obligation  
or  
undertaking  
to  
release  
publicly  
any  
updates  
or  
revisions  
to  
any  
forward-  
looking

statement  
to  
reflect  
any  
change  
in  
its  
expectations  
or  
any  
change  
in  
events,  
conditions  
or  
circumstances  
on  
which  
any  
such  
statement  
is  
based.  
Note  
to  
Investors  
In  
connection  
with  
the  
proposed  
transactions  
we  
have  
filed  
a  
preliminary  
proxy  
statement  
regarding  
the  
proposed  
transactions  
with  
the  
SEC  
and  
intend  
to  
mail  
a  
definitive  
proxy  
statement  
to  
our  
stockholders  
and  
warrantholders.  
Before  
making  
any

voting  
decision  
investors  
are  
urged  
to  
read  
the  
preliminary  
proxy  
statement  
and  
the  
definitive  
proxy  
statement  
when  
it  
becomes  
available  
because  
they  
contain  
important  
information  
about  
the  
proposed  
transactions.  
Stockholders  
and  
warrantholders  
will  
also  
be  
able  
to  
obtain  
a  
copy  
of  
the  
preliminary  
and  
definitive  
proxy  
statements,  
without  
charge,  
once  
available,  
at  
the  
SEC's  
Internet  
site  
at  
<http://www.sec.gov>  
or  
by  
directing  
a

request  
to:  
Sports  
Properties  
Acquisition  
Corp.,  
437  
Madison  
Avenue,  
38th  
Floor,  
New  
York,  
New  
York  
10022,  
Attention:  
Andrew  
Murstein,  
Telephone  
(212)  
328-2100.  
We  
and  
our  
directors,  
executive  
officers,  
affiliates  
and  
other  
persons  
may  
be  
deemed  
to  
be  
participants  
in  
the  
solicitation  
of  
proxies  
for  
the  
special  
meetings  
of  
our  
stockholders  
and  
warrantholders  
to  
approve  
the  
proposed  
transactions.  
A  
list  
of  
the  
names

of  
those  
directors  
and  
officers  
and  
descriptions  
of  
their  
interests  
in  
us  
is  
contained  
in  
our  
annual  
report.  
You  
may  
also  
obtain  
additional  
information  
about  
the  
interests  
of  
our  
directors  
and  
officers  
in  
the  
proposed  
transactions  
by  
reading  
the  
preliminary  
proxy  
statement  
that  
we  
filed  
and  
the  
definitive  
proxy  
statement  
and  
other  
relevant  
materials  
that  
we  
will  
file  
with  
the  
SEC  
when

they  
become  
available.

1

Transaction Overview

Transaction Overview

1.03x

(1)

(Less than traditional IPO)

Price / Book Value:

Transaction:

Convert HMR to an operating company: Medallion Management

Sponsor:

Medallion Financial to provide management and other services

Structural Improvements:

All Sponsor shares cancelled: 5.375 million shares eliminated

Warrants: increase exercise price and duration; eliminate

Table of Contents



cashless exercise feature of IPO warrants

Deferred underwriting fee: reduced by over 75%

Business Purpose:

Acquire and manage taxicab medallions and operators

Initial Book Value:

Up to \$209 million; minimum of \$100 million

Ticker / Exchange:

HMR

/ NYSE Amex

HMR Stock Price:

\$9.90 (November 30, 2009)

Expected Timetable:

Record Date:

Shareholder / Warrant holder meeting:

Closing:

Early January

Mid-January

Mid-January

(1)

Note: Assumes initial book value of \$209 million (see Appendix)

2

Superior and relatively uncorrelated asset returns available to owners with historical ROEs

of over 30%

Only public company to primarily own and operate medallions

Attractive ancillary business opportunities exist across the taxicab industry

Advantageous tax treatment of medallions enables favorable distributable income

Substantial founder investment with strong alignment of interests

Proprietary access to the medallion market; local presence in key markets

Respected management team with nearly 100 years of combined experience in the taxicab industry

Key Investment Highlights

Key Investment Highlights

3

Acquire  
assets  
in  
diverse  
groups  
of  
markets  
Will  
initially  
focus  
activities  
in  
New

