

**A FEASIBILITY STUDY TO DETERMINE THE ECONOMICS OF  
INDUSTRIAL EMERGENCY SERVICES, L.L.C.  
PURCHASING AN EXISTING FIRE TRAINING ACADEMY  
IN AXIS, ALABAMA**

**STRATEGIC ANALYSIS OF EXECUTIVE LEADERSHIP**

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as part of the Executive Fire Officer Program

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## ABSTRACT

This research project evaluated the economics of Industrial Emergency Services, L.L.C. (IES) purchasing an existing fire training academy located in Axis, Alabama, which had been foreclosed upon by the lender (the Bank).

IES is a for-profit, private sector fire department that provides contract emergency response personnel (firefighters) to oil refineries and chemical plants. IES has a significant, legally mandated, live-fire training requirement which must provide for realistic training which reasonably prepares its employees to safely perform the emergency response actions required by the company.

In the Spring of 2000, IES had identified the need to develop its own proprietary fire training academy due to its projected growth and the lack of timely access to existing (public) fire training schools. Amongst its options, IES had considered building its own "grass roots" training academy, but had discounted its feasibility based upon capital cost, site selection, environmental permitting, and demand for IES senior staff time.

On August 7, 2000 IES learned that the subject facility was in receivership, and began efforts to negotiate an offer for the facility which would be acceptable to the Bank. IES believed that the opportunity to acquire an existing petrochemical fire training facility at a "distressed" price represented a tremendous opportunity.

Agreement was reached in principle to purchase the facility for \$625,000 on 13 July 2001, and IES entered into a lease agreement with the Bank on 15 September 2001, where upon IES could gain access to the site in order to conduct "due diligence".

The purpose of this applied research project was to examine the financial aspects of the due diligence process. Specifically, whether Industrial Emergency Services, L.L.C. should purchase the subject fire training academy. The evaluative method was used. The following research questions were posed:

1. What will be the costs of operating the facility (both fixed and variable)?
2. What is IES' use of the facility projected to be?
3. What outside use of the facility is expected?
4. What are IES current training costs?
5. Based upon the cost of the facility, the anticipated use of the facility, and current competitive costs, what is the break-even analysis for the facility?
6. Based upon the capital value of the facility, is its purchase a good investment?
7. Should IES buy the facility?

The questions were researched, mainly through IES internal documents, Bank documents, and information sources specific to the subject property. Fixed and variable costs were determined and a break-even analysis was conducted.

Based solely upon financial analysis, utilizing the assumptions that were included in the research process, the result of the research was that IES ***should not*** purchase the subject property.

However, the assumptions may have been too conservative, and there may have been additional, non-financial, compelling reasons to purchase the facility anyway. These issues are discussed, and due to the limitations on time available to complete the research, recommendations for continued research are offered.



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## INTRODUCTION

Industrial Emergency Services, L.L.C. (IES) provides “comprehensive In-Plant Emergency Response and Related Support Services for the refining, chemical, and high-hazard industries”.<sup>1</sup>

The emergency response services performed by IES, require specific, and legally mandated training of IES employees. IES firefighters currently attend quarterly live-fire training involving the control and extinguishment of flammable liquid (hydrocarbon) and flammable gas (liquefied petroleum gas) fires.

Live-fire training is currently procured at outside (non-IES owned) fire training schools that offer petroleum/LPG firefighting props, such as Lamar University (Beaumont, Texas), and Louisiana State University (Baton Rouge, Louisiana).

There are significant costs associated with acquiring training at these fire schools. Additionally, the scheduling of training at these schools can be difficult, forcing IES to train at times not convenient to the company.

At the time of this study IES had identified several significant potential growth opportunities. The ability to train new IES firefighters was deemed to be a “critical-path” item in order to fulfill these new contracts. Said differently, IES management believed that if it did not develop a means to train recruit firefighters and the officers necessary to fulfill new contracts, IES would have to potentially pass on the additional work, significantly reducing IES’ profitability.

IES management had been discussing the options of building its own fire training academy, along with other options to improve access to firefighting training when it learned of a unique opportunity. Early in 2000, IES management learned of the

foreclosure of a fire training academy in Axis, Alabama. The academy had been purpose-built to train industrial firefighters of the Greater Mobile (AL) Emergency Preparedness Association (GMEPA, or “the Association”). A five- (5) year loan had been procured by GMEPA with a balloon payment at maturity. At maturity, GMEPA was unable to refinance the loan and Regions Bank (the lender) foreclosed on the property.

On 13 July 2001, IES entered into an “agreement in principle” to purchase the fire training academy from Regions Bank, concurrent to IES performing “due diligence” on the property, and IES being found to be “credit worthy” by Regions Bank.

On 15 September 2001, IES agreed to lease the training academy from Regions Bank through year-end 2001, in order gain access to the property to facilitate the performance of “due diligence”. Part of that due diligence was for IES to conduct a feasibility study to determine if the purchase of the training academy made good business sense for IES.

Thus, the problem that prompted this research project was that while IES management found the purchase of the fire training academy attractive in an operational sense, management did not know whether the purchase was attractive in a financial sense.

The purpose of this research was to evaluate whether Industrial Emergency Services, L.L.C. should purchase the subject fire training academy. The evaluative method was used. The following research questions were posed:

1. What will be the costs of operating the facility (both fixed and variable)?
2. What is IES’ use of the facility projected to be?
3. What outside use of the facility is expected?
4. What are IES current training costs?



5. Based upon the cost of the facility, the anticipated use of the facility, and current competitive costs, what is the break-even analysis for the facility?
6. Based upon the capital value of the facility, is its purchase a good investment?
7. Should IES buy the facility?

