

Old Interstate was a Delaware corporation engaged in the business of designing, marketing and administering service contracts and warranties for new and used motor vehicles, recreational vehicles and, to a lesser extent, watercraft, motorcycles and other vehicles.

At all times relevant to this Action, the members of the Board of Directors of Old Interstate included Chester J. Luby, Cindy H. Luby, Harvey Granat, Donald Kirsch and William H. Brown, all of whom are Defendants in this Action. At the time of the Transaction, Old Interstate had approximately 3.9 million shares outstanding. During the six and twelve month periods ending on June 3, 2002 (the last full day of trading of Old Interstate stock before the offer that is the subject of this Action was announced), the average closing prices of Old Interstate stock were approximately \$4.80 and \$5.13 per share, respectively. The closing price of Old Interstate stock on June 3, 2002 was \$4.63 per share. At the time of the Transaction, there were also 156,800 outstanding options and warrants to purchase the common stock of Old Interstate held by nineteen current and former employees of Old Interstate (excluding the Defendants and their spouses). The exercise price of the options and warrants varied between \$1.00 and \$6.75, with an average exercise price of \$4.762.

Prior to the Transaction, members of the Luby family (including Chester J. Luby, Joan Luby and Cindy H. Luby) owned 971,900 shares of common stock of Old Interstate, representing approximately 24.6% of the issued and outstanding shares.

In September 2000, Old Interstate's Board of Directors determined to actively pursue strategic alternatives, including a possible sale of the Company. On November 30, 2000, Old Interstate retained Legg Mason Wood Walker Incorporated ("Legg Mason") to act as its financial advisor, and on January 23, 2001, Old Interstate issued a press release announcing that it had retained Legg Mason and that it was exploring various strategic alternatives.

Following its engagement and the Company's announcement, Legg Mason actively marketed Old Interstate for sale. Legg Mason and Old Interstate identified 95 potential acquirers and contacted 81 candidates who Legg Mason and management determined to be the most capable and possibly interested in a transaction. Thirty-six of the potential buyers were strategic buyers, and 45 were financial buyers. Thirty-seven of the potential buyers executed non-disclosure agreements and received detailed information regarding Old Interstate. Ten of the potential buyers thereafter engaged in active discussions with Old Interstate and, at the request of Legg Mason, six of the potential buyers provided preliminary, non-binding indications of interest. Those indications of interest, which were made prior to any of the potential purchasers conducting due diligence, indicated proposed acquisition values of between \$5.00 and \$7.00 per share. However, each of the entities that submitted a preliminary indication of interest subsequently withdrew or declined to pursue its indication of interest because of the size of the Company or its financial performance.

In August 2001, one of the potential acquirers, Lynx Investment Management, L.P. ("Lynx"), entered into discussions with the Luby family regarding a proposed acquisition of Old Interstate by an entity to be owned by Lynx and the Luby family but controlled by Lynx. Lynx provided the Luby family with a preliminary term sheet reflecting a proposed purchase price of \$8.00 per share. Lynx indicated, however, that prior to commencing due diligence or negotiations, Lynx would require Old Interstate to agree to pay for all of Lynx's out-of-pocket expenses related to its due diligence, and to pay a break up fee if Old Interstate determined to enter into a transaction with another purchaser. The directors of Old Interstate, other than Chester J. Luby and Cindy H. Luby, determined that Lynx's conditions were not acceptable, and discussions between the Luby family and Lynx were terminated in or about October 2001.

On June 3, 2002, at a regular meeting of the Board of Directors, Chester J. Luby and Cindy H. Luby made a written proposal for an entity they controlled to purchase the issued and outstanding common stock of the Company for a price of \$6.00 per share. Mr. and Ms. Luby indicated that they had received indications of interest from two banks and believed that financing for the Transaction could be obtained.

Thereafter, at a meeting held on June 3, 2002, the Company's Board of Directors appointed a Special Committee, composed of Donald Kirsch, William Brown and Harvey Granat, to consider the Lubys' proposal. The Special Committee was empowered to negotiate the terms of the offer by the Luby family or to take such other steps as it believed necessary to improve the terms of the transaction for the stockholders.