York  
City,  
Chicago  
and  
Boston  
and  
intend  
to  
expand  
to  
other  
municipalities  
that  
may  
provide  
attractive  
return  
profiles  
Markets  
will  
be  
evaluated  
on  
the  
basis  
of  
the  
medallion  
price,  
market  
lease  
rates  
and  
the  
outlook  
on  
other  
value  
drivers  
such  
as  
potential  
fare  
increases  
Maximize  
lease  
revenues  
through  
the  
ownership

of  
a  
large  
number  
of  
medallions  
as  
well  
as  
buying  
fleet  
operations  
Leverage  
existing  
relationships  
with  
local  
medallion  
brokers  
and  
fleet  
owners  
Achieve  
optimal  
pricing  
on  
medallions  
by  
pursuing  
bulk  
purchases  
of medallions  
Opportunistically  
pursue  
related  
services:  
fleet  
management,  
taxicab  
advertising,  
corporate  
or  
town  
car  
services,  
credit  
card  
processing  
Systematic  
exits

through  
dispositions  
once  
an  
asset  
has  
met  
target  
return  
parameters  
Business Strategy  
Business Strategy  
4

#### Overview of Taxicab Medallions

#### Overview of Taxicab Medallions

A taxicab medallion is a regulated license, issued to operate a taxicab and designates the exclusive right to pick up street hails in many major metropolitan markets

In 1937, NYC issued 11,787 medallions for \$10 each; today there are 13,237 medallions, of which the corporate or mini-fleet

medallions sell for approximately \$750,000 each

Given its importance to the welfare of the general public, the industry is highly regulated by local city councils and municipal regulatory bodies that:

- Regulate and control the number of medallions in existence

- License drivers

- Establish fares

Monitor complaints and enforce regulations

Approve all transfers of medallions

As a measure to control congestion, new medallions are rarely issued

The regulation of the number of medallions has had the following effects:

Consistent medallion price appreciation

Active secondary market for medallions

Variety of lenders to prospective medallion owners

Competes on the basis of price and convenience

5



#### Compelling Opportunity

#### Compelling Opportunity

Taxi medallions have historically provided owners with an opportunity to earn attractive returns versus other asset classes

Medallions are liquid assets and can provide current lease income and offer the potential for price appreciation

Municipal regulation of the local medallion market creates a significant barrier to entry

The medallion market is fragmented, creating opportunities for knowledgeable operators with capital

Medallions are a depreciable asset for tax purposes

Medallions can be levered at attractive rates to enhance equity returns

Taxicab fleet operators currently can be purchased at less than 2x EBITDA



Drivers of Taxi Medallion Values  
Drivers of Taxi Medallion Values  
Driver  
Commentary  
Stable regulatory  
environment  
Medallion supply is regulated by local municipalities  
Supply and demand  
for taxi service  
Competes against mass transportation, black cars and liveries  
Fares  
Regulated by local authorities, have risen steadily over time  
Driver availability

Competes against other employment opportunities for drivers

Access to capital

Ability to finance the acquisition of a medallion

Secondary market

Ability for owners to sell in a liquid market

Ready universe of

sellers

Turnover rate of medallions creates supply for prospective

owners

Traffic and

environmental

Traffic control and congestion pricing are potential factors

Technology

Mandatory credit card readers may boost ridership

7

Experienced Management Team  
Experienced Management Team  
Cohesive team working together for more than 20 years  
Medallion  
Financial s  
executive  
management  
team  
has  
relationships  
with  
every  
facet

of  
the  
industry  
including  
taxi  
drivers,  
fleet  
owners,  
lease  
operators,  
banks,  
finance  
companies,  
taxi  
brokers  
and  
regulators

Three  
generations  
of  
proven  
experience  
operating  
the  
only  
public  
company  
dedicated  
to  
providing  
loan  
financing  
to  
this  
industry

Name

Title

Experience

Industry Experience

Alvin Murstein

Chairman /

CEO

40+ years

Chairman and CEO of Medallion Financial since  
inception and predecessor companies since 1979.