This applied research project was conducted to meet three requirements:

1. the corporate needs of Industrial Emergency Services, L.L.C.
2. the class requirements of Public Sector Finance (EFL-624) at Grand Canyon University (Phoenix, Arizona) where the author is pursuing a Master of Science Degree in Executive Fire Service Leadership.
3. the applied research requirement for Strategic Analysis of Executive Leadership as part of the National Fire Academy's Executive Fire Officer Program.

The research required for the Grand Canyon University class was completed and the initial research published on October 1, 2001. Additional research was then conducted, especially a more comprehensive Literature Review, in order to meet the National Fire Academy applied research criteria. Thus, this report carries a revised publication date of May 2002. Due to the timing of this revision, in some cases, tense may appear awkward.

## **BACKGROUND AND SIGNIFICANCE**

IES is a for-profit, private sector fire department that provides contract emergency response personnel (firefighters) to oil refineries and chemical plants. IES has a significant, legally mandated, live-fire training requirement which must provide for



realistic training which reasonably prepares its employees to safely perform the emergency response actions required by the company.

In the Spring of 2000, IES had identified the need to develop its own proprietary fire training academy due to its projected growth and the lack of timely access to existing (public) fire training schools. Amongst its options, IES had considered building its own "grass roots" training academy, but had discounted its feasibility based upon capital cost, site selection, environmental permitting, and demand for IES senior staff time.

In early Summer 2000, IES learned that the subject facility was in receivership, and began efforts to negotiate an offer for the facility which would be acceptable to the Bank. IES believed that the opportunity to acquire an existing petrochemical fire training facility at a "distressed" price represented a tremendous opportunity.

IES staff began researching the background of the subject facility and more importantly why it failed.

On 07 August 2000, IES Chiefs Andrews and Deonarine traveled to Mobile, AL to tour the subject facility and meet with representatives of Regions Bank.

On 07 August 2000, Andrews and Deonarine also met with Charles Moye of Ciba Specialty Chemicals Corporation USA, in Mobile AL. In addition to other business topics, Andrews and Deonarine inquired as to the past history of the site, and as to Mr. Moye's opinion as to whether the original local participants in the training facility, would use the facility again if it were to be reopened. Mr. Moye responded in the affirmative.

On 11 August 2000, IES Sent a "Letter of Intent to Purchase Training Center" to Regions Bank (L. G. Deonarine, personal communication). The price offered was the foreclosed value of \$691,000.

On 22 August 2000, Regions Bank responded, and indicated that it was their practice to “entertain only offers to purchase with earnest money deposits (B. E. Austin, Jr., personal communication).

On 18 September 2000, IES sent \$6,910 (representing 1% of the offer price) as earnest money to Regions Bank (L. G. Deonarine, personal communication).

On 25 September 2000, Regions Bank countered with a sales price of \$750,000 (B. E. Austin, Jr., personal communication).

On 29 September 2000, IES accepted the terms of Regions Bank’s counter-offer, with the conditions explained in “Attachment 1” (L. G. Deonarine, personal communication).

This 29 September 2000, submittal was significant as it contained a list of “due diligence” items that IES expected to have completed before any purchase was formalized. Additionally, it requested significant data and documents from Regions Bank. This entire correspondence can be found as “Appendix A” in this report.

On 07 November 2000, Andrews sent a request to Charles Moye of Ciba Specialty Chemicals (R. C. Andrews, Jr., personal communication). In the letter Andrews solicited Moye’s assistance in three areas as follows:

1. Inform the members of the Greater Mobile Industrial Association (GMIA) of IES’ interest in purchasing and reopening the training facility.
2. Inquire amongst the GMIA members of their interest of using the facility, if reopened.
3. Ask for assistance to rebuild the design and operational documentation for the facility.

This correspondence can be found as “Appendix B” in this report.

Negotiations with the bank got “bogged down” at this point, reportedly due to difficulty in meeting IES’ information request, as well as personnel changes at Regions Bank.

On 05 June 2001, negotiations resumed with Regions Bank advising that it had no documentation to produce for IES other than two surveys [appraisals] (M. Garner, personal communication).

On 05 July 2001, based upon the lack of facility documentation, IES resubmitted an offer to purchase the property at a price of \$600,000.

On 09 July 2001, Regions Bank countered IES’ offer at \$675,000.

An agreement was reached in principle to purchase the facility for \$675,000 on 13 July 2001 (L. G. Deonarine, personal communication). This correspondence can be found as “Appendix C” in this report.

On 15 September 2001, IES entered into a lease agreement with the Bank, where upon IES could gain access to the site in order to conduct “due diligence”. This lease agreement can be found as “Appendix D” in this report.

The significance of the negotiation process with the Bank at the time of this research was two-fold. First, there had to be agreement on price between the two parties (IES and the Bank). Second, IES had to conduct due diligence to determine if the facility was worth the money, and then develop a business model to determine if the facility was commercially viable.

Once IES had obtained commitment from the bank that it would sell the facility, IES could begin its cost modeling and marketing efforts in the Mobile, AL area.



This applied research project was significant to Industrial Emergency Services, L.L.C., as IES had to determine under what conditions it could afford to purchase and operate the facility.

Based upon the term of the lease, IES has until the end of 2001 to complete its due diligence. The Bank expects at the end of the year for IES to either make good on the purchase, or remove itself from the purchasing process.

The stated course goal of the Strategic Analysis of Executive Leadership (SAEL) is as follows:

“The chief fire executive will develop the ability to conceptualize and employ the key processes used by effective executive level managers.”<sup>2</sup>

This applied research project, “A Feasibility Study to Determine the Economics of Industrial Emergency Services, L.L.C. Purchasing an Existing Fire Academy in Axis, Alabama” relates to the National Fire Academy SAEL Course in the following ways:

1. Leadership is required to champion major changes and new initiatives in the fire department. The purchase of the subject training academy would be a major new initiative for IES.
2. Major initiatives must be viewed in the context of “organizational subsystems” including technical, goals and values, managerial, structural, and psychosocial subsystems. This research included the impact of the training academy purchase on IES’ recruiting, training, human resources, marketing, business development, safety, work flow, career development, strategic goal-setting, and financial subsystems.

