

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001  
or

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-21467

DRIVERSHIELD CORP.  
(Formerly driversshield.com Corp and previously First Priority Group, Inc.)

-----  
(Name of small business issuer in its charter)

NEW YORK

11-2750412

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

51 East Bethpage Road  
Plainview, New York 11803

-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (516) 694-1010

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock par value \$.015 per share  
Preferred Stock Purchase Rights par value \$.01 per share

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers pursuant to Item 405  
of Regulation S-B contained in this form, and no disclosure will be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-KSB or any  
amendment to this Form 10-KSB.

State the issuer's revenues for its most recent fiscal year \$1,697,000

The aggregate market value of the issuer's voting stock held by  
non-affiliates of the issuer as of March 27, 2002, based upon the closing price  
on the date thereof is \$11,191,000.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

As of March 27, 2002, the issuer had outstanding a total of 10,796,988  
shares.

Transitional Small Business Disclosure Format (check one):

Yes  No

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2

Part I

Item 1. DESCRIPTION OF BUSINESS

General

On November 23, 1983, driversshield.com FS Corp. ("FS"), formerly known as  
National Fleet Service, Inc., a New York corporation was formed and commenced  
operations as an automotive fleet administrator. Thereafter, DriverShield Corp.,  
(previously driversshield.com Corp, and formerly First Priority Group, Inc.) a  
New York corporation, was formed on June 28, 1985, and was engaged in automotive  
fleet management and administration of automotive repairs for businesses,  
insurance companies and members of affinity groups; it became the parent company  
to driversshield.com FS Corp. On February 7, 2002, all of the outstanding shares  
of driversshield.com FS Corp. were sold (see Recent Developments) and  
DriverShield is no longer engaged in fleet management; however, it continues to  
provide collision repair management services for its insurance industry clients  
through its subsidiary DriverShield CRM Corp., and automobile services offered  
to affinity groups through our wholly owned subsidiary, DriverShield ADS Corp.

("ADS").

In February 2002 the Company modified its name to DriverShield Corp. from driversshield.com Corp.

The Company's office is located at 51 East Bethpage Road, Plainview, New York 11803 and its telephone number is (516) 694-1010.

#### Nature of Services

The services offered by the Company consist of administration of vehicle repair management, including collision and general repair programs, estimating, and auditing services, and vehicle rentals for insurance companies and affinity group members. The Company acts as a third party administrator for its insurance clients, it assumes the risks and responsibilities for the vehicle repair process from commencement to completion. Our insurance industry clients use the Internet to access our collision management system to record a claim, which then initiates our activities to proceed with vehicle repairs. During our nineteen years of experience in vehicular repair management, we have established relationships with 2,000 high-quality shops that we engage in the repair. We control and negotiate the cost of every repair, the use of certain parts, and guarantee the quality of the repairs.

The Company through its wholly-owned subsidiary, DriverShield CRM Corp. ("CRM") conducts the Company's collision administration services for insurance carriers, and through its wholly-owned subsidiary DriverShield ADS Corp. ("ADS"), provides the various auto-affinity programs for all types of businesses.

Fleet Management. Effective February 7, 2002, the Company sold all of the outstanding shares of FS to PHH Vehicle Management Services LLC ("PHH"). [See "Recent Developments" below.]

3

Insurance Carrier Market. In April 1999 the Company established an Internet enterprise, now known as DriverShield CRM Corp. ("CRM"), as a wholly owned subsidiary. This subsidiary was an extension of the Company's nineteen-year experience in the fleet business in that it provides similar collision repair and administrative services, but does so through the use of a website on the internet. CRM is designed to serve insurance companies by offering a complete customer relationship management solution and collision repair management services in an Internet based environment.

This new business focuses on controlling, and reducing, the auto physical damage costs of vehicle repairs incurred by insurance carriers, and providing superior customer services for our clients auto repair needs. The interactive website facilitates information gathering and distribution to launch the repair process. The website enables insurance carriers to utilize the Company's website to directly enter the initial vehicle claim information, find and select the most accessible automobile collision repair shop from the Company's network of over 2,000 shops throughout the United States, and enable the insurance carrier and the insured to track the repairs of the vehicle until completion. Our software also allows us, and our clients, to view digitized images of the damaged vehicle. This network of automobile repair shops can handle, on a per incident basis, any repair that the clients' drivers may encounter. Because the Company has many long-term relationships with a large number of repair shops, whenever a repair to a client's vehicle is needed, the chances are excellent that a local repair shop will be available to perform the required repair work. Because of the volume of work we provide, we are able to obtain significantly lower repair costs, and expedited turnaround time, for our clients.

Once the client initiates the claims management system, we are automatically notified to commence activities. We coordinate activities with the shop, use our audit and estimating staff to negotiate the lowest price for every claim, monitor the use of certain types of parts, track the work and timeliness of the repair process which can be viewed by our clients, on our website, to judge our efforts, obtain independent appraisals when requested, and, finally, guarantee the repairs for as long as the driver owns the vehicle. We issue DriverShield warranty certificates for every repair done within our network and are responsible to our clients if the repairs are not done appropriately. We have managed our warranty risk by monitoring the quality and consistency of our network repair facilities and quickly eliminating those shops that do not maintain proper standards. We pay the independent repair shops directly upon completion of their work, and invoice our insurance clients separately. The website we have developed is fully functional and has been in use by a number of insurance carriers who have recently signed multi-year contracts with CRM. Revenues commenced in December 2001. The website address is: [www.driversshield.com](http://www.driversshield.com).

Affinity Group Programs. Through our wholly owned subsidiary, DriverShield ADS Corp., we offer these programs as a series of comprehensive vehicle-related services for consumers sold through affinity groups, financial institutions, corporations and organizations. These programs may be used as re-enrollment incentives and/or membership premiums, or resold at a profit, and may be sold individually, or a variety of services can be bundled together as a high-value package.

Driver's Shield(R). - This is the premium program consisting of components, which may be sold individually. This package consists of the Collision Damage Repair Program, Driver Discount Program and the Auto Service Hotline, as well an auto buying service, legal defense reimbursement, and custom trip routing services.

4

Collision Damage Repair Program (CDR). - This is the corporate collision program modified to suit consumer needs. Drivers participating in this program may utilize the Company's proprietary network of collision body repair shops. Additionally, the Company's customer service department will supervise the entire process from expediting estimates and repairs, to troubleshooting any problems or difficulties that may occur.

Driver Discount Program (DDP). This program offers drivers discounts of up to forty percent off automotive-related services through thousands of premium auto chain facilities throughout the nation. It applies these discounts to virtually all-routine maintenance including oil changes, brakes, transmissions, mufflers, shocks, tires and glass. An option to this program also provides 24-hour emergency roadside assistance for drivers anywhere in the U.S.

Auto Service Hotline (ASH). This program provides drivers with their own repair specialist who will help the driver determine a course of action to repair the vehicle, and if necessary, provide a referral to one of thousands of independently owned auto repair facilities. Drivers will receive a ten percent discount off repairs and an enhanced nationwide warranty when utilizing the shop to which they were referred. Additionally, drivers will be offered rental replacement cars at preferred rates that are delivered to and picked up from the driver's home or office.

#### Recent Developments

In October 2001 the Company entered into a Stock Purchase Agreement ("the Purchase Agreement") to sell all of the outstanding shares of its wholly-owned subsidiary, driversshield.com FS Corp, its collision repair and fleet services business, to PHH Vehicle Management Services, LLC ("PHH"), a subsidiary of Cendant Corporation (NYSE, symbol CD) for \$6.3 million in cash, and pursuant to the Preferred Stock Purchases Agreement, agreed to sell \$1.0 million of the Company's convertible preferred stock to PHH. The Purchase Agreement was approved by a vote of the Company's shareholders on February 4, 2002, and the transaction was consummated on February 7, 2002. Under the terms of the Transition Services Agreement, PHH contracted with the Company to continue to operate FS on behalf of PHH until the business can be transitioned into the PHH operations, but in no event later than June 30, 2002.

#### Sales and Marketing

The Company's clients for the CRM program are property and casualty insurance companies. The Company's clients for its affinity programs are financial institutions, organizations and affinity groups that resell the programs to individuals. Sales activities for CRM and ADS are performed by the Company's own personnel. Sales are made through referrals, cold canvassing of appropriate prospects and direct mailings. The Company also attends trade shows in order to increase its identity awareness and client base, and intends to support its brand name and products through advertising and trade journals.

In 2001, one customer accounted for 87% of the Company's revenues, and in 2000, this same customer accounted for 94% of the Company's revenues. These figures exclude the discontinued

5

operating results of the fleet services business that was sold in February 2002. See "Recent Developments", above.

#### Employees

At year-end, the Company employed 42 full-time employees and one part time employee. The Company anticipates that this number will decrease substantially at the termination of the Transition Services Agreement with PHH. None of the Company's employees are governed by a union contract and the Company believes that its employee relationships are satisfactory.

#### Competition

Affinity Group Programs. Although there are several companies providing various types of auto club programs the Company believes that there is only one other company that offers a program providing similar services offered by the Company's ADS subsidiary.

Insurance Carriers. The Company is aware of four other companies that offer some aspect of automotive collision repair services to insurance companies. One of these competitors is primarily offering a comparable product as that of the Company. Two of the companies are in the fleet management business, while the other is in the vehicle software valuation business. The Company believes that its services for insurance companies are superior to those offered by such other companies.

#### Item 2. DESCRIPTION OF PROPERTY

In December 1996, the Company entered into a lease for new office space at 51 East Bethpage Road, Plainview, New York 11803. The space consists of approximately 12,000 square feet of office space. The Company relocated to this new space during April 1997. The amended lease is for five years and expires on June 30, 2002. At that time, the Company may obtain temporary office space on Long Island, New York for certain employees, but expects to relocate its executive headquarters to Florida. It is currently evaluating lease arrangements.

A portion of the premise is subleased under a lease expiring June 2002.

#### Item 3. LEGAL PROCEEDINGS

In November 1999 CRM entered into an agreement whereby Electronic Data Systems Corporation ("EDS") was to develop and host the Company's website through December 31, 2003. Additionally, EDS was to assist the Company in marketing the Internet based automobile collision managed care program to EDS' customers that provide auto insurance to its insureds. CRM was to pay EDS no more than

6

\$350,000 for the initial development costs of the website, and thereafter, the parties would participate in a revenue sharing arrangement. Throughout the term of this Agreement, EDS was to host and maintain the website, and perform other operational and administrative services at no additional cost. DriverShield Corp. guaranteed performance of this Agreement of its wholly owned subsidiary. The Company expensed \$169,000 during 1999 and capitalized an additional \$300,000 in 2000. It had not accrued additional invoices totaling \$108,000.

In November, 2000 the Company filed a \$1 million Demand for Arbitration with the American Arbitration Association, relating to its agreement with EDS for its website development, contending, among other matters, excessive fees and failure to meet the performance conditions of the agreement. EDS filed a counterclaim denying the allegations and seeking payment of \$226,000. It also unilaterally shut down the Company's website. In November 2001, these matters were settled by mutual releases for all existing claims. No payments were required by either party relating to the outstanding balances. The Company redesigned its website which is now used by its insurance industry clients.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

7

Part II

Item 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common shares are traded on The Nasdaq SmallCap market. The following table shows the high and low closing prices for the periods indicated.

	Sale Price(\$)	
	High ----	Low ---
2001 - ----		
First Quarter	\$1.06	\$ .38
Second Quarter	\$1.51	\$ .56
Third Quarter	\$1.84	\$ .87
Fourth Quarter	\$1.72	\$1.00
2000 - ----		
First Quarter	\$6.13	\$2.75
Second Quarter	\$4.25	\$1.25
Third Quarter	\$2.00	\$1.38
Fourth Quarter	\$1.38	\$ .31

The number of record holders of the Company's common shares as of March 15, 2002 was 335.

The Company has never paid dividends on its common stock and is not expected to do so in the foreseeable future. Payment of dividends is within the discretion of the Company's Board of Directors and would depend on, among other factors, the earnings, capital requirements and operating and financial condition of the Company.

8

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the Company's Financial Statements and the notes appearing elsewhere in this report as Item 7, and Forward-Looking Statements-Cautious Factors, below. This discussion and analysis may contain statements that constitute forward-looking statements within the meaning of the private Securities Litigation Reform Act of 1995. The Company cautions that forward-looking statements are not guarantees of performance and actual results may differ materially from those in the forward-looking statements.

Year ended December 31, 2001 (the "2001 Period") Compared to year ended December 31, 2000 (the "2000 Period")

The 2001 Period reflected net income of \$1,169,000 versus income of \$248,000 in the 2000 Period. Income from continuing operations was \$259,000 in 2001 versus a loss of \$774,000 in the 2000 Period. This increase resulted predominantly from the recognition of deferred tax assets; income from discontinued operations was

\$780,000 in the 2001 Period versus \$1,022,000 in the 2000 Period; and in the 2001 Period there was income from an extraordinary item of \$130,000. Basic and diluted earnings per share, from net income, were \$.11 in the 2001 Period versus \$.02 per share in the 2000 Period.

#### Revenues

Revenues were \$1,697,000 in the 2001 Period, compared to \$1,840,000 in the 2000 Period, representing a decrease of \$143,000, or 8%. These figures exclude the fleet services business that was sold in February 2002, and is reflected in the Company's financial statements as discontinued operations. The decrease in revenues is the result of affinity members that did not renew their memberships in 2001; this came after a major marketing effort in the 2000 Period had increased membership revenues by 138%.