Executive in the taxi cab industry for over 40  
years

Andrew Murstein

President

20 years

President of Medallion Financial since inception  
in 1995

Larry Hall

CFO

10 years

CFO of Medallion Financial since 2004. Previous  
experience at Citibank, Wells Fargo and Arthur

Andersen

Michael Kowalsky

EVP

20 years

EVP of Medallion Financial and President of  
Medallion Funding Corp. (lending subsidiary of  
Medallion Financial) since 1996

Medallion Financial s

Board includes: Former Governor of New York Mario Cuomo, Baseball Hall of

Famer Hank Aaron and former United States Senator and Governor of Connecticut Lowell Weicker

8

Overview of Medallion Financial  
Overview of Medallion Financial  
Medallion  
Financial  
is  
a  
leading  
lender  
to  
the  
taxi  
industry  
No



competing  
businesses:  
Medallion  
Financial  
does  
not  
purchase  
medallions  
or  
taxicab  
fleets  
Transitional  
Services  
to  
be  
provided  
by  
Medallion  
Financial  
Medallion  
Financial  
will  
charge  
a  
transitional  
services  
fee  
of  
1.0%  
of  
book  
equity  
(not  
assets)  
for  
management,  
accounting,  
office  
space  
and  
various  
back  
office  
services;  
there  
are  
no  
extra  
incentive  
fees

This  
arrangement  
will  
give  
Medallion  
Management  
access  
to  
a  
team  
of  
experienced  
professionals  
that  
will  
allow  
growth  
of  
its  
business  
with  
the  
immediate  
benefit  
of  
a  
larger  
and  
more  
sophisticated  
infrastructure  
without  
the  
full  
costs  
normally  
associated  
with  
such  
an  
infrastructure  
Medallion  
Financial s  
motto  
is  
In  
niches  
there  
are  
riches

Medallion  
Financial  
has  
lent  
over  
\$3  
billion  
to  
the  
New  
York  
taxicab  
medallion  
market  
and  
its  
principal  
losses  
have  
been  
9

Medallion Financial Loan Losses  
Medallion Financial Loan Losses  
(This page intentionally left blank)  
10

Alignment of Interests  
Alignment of Interests  
None  
of  
the  
officers  
of  
the  
Company  
(Chairman,  
CEO,  
CFO  
and

EVP)  
are  
receiving  
compensation  
from  
the  
Company  
Medallion  
Financial  
owns  
warrants  
that  
will  
be  
amended  
to  
have  
a  
\$12  
per  
share  
exercise  
price,  
over  
20%  
above  
current  
prices  
Medallion  
Financial  
has  
invested  
nearly  
\$7  
million  
and  
the  
stock  
must  
appreciate  
over  
32%  
over  
trust  
value  
(\$9.96)  
before  
it  
breaks  
even

on  
its  
investment  
11

Industry  
Industry  
ripe  
ripe  
for  
for  
consolidation;  
consolidation;  
no  
no  
single  
single  
operator



operator  
owns  
owns  
more  
more  
than  
than  
1%  
1%  
of  
of  
taxis  
taxis  
nationwide  
nationwide  
Large Market Opportunity  
Large Market Opportunity  
New York  
New York  
13,237 licenses  
13,237 licenses  
Chicago  
Chicago  
6,999 licenses  
6,999 licenses  
Atlanta  
Atlanta  
1,600 licenses  
1,600 licenses  
South FL  
South FL  
2,061 licenses  
2,061 licenses  
Denver  
Denver  
1,042 licenses  
1,042 licenses  
Los Angeles  
Los Angeles  
2,300 licenses  
2,300 licenses  
San Francisco  
San Francisco  
1,381 licenses  
1,381 licenses  
Boston  
Boston  
1,825 licenses  
1,825 licenses  
Philadelphia

Philadelphia

1,600 licenses

1,600 licenses

Cambridge

Cambridge

257 licenses

257 licenses

Medallions in the US > \$12 billion in Value

Medallions in the US > \$12 billion in Value

Source: Regional regulatory entities

Newark

Newark

600 licenses

600 licenses

12

Historical Medallion Price Appreciation: NYC

Historical Medallion Price Appreciation: NYC

(1)

(1)

13

(1)

Source:

New

York

City

Taxi

and

Limousine

Commission.