3. The chief fire executive must be proficient in managing multiple roles. As the “advocate” for the purchase of the training academy, and the principle investigator for the applied research, I had to manage the roles of Leader, Liaison, Monitor, Disseminator, Spokesperson, Entrepreneur, Resource Allocator, and Negotiator.
4. The effective chief fire officer can foster creativity and innovation. The potential purchase of a ready-built training academy represented an innovative approach to acquiring training. Traditionally, in the refining and chemical industry, this training is acquired from university fire schools.
5. A component of the SAEL course is the emphasis on “decision-making skills”. This applied research project utilized a formal financial “break-even analysis” to assist in the formal decision making process.
6. A component of the SAEL course is “planning for change”. The motivation for this research was based upon a real concern of Industrial Emergency Services, specifically the need to obtain training capacity in advance of the anticipated growth of the organization.
7. A component of the SAEL course is “evaluating”. The effective chief fire officer must be able to analyze complex situations and develop strategies to effect outcomes. This research reviewed myriad aspects of both the problem and the potential solution. As an example, the environmental risks of acquiring the facility were considered in addition to the financial risks.



## LITERATURE REVIEW

This study set out to determine the financial feasibility of Industrial Emergency Services (IES) purchasing a fire training academy which had been foreclosed upon by a bank. The research conducted was very narrow in scope and was specific to IES. Review of “industry literature”, “prior research of others”, and “survey instruments” were not deemed to be useful, as this research was not “comparative”, but rather was “evaluative”.

Therefore, the literature review for this study focused upon documents and personal communications specifically related to this proprietary research. Examples of the literature and other information sources reviewed in the course of this research included:

- a. Internal IES budget documents
- b. Internal IES memoranda
- c. Internal IES reports
- d. Internal IES marketing reports and forecasts
- e. Discussions with IES management
- f. Discussion with Regions Bank
- g. Documents from Regions Bank
- h. Documents specific to the foreclosed upon facility (blueprints, drawings, photographs)
- i. An independent appraisal report for the facility <sup>3</sup>
- j. Personal communications with IES’ bankers and other financial consultants
- k. Personal communications with individuals possessing knowledge specific to the facility being evaluated.

- I. The textbook for the Public Sector Finance course (EFL 624) at Grand Canyon University.<sup>4</sup>

Additional research was conducted in May 2002 in order to expand the literature review to satisfy the requirements of the Executive Fire Officer Program. This expanded literature review consisted of conducting a search of the Online Card Catalog of the Learning Resource Center (LRC) at the National Emergency Training Center (NETC).

The research was initiated by searching the Online Card Catalogue by "Keywords in Title". Searches for "Training Academy Cost", "Training Academy", "Training Facility Cost", and "Training Facility Economics" yielded no matches ("Records Retrieved: 0").

The Online Card Catalogue search was expanded to include the broader topics of "Cost Benefit Analysis" which yielded 34 "matches", "Economics" which yielded 82 "matches", and "Training Facility" which yielded 39 "matches".

A review of the 34 title matches for "Cost Benefit Analysis" yielded no titles specific to this research.

A review of the 82 title matches for "Economics" yielded no titles specific to this research.

A review of the 39 title matches for "Training Facility" yielded two matches where economics or justification was cited. Huber<sup>5</sup> wrote an article in 1998 entitled "Justification for Goshen Fire Department's live-fire training facility" as part of the EFO program. The article is not available from the LRC. Gorrondona<sup>6</sup> wrote an article in 1990 entitled "A training facility: is it necessary and can we afford it?". This article is available from the LRC on Interlibrary Loan.

Due to the specificity of this applied research to Industrial Emergency Services, the two articles were not deemed to be relevant to this applied research project. However, citations for these two (2) articles are listed under the “footnotes” and “references” sections of this report to assist future researchers.

## PROCEDURES

The chronology of events contained in the “Background and Significance” portion of this report was reconstructed by reviewing several IES project files, which contained myriad correspondence regarding the subject.

Fixed and variable costs (Question 1) for the proposed facility were determined, having either researched specific costs or by utilizing actual cost levels observed by the author while operating a similar facility in the past.

The projected use of the facility (Question 2) was determined by evaluating IES’ current and projected Live-fire Training, and Recruit School training requirements. Charts were created, citing the number of employees to be trained, and then multiplying the number of employees by the length of the respective class as reflected in Student Contact Hours (SCH).

IES management was interviewed to determine what outside use of the facility should be reflected in the study (Question 3).

IES internal billing records were reviewed to determine what its current training costs were (Question 4).

A break-even analysis was then conducted and a chart reflecting the “break-even point” created (Question 5). The chart was created using the example on page 109 of the course textbook.



Determination of whether the purchase of the facility was a good investment, from a capital funds utilization perspective (Question 6), was conducted by interviewing IES management, and by interviewing the Financial Controller of an European oil company subsidiary.

The recommendation to purchase or not purchase the facility was evaluative (Question 7). Assumptions provided by IES management to determine both costs and revenue for the subject facility were applied during the research, and the results then compared with IES' goal for internal rate-of-return for capital employed.

### **Limitations**

This study was limited due to the time available to meet the EFL 624 course schedule as set forth by Grand Canyon University.

Furthermore, this research project was not theoretical, but rather represented a current ongoing corporate initiative of Industrial Emergency Services, L.L.C. Subsequently, fact-finding and other research activities were being conducted by IES during the research period. Some of the data needed to support all of the conclusions and recommendations contained in this report was not yet acquired (or verified) by the deadline for this research. In other words, the timetable IES was using (including the work of others outside of IES' direct control) to conduct this research to support its business initiative, and the timetable demanded of the University, were not always in sync.