Thereafter, the Special Committee retained Robinson Silverman Pearce Aronson & Berman, LLP ("Robinson Silverman"), regular outside counsel to the Company, to act as counsel to the Company and the Special Committee, and retained Legg Mason to serve as financial advisor to the Special Committee. Robinson Silverman disclosed to the Special Committee that it had from time to time in the past provided services to members of the Luby family. The Special Committee determined that it would benefit from Robinson Silverman's knowledge of the Company and experience in similar transactions, and that Robinson Silverman would provide effective and objective counsel to the Special Committee in negotiating with counsel for the Luby family, and therefore determined not to seek separate counsel. On July 1, 2002, Robinson Silverman combined its practice with that of Bryan Cave, LLP, and the combined firm (known as Bryan Cave, LLP) continued to act as counsel to the Company and the Special Committee.

In response to a suggestion by a large stockholder of the Company, Legg Mason considered the possibility of payment of a significant special dividend instead of a sale transaction. Legg Mason determined the transaction value of a special dividend payment to be between \$3.89 and \$7.20 per share, depending on the price-earnings assumption utilized.

While the Special Committee was authorized to seek other offers as an alternative to the proposed Transaction, it elected not to do so in light of the public sale process that had been conducted by Legg Mason from January 2001 through October 2001, and the public announcement in June 2002 of the proposed Transaction, including the price to be paid.

The Special Committee also discussed the potential for a price increase with representatives of the Luby family, but was advised by Mr. Luby that CHL was not prepared to offer or negotiate a higher price. The Special Committee considered whether to reject the proposed Transaction and terminate the merger discussions but determined that the proposed Transaction, including the proposed purchase price, was in the best interests of the Company's stockholders.

On September 26, 2002, the Special Committee met with Legg Mason and Bryan Cave. Legg Mason opined, subject to certain limitations, assumptions and qualifications, that the \$6.00 cash price per share proposed to be paid to the stockholders (other than the continuing stockholders) in the Transaction was fair from a financial point of view. Legg Mason subsequently delivered a written opinion to this effect. Based upon numerous factors, including the Legg Mason fairness opinion, the Special Committee recommended to the full Board that it adopt and approve the merger agreement with CHL (the "Merger Agreement") effectuating the Transaction.

Later on September 26, 2002, a special meeting of the full Board of Directors of Old Interstate was held to receive the recommendation of the Special Committee. The Board of Directors approved the Merger Agreement, with Chester J. Luby and Cindy H. Luby neither participating in the Board's discussions nor voting in connection with the proposed merger. Pursuant to

the Merger Agreement, each share of common stock would be converted into the right to receive \$6.00 in cash. Each outstanding option or warrant would be canceled and the holder thereof would receive cash in an amount equal to: (i) the excess of \$6.00 over the exercise price of the option or warrant, if any, multiplied by (ii) the number of shares subject to such option or warrant.

On September 30, 2002, Plaintiff Monroe Robertson ("Plaintiff"), a shareholder of Old Interstate, commenced this action as a purported class action on behalf of Old Interstate's stockholders, other than the continuing stockholders, alleging, *inter alia*, that Defendants failed to initiate an auction after they put the Company up for sale; that they were acting to further their own interests at the expense of the Company's stockholders; and that they breached their fiduciary duty in connection with the proposed Transaction by not acting to maximize shareholder value. The lawsuit sought, among other things, to enjoin the proposed Transaction or damages on behalf of the Class and sought payment of Plaintiff's attorneys' and experts' fees.

On October 16, 2003, upon agreement of the parties, the Court certified the Action as a class action pursuant to Chancery Court Rules 23(a), 23(b)(1) and 23(b)(2) on behalf of a class consisting of all persons who were owners of common stock of Old Interstate at any time from September 26, 2002 to and including January 9, 2003 and their successors in interest (except for Defendants and their affiliates) (the "Class") and appointed Plaintiff as Class representative.