Market

data

from

Bloomberg

as

of

12/04/2009

(2)

Past price appreciation may not be indicative of future price appreciation

NYC Corporate Medallion Price Appreciation vs. Various Asset Classes

Corporate Medallions

9.8%

S&P 500

7.3%

Dow Jones Industrial Average

6.9%

Gold

5.9%

Compounded

Annual

Growth

Rates

(1947-2009)

(2)

Price (1 Corp.  
Medallion):  
\$750,000  
(Bulk purchase expected  
to be below market)  
Equity Funding:  
\$250,000  
Debt Funding:  
\$500,000  
Lease Revenue:  
\$ 30,000  
Interest Expense:  
\$ 23,000

Historical Avg.

Appreciation:

\$ 73,500

(1947

2009 CAGR of 9.8%)

Returns:

\$ 7,000 + \$ 73,500 = \$ 80,500

\$250,000

ROE:

32%

Hypothetical Example of Medallion Economics: NYC

Hypothetical Example of Medallion Economics: NYC

Note:

This

hypothetical

is

an

example

of

the

type

of

analysis

Medallion

Management s

management

team

might

perform

in

assessing

whether

to

purchase

medallions

and

is

for

illustrative

purposes

only,

does

not

represent

actual

or

expected

returns

from

the

medallions  
Medallion  
Management  
may  
purchase.  
Actual  
returns  
will  
depend  
on  
Medallion  
Management's  
ability  
to  
secure  
leases  
for  
the  
medallions,  
achieve  
anticipated  
lease  
revenues  
and  
the  
cost  
of  
debt  
financing.  
Actual  
returns  
will  
also  
depend  
on  
any  
future  
appreciation  
in  
the  
asset  
price  
of  
the  
medallions  
acquired  
by  
Medallion  
Management.  
The

historical  
appreciation  
shown  
in  
this  
example  
is  
based  
on  
the  
compounded  
annual  
growth  
rates  
in  
the  
value  
of  
medallions  
over  
the  
62-year  
period  
beginning  
January  
1,  
1947.  
There  
can  
be  
no  
assurance  
that  
medallions  
valuations  
will  
continue  
to  
increase  
at  
historical  
rates  
or  
at  
all.  
Medallion  
values  
have  
declined  
in



certain  
years  
and  
could  
decline  
again.  
For  
a  
discussion  
of  
risks  
that  
may  
affect  
our  
medallion  
ownership  
leasing  
economics,  
please  
see  
slide  
1  
and  
the  
section  
entitled  
Risk  
Factors  
in  
our  
Proxy  
Statement  
filed  
with  
the  
SEC.

In considering a medallion purchase in individual markets, our management team will, as illustrated by the table below, assess the return profile from the assets taking into account lease income that may be earned from the medallion, availability and cost of debt financing and the potential for appreciation in medallion prices based on the historical record in the market:

14

(1)  
This  
hypothetical  
is  
an  
example  
of  
the  
type  
of  
analysis  
Medallion  
Management s

management  
team  
might  
perform  
in  
assessing  
whether  
to  
purchase  
fleet  
operations  
and  
is  
for  
illustrative  
purposes  
only  
and  
does  
not  
represent  
actual  
or  
expected  
returns  
from  
the  
purchase  
of  
fleet  
operations  
by  
Medallion  
Management  
and  
should  
not  
be  
relied  
upon  
for  
any  
investment  
decision.  
Actual  
returns  
will  
depend  
on  
Medallion

Management's  
ability  
to  
purchase  
fleet  
operations,  
lease  
the  
medallions  
and  
achieve  
anticipated  
lease  
revenues  
and  
operating  
expenses.  
This  
hypothetical  
is  
based  
on  
certain  
assumptions,  
including  
assumptions  
relating  
to  
acquisition  
price  
of  
taxi  
leases.  
For  
a  
discussion  
of  
risks  
that  
may  
affect  
our  
medallion  
ownership  
leasing  
economics,  
please  
see  
slide  
1

and  
the  
section  
entitled  
Risk  
Factors  
in  
our  
Proxy  
Statement  
filed  
with  
the  
SEC.  
(2)  
Data  
provided  
to  
Medallion  
Management  
by  
fleet  
operators  
in  
New  
York  
City  
and  
is  
based  
on  
2009  
averages.