## RESULTS

### 1. What will be the costs of operating the facility (both fixed and variable)?

The annual fixed costs are estimated to be \$ 225,000 per year. Details of these costs are contained in Table 1. The assumptions used to calculate the fixed costs are contained in the footnotes of Table 1.

TABLE 1

#### ANNUAL FIXED COSTS

Debt Service (1)		54,000
Utilities		12,600
Electric (2)	6,000	
Water / Sewer	3,000	
Phone *	3,600	
Insurance		20,500
General Liability (3)	500	
Property	20,000	
Maintenance		12,000
Property Taxes (4)		6,750
Personnel		44,050
Caretaker (5)	40,600	
Mileage Reimbursement (6)	3,450	
		149,900
Sub-Total		149,900
Contingency — 5% (7)		7,500
Depreciation (8)		67,500
<b>TOTAL</b>		<b>\$224,900</b>

**NOTES:**

\* Estimated

(1) \$675,000 (Purchase Price) @ 8%.

(2) \$500 / month average as reported in telephone conversation on September 25, 2001 with Russell Yarbrough of Alabama Power Company.

(3) Estimate from E-mail from Christine Scharmen with Borden Insurance.

(4) Estimated at 1% of \$675,000.

(5) Based upon \$29,000 annual salary plus 40% benefits.

(6) 10,000 personal miles reimbursed at IRS allowable rate of \$0.345 / mile.

(7) 5% of Sub-Total

(8) Assumes 10 year average depreciation schedule on \$675,000 purchase price.

Variable costs were defined to be \$ 10.00 per Student Contact Hour (SCH). A Student Contact Hour is defined as one student in class for one hour. The \$ 10.00 per



SCH variable cost was selected based upon the author's experience in running the Refinery Terminal Fire Company Fire Training Academy in Corpus Christi, Texas.

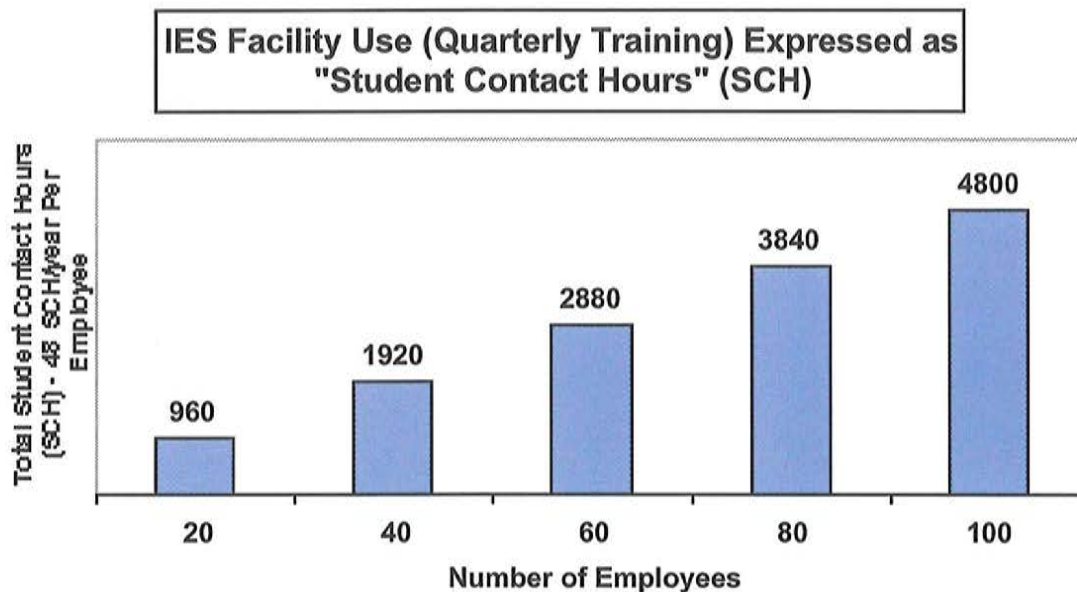
2. **What is IES use of the facility projected to be?**

**Quarterly Live-fire Training**

IES intends to use the facility to conduct Quarterly Live-Fire Training, and Recruit Training.

Each IES employee assigned to emergency operations will receive 48 hours of In-Service training annually at the facility. This training is obtained by attending a 12-hour training session, four times per year. Table 2 shows the number of Student Contact Hours based upon IES employment levels.

TABLE 2



IES projects the following employment based upon successful marketing:

TABLE 3

CLIENT	NUMBER OF EMERGENCY OPERATIONS PERSONNEL	STATUS	SCH FOR QUARTERLY TRAINING
Motiva Enterprises	15	Active	720
Marathon Ashland Petroleum	2	Active	96
Louisiana Headquarters	1	Active	48
Corporate Headquarters	1	Active	48
ExxonMobil	26	June 2002	1,248
Marathon Ashland Petroleum	11	June 2002	528
Louisiana Headquarters	2	June 2002	96
Port of Greater Baton Rouge	2	June 2003	96
St. James Parish Station	18	June 2003	864
TOTAL	78		3,744