Between October 2003 and March 2004, Plaintiff's counsel conducted extensive discovery, which included the review of thousands of pages of documents produced by Old Interstate and numerous third parties, and the depositions of Chester J. Luby and Harvey Granat. In addition, Plaintiff retained an independent financial advisor to assist him in the litigation.

On March 9, 2004, the Court denied a motion for summary judgment filed by Defendants, holding that the Transaction could be subject to the entire fairness standard, and if that standard applied, there were factual questions about whether it was met.

Subsequent to the denial of Defendants' motion for summary judgment, the parties engaged in extensive arms-length negotiations concerning a potential resolution of the Action. As a result of these negotiations, the parties agreed to a settlement of the Action, the terms of which were memorialized in a letter from Plaintiff's counsel to Defendants' counsel dated May 18, 2004. The principal terms of the settlement, as memorialized in the letter, were as follows:

(a) New Interstate would pay \$900,000 for the settlement of this Action (the "Settlement Payment");

(b) Plaintiff's claims for attorneys' fees and expenses would, to the extent allowed by the Court, be paid from the Settlement Payment;

(c) The Class would be expanded and recertified to include, in addition to members of the Class certified by the Court on October 16, 2003, the Settlement Class, consisting of all persons who held shares from January 10, 2003 through January 15, 2003, and all persons who held, at any time from September 26, 2002 to and including January 15, 2003, options and warrants to purchase shares of Old Interstate common stock (excluding the Defendants and the continuing shareholders);

(d) The balance of the Settlement Payment after payment of attorneys' fees and expenses awarded by the Court would be distributed *pro rata* to persons who held shares, options or warrants on January 15, 2003, according to the number of shares held by each such person, or deemed to be held by each such person, on that date. The number of shares deemed to be held by holders of common stock would be the number of shares of common stock held by such person. The number of shares held by holders of options and warrants would be deemed to be equal to the

product of: (i) the excess, if any, of \$6.00 over the exercise price of the option or warrant, divided by \$6.00, and (ii) the number of shares of common stock subject to the option or warrant; (Based on this calculation, the options and warrants will represent the equivalent of approximately 33,275 shares of common stock, less than 1.2% of the outstanding common stock not held by the Lubys or the other Defendants at the time of the Transaction.)

(e) The Action would be fully and finally dismissed, and Defendants would be released from all present and future claims asserted in the Action or relating in any way to the matters alleged in the Action;

(f) Defendants would be responsible for, and shall bear the costs of, providing notice to the Settlement Class as required by the Court and administering the settlement. None of these costs would be paid out of the Settlement Payment.

Thereafter, Plaintiff's counsel and Defendants' counsel negotiated the terms of, and executed, a Stipulation and Agreement of Compromise, Settlement and Release (the "Stipulation"), incorporating therein the terms and conditions of the settlement outlined in the letter dated May 18, 2004.

Plaintiff's counsel have determined that a settlement of the Action on the terms reflected in the Stipulation is fair, reasonable, adequate and in the best interest of Old Interstate shareholders.

The Defendants, to avoid the costs, disruption, and distraction of further litigation, and without admitting the validity of any allegations made in the Action, or any liability with respect thereto, have concluded that it is desirable that the claims against them be settled on the terms reflected in the Stipulation.

Although Plaintiff believes that the claims asserted in the Action have merit, he also believes that the pecuniary amount provided for in the Settlement is highly beneficial to the Settlement Class, sufficient when weighed against the attendant risks of continued litigation to warrant resolution of the Action. Plaintiff and his counsel have considered the expense and length of time necessary to prosecute the Action through trial; the defenses asserted by and available to the Defendants; the uncertainties of the outcome of the Action; and the fact that resolution of the Action, if the Court found in Plaintiff's favor, would likely be subject to appellate review, as a consequence of which it could be many years before there is a final adjudication of the Action. In light of these considerations and of Plaintiff's counsel's investigation and through review of the record developed in discovery and the legal principles applicable thereto, Plaintiff and his counsel have determined that the terms of the Settlement are fair, reasonable and adequate and that it is in the best interests of the Settlement Class to settle the Action on the terms set forth therein.