Hypothetical Example of Taxi Fleet Economics: NYC

Hypothetical Example of Taxi Fleet Economics: NYC

(1)

(1)

EBITDA per Car per Year

Other Operating Costs

Insurance

Vehicle Costs

Medallion Owner Lease

Payments

Operating Expenses

Revenues (*\$120 per shift*)

Fleet Taxi Economics

Fleet Taxi Economics

(2)

(2)

\$ 18,000

\$  
 (7,000)  
 \$  
 (10,000)  
 \$  
 (13,000)  
 \$  
 (30,000)  
 \$  
 78,000  
 Acquisition Price/  
 EBITDA  
 Acquisition Price per  
 Taxi Lease  
 Fleet Management Valuation  
 Fleet Management Valuation  
 Less than 2.0x  
 \$ 30,000

Our management team's assessment will also analyze the ability of medallion lessees to support lease payments based on an analysis of fleet owners business economics, as illustrated by the following table:

Our management team will also assess possible purchases of fleet operations which we believe in New York City may be available for purchase at less than 2X EBITDA as illustrated by the following:

15  
 Assumes  
 Assumes  
 Medallions  
 Medallions  
 are  
 are  
 leased  
 leased  
 by  
 by  
 operator.  
 operator.  
 Numbers  
 Numbers  
 on  
 on  
 per  
 per  
 car  
 car  
 basis

basis

Hypothetical Combined Example  
Hypothetical Combined Example  
16  
\$100  
mm  
of  
Invested  
Equity:  
75%  
Allocated  
to  
Medallions  
and



25%	
to	
Fleet	
Management	
\$ in millions, except per share data	
Taxicab Fleet	
Medallions	
Management	
Total	
Invested Equity (1)	
\$	75
\$	25
\$	100
Debt (1)	
\$	150
\$	25
\$	175
Acquired Value	
\$	225
\$	50
\$	275
Pro Forma Revenue	
\$	11
(1)	
\$	130
(1)	
\$	141
Net Income Margin Range	
12% -	
17%	
Pro Forma Net Income	
\$	20
(1)	
Pro Forma Earnings Per Share	
\$	2.04
(1)	
Return on Equity	
20.5%	
(1)	
Medallion Appreciation Range	
4.9% -	
9.8%	
(1)	
ROE With Increase in Value Through Medallion Appreciation	
31.5% -	
42.5%	

In considering a medallion purchase in individual markets, our management team will, as illustrated by the table below, assess the return profile from the assets taking into account lease income that may be earned from the medallion, availability and cost of debt financing and the potential for appreciation in medallion prices based on the historical record in the market:

Note (1): All financial numbers assume equity is fully deployed with 75% allocated to medallion acquisitions (40% in New York City and 35% in Los Angeles) and 25% to purchases of taxi fleet managers. Leverage on medallions is assumed to be 2:1 debt to equity and 1:1 for debt to equity. (i) applies the average lease income yield across markets with \$78,000 of revenues per acquired taxi lease, (ii) applies the mid-point of estimates, (iii) divides pro forma net income by \$100 mm of deployed capital, (v) assumes 9.8% represents long-term average and that 4.9% represents short-term average. Note: This hypothetical is an example of the type of analysis Medallion Management's management team might perform in all cases. The analysis, if pursued by Medallion management, is for illustrative purposes only, does not represent actual or expected returns from these investments. Medallion Management's actual allocation of capital, ability to secure leases for the medallions, achieve anticipated lease revenues, the cost of capital, and the value of medallions will vary. There can be no assurance that medallions valuations will continue to increase at historical rates or at all in as much as they may decline again. Actual returns will depend on Medallion Management's ability to purchase fleet operations, lease the medallions, and manage the fleet. For a discussion of risks that may affect our businesses, please see slide 1 and the section entitled "Risk Factors" in our Proxy Statement.