### Recruit School Training

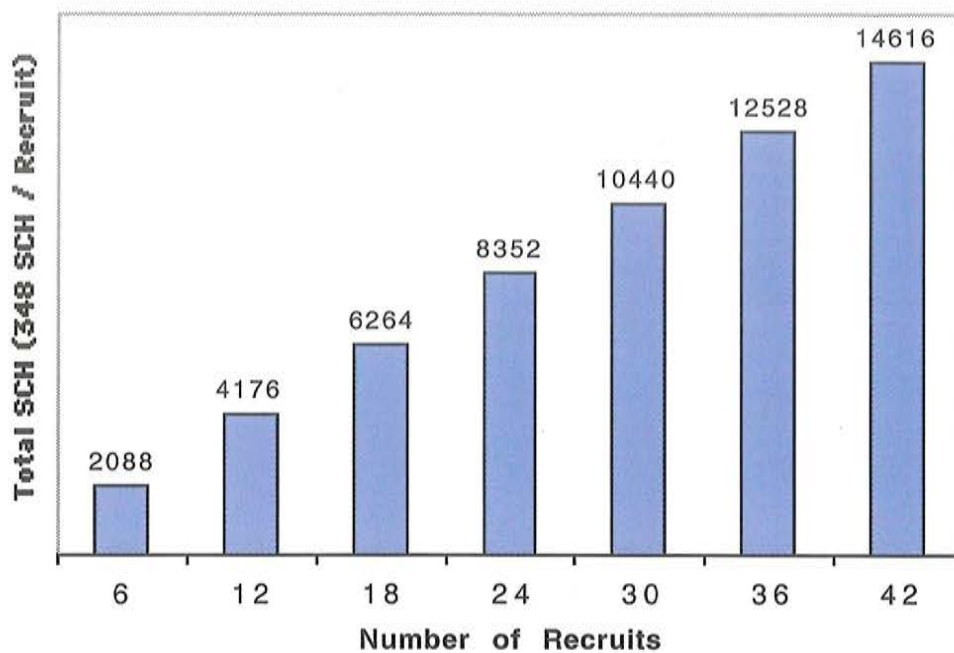
IES conducts its own recruit school training for new firefighters. While the entire recruit school curriculum is 1040 hours, 348 hours of instruction would be conducted at the proposed facility. The specific courses that would be conducted at the proposed facility are listed in Table 4. Table 5 shows the number of Student Contact Hours that are required based upon the number of firefighter recruits.

TABLE 4

CLASS TITLE	TOTAL HOURS	% TRAINED AT PROPOSED FACILITY	ACTUAL HOURS TRAINED AT PROPOSED FACILITY
Unit Operator FireFighting	8	100%	8
Defensive Fire Fighting — Petrochemical	56	100%	56
Offensive Fire Fighting — Petrochemical	56	50%	28
Interior Structural Fire Fighting	56	100%	56
HazMat Tech (NFPA 472)	56	100%	56
Combined Evolutions	48	50%	24
Industrial Confined Space & High Angle Rescue (Rescue 1 & 2)	80	100%	80
Rescue 3	40	100%	40
TOTAL	400		348

TABLE 5

**IES Facility Use (Recruit Training) Expressed as  
"Student Contact Hours" (SCH)**



IES annual use of the proposed facility is dependent upon the timing of hiring.

**3. What outside use of the facility is expected?**

IES senior management preferred justifying the purchase and operation of the proposed fire training academy without the need for outside participation. Thus, this study did not include outside use.

**4. What are IES current training costs?**

In general, IES is charged \$30.00 per student contact hour by the schools it currently utilizes, such as Lamar University (Beaumont, TX) and Louisiana State University (Baton Rouge, LA).

**5. Based upon the cost of the facility, the anticipated use of the facility, and current competitive costs, what is the break-even analysis for the facility?**

A break-even analysis is shown in Table 7. Based upon the \$225,000 per year fixed cost, and a \$10.00 per Student Contact Hour variable cost, the break-even cost is \$337,500 per year, requiring a training utilization of 11,250 SCH at a value of \$30.00 per SCH.

The only way it appears feasible to have a training demand approaching 11,250 SCH in the first year of the facility's operation, is contained in the scenario depicted in Table 6.