#### Income and Expenses from Continuing Operations

Income from continuing operations increased by \$1,033,000, to \$259,000 in the 2001 Period, from a loss of \$774,000 in the 2000 Period. The increase is primarily related to the recognition of deferred tax benefits in the amount of \$1,900,000, offset by increased selling expenses of \$484,000, non-cash compensation charges of \$240,000 and reduced affinity service sales of \$143,000.

Selling expenses increased by \$484,000, from \$208,000 in the 2000 Period to \$692,000 in the 2001 Period, or 233%, as the Company increased its investment in sales and marketing personnel and their related activities in its CRM business. General and administrative expenses were relatively comparable at \$2,276,000 in the 2001 Period versus \$2,282,000 in the 2000 Period. The Company recorded \$240,000 in non-cash compensation expense in the 2001 Period as a result of re-pricing certain stock options during 1999. There was no comparable charge in the 2000 Period. Depreciation increased by \$68,000 resulting from an increase in capital expenditures to support the Company's technology systems, predominantly for its CRM business.

9

Investment and other income increased to \$197,000 in the 2001 Period, compared to \$141,000 in the 2000 Period despite significant declines in interest rates. This was the result of improved working capital and treasury management, as well as income from certain termination fees of \$25,000.

The Company also recorded a non-recurring, non-cash charge in the 2001 Period of \$77,000 for the issuance of certain restricted shares to an existing shareholder. There was no comparable amount in the 2000 Period.

The 2001 tax provision in the income statement reflects a tax benefit of \$1,893,000 in the 2001 Period, for the recognition of deferred tax benefits resulting from net operating loss carry forwards. Of that amount \$1,780,000 was attributable to a prior years net operating loss carry forward that had been subject to a full valuation allowance. It is expected that the Company will be able to utilize substantially all of these tax benefits in 2002, as a result of the gain on the sale of the fleet services business, and no longer requires a valuation allowance for the full amount of the benefits. In the 2000 Period, it remained unlikely that the Company could utilize these benefits and an allowance for the entire tax benefit had been established.

#### Discontinued Operations

Income from discontinued operations of the fleet services business decreased by \$242,000, from \$1,022,000 in the 2000 Period to \$780,000 in the 2001 Period. While sales increased, resulting in an increase in gross profit of \$157,000, this was offset by \$285,000 in increased expenses in customer service and support personnel and shop database management, and an increase in income taxes of \$114,000.

#### Extraordinary Item

In the 2001 Period, extraordinary income, in the amount of \$130,000, was realized upon the settlement of a legal and arbitration matter with EDS. This amount had been accrued by the Company in a prior period, but settlement of these matters released the Company from payment of any indebtedness. There was no comparable amount in the 2000 Period.

#### Liquidity and Capital Resources

At December 31, 2001, the Company had cash and cash equivalents of \$265,000, and also held 195,204 shares of Salomon Smith Barney Adjustable Rate Government Income Fund securities valued at \$1,915,000, providing a total of \$2,180,000 in available liquidity, versus a total of \$1,692,000 at December 31, 2000. The Company's operating activities provided \$707,000 of cash in the 2001 Period versus \$488,000 in the 2000 Period. In addition, the sale of the FS business after expenses and taxes, coupled with the sale of preferred stock to PHH in February 2002, should provide cash of approximately \$6.5 million. The Company believes that its present financial condition, combined with the funds it received from the sale of FS, will enable it to continue to support its operations for the next twelve months, and for some period thereafter depending on its activities and use of funds in developing existing or new businesses.

10

During November 2000 a registration statement with the Securities and Exchange Commission became effective that provided up to \$10 million in equity financings, over a one-year period from the effective date of the registration. No funding occurred under this agreement upon its expiration in November 2001 since the company was able to finance all of its needs through internally

generated cash flow. The financing source was granted warrants to purchase 68,970 shares of the Company's common stock at a price per share of \$2.17.

#### Deferred Income taxes

The Company has a net operating loss carry forward of approximately \$5.0 million that is available to offset future taxable income at December 31, 2001. The Company expects that it will utilize substantially all of these benefits in calendar 2002 upon the recording of the gain on the sale of the FS business. Accordingly, at December 31, 2001, it has recorded nearly all of the tax benefits in the accompanying financial statements.

#### Forward Looking Statements - Cautionary Factors

Certain statements in this report on Form 10-KSB contain "forward-looking statements" within the meaning of the Private Securities Litigation Act of 1995. These statements are typically identified by their inclusion of phrases such as "the Company anticipates", or "the Company believes", or other phrases of similar meaning. These forward-looking statements involve risks and uncertainties and other factors that may cause the actual results, performance or achievements to differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Except for the historical information and statements contained in this Report, the matters and items set forth in this Report are forward looking statements that involve uncertainties and risks some of which are discussed at appropriate points in the Report and are also summarized as follows:

1. As the Company has embarked on an Internet strategy whereby it offers auto collision managed care services on its website, there will be new and additional risks that may influence the business of the Company. These risks are:

- o The Company's website offers auto collision managed care services on the Internet, and we are not sure our business model will be successful or that we can generate sufficient revenue from this activity.
- o As is typical for any new, rapidly evolving market, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. It is also difficult to predict the market's future growth rate, if any. If the market fails to develop, develops more slowly than expected or becomes saturated with competitors, or our services do not achieve or sustain market acceptance, our business, results of operations and financial condition could be materially and adversely affected.
- o We also depend on establishing and maintaining a number of commercial relationships with other companies. Our business could be adversely affected if we do not maintain our existing commercial relationships on terms as favorable as currently in effect,

11

if we do not establish additional commercial relationships on commercially reasonable terms or if our commercial relationships do not result in the expected increased use of our Website.

- o We cannot assure you that we will be able to establish new agreements or maintain existing agreements on commercially acceptable terms. We also may not be able to maintain relationships with third parties that supply us with software or products that are crucial to our success, and the vendors of these software or products may not be able to sustain any third-party claims or rights against their use. Furthermore, we cannot assure you that the software, services or products of those companies that provide access or links to our services or products will achieve market acceptance or commercial success.
- o To remain competitive we must continue to enhance and improve the ease of use, responsiveness, functionality and features of our website and develop new services in addition to continuing to improve the customer experience. These efforts may require the development or licensing of increasingly complex technologies. We may not be successful in developing or introducing new features, functions and services, and these features, functions and services may not achieve market acceptance.
- o Our future success and revenue growth depends substantially upon continued growth in the use of the Internet. Businesses will likely widely accept and adopt the Internet for conducting business and exchanging information only if the Internet provides these businesses with greater efficiencies and improvements in commerce and communication. In addition, e-commerce generally, and the purchase of automotive related products and services on the Internet in particular, must become widespread. The Internet may prove not to be a viable commercial marketplace generally, or, in particular, for vehicle related products and services. If use of the Internet does not continue to increase, our business, results of operations and financial condition would be materially and adversely affected.
- o We are dependent on certain key personnel. Our future success is substantially dependent on our senior management and key technical personnel. If one or more of our key employees decided to leave us, join a competitor or otherwise compete directly or indirectly with us, this could have a material adverse effect on our business, results of operations and financial condition. Competition for such

personnel is intense, and we may not be able to attract, assimilate or retain such personnel in the future. The inability to attract and retain the necessary managerial, technical, sales and marketing personnel could have a material adverse effect on our business, results of operations and financial condition.

- o The Internet insurance market is a new business in a new industry and we will need to manage our growth and our entry into new business areas in order to avoid increased expenses without corresponding revenues. The growth of our operations requires us to increase expenditures before we generate revenues. Our inability to generate satisfactory revenues from such expanded services to offset costs could have a material adverse effect on our business, financial condition and results of operations. We believe establishing industry leadership also requires us to: - test, introduce and develop new services and products, including enhancing our website, - expand the breadth of and services offered, - expand our market presence through relationships with third parties, and - acquire new or

12

complementary businesses, products or technologies. We cannot assure you that we can successfully manage these tasks.

- o Our success is dependent on keeping pace with advances in technology. If we are unable to keep pace with advances in technology, businesses may stop using our services and our revenues will decrease. The Internet and electronic commerce markets are characterized by rapid technological change, changes in user and customer requirements, frequent new service and product introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing Website and technology obsolete. If we are unable to adapt to changing technologies, our business, results of operations and financial condition could be materially and adversely affected. Our performance will depend, in part, on our ability to continue to enhance our existing services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers, license leading technologies and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.
- o We are uncertain of our ability to obtain additional financing for our future capital needs. If we are unable to obtain additional financing, we may not be able to continue to operate our business or create the growth we wish. We currently anticipate that our cash, cash equivalents and short-term investments will be sufficient to meet our anticipated needs for working capital and other cash requirements at least for the next 12 months, and beyond. However we may need to raise additional funds, in order to fund more rapid expansion, for acquisitions, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary products, businesses or technologies.
- o There can be no assurance that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of potential acquisition opportunities, develop or enhance services or products or respond to competitive pressures would be significantly limited. Such limitation could have a material adverse effect on our business, results of operations, financial condition and prospects.
- o The Company's business involves the repair of motor vehicles through a contracted network of automobile collision repair shops. These shops are obligated to maintain certain minimum limits of liability insurance, indemnify the Company from any and all claims and expenses related to the shop's negligent acts or from the breach of the agreement between the Company and the shop, and name the Company as an additional insured under the shop's liability policy. However, the repair shop and/or the Company's general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

13

2. As the Company's proprietary programs gain more success, it is possible that the competition will attempt to copy these programs and incorporate them into their programs. This could lead to increased competitive pressures on those programs that are the most successful. The competition could result in decreased profit margins and/or the loss of certain customers.
3. The Company, under the CRM, or the ADS, has clients that either individually control a large number of insureds, or a large number of participants in programs such as Driver's Shield(R). The loss of any one insurance company, or affinity group, terminating its relationship with the Company, could have an adverse impact on the continued growth of that business. The Company has addressed the issue of customer retention by implementing a policy of entering into long-term contracts with its customers.

4. The Company has been able to assemble a network of independently owned and operated repair shops throughout the United States. These collision repair shops must maintain the high quality repairs standard that has enabled the Company to continue to retain and attract new clients. The Company's inability to retain these quality repair shops and maintain their individually high repair standards could have a material adverse impact upon all of the Company's vehicle collision repair programs.
5. Certain senior management personnel may be able to exercise voting control. Barry Siegel, our Chairman of the Board and Chief Executive Officer, beneficially owns and controls the vote of approximately 16 % of the outstanding shares of our common stock. In addition, Barry J. Spiegel, a director and the President of ADS, beneficially owns and controls the vote of approximately 13% of the outstanding shares of our common stock. This concentration of ownership, which is not subject to any voting restrictions, could limit the price that investors might be willing to pay for common stock. In addition, Mr. Siegel and Mr. Spiegel are in a position to impede transactions that may be desirable for other shareholders.
6. Our articles of incorporation and by-laws contain certain provisions that could make it more difficult for shareholders to effect certain corporate actions, and could make it more difficult for anyone to acquire control of us without negotiating with our board of directors. These provisions could limit the price that investors might be willing to pay in the future for our common stock.

Item 7. FINANCIAL STATEMENTS

The Company's financial statements and schedules appear at the end of this Report after Item 13

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

Each member of our board of directors serves for staggered three-year terms and until his or her successor is duly elected and qualified. Our executive officers and directors are as follows:

<TABLE>  
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
Barry Siegel.....	50	Chairman of the Board, Secretary, Chief Executive Officer
Barry J. Spiegel*.....	53	Director, President of Affinity Services Division
Gerald M. Zutler.....	63	President and Chief Operating Officer
Philip B. Kart.....	52	Sr. Vice President and Chief Financial Officer
Kenneth J. Friedman*.....	48	Director
John M. McIntyre*.....	47	Director
R. Frank Mena*.....	44	Director

\* Member of the Audit Committee

Barry Siegel has served as one of our directors and our Secretary since we were incorporated. He has served as our Treasurer since January 1998, as our Chief Executive Officer and Chairman of the Board since November 1997. Previously, he served as our Chairman of the Board, Co-Chief Executive Officer, Treasurer, and Secretary from August 1997 through November 1997. From October 1987 through August 1997, he served as our Co-Chairman of the Board, Co-Chief Executive Officer, Treasurer, and Secretary. He also served for more than five years as Treasurer and Secretary of driversshield.com FS Corp., one of our wholly owned subsidiaries.

Barry J. Spiegel has served as President of our Affinity Services Division since September 1996. He served as President of American International Insurance Associates, Inc. from January 1996 through August 1996. For more than five years prior to August 1996, Mr. Spiegel served as Senior Vice President at American Bankers Insurance Group, Inc.

Gerald M. Zutler has served as our President and Chief Operating Officer since March 1998. Between 1997 and 1998, Mr. Zutler was a private consultant. From 1993 through 1996, Mr. Zutler was President of Lockheed Martin Canada.

Philip Kart has served as Chief Financial Officer since October 2000. From February 1998 through September 2000, he was Vice President and Chief Financial Officer of Forward Industries, Inc., a Nasdaq SmallCap listed company, and prior to that, from March 1993 to December 1997, Chief Financial Officer of Ongard Systems, Inc. Mr. Kart has also held financial management positions with Agrigenetics Corporation, Union Carbide and was with the accounting firm Price



Waterhouse Coopers. Mr. Kart is a CPA.

Kenneth J. Friedman has served as our director since October 1998. Mr. Friedman has for more than five years served as President of the Primary Group, Inc., an executive search consultant.

John M. McIntyre, 47, was elected to our board of directors on December 4, 2001. He has spent the last 20 years working in the auto repair industry. In 1981, he founded Apple Auto Body Incorporated, a privately owned, multiple-location group of auto repair shops based in Massachusetts, and since 1981 has acted as its president. In 1989 he founded Trust Group Inc., a privately held property and casualty insurer based in Massachusetts. Since 2000, Mr. McIntyre has also been a member of Barefoot Properties of Hilton Head, LLC, a rental-property broker based in Hilton Head, South Carolina. Since 1977, he has also served as a financial consultant to TeleSouth a division of RHS Communications. Mr. McIntyre holds a Bachelor of Science in Public Administration from Bentley College, Waltham, MA.