The Defendants have denied and continue to deny that they or any of them have committed or have threatened to commit any violation of law or breach of any duty owed to Plaintiff or the members of the Settlement Class, but they consider it desirable that the Action be settled and dismissed and that they receive releases, subject to the terms and conditions herein, because the Settlement will: (i) halt the substantial expense, inconvenience and distraction of continued litigation of Plaintiff's claims; and (ii) finally put to rest all claims of Settlement Class members arising out of or relating in any way to the Transaction.

III. SUMMARY OF THE SETTLEMENT

A. New Interstate has agreed to pay the Settlement Payment of \$900,000 for the settlement of this Action;

B. Plaintiff's claims for attorneys' fees and expenses will, to the extent allowed by the Court, be paid from the Settlement Payment;

C. The Class shall be expanded to include, in addition to members of the Class certified by the Court on October 16, 2003, the Settlement Class, consisting of all persons who held shares from January 10, 2003 through January 15, 2003, and persons who held, at any time from September 26, 2002 to and including January 15, 2003, options and warrants to purchase shares of Old Interstate common stock (excluding the Defendants and the continuing stockholders);

D. The balance of the Settlement Payment after payment of attorneys' fees and expenses awarded by the Court shall be distributed *pro rata* to persons who held shares, options or warrants on January 15, 2003, according to the number of shares held by each such person, or deemed to be held by each such person, on that date. The number of shares deemed to be held by holders of common stock shall be the number of shares of common stock held by such person. The number of shares held by holders of options and warrants will be deemed to be equal to the product of: (i) the excess, if any, of \$6.00 over the exercise price of the option or warrant, divided by \$6.00; and (ii) the number of shares of common stock subject to the option or warrant;

E. The Action will be fully and finally dismissed, and Defendants will be released from all present and future claims asserted in the Action or relating in any way to the matters alleged in the Action, as set forth more fully herein; and

F. Defendants shall be responsible for, and shall bear the costs of, providing notice to the Settlement Class as required by the Court and administering the Settlement. None of these costs shall be paid out of the Settlement Payment.

Pursuant to the Settlement, this Notice of the proposed Settlement was provided, printed and mailed by the Defendants at their expense.

IV. CLASS ACTION DETERMINATION

The Court has previously certified the Action as a class action pursuant to Chancery Court Rule 23 on October 16, 2003. Pursuant to the Scheduling Order entered by the Court on December 23, 2004, the previously-certified Class was expanded to be a Settlement Class defined as all record holders and beneficial owners of the common stock of Interstate National Dealer Services, Inc., or options or warrants to purchase common stock of the Company, on any day during the period from September 26, 2002 to and including January 15, 2003, other than Defendants and the continuing stockholders, including their legal representatives, heirs, successors in interest, transferees and assigns of all such foregoing holders and/or owners, immediate and remote.

At the Settlement Hearing, the Court will consider, among other things, whether the Settlement Class should be certified permanently. Members of the Settlement Class will be bound by the Settlement if the Settlement Class is permanently certified and is approved by the Court.

V. RELEASE AND DISMISSAL OF CLAIMS – ORDER AND FINAL JUDGMENT

If, after Notice and the Settlement Hearing provided for herein, the Court approves this Settlement, the parties shall jointly ask the Court to enter an Order and Final Judgment which will, among other things:

A. Approve the Settlement and adjudge the terms thereof to be fair, reasonable, adequate and in the best interests of the Settlement Class pursuant to Chancery Court Rule 23(e);

B. Authorize and direct performance of the Settlement in accordance with its terms and conditions and reserve jurisdiction to supervise the consummation of the Settlement;

C. Recertify the Action as a class action pursuant to Chancery Court Rules 23(a), 23(b)(1) and 23(b)(2) on behalf of the Settlement Class, with Plaintiff as class repre-

sentative and Plaintiff's counsel as counsel for the Settlement Class;