TABLE 6

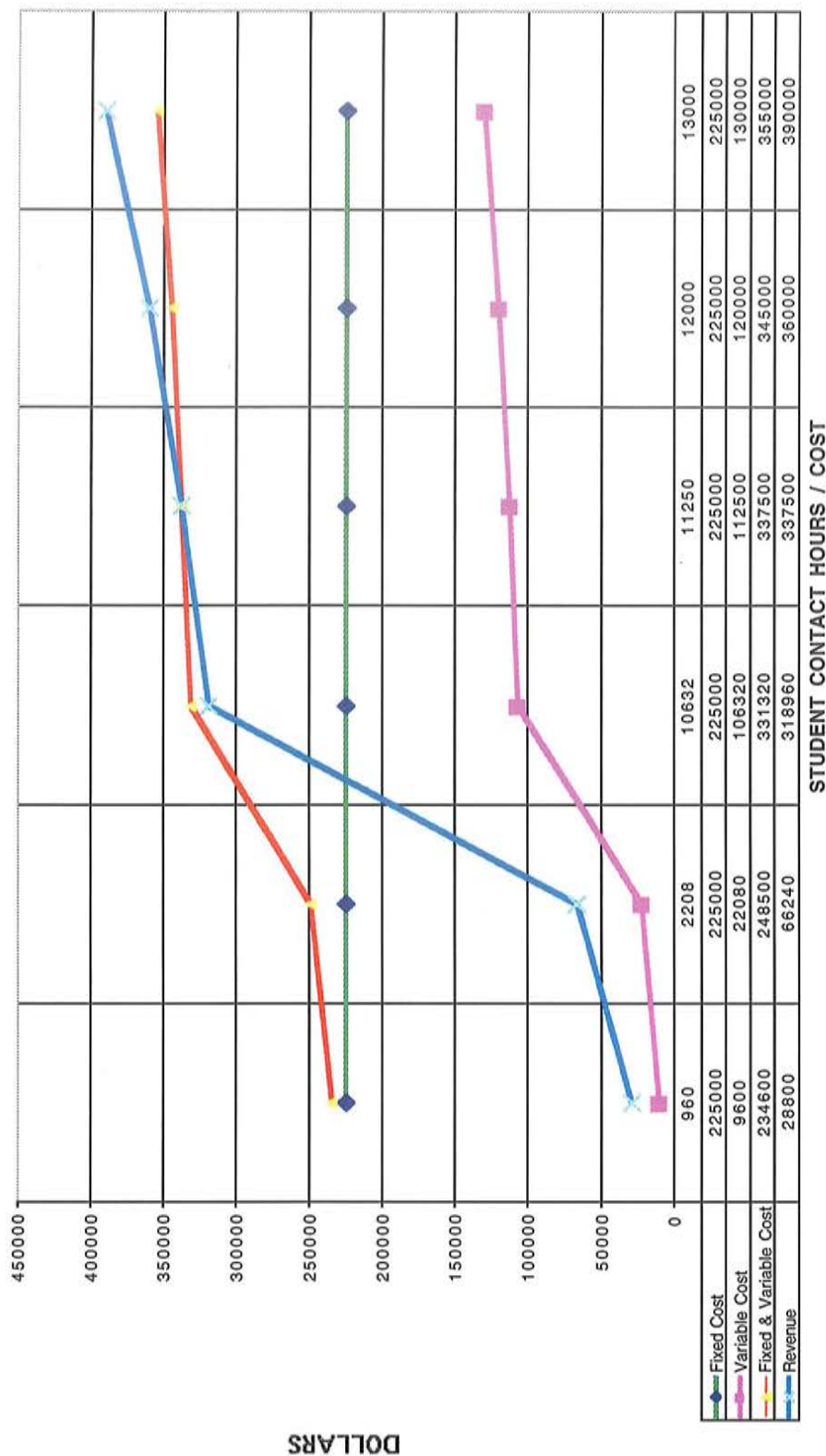
TRAINING ACTIVITY	NO. OF EMPLOYEES	SCH EACH	TOTAL SCH
Quarterly Training - Motiva	15	48	720
Quarterly Training Command Staff	2	48	96
Recruit School —ExxonMobil	26	348	9,048
Quarterly Training —ExxonMobil	26	24	624
<b>TOTAL</b>			<b>10,488</b>

NOTES FOR TABLE 7:

960 SCH	=	Quarterly Training for 20 Firefighters (48 X 20)
2208 SCH	=	Quarterly Training for 96 Firefighters (48 X 46)
10632 SCH	=	Quarterly Training for 20 Firefighters for full year (960) + Recruit School for 26 Firefighters of 9048 SCH (348 X 26) + Quarterly Training for 26 Firefighters for 1/2 year (624).
11250 SCH	=	Calculated break-even Point
12000 SCH	=	Arbitrary Point
13000 SCH	=	Arbitrary Point



**TABLE 7**  
**BREAK EVEN ANALYSIS**



DOLLARS

STUDENT CONTACT HOURS / COST



The market value of the use of the proposed facility by IES for Quarterly Training is contained in Table 8. The market value of the use of the proposed facility by IES for Recruit School Training is contained in Table 9. Both Tables 8 and 9 use the number of Student Contact Hours multiplied by \$30.00 per SCH to depict the value (internal revenue) of the training.

TABLE 8

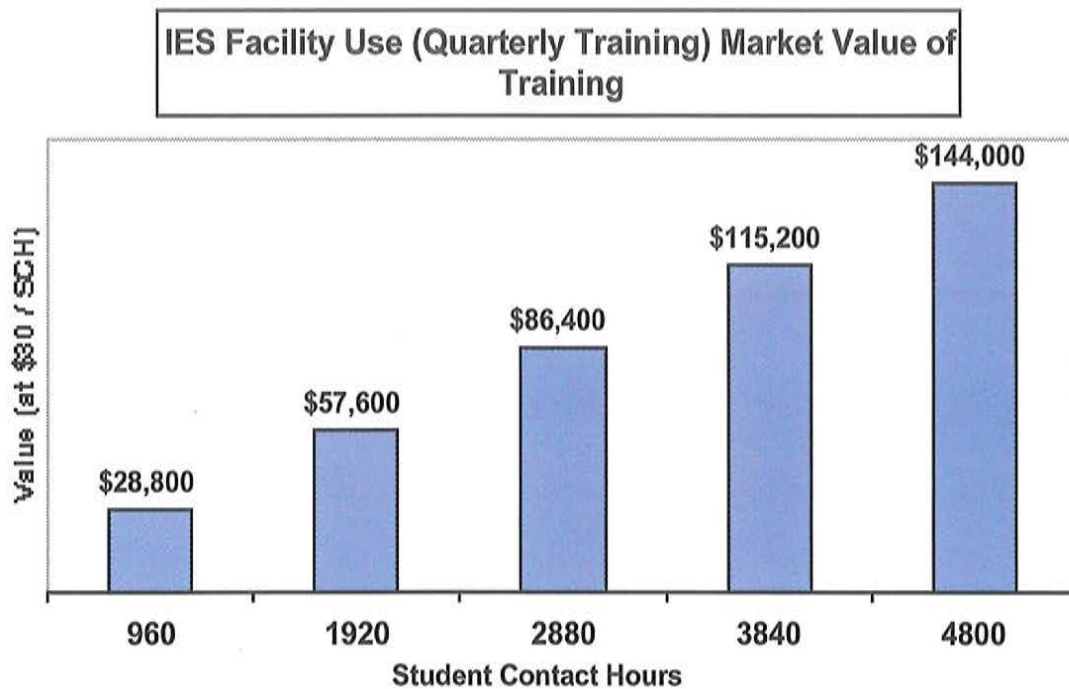
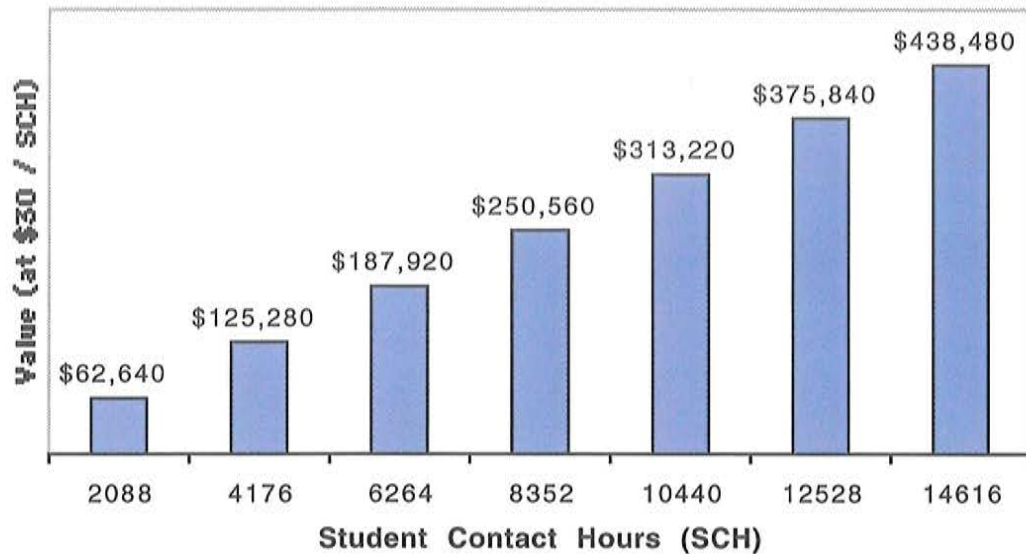