R. Frank Mena, 44, R. Frank Mena was elected to the Board of Directors on May 13, 1999. Mr. Mena is both a technologist and developer by background. He was a founder and Executive Vice President and Chief Technology Officer of Cheyenne Software. Presently, he acts as a consultant in the computer systems industry. Mr. Mena did not stand for re-election at the 2001 Annual Shareholders Meeting.

#### Compensation of Directors

We do not pay our directors for serving on our board. Our 1995 Incentive Stock Plan (the "Plan") does, however, provide that when they are elected to the board and every anniversary thereafter as long as they serve, our non-employee directors are granted a non-statutory stock option to purchase up to 15,000 shares of our common stock. Effective February 4, 2002, the Board of Directors amended the Plan increasing 50,000 shares the annual stock option grant to non-employee directors.

#### Section 16(a) Beneficial Ownership Reporting Compliance.

We are not aware of any officer or director that did not comply with Section 16(a) of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 2001.

#### Item 10. Executive Compensation

##### Summary Compensation

The following table summarizes the compensation we paid or compensation accrued for services rendered for the years ended December 31, 1999, 2000 and 2001, for our Chief Executive

16

Officer and each of the other most highly compensated executive officers who earned more than \$100,000 in salary (there were no bonus payments during these years) for the year ended December 31, 2001:

#### SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

Name and Position(s)	Year	Salary (\$)	Securities Underlying Options (#)
-----	----	-----	-----
<S>	<C>	<C>	<C>
Barry Siegel			
Chairman of the Board of Directors, Secretary and Chief Executive Officer	2001	285,000	0
	2000	276,492	200,000
	1999	215,385	1,100,000
Gerald Zutler	2001	149,525	0
President and Chief Operating Officer	2000	145,540	150,000
	1999	137,211	415,000
Barry J. Spiegel	2001	129,525	0
President, DriverShield ADS Corp.	2000	122,154	150,000
	1999	104,249	330,000
Philip B. Kart			
Sr. Vice President and Chief Financial Officer	2001	139,093	0
	2000	32,000	225,000

</TABLE>

#### Employment Contracts and Termination of Employment and Change-in-Control Arrangements

We are party to an employment agreement with Barry Siegel that commenced on January 1, 2002, and expires on December 31, 2004. Mr. Siegel's annual salary is \$300,000, and he has been granted stock options, under the Company's 1995 Incentive Stock Option Plan ("the Plan"), providing the right to purchase 300,000 shares of the Company's common stock. His employment agreement provides that following a change of control (as defined in the agreement), we will be required to pay Mr. Siegel (1) a severance payment of 300% of his average annual salary for the past five years, less \$100, (2) the cash value of his outstanding but unexercised stock options, and (3) other perquisites should he be terminated for various reasons specified in the agreement. The agreement specifies that in no event will any severance payments exceed the amount we may deduct under the

provisions of the Internal Revenue Code. In recognition of the sale of the fleet services business, Mr. Siegel was also awarded a \$250,000 bonus, which was paid in February 2002, and an additional grant of 250,000 options.

We are party to an employment agreement with Gerald M. Zutler that commenced on January 1, 2002, and expires on December 31, 2004. Mr. Zutler's annual salary is \$190,000, and he has been granted stock options, under the Company's 1995 Incentive Stock Option Plan ("the Plan"), providing the right to purchase 200,000 shares of the Company's common stock. His employment agreement contains

17

a change in control provision that mirrors that in Mr. Siegel's employment agreement, except that the applicable percentage for severance payment purposes is 100%. Mr. Zutler also participates in our Corporate Compensation Program.

We are party to an employment agreement with Barry J. Spiegel that commenced on January 1, 2002, and expires on December 31, 2004. Mr. Spiegel's annual salary is \$175,000 per annum and he has been granted stock options, under the Company's 1995 Incentive Stock Option Plan ("the Plan"), providing the right to purchase 250,000 shares of the Company's common stock, and the applicable percentage for severance payment purposes is 100%. Mr. Spiegel also participates in our Corporate Compensation Program. His employment agreement provides that following a change in control (as defined in the agreement), all stock options previously granted to him will immediately become fully exercisable.

We are party to an employment agreement with Philip B. Kart that commenced on January 1, 2002, and expires on December 31, 2003. Mr. Kart's annual salary is \$155,000 per annum and he has been granted stock options, under the Company's 1995 Incentive Stock Option Plan ("the Plan"), providing the right to purchase 150,000 shares of the Company's common stock and the applicable percentage for severance payment purposes is 100%. Mr. Kart also participates in our Corporate Compensation Program. His employment agreement provides that following a change in control (as defined in the agreement), all stock options previously granted to him will immediately become fully exercisable.

In early 1999, Mr. Siegel, Mr. Spiegel and Mr. Zutler voluntarily agreed to a reduction in his annual salary, with the other terms of his employment agreement remaining unaffected. Mr. Siegel's salary was reduced by \$100,000, Mr. Zutler's by \$15,000, and Mr. Spiegel's by \$30,000. In consideration for these salary reductions, we granted Mr. Siegel, Mr. Zutler, and Mr. Spiegel options to purchase 100,000, 15,000, and 30,000 shares of our common stock, respectively. In 2000 the salaries of the above-mentioned executives were returned to their original levels.

#### Stock Options

We did not make any awards of stock options during the last fiscal year to the executive officers named in the summary compensation table.

18

#### AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUE TABLE

<TABLE>  
<CAPTION>

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (Exercisable/Unexercisable) (#)	Value of Unexercised In-the-Money Options/SARs at FY-End (Exercisable/Unexercisable) (\$)
<S> Barry Siegel	<C> None	<C> 0	<C> 500,000/0	<C> \$314,500/ 0
Gerald M. Zutler	None	0	565,000/0	\$304,150/ 0
Barry J. Spiegel	None	0	316,666/0	\$227,500/ 0
Philip B. Kart	None	0	91,667/133,333	\$87,054/126,666

#### Item 11. Security Ownership Of Certain Beneficial Owners and Management and Related Stockholder Matters

##### EQUITY COMPENSATION PLAN INFORMATION

<TABLE>  
<CAPTION>

Plan Category	Shares to be issued upon exercise of outstanding options, warrants or stock rights(#)	Weighted average exercise price (\$)	Number of Securities Available for Future Issuance (#)
<S> Approved by Shareholders: Stock Option Plan	<C> 3,223,667	<C> \$ .88	<C> 3,776,333
Underwriters Warrants	68,970	\$2.17	0

Not Approved by Shareholders:

Consultant's Warrants	125,000	\$ .60	0
Private Placement Warrants	581,250	\$5.75	0

The following tables provide information about the beneficial ownership of our common stock as of March 20, 2002. We have listed each person who beneficially owns more than 5% of our outstanding common stock, each of our directors and executive officers identified in the summary compensation table, and all directors and executive officers as a group. Unless otherwise indicated, each of the listed shareholders has sole voting and investment power with respect to the shares beneficially owned.

19

SECURITY OWNERSHIP OF MANAGEMENT

<TABLE>  
<CAPTION>

Title of Class -----	Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Owner -----	Percentage of Common Stock (1) -----
<S>	<C>	<C>	<C>
Common stock	Barry Siegel c/o DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	2,272,697 (2) (3) (4)	20.0%
Common stock	Lisa Siegel c/o Barry Siegel DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	2,272,697 (2) (3) (4)	20.0%
Common stock	Gerald M. Zutler c/o DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	766,000 (5)	6.7%
Common stock	Barry J. Spiegel c/o DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	1,747,627 (6)	15.7%
Common stock	Philip B. Kart c/o DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	91,667 (7)	.8%
Common stock	Kenneth J. Friedman c/o DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	184,999 (8)	1.7%
Common stock	John M. McIntyre c/o DriverShield Corp. 51 East Bethpage Road Plainview, NY 11803	41,500 (9)	.4%
Common stock	All directors & officers as a group	5,104,490	41.1%

</TABLE>

(1) The percentages have been calculated in accordance with Instruction 3 to Item 403 of Regulation S-B. Percentage of beneficial ownership is calculated assuming 10,796,988 shares of common stock were outstanding on March 28, 2002.

(2) Includes 3,334 shares held by Barry Siegel as custodian for two nephews and 67 shares held directly by Barry Siegel's wife, Lisa Siegel. Both Barry and Lisa Siegel disclaim beneficial ownership of shares held by the other.

(3) Includes options held by Barry Siegel to purchase 500,000 shares of common stock exercisable within 60 days of March 28, 2002.

(4) Includes options held by Lisa Siegel to purchase 68,334 shares of common stock exercisable within 60 days of March 28, 2002.

(5) Includes options to purchase 565,000 shares of common stock exercisable within 60 days of March 28, 2002.

(6) Includes options to purchase 316,666 shares of common stock exercisable within 60 days of March 28, 2002.

(7) Includes options to purchase 91,667 shares of common stock exercisable within 60 days of March 28, 2002.

20

(8) Includes options to purchase 60,000 shares of common stock exercisable within 60 days of March 28, 2002.

(9) Includes option to purchase 15,000 shares of common stock exercisable within 60 days of March 28, 2002.

## Item 13. EXHIBITS AND REPORTS ON FORM 8-K

## (a) List of Exhibits

- 3.1 Restated and Amended Certificate of Incorporation filed herein.
- 3.2 Amended and restated By-laws of the Company, incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K dated December 28, 1998.
- 4.0 Shareholders Rights Agreement, dated as of December 28, 1998, between First Priority Group, Inc. and North American Transfer Co., as Rights Agent, together with Exhibits A, B and C attached thereto incorporated by reference to the Registrant's Registration Statement on Form 8-A filed on December 31, 1998.
- 10.1 The Company's 1995 Incentive Stock Plan incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the period ended September 30, 1996.
- 10.2 Lease Agreement dated December 6, 1996 between the Company and 51 East Bethpage Holding Corporation for lease of the Company's facilities in Plainview, New York incorporated by reference to Exhibit 10.3 of the Company's Form 10-QSB for the period ended June 30, 1997.
- 10.3 First Amendment to Lease Agreement dated July 14, 1997 amending the lease dated December 6, 1996 between the Company and 51 East Bethpage Holding Corporation incorporated by reference to Exhibit 10.4 of the Company's Form 10-QSB for the period ended June 30, 1997.
- 10.4 Severance Agreement dated August 17, 1998 between the Company and Michael Karpoff incorporated by reference to Exhibit 10.21 of the Company's Form 10-KSB for the year ended December 31, 1998.
- 10.5 Service Agreement dated November 29, 1999 between the Company, driversshield.com Corp., Electronic Systems Corporation and EDS Information Services L.L.C incorporated by reference and previously filed with the Commission.
- 10.6 Stock Purchase Agreement dated October 29, 2001 by and among PHH Vehicle Management Services, LLC, and driversshield.com Corp., and driversshield.com FS Corp incorporate by reference as Exhibit 10.1 to the Form 10-QSB for the period ended September 30, 2002.
- 13.1 Form 10-QSB for the quarter ending March 31, 2001 incorporated by reference and previously filed with the Commission.
- 13.2 Form 10-QSB for the quarter ending June 30, 2001 incorporated by reference and previously filed with the Commission.

- 13.3 Form 10-QSB for the quarter ending September 30, 2001 incorporated by reference and previously filed with the Commission.

## 21 List of subsidiaries filed herein.

## (b) Reports on Form 8-K

None

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DriverShield Corp

By: /s/ Barry Siegel

-----  
Barry Siegel  
Chairman of the Board of Directors,  
Treasurer, Secretary,  
Chief Executive Officer,

Date: April 1, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Barry Siegel

Date: April 1, 2002

-----  
Barry Siegel  
Chairman of the Board of Directors,  
Treasurer, Secretary,  
Chief Executive Officer,

By: /s/ Barry Siegel Date: April 1, 2002

-----  
Barry Siegel  
President  
Driversshield.com ADS Corp.  
Director

By: /s/ Philip Kart Date: April 1, 2002

-----  
Philip Kart  
Chief Financial Officer

By: /s/ Kenneth J. Friedman Date: April 1, 2002

-----  
Kenneth J. Friedman  
Director

By: /s/ John M. McIntyre Date: April 1, 2002

-----  
John M. McIntyre  
Director

24

INDEX OF EXHIBITS

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25

- 13.3 Form 10-QSB for the quarter ending September 30, 2001 incorporated by reference and previously filed with the Commission.
- 21 List of subsidiaries filed herein.

2

Report of Independent Certified Public Accountants

Board of Directors  
DriverShield Corp.  
Plainview, New York

We have audited the accompanying consolidated balance sheets of DriverShield Corp. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DriverShield Corp. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Melville, New York  
March 1, 2002

NUSSBAUM YATES & WOLPOW, P.C.