D. Completely discharge, dismiss with prejudice, settle, release and enjoin all claims, rights, demands, suits, matters, issues or causes of action, liabilities, damages, losses, obligations, and judgments of any kind or nature whatsoever, whether known or unknown, contingent or absolute, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, matured or unmatured, material or immaterial, that have been or could have been asserted in the Action or in any court, tribunal, or proceeding (including, but not limited to, any claims arising under federal or state law relating to alleged fraud, breach of any duty, negligence, violations of the federal securities laws or otherwise) by or on behalf of any person or member of the Settlement Class, whether individual, class, derivative, representative, legal, equitable, or any other type or in any other capacity against any other party in the Action, or any of their families, parent entities, associates, affiliates, or subsidiaries and each and all of their respective past, present or future officers, directors, stockholders, employees, consultants, representatives, agents, attorneys, law firms, advisors, insurers, engineers, accountants, trustees, financial advisors, commercial bank lenders, persons who provided fairness opinions, investment bankers, associates, general partners, limited partners, partnerships, heirs, executors, personal representatives, estates, administrators, predecessors, successor and assigns (collectively, the "Released Persons"), which relate in any manner to the allegations, facts, events, transactions, acts, occurrences, statements, representations, misrepresentations, omissions, or any other matter, thing or cause whatsoever, or any series thereof, embraced, involved, set forth or otherwise related, directly or indirectly, to the complaint in the Action, the Transaction, and any proxy statement, public filing or statement (including, but not limited to, public statements) by any of the Defendants in the Action or any other Released Persons in connection with the Transaction (collectively, the "Settled Claims"); provided, however, that the Settled Claims shall not include any claims for appraisal pursuant to Section 262 of the Delaware General Corporate Law or any claims to enforce the rights conferred by the Settlement;

E. Permanently barring and enjoining Plaintiff and all members of the Settlement Class from asserting, commencing, prosecuting or continuing, either directly, indirectly, individually, representatively, or in any other capacity, any of the Settled Claims as against any and all Released Parties;

F. Determining any award of attorneys' fees and reimbursement of expenses incurred by Plaintiff's counsel; and

G. Reserving jurisdiction over all matters relating to the administration and effectuation of the Settlement.

VI. SETTLEMENT HEARING

The Court has scheduled a Settlement Hearing which will be held in the New Castle County Courthouse located at 500 North King Street, Wilmington, DE 19801 on March 1, 2005 at 11 o'clock a.m. or at such later time or times as the Court may direct without further notice to determine whether to: (i) recertify the Action as a class action and expand the definition of the Class pursuant to Delaware Chancery Court Rule 23; (ii) approve the Settlement as fair, reasonable and adequate and in the best interests of the Settlement Class; (iii) enter the Order and Final Judgment, *inter alia*, dismissing the Action as to Defendants and releasing the Released Parties from the Settled Claims; (iv) grant the application of Plaintiff's counsel for an award of attorneys' fees and reimbursement of expenses; and (v) consider such other matters as the Court deems appropriate.

The Court has reserved the right to adjourn the Settlement Hearing from time to time by oral announcement at such Hearing or at any adjournment thereof, without further notice of any kind. The Court has also reserved the right to approve the Settlement with or without modification, to enter an Order and Final Judgment, and to order the payment of attorneys' fees and expenses, all without further notice of any kind.

VII. APPLICATION FOR ATTORNEYS' FEES AND EXPENSES

At or before the Settlement Hearing, Plaintiff intends to seek an award of attorneys' fees to Plaintiff's counsel and reimbursement of costs and expenses in the aggregate sum of no greater than \$315,000 for their services in the Action, such award to be paid from the Settlement Payment. The Defendants will not oppose such request. Except as provided in this paragraph, none of the Defendants have agreed to be liable for payment of any attorneys' fees or expenses of Plaintiff or any members of the Settlement Class in connection with the Action.