TABLE 9

**IES Facility Use (Recruit Training) Market Value of Training**



It appears that the only way for IES to continue to approach the SCH necessary to break-even is to annually conduct a Recruit School.

Based upon the 11,250 Student Contact Hours required to break-even, IES would have to have 235 employees assigned to emergency operations before it would not be required to conduct a recruit school to contribute to the SCH requirement (235 employees X 48 SCH / year = 11,280 SCH).

Thus, it is of concern, that if IES stops growing before it reaches 235 employees, that the proposed training facility WOULD NOT break-even.

Based upon this break-even analysis, it may be necessary for IES senior management to review / validate the assumptions included in calculating the facility's fixed costs, as well as revisit the preference to not rely on outside business (revenue).

There may also be other justification to purchase the facility, even if from a financial perspective it does not break-even. These soft-issues can be found in the Discussion section of this report.

**6. Based upon the capital value of the facility, is its purchase a good investment?**

The answer is Possibly (it s a marginal case).

The return on investment is dependent upon whether IES can produce the volume of training, on a consistent basis, necessary to cover the break-even costs. This is a BIG assumption. If IES can, then the debt service of 8% and a 10 year depreciation allowance is provided for.

The assumption here is that an 8% return on internally employed capital is considered a good investment for IES (more about this can be found in the Discussion portion of this report). IES views the 8% return-on-investment goal this way: If IES had \$675,000 available for investment, what return (in today s economy, including now the aftermath of the September 11, 2001 terrorist attacks) could IES expect to see? . At the time of this study IES did not have sufficient capital available to consider purchasing the facility outright. Therefore, the 8% debt service cost is included in the fixed cost calculation. At that time, the cost of debt service (8%) and IES internal return-on-investment goal (8%) happens to match. In times of greater (national) economic prosperity, the two rates may not match.

A discussion with J. de Bruyn (personal communication, September 11, 2001, Almere, The Netherlands) took place to determine the internal rate-of-return required by a multi-national for-profit company, for comparison purposes. J. de Bruyn advised that his company (for which he is the Financial Controller), SigmaKalon (formerly Sigma

Coatings), required a 20% annual return on capital employed. J. de Bruyn said that in his case, in order to approve a capital investment of \$675,000 he would require a return of \$135,000 annually (20%), AFTER all expenses were paid. He further advised that in the current economy, he would most likely require a two (2)- year payback (all of the investment would be recovered in 24 months).

SigmaKalon is a wholly owned subsidiary of TOTALFINA, the European oil giant. SigmaKalon has an annual turnover of \$250 million (about the same budget as the Houston Fire Department). The fact that SigmaKalon believes that in order to be financially successful in today s economy it must receive an internal rate-of-return of 20% is noteworthy. IES management could be well advised to evaluate their internal rate-of—return goal to assure it is adequate.

J. de Bruyn also cautioned that the liquidity (lack of) of the facility that IES was considering was also of concern to him. Due to the special purpose-built nature of the fire training academy, the facility is not readily sellable (liquid). This fact is validated as the subject facility has been in foreclosure for the past 2 years with no buyer (other than IES) identified. J. de Bruyn advised that due to the non-liquidity of the facility, SigmaKalon would not buy it unless there was a critical business purpose for the facility, and the 2-year payback could be achieved. He further suggested that, in this case, leasing would be preferable to purchase.

#### **7. Should IES buy the facility?**

IES, from a strictly financial perspective, based upon the assumptions contained in this research project, SHOULD NOT buy the facility.



## DISCUSSION

The results were both disappointing and enlightening. IES management would very much have liked to purchase the facility at the beginning of this research project. However, based upon the assumptions used in this study, purchasing the facility seems like a really bad idea from a financial standpoint. This is disappointing. At the same time, the results of this research have been very enlightening, however, and may have prevented IES from making a seriously bad acquisition. This has been a case where management's "hunch" or "intuitiveness" was not borne out by the facts.

This research was tied to certain specific assumptions, such as "outside training will not be relied upon to justify the purchase of the facility". Obviously, if those assumptions (upon which the research was conducted) changed, it is quite possible that the results of this research would also change.