F-1

DRIVERSHIELD CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

<TABLE>  
<CAPTION>

ASSETS	2001	2000
	-----	-----
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 265,408	\$ 902,378
Accounts receivable	136,450	268,511
Investment securities	1,915,121	789,505
Prepaid expenses and other current assets	167,601	99,074
Investment in net assets of discontinued operations (Note 3)	32,000	331,580
Deferred tax assets	1,900,000	--
	-----	-----
Total current assets	4,416,580	2,391,048
Property and equipment, net	615,630	820,404
Security deposits and other assets	27,563	27,738
	-----	-----
Total assets	\$ 5,059,773	\$ 3,239,190
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 155,330	\$ 277,633
Accrued expenses and other current liabilities	433,796	163,358
Notes payable	--	14,644
	-----	-----
Total current liabilities	589,126	455,635
	-----	-----
Shareholders' equity:		
Common stock, \$.015 par value, authorized 30,000,000 shares; issued 11,516,655 shares in 2001 and 11,241,655 shares in 2000	172,750	168,625
Preferred stock all series, \$.01 par value, authorized 1,000,000 shares; none issued or outstanding	--	--
Additional paid-in capital	9,792,244	9,275,656
Accumulated other comprehensive income, unrealized holding gain on investment securities	680	3,570
Deficit	(4,011,993)	(5,181,262)
	-----	-----
Less common stock held in treasury, at cost, 719,667 shares in 2001 and 2000	1,483,034	1,483,034
	-----	-----
Total shareholders' equity	4,470,647	2,783,555
	-----	-----
Total liabilities and shareholders' equity	\$ 5,059,773	\$ 3,239,190
	-----	-----

</TABLE>

See notes to consolidated financial statements.



<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 2000	8,598,467	\$128,977	\$ 7,823,916	(\$4,095)	(\$5,429,014)	296,667	(\$ 119,162)	\$2,400,622
Net income	--	--	--	--	247,752	--	--	247,752
Unrealized holding gain arising during period	--	--	--	7,665	--	--	--	7,665
Comprehensive income								255,417
Exercise of options in exchange for tendered common shares	1,866,333	27,995	1,335,877	--	--	423,000	(1,363,872)	--
Exercise of underwriter warrants	776,855	11,653	(2,653)	--	--	--	--	9,000
Options granted for services	--	--	59,421	--	--	--	--	59,421
Registration costs	--	--	(16,002)	--	--	--	--	(16,002)
Short-swing profits reimbursed to Company	--	--	75,097	--	--	--	--	75,097
Balance, December 31, 2000	11,241,655	168,625	9,275,656	3,570	(5,181,262)	719,667	(1,483,034)	2,783,555
Net income	--	--	--	--	1,169,269	--	--	1,169,269
Unrealized holding loss arising during period	--	--	--	(2,890)	--	--	--	(2,890)
Comprehensive income								1,166,379
Shares issued in exchange for restriction agreement	175,000	2,625	74,813	--	--	--	--	77,438
Shares issued for services	100,000	1,500	148,500	--	--	--	--	150,000
Non-cash compensation recorded for variable priced options	--	--	240,236	--	--	--	--	240,236
Options and warrants granted for services	--	--	53,039	--	--	--	--	53,039
Balance, December 31, 2001	11,516,655	\$172,750	\$ 9,792,244	\$ 680	(\$4,011,993)	719,667	(\$1,483,034)	\$4,470,647

</TABLE>

See notes to consolidated financial statements.

F-4

DRIVERSHIELD CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

<TABLE>

<CAPTION>

	2001	2000
<S>	<C>	<C>
Cash flows provided by operating activities:		
Net income	\$ 1,169,269	\$ 247,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and asset impairment	408,751	282,051
Shares issued for restriction agreement	77,438	--
Shares issued for consulting services	150,000	--
Non-cash compensation	240,236	--
Options and warrants granted for services	53,039	59,421
Gain on sale of property and equipment	(3,198)	--
Deferred tax benefit	(1,900,000)	--
Realized loss on investment	--	1,518
Changes in assets and liabilities:		
Accounts receivable	132,061	1,526,229
Prepaid expenses and other current assets	(68,527)	(59,698)
Investment in net assets of discontinued operations	299,580	(331,580)
Security deposit and other assets	175	7,550
Accounts payable	(122,303)	(660,785)
Accrued expenses and other current liabilities	270,438	(584,209)
Total adjustments	(462,310)	240,497
Net cash provided by operating activities	706,959	488,249
Cash flows used in investing activities:		
Purchase of property and equipment	(216,379)	(413,361)
Purchase of investment securities	(1,128,506)	(47,095)
Proceeds from sale of investment securities	--	300,000
Proceeds from sale of property and equipment	15,600	--
Net cash used in investing activities	(1,329,285)	(160,456)
Cash flows provided by (used in) financing activities:		
Repayment of notes payable	(14,644)	(35,869)
Proceeds from short-swing profits	--	75,097
Registration costs	--	(16,002)
Proceeds from exercise of warrants	--	9,000
Net cash provided by (used in) financing activities	(14,644)	32,226
Net increase (decrease) in cash and cash equivalents	(636,970)	360,019



Cash and cash equivalents at beginning of year	902,378	542,359
	-----	-----
Cash and cash equivalents at end of year	\$ 265,408	\$ 902,378
	-----	-----
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$ 6,864	\$ 7,275
	-----	-----
Cash paid during the year for interest	\$ 1,500	\$ 4,500
	-----	-----

</TABLE>

See notes to consolidated financial statements.

F-5

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of DriverShield Corp. (formerly known as driversshield.com Corp.) and its wholly-owned subsidiaries (collectively referred to as the "Company"). All material intercompany balances and transactions have been eliminated.

Discontinued Operations

On February 7, 2002, the Company sold its fleet services business (see Note 3). The Company's consolidated balance sheets and statements of cash flows and the consolidated statements of income for the years ended December 31, 2001 and 2000 reflect the results of this business as Discontinued Operations. Accordingly, the 2000 financial statements have been reclassified. Prior to 2001, the fleet service business comprised the vast majority of the Company's business (86% of revenue in 2000). Although the Company only reported as one business segment, the Company operated as distinct businesses with separate major lines of businesses and classes of customers. Accordingly, upon the sale of the fleet services business, the Company determined that the fleet business should be reported as a discontinued operation.

Property and Equipment

Property and equipment are stated at cost. The Company provides depreciation for machinery and equipment and for furniture and fixtures by the straight-line method over the estimated useful lives of the assets, principally five years. Leasehold improvements are amortized over the estimated useful lives or the remaining term of the lease, whichever is less. Website development costs are amortized over the estimated useful life of three years on a straight-line basis.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investment Securities

Investments consist of securities available for sale and are carried at fair value with unrealized gains or losses reported in a separate component of shareholders' equity. Realized gains or losses are determined based on the specific identification method.

F-6

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company recognizes revenue for its collision repairs at the time of customer approval and completion of repair services. The Company warrants such services for varying periods ranging up to the period that the driver owns or operates the vehicle. Such warranty expense is borne by both the Company and the repair facilities; resulting from its management of the repair process, and the selection of facilities, warranty expense and has not been material to the Company. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), the Company has determined that the portion of its business representing automobile affinity services should be displayed in the financial statements on a net basis and recognized as such services are rendered.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make

estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Fair Value of Financial Instruments

o Cash and Cash Equivalents

The carrying amounts approximate fair value due to the short maturity of the instruments.

o Investments

Investments are stated at fair value as measured by quoted market prices.

o Notes Payable

The carrying amount of the Company's notes payable approximates fair value.

F-7

#### DRIVERSHIELD CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

1. Summary of Significant Accounting Policies (Continued)

#### Advertising Expense

Advertising expense, which is expensed as incurred, amounted to approximately \$96,000 and \$86,000 in 2001 and 2000.

#### Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 144, "Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. The provisions of this statement provide a single accounting model for impairment of long-lived assets.

The Company does not believe that this pronouncement will have a significant effect on the Company's financial position or results of operations.

2. Description of Business and Concentrations

The Company, through its fleet services subsidiary, had been, since its inception, engaged in automotive fleet management and administration of automotive repairs for major, nationally recognized corporate clients throughout the United States. It offered its clients a cost-effective method for repairing their vehicles by arranging for repair of the vehicles through its nationwide network of independently owned contracted facilities, and it also offered subrogation, salvage and appraisal services. This business was sold in 2002 (see Note 3).

The Company now offers similar collision repair management services for the insurance industry nationwide through a website on the Internet. Revenues for such services commenced in December 2001. In addition, the Company provides automobile affinity services for individuals which, to date, have been sold through large financial institutions. The Company believes that it operates in one operating business segment.

The Company is subject to credit risk through trade receivables. The Company does not obtain collateral or other security for its receivables. Such risk is minimized through contractual arrangements with its customers, as well as the size and financial strength of its customers. Based upon the Company's continuing operations, one customer accounted for 87% of the Company's sales in 2001 and 90% of its receivables at December 31, 2001, and 94% of its sales in 2000 and 98% of its receivables at December 31, 2000. The Company has no financial instruments with significant off-balance-sheet risk or concentration of credit risk.

F-8

#### DRIVERSHIELD CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

3. Discontinued Operations

On February 4, 2002, the Company's shareholders approved the sale of all the outstanding shares of a wholly-owned subsidiary, driversshield.com FS Corp. ("FS"), its collision repair and fleet services business, to PHH Vehicle Management Services, LLC d/b/a PHH Arval ("PHH"), a subsidiary of the Cendant Corporation (NYSE symbol "CD") for \$6.3 million in cash, in accordance with a Stock Purchase Agreement (the "Purchase Agreement") dated October 29, 2001 and, pursuant to the Preferred Stock Purchase Agreement of the same date, approved the sale of \$1.0 million of the Company's convertible preferred stock to PHH. These transactions were

consummated on February 7, 2002. The Company expects to record a pre-tax gain of approximately \$5.8 million in its first fiscal quarter of 2002 (see Note 14).

Pursuant to the Preferred Stock Purchase Agreement, PHH invested \$1.0 million to acquire 1,000 shares of the Company's Series A Convertible Preferred Stock, par value of \$.01 per share (the "Preferred Shares"). The Preferred Shares can be converted, at the holder's discretion, into 500,000 shares of the Company's common stock (subject to adjustments for stock splits, re-capitalization and anti-dilution provisions). Other key terms of the Preferred Shares include: voting rights, together with the common shareholders, on all matters, and separately on certain specified matters; a liquidation preference equal to 125% of their initial investment paid only in the event of dissolution of the Company; the nomination of one board member; certain pre-emptive rights and registration rights; and the approval of Preferred Shares for certain corporate actions.

The accompanying consolidated statements of operations and the consolidated balance sheets have been presented to reflect the sale of the fleet business as discontinued operations. Operating results of the discontinued fleet services operations for the years ended December 31, 2001 and 2000 are summarized as follows:

	2001	2000
	-----	-----
Revenues	\$ 14,358,976	\$ 12,610,948
Cost of sales	(11,959,279)	(10,368,412)
Selling, general and administrative	(1,475,455)	(1,190,761)
	-----	-----
Income from discontinued operations, pre-tax	\$ 924,242	\$ 1,051,775
	=====	=====

F-9

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

3. Discontinued Operations: Sale of Collision Repair and Fleet Services Business (Continued)

The investment in the net assets of discontinued operations, reflected in the accompanying consolidated balance sheets at December 31, 2001 and 2000, consisted of the following:

	2001	2000
	-----	-----
Cash	\$ 155,261	\$ 137,488
Accounts receivable, net	1,141,654	1,545,236
Prepaid expenses	2,450	--
Accounts payable and accrued expenses	(1,267,365)	(1,351,144)
	-----	-----
Net assets of discontinued operations	\$ 32,000	\$ 331,580
	=====	=====

4. Extraordinary Gain from Release of Indebtedness

In November 2001, the Company reached an agreement with Electronic Data Systems Corp. Both parties released each other from any and all existing claims, and terminated the arbitration and legal proceedings related to a dispute over website design. Accordingly, the Company recognized \$154,275 of extraordinary pre-tax gain related to indebtedness that had been previously recorded.

5. Investment Securities

<TABLE>  
<CAPTION>

	Cost	Fair Value	Unrealized Holding Gain
	-----	-----	-----
<S>	<C>	<C>	<C>
At December 31, 2001:			
Available for sale, 195,204 shares of Salomon Smith Barney Adjustable Rate Government Income Fund	\$1,914,441	\$1,915,121	\$ 680
	-----	-----	-----
At December 31, 2000:			
Available for sale, 80,624 shares of Salomon Smith Barney Adjustable Rate Government Income Fund	\$ 785,935	\$ 789,505	\$3,570
	-----	-----	-----

</TABLE>

## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 6. Property and Equipment and Asset Impairment

## Property and Equipment

	2001	2000
	-----	-----
Machinery and equipment	\$ 901,017	\$1,038,510
Furniture and fixtures	204,423	288,107
Leasehold improvements	22,485	19,886
Website development costs	539,416	353,438
	-----	-----
	1,667,341	1,699,941
Less accumulated depreciation and amortization	1,051,711	879,537
	-----	-----
	\$ 615,630	\$ 820,404
	=====	=====

## Asset Impairment

Pursuant to SFAS 121, "Accounting for the Impairment of Long Lived Assets and Long Lived Assets to Be Disposed of," the Company recorded impairment charges of \$58,719 at December 31, 2001 in the accompanying consolidated statement of income.

## 7. Notes Payable

In August 1998, the Company agreed to pay severance to its former Co-Chairman and President in the amount of \$100,000 including imputed interest of 8.5% in quarterly installments of \$12,500 commencing March 31, 1999. Amounts remaining on the note were paid in 2001.

## 8. Earnings Per Share

Basic earnings per share are computed by dividing the earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if common stock equivalents, such as stock options and warrants, were exercised. The computation of diluted earnings per common share in 2001 and 2000 excludes the effect of the assumed exercise of approximately 1,275,000 and 730,000 stock options and warrants that were outstanding as of December 31, 2001 and 2000 because the effect would be anti-dilutive.

## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 8. Earnings Per Share (Continued)

The reconciliations between basic and diluted earnings per common share are as follows:

<TABLE>  
<CAPTION>

	2001			2000		
	Net Income	Shares	Per-Share	Net Income	Shares	Per-Share
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic earnings per common share	\$1,169,269	10,709,111	\$.11	\$247,752	9,956,892	\$.02
Effect of dilutive securities, stock options and warrants	--	400,307	--	--	--	--
	-----	-----	----	-----	-----	----
Diluted earnings per common share	\$1,169,269	11,109,418	\$.11	\$247,752	9,956,892	\$.02
	=====	=====	====	=====	=====	====

</TABLE>

## 9. Stock Options

## Stock Compensation Plan

The Company accounts for its stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation expense is recognized. In 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) for disclosure purposes; accordingly, no compensation expense has been recognized in the results of operations for its stock option plans as required by APB Opinion No. 25. The Company has two fixed

option plans, the 1995 Stock Incentive Plan, and the 1987 Incentive Stock Option Plan. Under the plans, in the aggregate, the Company may grant options to its employees, directors and consultants for up to 7,000,000 shares of common stock. Under both plans, incentive stock options may be granted at no less than the fair market value of the Company's stock on the date of grant, and in the case of an optionee who owns directly or indirectly more than 10% of the outstanding voting stock ("an Affiliate"), 110% of the market price on the date of grant. The maximum term of an option is ten years, except in regard to incentive stock options granted to an Affiliate, in which case the maximum term is five years.

F-12

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

9. Stock Options (Continued)

Stock Compensation Plan (Continued)

For disclosure purposes, the fair value of each stock option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for stock options granted in 2001 and 2000, respectively: annual dividends of \$-0- for both years, expected volatility of 139% and 134%, risk-free interest rate of 4.18% and 6.24%, and expected life of five years for all grants. The weighted-average fair value of stock options granted in 2001 and 2000 was \$1.15 and \$.49, respectively.

Under the above model, the total value of stock options granted in 2001 and 2000 was \$51,824 and \$661,822, respectively, which would be amortized ratably on a pro forma basis over the related vesting periods, which range from immediate vesting to five years (not including performance-based stock options granted in 2001 and 2000, see below). Had compensation cost been determined based upon the fair value of the stock options at grant date consistent with the method of SFAS No. 123, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

	2001 -----	2000 -----
Net income (loss):		
As reported	\$1,169,269	\$ 247,752
Pro forma	\$ 337,965	(\$ 1,402,539)
Basic earnings (loss) per share:		
As reported	\$ .11	\$ .02
Pro forma	\$ .03	(\$ .14)
Diluted earnings (loss) per share:		
As reported	\$ .11	\$ .02
Pro forma	\$ .03	(\$ .14)

F-13

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

9. Stock Options (Continued)

Variable-Priced Options

In October 1999, the Company repriced certain options granted to employees and third parties, representing the right to purchase 2,200,000 shares of common stock. The grants gave the holders the right to purchase common stock at prices ranging from \$1.00 to \$1.24 per share. The options were repriced at prices ranging from \$.75 to \$.83 per share. At the date of the repricing, the new exercise price was equal to the fair market value of the shares (110% of the fair market value in the case of an affiliate). Pursuant to FASB interpretation No. 44, the Company accounts for these modified option awards as variable from the date of the modification to the date the awards are exercised, forfeited, or expire unexercised. For the year ended December 31, 2001, \$240,236 in non-cash compensation charges were recorded. No compensation was recorded through December 31, 2000.

Non-Incentive Stock Option Agreements

The Company has non-incentive stock option agreements with five of its directors and/or officers.

Summary

Stock options transactions (other than performance-based stock options) are summarized as follows:

<TABLE>  
<CAPTION>

Weighted

	Number of Shares	Exercise Price Range	Average Exercise Price
<S>	<C>	<C>	<C>
Options outstanding, January 1, 2000	3,960,000	\$.12 - \$3.75	\$ .91
Options granted	1,340,000	\$.31 - \$2.38	\$ .60
Options canceled	(140,000)	\$.75 - \$2.16	\$ 1.18
Options exercised	(1,866,333)	\$.14 - \$1.50	\$ .73
Options outstanding, December 31, 2000	3,293,667	\$.31 - \$3.75	\$ .87
Options granted	45,000	\$1.10 - \$1.49	\$ 1.27
Options canceled	(115,000)	\$.75 - \$1.56	\$ 1.11
Options outstanding, December 31, 2001	3,223,667	\$.31 - \$3.75	\$ .88
Options exercisable, December 31, 2000	2,090,000	\$.31 - \$3.75	\$ .93
Options exercisable, December 31, 2001	2,716,670	\$.31 - \$3.75	\$ .90

</TABLE>

F-14

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

9. Stock Options (Continued)

Summary (Continued)

The following table summarizes information about the options outstanding at December 31, 2001 other than performance-based stock options:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
<S>	<C>	<C>	<C>	<C>	<C>	
\$ .31 - \$1.00	2,568,667	2.63	\$ .59	2,158,336	\$ .62	
\$1.10 - \$2.00	350,000	2.59	\$1.50	350,000	\$1.50	
\$2.13 - \$3.75	305,000	2.13	\$2.60	208,334	\$2.81	

</TABLE>

10. Common Stock and Stock Warrants

In March 2001, the Company issued 175,000 shares of its common stock to an individual shareholder in consideration for the lock-up of certain shares owned by this individual, and the right to purchase the individual's shares under the same terms and conditions as previously granted to another group. The new shares were issued with a restrictive legend precluding their transferability for twelve months from the date of issue. Additionally, restrictions were placed upon the transfer of other shares held by this individual through December 31, 2001. The Company recorded the cost of this transaction as a non-operating, non-cash expense of \$77,438 in 2001.

In July 2001, the Company issued 100,000 shares of its common stock to an individual in consideration of a consulting agreement covering a one-year period ending June 30, 2002. The Company recorded the cost of the services based on the price per share of its common stock at the date of their issuance, aggregating \$150,000, and is amortizing the cost over the term of the contract.

During 2001, the Company granted warrants to acquire 100,000 of its common stock, at \$.53, and an additional 25,000 warrants to acquire 25,000 shares of its common stock at \$.87 per share (the fair market values at the dates of the grants) in consideration for certain consulting services. The Company recorded consulting expense in the amount of \$9,000, which was equal to the value of the services provided.

F-15

DRIVERSHIELD CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10. Common Stock and Stock Warrants (Continued)

In December 1997, the Company raised \$2,330,813 through the private placement issuance of 581,250 units at \$4.01 per unit. Each unit consisted of one share of common stock and a redeemable common stock purchase warrant at \$5.75 per share for a period of five years. Should the price of the Company's stock exceed \$11.50 per share for 20 consecutive trading days, the Company may request redemption of the warrants at a price of \$.01 per share. The warrant holders would then have 30 days in which to either exercise the warrant or accept the redemption offer.

In connection with the 1995 issuance of 1,000,000 shares of its common stock, the Company issued underwriter warrants to purchase 850,000 shares of its common stock at prices ranging from \$.125 to \$.50 per share. In 2000, all of these warrants were exercised.

On October 2, 2000, the shareholders of the Company approved an increase in the number of authorized shares of common stock from 20,000,000 to 30,000,000.

A \$10 million equity funding commitment, which provided the Company the option of drawing equity financing against an available line, expired in November 2001, and was unused during its twelve-month duration. The financing source was provided warrants to purchase 68,970 of the Company's common stock, at \$2.17 per share, in exchange for providing this line.

## 11. Preferred Stock Purchase Rights

On December 28, 1998, the Board of Directors authorized the issuance of up to 200,000 shares of non-redeemable Junior Participating Preferred Stock ("JPPS"). The JPPS shall rank junior to all other series of preferred stock (but senior to the common stock) with respect to payment of dividends and any other distributions. Among other rights, the holders of the JPPS shall be entitled to receive, when and if declared, quarterly dividends per share equal to the greater of (a) \$100 or (b) the sum of 1,000 (subject to adjustment) times the aggregate per share of all cash and non cash dividends (other than dividends payable in common stock of the Company and other defined distributions). Each share of JPPS shall entitle the holders to voting rights equal to 1,000 votes per share. The holders of JPPS shall vote together with the common stockholders. No shares of JPPS have been issued.

F-16

## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 11. Preferred Stock Purchase Rights (Continued)

On December 28, 1998, the Board of Directors also adopted a Rights Agreement ("the Agreement"). Under the Agreement, each share of the Company's common stock carries with it one preferred share purchase right ("Rights"). The Rights themselves will at no time have voting power or pay dividends. The Rights become exercisable (1) when a person or group acquires 20% or more of the Company's common stock (10% in the case of an Adverse Person as defined) and an additional 1% or more in the case of acquisitions by any shareholder with beneficial ownership of 20% or more on the record date (10% in the case of an Adverse Person as defined) or (2) on the tenth business day after a person or group announces a tender offer to acquire 20% or more of the Company's common stock (10% in the case of an Adverse Person as defined). When exercisable, each Right entitles the holder to purchase 1/1000 of a share of the JPPS at an exercise price of \$27.50 per 1/1000 of a share, subject to adjustment.

## 12. Employee Benefit Plan

The Company has a 401(k) profit sharing plan for the benefit of all eligible employees as defined in the plan documents. The plan provides for voluntary employee salary contributions from 1% to 15% not to exceed the statutory limitation provided by the Internal Revenue Code. The Company may, at its discretion, match within prescribed limits, the contributions of the employees. Employer contributions to the plan amounted to approximately \$16,800 in 2001 and \$12,300 in 2000.

## 13. Commitments and Contingencies

## Leases

The Company leases its executive office in Plainview, New York under a noncancelable operating lease, expiring June 30, 2002, which requires minimum annual rentals and certain other expenses including real estate taxes. A portion of the premise is subleased under a lease expiring June 2002. Sublease income was approximately \$51,000 and \$59,000 for the years ended December 31, 2001 and 2000, respectively. Rent expense including real estate taxes for the years ended December 31, 2001 and 2000 aggregated approximately \$199,000 and \$190,000, respectively.

At December 31, 2001, the Company's future minimum rental commitments, net of sublease income of \$19,000 in 2002, is \$79,000.

## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 13. Commitments and Contingencies (Continued)

## Employment Contracts

The Company has employment contracts with its four principal officers, three of which expire on December 31, 2004, and one expires on December 31, 2003. The agreements provide minimum annual salaries of \$300,000 to the Chief Executive Office ("CEO"), \$190,000 to the President, \$175,000 to the President of the ADS subsidiary, and \$155,000 to the Chief Financial Officer ("CFO"). The CEO's contract also specifies a one-time bonus award of \$250,000 plus additional stock options in recognition of the sale of the fleet business in February 2002. Another employment contract with a sales executive, which expires in 2002, provides for a base salary of \$110,000 plus incentive compensation for various levels of increased revenue, gross profit or claims processed. In connection with these employment contracts, 1,150,000 options were granted in February 2002.

The CEO's employment contract provides that, in the event of termination of the employment within three years after a change in control of the Company, then the Company would be liable to pay a lump-sum severance payment of three years' salary (average of last five years), less \$100, in addition to the cash value of any outstanding but unexercised stock options. The other employment contracts of the principal officers provide that, in the event of termination of the employment of the officer within one year after a change in control of the Company, then the Company would be liable to pay a lump sum severance payment of one year's salary, as determined on the date of termination or the date on which a change in control occurs, whichever is greater. In no event would the maximum amount payable exceed the amount deductible by the Company under the provisions of the Internal Revenue Code.

## 14. Income Taxes

The Company accounts for income taxes according to the provisions of Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes." Under the liability method specified by SFAS 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse.

## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 14. Income Taxes (Continued)

At December 31, 2001, the Company has an operating loss carryforward of approximately \$5,000,000, which is available to offset future taxable income. The Company expects to utilize most of the tax benefits from the loss carryforwards during 2002 as a result of the sale of its fleet services business (Note 3). At December 31, 2001, a valuation allowance of \$200,000 was recognized to offset the full amount of the net deferred tax assets arising from other sources plus \$100,000 related to the utilization of the loss carryforwards due to the uncertainty of realizing these assets in the future. At December 31, 2000, a valuation allowance was established to offset the full amount of the deferred tax asset of approximately \$1,780,000 since, at that date, it was more likely than not that the Company would not realize the benefit of the loss carryforwards.

In accordance with generally accepted accounting principles, the effect of the change in the beginning-of-the year balance of the valuation allowance (\$1,780,000) that resulted from a change in judgment about the realization of the deferred tax asset has been included in the tax benefit attributable to continuing operations.