Selective use of leverage

Medallions can be financed at between 2x and 5x leverage at attractive rates

Many banks, conduits and Medallion Financial are active lenders

Anticipate paying quarterly cash dividends upon commencement of the first fleet medallion acquisition

Most

if

not

all

of

the

initial

dividends

attributed

to

medallion

ownership

will

not be taxed on a current basis

Dividends are a return of capital to the extent the taxable income is less than zero due

to the depreciation of the taxi medallions for tax purposes

Substantial portion of our quarterly distributions is not expected to be made out of

our taxable net income and will not result in immediate taxable income to U.S.

taxpayers

Financing and Dividend Policy

Financing and Dividend Policy

17

Dividend Yield Analysis

Dividend Yield Analysis

Once

capital

is

fully

deployed,

Medallion

Management

anticipates

paying

out

about 25%-50% of its Operating Net Income to shareholders as a dividend

This payout ratio implies a dividend yield of 5.1% to 10.2%, as compared to trust value of \$9.96 per share

5.1%

6.1%

7.2%

8.2%

9.2%

10.2%

0%

2%

4%

6%

8%

10%

12%

25%

30%

35%

40%

45%

50%

S&P 500 Avg.

dividend of 2.2%

Net Income Payout

Net Income Payout

Dividend Yield

Dividend Yield

18

Superior and relatively uncorrelated asset returns available to owners with historical ROEs

of over 30%

Only public company to primarily own and operate medallions

Attractive ancillary business opportunities exist across the taxicab industry

Advantageous tax treatment of medallions enables favorable distributable income

Substantial founder investment with strong alignment of interests

Proprietary access to the medallion market; local presence in key markets

Respected management team with nearly 100 years of combined experience in the taxicab industry

Investment Conclusions

Investment Conclusions

19

Appendix  
Appendix  
20



Summary Financial Overview

Summary Financial Overview

21

(numbers in millions, except per share values)

No Share Conversion

\$100 mm Cash

Amount in Trust -

Pre Fees and Conversions

214.8

214.8

214.8

Less: Amount Paid Out for Share Conversion

-

-	
114.8	
Amount in Trust -	
Pre Fees	
214.8	
214.8	
100.0	
Less: Estimated Transaction Expenses	
(1)	
-	
6.1	
5.1	
Amount in Trust -	
Pro Forma	
214.8	
208.6	
94.9	
Shares Outstanding	
(2)	
21.6	
21.6	
10.0	
Trust Value per Share	
9.96	
\$	
9.67	
\$	
9.45	
\$	
Market Value per Share	
(3)	
9.90	
\$	
Trust Value Per Share vs. Pro Forma Trust Value Per Share	
Equivalent IPO Gross Spread	
(4)	
3.0%	
5.1%	
Multiple of Pro Forma Cash Per Share	
(5)	
1.03x	
1.05x	
Notes	
(1) Represents fees payable at close	
(2) Shares outstanding following the transaction includes 25,000	
previously issued shares	
(3) Share price as of November 30, 2009	
(4) Represents the percentage discount of the pro forma trust value per share relative to current trust value	
(5) Represents ratio of current trust value per share to pro forma trust value per share	
Trust Value at Conversion	

Trust Value at  
November 30, 2009

Warrant Amendment  
Warrant Amendment  
Restructuring  
terms  
of  
the  
warrants  
for  
the  
benefit  
of  
shareholders  
Increase exercise price from \$7.00 to \$12.00

Extend maturity by three years to 2015

Increase

redemption

call

price

from

\$14.25

to

\$18.75

for

IPO

warrants

Prohibition of cashless exercise for IPO warrants

Following

the

transaction

there

will

be

27.6

million

warrants

outstanding

Warrants

provide

new

equity

capital

at

a

20%+

premium

to

current

trust

value

per

share

Transaction

requires

approval

of

a

majority

of

warrant

holders

22

Taxicab Facts in NYC  
Taxicab Facts in NYC  
There  
are  
more  
than  
470,000  
taxi  
trips  
per  
day  
More  
than

85%  
of  
all  
taxi  
trips  
begin  
or  
end  
in  
Manhattan;  
at  
some  
times  
of  
the  
day,  
more  
than  
half  
of  
all  
vehicles  
in  
Midtown  
are  
yellow  
cabs  
Passengers  
spend  
more  
than  
\$2  
billion  
on  
taxi  
fares  
each  
year  
Taxis  
generate  
tens  
of  
thousands  
of  
jobs  
Current  
taxi  
ridership  
stands  
at

approximately

240

million

passengers

making

more

than

170

million

medallion-cab

trips

per

year

Source: Taxi 07: Roads Forward

23



Symbol: HMR  
Symbol: HMR  
24