VIII. RIGHT TO APPEAR AT THE SETTLEMENT HEARING

Any member of the Settlement Class who objects to the Stipulation, the Settlement, the class action determination, the Order and Final Judgment proposed to be entered in the Action, and/or the application for attorneys' fees and reimbursement of expenses, or who otherwise wishes to be heard, may appear in person or by counsel, at their own expense, at the Settlement Hearing and present evidence or argument that may be proper or relevant; provided, however, that no person other than counsel for the Settlement Class and counsel for the Defendants in the Action shall be heard and no papers, briefs, pleadings or other documents submitted by any person shall be considered, except by court order for good cause shown, unless not later than ten (10) days prior to the Settlement Hearing such person files with the Court and serves upon counsel listed below: (a) a written notice of intention to appear; (b) a detailed statement of such person's specific objections to any matters before the Court; and (c) the grounds for such objections and the reasons that such person desires to appear and be heard, as well as all documents or writings such person desires the Court to consider. Such filings shall be served by overnight mail or hand delivery upon each of the following counsel prior to filing such documents with the Court, and then filed with the Register in Chancery, New Castle County Courthouse, 500 North King Street, Wilmington, DE 19801:

Barry M. Klayman
WOLF, BLOCK, SCHORR
and SOLIS-COHEN, LLP
Wilmington Trust Center
1100 North Market Street
Suite 1001
Wilmington, DE 19801

Carmella P. Keener
ROSENTHAL, MONHAIT,
GROSS & GODDESS, P.A.
919 Market Street
Suite 1401
P.O. Box 1070
Wilmington, DE 19801

Kenneth Nachbar
MORRIS, NICHOLS, ARSHT
& TUNNELL
1201 North Market Street
P.O. Box 1347
Wilmington, DE 19899-1347

Unless the Court otherwise directs, no person shall be entitled to object to the approval of the Settlement, the Order and Final Judgment entered herein, the adequacy of the representation of the Settlement Class by Plaintiff and his counsel, any award of attorneys' fees or reimbursement of expenses, or otherwise be heard, except by serving and filing a written objection as prescribed above.

Any person who fails to object in the manner described above shall be deemed to have waived the right to object, including any right of appeal, and shall be forever barred from raising such objection in this or any other action or proceeding.

IX. NOTICE TO PERSONS OR ENTITIES HOLDING OWNERSHIP ON BEHALF OF OTHERS

Brokerage firms, banks and/or other persons or entities who bought or held shares of Interstate National Dealer Services, Inc. common stock at any time during the Class Period for the benefit of others are requested promptly to send this Notice to all their respective beneficial owners. If additional copies of the Notice are needed for forwarding, any requests for such additional copies may be made to:

Interstate National Dealer Services, Inc.
Securities Litigation
c/o Heffler, Radetich & Saitta L.L.P.
P.O. Box 58459
Philadelphia, PA 19102-8459

In the alternative, record holders may forward the names and addresses of the beneficial owners during the Class Period, and for those owners holding shares on January 15, 2003, the number of shares held, to the Defendants at the foregoing address, who will cause the Notice to be sent.

X. SCOPE OF THIS NOTICE

This Notice is not all-inclusive. The references in this Notice to the pleadings in the Action, the Stipulation and other papers and proceedings are only summaries and do not purport to be comprehensive. For the full details of the Action, claims that have been asserted by the parties, and the terms and conditions of the Settlement, including a complete copy of the Stipulation, members of the Settlement Class are referred to the Court files in the Action. You or your attorney may examine the publicly available Court files during regular business hours of each business day at the office of the Register in Chancery, Court of Chancery, New Castle Courthouse, 500 North King Street, Wilmington, DE 19801.

DO NOT CALL OR WRITE THE COURT.

Dated: January 14, 2005

ENTERED BY ORDER OF THE COURT

Register in Chancery

Interstate National Dealer Services, Inc.
Securities Litigation
c/o Heffler, Radetich & Saitta L.L.P.
P.O. Box 58459
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