At December 31, 2001, the Company's net operating loss carryforwards are scheduled to expire as follows:

Year ended December 31,	
2005	\$ 38,000
2008	36,000
2012	1,685,000
2018	1,975,000
2019	950,000
2021	316,000
	-----
	\$5,000,000
	-----



## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 14. Income Taxes (Continued)

Income tax expense (benefit) was allocated as follows:

	2001	2000
	-----	-----
Loss from continuing operations:		
Beginning of the year valuation allowance	(\$1,780,000)	\$ --
Current year continuing operations	(281,703)	(22,728)
	-----	-----
	(2,061,703)	(22,728)
Income from discontinued operations	144,454	30,003
Extraordinary gain	24,113	--
	-----	-----
	(\$1,893,136)	\$ 7,275
	-----	-----

Income tax expense (benefit) from continuing operations was comprised of the following:

	2001	2000
	-----	-----
Current tax expense (benefit):		
Federal	\$ --	\$ --
State and local	6,864	7,275
	-----	-----
	6,864	7,275
Deferred tax expense (benefit):		
Federal	(1,758,282)	(25,503)
State and local	(310,285)	(4,500)
	-----	-----
	(2,068,567)	(30,003)
	-----	-----
Income tax expense (benefit)	(\$2,061,703)	(\$22,728)
	=====	=====

F-20

## DRIVERSHIELD CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

## 14. Income Taxes (Continued)

A reconciliation of U.S. statutory federal income tax expense (benefit) to income tax expense (benefit) on earnings (loss) from continuing operations is as follows:

<TABLE>  
<CAPTION>

	2001		2000	
	Amount	%	Amount	%
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Expected tax (benefit) at U.S. statutory rate	(\$ 612,811)	(34.0%)	(\$ 270,895)	(34.0%)
State taxes, net of federal effect	(18,024)	(1.0)	(23,392)	(2.9)
Losses for which no tax benefit has been recognized	349,132	19.4	271,559	34.0
Increase (decrease) in valuation allowance	(1,780,000)	(98.8)	--	--
	-----	-----	-----	-----
Income tax expense (benefit)	(\$2,061,703)	(114.4%)	(\$ 22,728)	(2.9%)
	=====	=====	=====	=====

&lt;/TABLE&gt;

Deferred tax assets and liabilities consist of the following:

<TABLE>  
<CAPTION>

	2001	2000
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Net operating loss carryforwards	\$ 2,000,000	\$ 1,780,000

Deferred compensation	96,000	--
Other	39,000	--
	-----	-----
Deferred tax liability, other	2,135,000	1,780,000
	(35,000)	--
	-----	-----
Valuation allowance	2,100,000	1,780,000
	(200,000)	(1,780,000)
	-----	-----
Deferred tax asset	\$ 1,900,000	\$ --
	=====	=====

</TABLE>

AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
DRIVERSSHIELD.COM, INC.

Under Section 807 of the Business Corporation Law

driversshield.com, Inc., a corporation organized and existing under the laws of the State of New York (the "Corporation"), hereby certifies as follows:

1. The name of the corporation is driversshield.com, Inc. The Corporation was originally incorporated under the name Unisearch, Inc.

2. The certificate of incorporation of the Corporation was filed by the Department of State on the June 28, 1985.

3. The amendment and restatement of the certificate of incorporation herein certified was authorized by vote of a majority of the board of directors of the Corporation at a meeting held on October 29, 2001, and by vote of a majority of the outstanding shares of the Corporation entitled to vote thereon at a meeting held on February 4, 2002.

4. The amendment and restatement of the certificate of incorporation herein certified effects the following changes: (a) in Article First, it changes the name of the Corporation to "DriverShield Corp."; (b) it deletes the current Article Second and inserts in its place a new Article Second stating the purpose of the Corporation; (c) in Article Fourth, it designates 1,000 shares of Preferred Stock of the Corporation as "Series A Convertible Preferred Stock" and states the rights, preferences and limitations of the Series A Convertible Preferred Stock; and (d) it adds a new Article Tenth specifying that the affirmative vote of a majority of all outstanding shares of the Corporation entitled to vote thereon is required to approve (1) a plan of merger or consolidation to which the Corporation is party, (2) the sale, lease, exchange or other disposition of all or substantially all of the assets of the Corporation, or (3) a plan for a binding share exchange to which the Corporation is party.

5. The text of the certificate of incorporation is hereby amended and restated to read as follows:

FIRST: The name of the corporation (the "Corporation") is DriverShield Corp.

SECOND: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the Business Corporation Law of the State of New York. The Corporation shall not engage in any act or activity requiring the consent or approval of any state official, department, board, agency or other body without such consent or approval first being obtained.

THIRD: (a) The offices of the Corporation are located in the County of Nassau, State of New York.

(b) The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom any process in any action may be served, and the address to which the Secretary of State shall mail a copy of process in any action or proceeding against the Corporation which may be served upon it is:

DriverShield Corp.  
51 East Bethpage Road  
Plainview, New York 11803

FOURTH: The aggregate number of shares which the corporation has the authority to issue is thirty-one million (31,000,000), divided into two classes. The designation of each class, the number of share of each class, and the par value of the shares of each class, are as follows:

Number of Shares - - - - -	Class -----	Par Value per Share, if any -----
Thirty Million (30,000,000)	Common	\$ .015

One Million (1,000,000) Preferred \$0.01

The relative rights, preferences and limitations of the shares of each class are as follows:

Authorized Shares.

The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 31,000,000 shares of which 1,000,000 shares shall be Preferred Stock, having a par value of \$0.01 per share ("Preferred Stock"), and 30,000,000 shall be Common Stock, having a par value of \$0.015 per share (Common Stock). The Board of

3

Directors is expressly authorized to provide for the classification and reclassification of any unissued shares of Preferred Stock or Common Stock and issuance thereof in one or more classes or series without the approval of the stockholders of the Corporation.

4

Common Stock.

Relative Rights. The Common Stock shall be subject to all of the rights, privileges, preferences and priorities of the Preferred Stock as set forth in the certificate or certificates of designation filed to establish the respective series of Preferred Stock. Each share of Common Stock shall have the same relative rights as and be identical in all respects to all the other shares of Common Stock.

Voting Rights. Each holder of shares of Common Stock shall be entitled to attend all special and annual meetings of the stockholders of the Corporation and, share for share and without regard to class, together with the holders of all other classes of stock entitled to attend such meeting and to vote (except any class or series of stock having special voting rights), to cast one vote for each outstanding share of Common Stock so held upon any matter or thing (including, without limitation, the election of one or more directors) properly considered and acted upon by the stockholders, except as otherwise provided in this certificate of incorporation or by applicable law.

Dividends. Whenever there shall have been paid or declared and set aside for payment, to the holder of shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then the holders of record of the Common Stock and any class or series of stock entitled to participate therewith as to dividends, shall be entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available for the payment of dividends thereon.

Dissolution, Liquidation, Winding Up. In the event of any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of record of the Common Stock then outstanding, and all holders of any class or series of stock entitled to participate in the distribution of any assets of the Corporation remaining after the Corporation shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation or winding up, the full preferential amount (if any) to which they are entitled, and shall have paid or provided for payment of all debts and liabilities of the Corporation.

Preferred Stock.

Issuance, Designations, Powers, Etc. The Board of Directors expressly is authorized, subject to limitations prescribed by the New York Business Corporation Law and the provisions of this certificate of incorporation, to provide, by resolution and by filing an amendment to the certificate of incorporation pursuant to the New York Business Corporation Law, for the issuance from time to time of the shares of Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences and other rights of

the shares of each such series and to fix the qualifications, limitations and restrictions thereon, including, but without limiting the generality of the foregoing, the following:

(a) the number of shares constituting that series and the distinctive designation of that series;

(b) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any or payment of dividends on shares of that series;

(c) whether that series shall have voting rights, in addition to voting rights provided by law, and, if so, the terms of such voting rights;

(d) whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such retention, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(f) whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(g) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and

5

(h) any other relative powers, preferences and rights of that series, and qualifications, limitations or restrictions on that series.

Dissolution, Liquidation, Winding Up. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Preferred Stock of each series shall be entitled to receive only such amount or amounts as shall have been fixed by the certificate of incorporation or designations or by the resolution or resolutions of the Board of Directors providing for the issuance of such series.

Junior Participating Preferred Stock.

Designation and Amount; Rank. The shares of such series shall be designated as "Junior Participating Preferred Stock" (the "Junior Preferred Stock") and the number of shares constituting such series shall be 200,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Junior Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion or exchange of any outstanding securities issued by the Corporation convertible into or exchangeable for Junior Preferred Stock. The Junior Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up of the Corporation, junior to all other series of Preferred Stock and to all other classes preferred or special stock, and all series of any thereof, and senior to the Common Stock.

Dividends and Distributions.

Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock and of any shares of any other class of preferred or special stock, and any series of any thereof, ranking prior and superior to the shares of Junior Preferred Stock with respect to dividends, the holders of shares of Junior Preferred Stock, in preference to the holders of Common Stock, par value \$.015 per share, of the Corporation and of any other junior stock,

shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the fifteenth day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Junior Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$100.00 and (b) the sum of (i) the Adjustment Number (as defined below) times the aggregate per share amount of all cash dividends, and (ii) the Adjustment Number times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Junior Preferred Stock. The "Adjustment Number" shall be 1000, as adjusted from time to time pursuant to this paragraph (A). In the event the Corporation shall at any time after December 28, 1998 (i) declare or pay any dividend on the Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock into a greater number of shares, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

The Corporation shall declare a dividend or distribution on the Junior Preferred Stock as provided in paragraph (a) of this Article Fourth Section D immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in like shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$100.00 per share on the Junior Preferred Stock shall, when, as and if declared by the Board of Directors out of funds legally available for such purpose, nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

Dividends shall begin to accrue and be cumulative on outstanding shares of Junior Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Junior Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Junior Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid

6

dividends shall not bear interest. Dividends paid on the shares of Junior Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Junior Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Voting Rights. The holders of shares of Junior Preferred Stock shall have the following voting rights:

Each share of Junior Preferred Stock shall entitle the holder thereof to a number of votes equal to the Adjustment Number (as adjusted from time to time pursuant to Article Fourth Section D hereof) on all matters submitted to a vote of the shareholders of the Corporation.

Except as otherwise provided herein, in the Restated Certificate or by-laws, the holders of shares of Junior Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of

shareholders of the Corporation.

(i) If at any time dividends on any Junior Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") that shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly period on all shares of Junior Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, (1) the number of Directors shall be increased by two, effective as of the time of election of such Directors as herein provided, and (2) the holders of Junior Preferred Stock and the holders of other Preferred Stock upon which these or like voting rights have been conferred and are exercisable (the "Voting Preferred Stock") with dividends in arrears equal to six quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect such two Directors.

(ii) During any default period, such voting right of the holders of Junior Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Article Fourth Section D or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that such voting right shall not be exercised unless the holders of at least one-third in number of the shares of Voting Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Voting Preferred Stock of such voting right.

(iii) Unless the holders of Voting Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any shareholder or shareholders owning in the aggregate not less than 10% of the total number of shares of Voting Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Voting Preferred Stock, which meeting shall thereupon be called by the Chairman of the Board, the President, the Chief Executive Officer, any Vice President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Voting Preferred Stock are entitled to vote pursuant to this paragraph (3) (C) (iii) shall be given to each holder of record of Voting Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 10 days and not later than 60 days after such order or request or, in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than 10% of the total number of shares of Voting Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (3) (C) (iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, after the holders of Voting Preferred Stock shall have exercised their right to elect Directors voting as a class, (x) the Directors so elected by the holders of Voting Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class or classes of stock which elected the Director whose office shall have become vacant. References in this paragraph (3) (C) (iv) to Directors elected by the holders of a particular class or classes

7

of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Voting Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Voting Preferred Stock as a class shall terminate and (z) the number of Directors shall be such number as may be provided for in or pursuant to the Restated Certificate or By-Laws irrespective of any increase made pursuant to the provisions of this paragraph (3) (C) (v) (such number being subject, however, to change thereafter in any manner provided by law or in the Restated Certificate or By-Laws). Any

vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

Except as set forth herein, holders of Junior Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Certain Restrictions. (i) Whenever quarterly dividends or other dividends or distributions payable on the Junior Preferred Stock as provided in Article Fourth Section D are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Junior Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

- (i) declare or pay dividends on, or make any other distributions on, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Junior Preferred Stock;
- (ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Junior Preferred Stock, except dividends paid ratably on the Junior Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;
- (iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Junior Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (as to dividends and upon dissolution, liquidation or winding up) to the Junior Preferred Stock; or
- (iv) purchase or otherwise acquire for consideration any shares of Junior Preferred Stock, or any shares of stock ranking on a parity with the Junior Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section D(4), purchase or otherwise acquire such shares at such time and in such manner.

Reacquired Shares. Any shares of Junior Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock, without serial designation, and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (A) to the holders of Common Stock or shares of other stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Junior Preferred Stock unless, prior thereto, the holders of shares of Junior Preferred Stock shall have received per share an amount equal to the Adjustment Number times \$1.00, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (B) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Junior Preferred Stock, except distributions made ratably on the Junior Preferred Stock and all other



such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

Consolidation, Merger, Etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Junior Preferred Stock then outstanding shall at the same time be similarly exchanged or changed in an amount per share equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

No Redemption. The shares of Junior Preferred Stock shall not be redeemable.

Amendment. The certificate of incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Junior Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds of the outstanding shares of Junior Preferred Stock, voting together as a single class.

Fractional Shares. At the Corporation's sole discretion, Junior Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Junior Preferred Stock. Series A Convertible Preferred Stock.

Designation and Amount. Of the 1,000,000 authorized shares of Preferred Stock, 1,000 shares are hereby designated "Series A Convertible Preferred Stock" (the "Series A Preferred Stock") and possess the rights and preferences set forth below:

Initial Value. The initial value of each share of Series A Preferred Stock (the "Series A Initial Value") is \$1,000, subject to adjustment for stock dividends, combinations, splits, recapitalizations and the like with respect to the Series A Preferred Stock.

Dividends. Each share of Series A Preferred Stock is entitled to receive dividends in an amount equal to dividends declared and paid with respect to that number of shares of Common Stock into which one share of Series A Preferred Stock is then convertible, which dividends are payable as and when paid to holders of Common Stock.

Liquidation. (j) Upon occurrence of a liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary (any such event, a "Liquidating Event"), each holder of shares of Series A Preferred Stock will be entitled to receive out of the remaining assets of the Corporation available for distribution to stockholders, before any distribution of assets is made to holders of Common Stock or any other stock of the Corporation ranking junior to the Series A Preferred Stock as to dividends or liquidation rights, including without limitation the Junior Preferred Stock, an amount per share of Series A Preferred Stock (this amount, the "Series A Liquidation Amount") equal to 125% of the Series A Initial Value plus an amount equal to all accumulated and unpaid dividends (whether or not declared by the board of directors) on each share up to the date fixed for distribution. After payment of the full Series A Liquidation Amount, holders of shares of Series A Preferred Stock will not be entitled to participate any further in any distribution of assets by the Corporation. If upon occurrence of a Liquidating Event the assets of the Corporation available for distribution to its stockholders are insufficient to pay the holders of the Series A Preferred Stock the full Series A Liquidation Amount, holders of Series A Preferred Stock will share ratably in any distribution of assets so that each such holder receives, per share, the same percentage of the Series A Liquidation Amount.

Subject to applicable law, any non-cash assets of the Corporation that are legally available for distribution upon liquidation, dissolution, or winding up of the Corporation must be promptly liquidated by a liquidating trust or similar entity.

A reorganization, consolidation or merger of the Corporation or a sale or other

disposition of all or substantially all the assets of the Corporation will, at the election of holders of a majority of the then-outstanding shares of Series A Preferred Stock, constitute a Liquidating Event for purposes of this Section (j).

Optional Conversion. Each share of Series A Preferred Stock is convertible at the option of the holder into a number of fully paid and nonassessable shares of Common Stock determined by dividing the Series A Initial Value by the conversion price for the Series A Preferred Stock (the "Conversion Price") in effect on the date the certificate is surrendered for conversion as provided in Section 0. The Conversion Price is initially \$2.00, but is subject to adjustment as provided in Section 0.

Any holder of one or more shares of Series A Preferred Stock may exercise the conversion right under Section (k) as to any one or more of those shares by delivering to the Corporation during regular business hours, at the office of the Corporation or any transfer agent of the Corporation for the Series A Preferred Stock as may be designated by the Corporation, the one or more certificates for the shares to be converted, duly endorsed or assigned in blank or to the

9

Corporation (if required by it), accompanied by written notice stating that the holder is electing to convert those shares and stating the name or names (with address) in which the one or more certificates for shares of Common Stock are to be issued. Conversion will be deemed to have been effected on the date when a holder delivers as required by the previous sentence the one or more certificates for the shares to be converted (that date, the "Conversion Date"). As promptly as practicable thereafter, but in any event not later than 10 business days following the Conversion Date, the Corporation shall issue and deliver to or upon the written order of the holder, to the place designated by the holder, the one or more certificates representing the shares of Common Stock to which the holder is entitled and a check or cash in respect of any fractional interest in a share of Common Stock as provided in Section 0. The Person in whose name one or more certificates for Common Stock are to be issued will be deemed to have become a Common Stock holder of record on the applicable Conversion Date unless the transfer books of the Corporation are closed on that date, in which event that Person will be deemed to have become a holder of record on the next succeeding date on which the transfer books are open, but the applicable Conversion Price will be that in effect on the Conversion Date. Upon conversion of only a portion of the number of shares covered by a certificate representing shares of Series A Preferred Stock surrendered for conversion, the Corporation shall at its expense issue and deliver to or upon the written order of the holder of the certificate so surrendered for conversion, in addition to one or more certificates representing the shares of Common Stock to which shares of Series A Preferred Stock of the holder were converted, a new certificate (dated so as not to result in any loss of dividends) covering the number of shares of the Series A Preferred Stock representing the unconverted portion of the certificate so surrendered.

The Corporation will not issue any fractional shares of Common Stock or scrip upon conversion of shares of Series A Preferred Stock. If more than one share of Series A Preferred Stock is surrendered for conversion at any one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof must be computed on the basis of the aggregate number of shares of Series A Preferred Stock so surrendered. Instead of any fractional shares of Common Stock that would otherwise be issuable upon conversion of any shares of Series A Preferred Stock, the Corporation shall pay a cash amount equal to the then Current Market Price of a share of Common Stock on the trading day immediately preceding the Conversion Date multiplied by the fractional interest. Fractional interests are not entitled to dividends and holders of fractional interests are not entitled to any rights as stockholders of the Corporation in respect of those fractional interests. If the Corporation cannot legally pay any such cash amount, the Corporation shall pay it as soon thereafter as funds are legally available.

The Corporation shall pay all documentary or stamp taxes attributable to issuance or delivery of shares of Common Stock upon conversion of any shares of Series A Preferred Stock, if issued in the name of the record holder.

The Corporation shall reserve, free from preemptive rights, out of its

authorized but unissued shares of Common Stock and solely for the purpose of effecting conversion of the shares of Series A Preferred Stock sufficient shares to provide for the conversion of all outstanding shares of Series A Preferred Stock.

All shares of Common Stock issued upon conversion of shares of Series A Preferred Stock will, upon issuance by the Corporation, be validly issued, fully paid and nonassessable, with no personal liability attaching to the ownership thereof, and free from all taxes, liens or charges with respect thereto.

As used in this Section (k), "Current Market Price" means, with respect to the Common Stock as of any date, the following:

the mean between the highest and lowest quoted selling prices on the Nasdaq SmallCap Market (or any other securities exchange or trading market where the Common Stock is listed or traded) for that date or, if there are no sales on that date, the nearest preceding date on which there were one or more sales; or

if the Common Stock is not listed or traded on any securities exchange or trading market, the Current Market Price shall be determined as follows:

the board of directors shall determine the Current Market Price, and the Corporation shall give to holders of shares of Series A Preferred Stock written notice of that determination and the methodology used by the board of directors in arriving at that determination (that notice, a "Value Notice");

10

if the Corporation and holders of a majority of the shares of Series A Preferred Stock then outstanding agree in writing, no later than 15 days after the date of the Value Notice, that the board of directors' determination represents the Current Market Price, then that determination will apply;

if there is no such agreement, then no later than 21 days after the date of the Value Notice the Corporation, on the one hand, and holders of a majority of the shares of Series A Preferred Stock then outstanding, on the other hand, shall jointly select an independent appraiser whose determination of Current Market Price will be binding on the Corporation and each holder of shares of Series A Preferred Stock;

if the Corporation and holders of a majority of the shares of Series A Preferred Stock then outstanding are unable to agree upon the selection of an appraiser, then no later than 28 days after the date of the Value Notice the Corporation, on the one hand, and holders of a majority of the shares of Series A Preferred Stock then outstanding, on the other hand, shall deliver to the other a list of three independent appraisers, who must be recognized investment banks, and shall select, by written notice to the other, one appraiser from the list delivered by the other;

if either party fails to timely deliver a list of appraisers or select an appraiser from the list provided by the other party, the other party may select an appraiser from its list and that appraiser will serve as the sole appraiser;

the appraiser or appraisers selected must, within 15 days of being selected, determine the Current Market Price;

if two appraisers are selected and the lower of the two appraisals is at least 90% of the higher appraisal, then the Current Market Value will equal the average of the two appraisals, but if the lower of the two appraisals is less than 90% of the higher appraisal, then the two appraisers must appoint a third independent appraiser no later than seven days after the end of the 15-day period, and that third appraiser must, within 15 days of being selected, determine the Current Market Price, which will be equal to the average of all three appraisals;

any determination of Current Market Value in accordance with this clause (2) will be binding on the Corporation and each holder of Series A Preferred Stock; and

the Corporation shall bear all expenses and fees incurred in connection with the appraisal process.

Adjustment to Conversion Price. The Conversion Price is subject to adjustment from time to time as follows:

If the Corporation issues, after the date upon which any shares of Series A Preferred Stock were first issued (the "Original Issue Date"), any shares of Common Stock other than Excluded Securities (as defined below) ("Additional Stock") without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to that issuance of Additional Stock, the Conversion Price in effect immediately prior to each such issuance will automatically be adjusted to the price paid per share for that Additional Stock. For purposes of any adjustment of the Conversion Price pursuant to this Section 0, the following provisions apply:

In the case of issuance of Additional Stock for cash, the consideration will be deemed to be the amount of cash paid therefor after deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance.

In the case of issuance of Additional Stock for a consideration in whole or in part other than cash, the value of consideration other than cash will be deemed to be its fair value, determined as follows:

the board of directors shall determine the fair value of that consideration, and the Corporation shall give to holders of shares of Series A Preferred Stock written notice of that determination and the methodology used by the board of directors in arriving at that determination (that notice, a "Value Notice");

if the Corporation and holders of a majority of the shares of Series A Preferred Stock then outstanding agree in writing, no later than 15 days after the date of the Value Notice, that the board of director's determination represents the fair value of that consideration, then that determination will apply;

11

if there is no such agreement, then no later than 21 days after the date of the Value Notice the Corporation, on the one hand, and holders of a majority of the shares of Series A Preferred Stock then outstanding, on the other hand, shall jointly select an independent appraiser whose determination of value will be binding on the Corporation and each holder of shares of Series A Preferred Stock;

if the Corporation and holders of a majority of the shares of Series A Preferred Stock then outstanding are unable to agree upon the selection of an appraiser, then no later than 28 days after the date of the Value Notice the Corporation, on the one hand, and holders of a majority of the shares of Series A Preferred Stock then outstanding, on the other hand, shall deliver to the other a list of three independent appraisers, who must be recognized investment banks, and shall select, by written notice to the other, one appraiser from the list delivered by the other;

if either party fails to timely deliver a list of appraisers or select an appraiser from the list provided by the other party, the other party may select an appraiser from its list and that appraiser will serve as the sole appraiser;

the appraiser or appraisers selected must, within 15 days of being selected, determine the value of the consideration other than cash;

if two appraisers are selected and the lower of the two appraisals is at least 90% of the higher appraisal, then the value will equal the average of the two appraisals, but if the lower of the two appraisals is less than 90% of the higher appraisal, then the two appraisers must appoint a third independent appraiser no later than seven days after the end of the 15-day period, and that third appraiser must, within 15 days of being selected, determine the value, which will be equal to the average of all three appraisals;

any determination of the value in accordance with this clause (2) will be binding on the Corporation and each holder of Series A Preferred Stock; and

the Corporation shall bear all expenses and fees incurred in connection with the appraisal process.

In the case of issuance of options to purchase or rights to subscribe for Common

Stock, securities by their terms convertible into or exchangeable for Common Stock, or options to purchase or rights to subscribe for such convertible or exchangeable securities, the following provisions apply:

the aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock will be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in Sections 0 and 0), if any, received by the Corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby;

the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for any such convertible or exchangeable securities and subsequent conversion or exchange thereof will be deemed to have been issued at the time those securities were issued or those options or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for those securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional minimum consideration, if any, to be received by the Corporation upon the conversion or exchange of those securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in Sections 0 and 0);

on any change in the number of shares of Common Stock deliverable upon exercise of any such options or rights or conversion of or exchange for any such convertible or exchangeable securities or any change in the consideration to be received by the Corporation upon the exercise of any such options or rights or conversion of or exchange for any such convertible or exchangeable securities, other than a change resulting from the antidilution provisions thereof, the Conversion Price will forthwith be readjusted to the Conversion Price as would have obtained had the adjustment made upon the issuance of those options, rights or securities not exercised, converted or exchanged prior to that change or

12

options or rights related to those securities not exercised, converted or exchanged prior to such change been made upon the basis of that change; and

on expiration of any such options or rights, termination of any such rights to convert or exchange, or expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price will forthwith be readjusted to the Conversion Price as would have obtained had the adjustment made upon the issuance of such options, rights, securities or options or rights related to such securities been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon exercise of those options or rights, upon conversion or exchange of those securities or upon the exercise of the options or rights related to those securities and subsequent conversion or exchange thereof.

If, at any time after the Original Issue Date, the number of shares of Common Stock outstanding is increased by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then, upon the record date fixed for determining holders of Common Stock entitled to receive that stock dividend or upon the date of that subdivision or split-up, as applicable, the Conversion Price will be appropriately decreased so as to increase the number of shares of Common Stock issuable on conversion of each share of Series A Preferred Stock in proportion to that increase in outstanding shares of Common Stock.

If, at any time after the Original Issue Date, the number of shares of Common Stock outstanding is decreased by a combination or reverse split of the outstanding shares of Common Stock, then, upon the date of that combination or reverse split, the Conversion Price will be appropriately increased so as to decrease the number of shares of Common Stock issuable on conversion of each share of Series A Preferred Stock in proportion to that decrease in outstanding shares of Common Stock.

Subject to the provisions in Section 4(c), in the event, at any time after the Original Issue Date, of any capital reorganization or any reclassification of the stock of the Corporation (other than a change in par value or from par value

to no par value or from no par value to par value or as a result of a stock dividend or subdivision, split-up or combination of shares), or consolidation or merger of the Corporation with or into another Person (other than a consolidation or merger in which the Corporation is the continuing corporation and which does not result in any change in or any change in ownership of the Common Stock) or of sale or other disposition of all or substantially all the properties and assets of the Corporation as an entirety to any other Person, each share of Series A Preferred Stock will after that reorganization, reclassification, consolidation, merger, sale or other disposition be convertible into the kind and number of shares of stock or other securities or property of the Corporation, or of the corporation resulting from that consolidation or surviving that merger or to which those properties and assets were sold or otherwise disposed, to which the holder of the number of shares of Common Stock deliverable (immediately prior to the time of that reorganization, reclassification, consolidation, merger, sale or other disposition) upon conversion of those shares of Series A Preferred Stock would have been entitled upon such reorganization, reclassification, consolidation, merger, sale or other disposition. The provisions of this Section 0 will similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales, or other dispositions.

Whenever the Conversion Price is adjusted as provided in this Section 0, the Corporation shall forthwith file, at the office of the Corporation or any transfer agent designated by the Corporation for the Series A Preferred Stock, a statement, signed by its chief financial officer, showing in detail the facts requiring that adjustment, the Conversion Price then in effect, and computations demonstrating how the adjusted Conversion Price was arrived at. The Corporation shall also cause a copy of such statement to be sent by first-class certified mail, return receipt requested, postage prepaid, to each holder of shares of Series A Preferred Stock at its address appearing on the Corporation's records. Where appropriate, this copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of Section 0.

If the Corporation proposes to take any action of the types described in Section 0, the Corporation shall give notice to each holder of shares of Series A Preferred Stock, in the manner set forth in Section 0, specifying the record date, if any, with respect to that action and the date on which that action is to take place and setting forth any facts reasonably necessary to indicate the effect of that action (to the extent that effect may be known at the date of that notice) on the Conversion Price and the number, kind, or class of shares or other securities or property deliverable or purchasable upon

13

occurrence of that action or deliverable upon conversion of shares of Series A Preferred Stock. In the event of any action that would require the fixing of a record date, any notice required under this Section 0 must be given at least 20 days prior to the date so fixed, and in case of all other actions, any such notice must be given at least 30 days prior to the action is taken. Failure to give such notice, or any defect therein, will not affect the legality or validity of any such action.

As used in this Section 0, "Excluded Securities" means as follows:

options to purchase or rights to subscribe for shares of Common Stock that the Corporation issues to any director, officer, or employee of, or consultant to, the Corporation or any subsidiary of the Corporation under any stock option plan of the Corporation approved by the board of directors and that have an exercise price per share of at least \$1.25 or the Current Market Price at the time the option is granted, whichever is greater, except that if more than 500,000 of such options vest in any 12-month period beginning February 6, 2002, those excess options will not constitute Excluded Securities (the number of options vesting in the 12-month period beginning February 6, 2002, being deemed to include any options granted and vesting between October 29, 2001 and February 6, 2002);

shares of Common Stock issued upon the conversion of other securities of the Corporation;

shares of Common Stock issued as a stock dividend or upon any stock split or other subdivision or combination of Common Stock; and

shares of Common Stock issued pursuant to a firm-commitment underwritten public offering under an effective registration statement.

**Voting Rights.** Each holder of shares of Series A Preferred Stock is entitled to one vote for each share of Common Stock into which each share of Series A Preferred Stock could be converted, assuming a Conversion Price of \$2.00, and with respect to that vote, each holder has full voting rights and powers equal to the voting rights and powers of the holders of Common Stock and is entitled to vote, together with holders of Common Stock and not as a separate class (except as required by law), with respect to any question upon which holders of Common Stock have the right to vote. Any adjustment to the Conversion Price pursuant to Section 0 will not affect the voting rights provided for in this Section 0.

**Protective Rights.** The Corporation shall not do any of the following without the approval (given by written consent in lieu of a meeting or by vote at a meeting for which notice has been given in the manner specified in the bylaws of the Corporation) of holders of shares representing a majority of the shares of Series A Preferred Stock then outstanding:

amend, alter, or repeal any provision of the Corporation's certificate of incorporation or bylaws if that amendment, alteration, or repeal would affect the rights, powers, or preferences of holders of Series A Preferred Stock in their capacity as such;

authorize or issue any equity or debt security on a parity with or having preference or priority over the Series A Preferred Stock as to liquidation preferences, dividend rights, voting rights, or otherwise (including any additional shares of Series A Preferred Stock);

declare and pay, or set aside funds for the payment of, any dividend with respect to, or redeem, repurchase, or otherwise acquire for value (or pay into or set aside for a sinking fund for that purpose), any shares of capital stock, except for repurchase shares of Common Stock from employees or consultants of the Corporation at the original purchase price thereof pursuant to vesting agreements approved by the board of directors;

authorize or issue any equity or debt security with a liquidation preference in excess of the amount paid for that security; and

incur, or cause any Affiliate to incur, any indebtedness for borrowed money, or assume or guarantee, or cause any Affiliate to assume or guarantee, the indebtedness of any other Person, in excess of \$5,000,000 in the aggregate.

**Board Representation.** (1) Until such time as PHH Vehicle Management Services, LLC ("PHH VMS") and its Affiliates no longer own at least 500 shares of Series A Preferred Stock (as adjusted to give effect to stock dividends, stock splits, recapitalizations, and the like with respect to the Series A Preferred Stock), PHH VMS has the right to elect

14

one director of the Corporation (herein referred to as the "Series A Director"). The Series A Director must be either the chief executive officer or chief operating officer of PHH VMS or an individual who is nominated by PHH VMS and consented to by the Corporation.

The Series A Director must be elected by the affirmative vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock, either at a meeting of stockholders at which directors are elected or at a special meeting of holders of shares of Series A Preferred Stock or by written consent without a meeting in accordance with the Corporation's bylaws and applicable law. The Series A Director will serve for a term of one year and until his successor is elected and qualified. Any vacancy in the position of the Series A Director must be elected by the affirmative vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock.

To the extent permitted by applicable law, the Series A Director may, during his term of office, only be removed, with or without cause, by the affirmative vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock, either at a special meeting of holders of shares of Series A Preferred Stock or by written consent without a meeting in accordance with the

Corporation's bylaws and applicable law. Any vacancy created by removal of the Series A Director may also be filled at any such meeting or by any such consent in accordance with this Section (l).

For as long as the Series A Preferred Stock is entitled to elect the Series A Director, the Series A Preferred Stock is entitled to have an employee of PHH VMS or any of its Affiliates participate as an observer at meetings of the Corporation's board of directors.

Right of Participation. Each holder of one or more shares of Series A Preferred Stock is entitled to purchase that holder's Pro Rata Portion of any New Securities that the Corporation from time to time issues.

The "Pro Rata Portion" of any New Securities means, with respect to any holder of shares of Series A Preferred Stock, a proportion of those New Securities equal to the proportion of (1) the sum of (A) all of shares of Common Stock then outstanding, (B) all shares of Common Stock issuable upon conversion of all shares of Series A Preferred Stock then outstanding and any other securities of the Corporation then outstanding that are convertible into shares of Common Stock, and (C) all shares of Common Stock issuable upon exercise of any warrants or options then outstanding, that is represented by (2) all shares of Common Stock then issuable upon conversion of all shares of Series A Preferred Stock then outstanding held by that holder.

"New Securities" means (1) any shares of Common Stock or Preferred Stock, (2) any rights, options, or warrants to purchase shares of Common Stock or Preferred Stock, (3) any securities that are or may become convertible into or exchangeable for shares of Common Stock or Preferred, or (4) any rights, options, or warrants to purchase such convertible or exchangeable securities that, in each case, the Corporation issues after February 6, 2002, but does not include Excluded Securities.

If the Corporation proposes to issue New Securities, it shall give each holder of shares of Series A Preferred Stock written notice of that issuance, describing the type of New Securities and the price and general terms upon which the Corporation proposes to issue them. If a holder of shares of Series A Preferred Stock wishes to purchase any New Securities, it must within 15 days of its receipt of any such notice provide the Corporation with a written notice stating that it wishes to purchase New Securities for the price and upon the terms specified in the notice and stating how many New Securities (not to exceed that holder's Pro Rata Portion) it wishes to purchase.

If any holder of shares of Series A Preferred Stock exercises its right under Section (m), the closing of the purchase by that holder of the New Securities with respect to which it has exercised its right must take place within 30 days after the holder of shares of Series A Preferred Stock gives notice of its exercise. This period of time will be extended if necessary to permit the Corporation or that holder to comply with applicable law. Upon any exercise by any holder of shares of Series A Preferred Stock of its right under Section (m), the Corporation and that holder shall use commercially reasonable efforts to consummate the purchase contemplated thereby and shall use all reasonable efforts to secure any approvals required in connection therewith.

If any holder of shares of Series A Preferred Stock fails to or elects not to exercise its right under Section (m) within the 15-day period specified in Section 0, the remaining holders of shares of Series A Preferred Stock that have elected to

15

purchase their Pro Rata Portions will be entitled to purchase any New Securities that remain unpurchased. Each such holder will have the right to purchase those New Securities in the proportion their respective Pro Rata Portions. All such purchases must be made within the period specified for closing specified in Section 0. If after that period any New Securities remain unpurchased, the Corporation may within 90 days sell or enter into an agreement (pursuant to which the sale of New Securities covered thereby will be closed, if at all, within 60 days from the date of that agreement) to sell those New Securities at the price and upon the terms specified in the notice delivered by the Corporation pursuant to Section 0. If the Corporation has not sold the New Securities or entered into an agreement to sell the New Securities within that 90-day period (or sold and issued New Securities in accordance with the



foregoing within 60 days of the date of any agreement to sell those New Securities), the Corporation may not thereafter issue or sell any New Securities without first offering those New Securities to the holders of shares of Series A Preferred Stock in the manner provided in this Section (m). Any offer by the Corporation of New Securities in addition to those specified in the notice described in Section 0, whether on the same or different terms as are specified therein, must comply with the terms of this Section (m).

Information Rights. The Company shall promptly send to each holder of shares of Series A Preferred Stock annual audited financial statements and quarterly unaudited financial statements, annual budgets, any notice of shareholder meetings required by New York law, and such other information as a holders of a majority of outstanding shares of Series A Preferred Stock reasonably request. On a quarterly basis, the Company shall send to each holder of shares of Series A Preferred Stock notice of any sale of shares of Additional Stock during the previous quarter, which notice must include the price paid for, and the terms of, that Additional Stock.

Definitions. As used in this Article Fourth Section E, the following terms have the following meanings:

"Affiliate" means, with respect to any given Person, any other Person at the time directly or indirectly controlling, controlled by or under common control with that Person. For purposes of this definition, "control" means the possession, directly or indirectly, and solely or with others, of the power to direct or cause the direction of the management and policies of a Person through ownership of voting securities.

"Person" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, governmental authority or other entity.

FIFTH: The Secretary of State is designated as the agent of the Corporation upon whom process against the Corporation may be served. The post office address within the State of New York to which the Secretary of State shall mail a copy of any process against the corporation served upon him is: First Priority Group c/o Lawrence Muenz, Esq., 51 E Bethpage Road, Plainview, NY 11803.

SIXTH: The duration of the Corporation is to be perpetual.

SEVENTH: The following provisions are inserted for the regulation and conduct of the affairs of the Corporation and it is expressly provided that they are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

16

Meetings of the shareholders or directors of the Corporation for all purposes may be held at its office or elsewhere within or without the State of New York, at such place or places as may from time to time be designated in the by-laws, or by unanimous resolution of the board of directors.

All corporate powers except those which by law expressly require the consent of the shareholders shall be exercised by the board of directors.

The board of directors shall have the power from time to time to fix and determine and vary the amount of the working capital of the Corporation, and to direct and determine the use and disposition of any surplus or net profits over and above its capital, and in its discretion, the board of directors may use and apply any such surplus or accumulated profits in purchasing or acquiring bonds or other obligations of the corporation or its own capital shares, to such extent and in such manner and upon such terms as the board of directors shall deem expedient, but any such capital shares so purchased or acquired may be resold unless such shares shall have been retired in the manner provided by law for the purpose of decreasing the Corporation's capital.

Any one or more or all of the directors may be removed with or without cause, at any time, by the vote of the shareholders holding a majority of the shares of the Corporation entitled to vote at any special meeting and thereupon the term of such director or directors who shall have been so removed shall forthwith

terminate, and there shall be a vacancy or vacancies in the board of directors to be filled as provided in the by-laws.

Subject always to by-laws made by the shareholders, the board of directors may make by-laws and from time to time may alter, amend or repeal any by-laws, but any by-laws made by the board of directors may be altered or repealed by the shareholders.

Any one or more members of the board of directors of the Corporation or of any committee thereof may participate in a meeting of said board or of any such committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time.

EIGHTH: No holder of any of the shares of any class of the Corporation shall be entitled as a right to subscribe for, purchase, or otherwise acquire any shares of any class of the Corporation which the Corporation proposes to issue or any rights or options which the Corporation proposes to grant for the purchase of shares of any class of the Corporation or for the purchase of any shares, bonds, securities, or obligations of the corporation which are

17

convertible into or exchangeable for, or which carry any rights, to subscribe for, purchase or otherwise acquire shares of any class of the Corporation; any and all such shares, bonds, securities, or obligations of the Corporation, which are new or are hereafter authorized or created, may be issued, or may be reissued or transferred if the same have been reacquired and have treasury status, and any and all of such rights and options may be granted by the board of directors to such persons, firms, corporations and associations, and for such lawful consideration, and on such terms as the board of directors in its discretion may determine without first offering the same, or any thereof, to any said holder. Without limiting the generality of the foregoing stated denial of any and all preemptive rights, no holder of shares of any class of the Corporation shall have any preemptive rights in respect of matters, proceedings, or transaction specified in paragraphs (1) to (6) inclusive, of paragraph (a) of Section 622 of the New York Business Corporation Law.

NINTH: Except as may otherwise be specifically provided in this certificate of incorporation, no provision of this certificate of incorporation is intended by the corporation to be construed as limiting, prohibiting, denying or abrogating any of the general or specific powers or rights conferred under the New York Business Corporation Law upon the Corporation, upon its shareholders, bondholders and security holders, and upon its directors, officers and other corporate personnel including, in particular, the power of the Corporation to furnish indemnification to directors and officers in the capacities defined and prescribed rights of said persons in indemnification as the same are conferred by the New York Business Corporation Law.

TENTH: The affirmative vote of a majority of all outstanding shares entitled to vote thereon is required to approve (1) a plan of merger or consolidation involving the Corporation, (2) a sale, lease, exchange or other disposition of all or substantially all of the Corporation's assets not in the ordinary course of business, and (3) a binding share exchange involving the Corporation.

The undersigned is executing this certificate on February \_\_, 2002.

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Barry Siegel  
Chairman and CEO

List of Subsidiaries

Name - ----	State of Incorporation -----
DriverShield CRM Corp. DriverShield ADS Corp.	Delaware New York