It will be up to IES management to either accept the findings of this report "as is" and "kill the project", or having reviewed this report, decide which assumptions it believes to be unrealistic or unreasonable restrictive. Concurrent with the potential modification (liberalization) of the assumptions, IES senior management would be well advised to understand the commensurate risk often associated with the "watering-down" of assumptions (requirements, criteria, increased variability, etc.). IES should evaluate the subsequent risk associated with adherence to standards that were not set high enough to protect the company from a financial perspective.

Regardless of whether IES management decides to purchase the property based upon financial criteria, there are two (2) otherwise potentially "fatal" flaws to the facility. Those flaws reflect potential environmental liability.

First, written documentation from the Alabama Department of Environmental Management (ADEM), stating that IES will be allowed to restart and operate the facility is critical. A fire training academy that uses kerosene fuel for live-burns, emits smoke into the environment. Additionally, there is a wastewater treatment plant on-site that may require permitting before the outfall from the treatment plant can be discharged. IES must assure itself that ADEM will permit the new facility to operate.

Second, when the Bank foreclosed upon the property, several 55-gallon drums of unknown contents and condition were on the site, as were several other tank-type containers, and a vacuum truck. The contents of these containers must be determined, and the drums and associated containers removed from the site and disposed of in a compliant and legal manner.

The Bank has offered the property on an "As Is, Where Is" basis. IES should not purchase the facility without these environmental liabilities having been resolved. The short-term and long-term financial liability of the site related to these environmental concerns, can significantly affect the financial strength of IES, and IES management is advised in the strongest of terms to consider these two environmental liabilities as "deal-breakers".

The property has an appraised "In Use Market Value of \$1.4 million dollars" and an "Orderly Liquidation Value of \$700,000". IES in its most recent letter-of-intent has offered the Bank \$675,000 for the facility, contingent upon IES completing its "due diligence" with a favorable outcome.

On the surface, it appears that IES is getting a really good deal, obtaining a facility at less than 50% of appraised value. The problem is that the "appraised" or

“market” value of the site is, in reality, only confirmed (or proved-up) by an actual sale. In other words, “a property is only worth what someone is willing to pay for it”. Thus far, IES has been the only credible bidder on the site. This may be because IES “got the inside track” on the facility (perhaps, more entities would have shown interest in the site, if Regions Bank had done a better job of marketing / advertising the site’s availability), or it may be that there is no market for the site. Thus, liquidity of the site should be of concern to IES management. Further, IES should not be tempted to (if purchased), place the property on the “IES books” for anything more than it actually paid.

Two circumstances (perhaps more) may create conditions where the facility would meet its appraised value, and these circumstances should be evaluated:

1. The facility is operating at a profit and the income stream, in combination with the asset value of the facility, is attractive for a purchaser. In this case, IES would have to take the dormant facility, return it to operating condition, develop a sustainable clientele, and then sell the entire operation (order book and fixed assets) at a profit.
2. IES as an entire entity is sold, with the fire training academy as an integral part of the company. In this case, the facility would have to be viewed as a necessary integrated part of IES, otherwise the purchaser of IES may require that either the facility be “carved-out of the deal”, or the value of the facility “deep discounted”.

In either case, IES management should evaluate the “cost of capital employed” during the period between the purchase of the facility and its eventual sale. At the time of sale, IES should have received at least the return on investment for its \$675,000 (the purchase price) as it would have had it invested in a much less speculative instrument.



As mentioned previously, there may be some compelling, non-financial justification for purchasing the facility. One instance would be where IES has received a major contract for placing 26 firefighters in an oil refinery, but IES could not access non-IES controlled training schools due to scheduling conflicts. In this case IES management should consider the cost of losing or delaying the contract. A case could then be made by calculating the financial benefit to IES, of IES having its own (and immediately accessible) fire training facility.

Additionally, the immediate availability of the facility, and its relative value when compared to designing, permitting, and building a brand-new IES fire training academy should be weighed by IES management in its final evaluation.

Lastly, the synergistic benefit of having an IES presence in Mobile, AL should be considered. Mobile is a large petrochemical and chemical hub, and the presence of IES in that area through the training academy, may lead to other IES business in the greater Mobile area.

Often applied research projects raise more questions than they answer. This is one of those cases. Continued research is indicated. Additional research activities are contained in the "Recommendations" section of this report.

## **RECOMMENDATIONS**

The results of this study indicate that based upon the assumptions used in this research, the proposed facility should not be purchased. However, should IES management desire to continue this study, the following additional research activities should be performed:



**During the period of lease (15 September – 31 December 2001)**

1. Occupy the facility and provide a temporary IES caretaker.
2. Have utilities (electric, water and sewer) activated.
3. Perform housekeeping activities for buildings and grounds (clean buildings, cut grass, and generally improve appearance).
4. Review "due diligence list" (see Appendix C) and perform those activities as practicable.
5. Contact the Alabama Department of Environmental Management (ADEM) to assure that environmental permits can be issued (or are not necessary). Obtain written response from ADEM.
6. Evaluate 55-gallon drums, and other containers, and make recommendation to Regions Bank for their proper disposal.
7. Initiate marketing effort to quantify potential business in the greater Mobile area.
8. Begin to obtain "real" cost data (for utilities, grounds keeping, etc.) while operating the facility in the interim (lease) period.
9. Validate fixed costs assumptions as used in this report. Lower fixed costs where possible.
10. Utilize the facility for non-fire related training (rescue, haz-mat, strategy & tactics, etc.), as soon as possible within the lease period, to generate income and validate the market.
11. Identify what start-up costs will be necessary to begin live-fire training.
12. Validate the other financial assumptions used in this report (such as required return-on-capital-employed).
13. Provide the Bank by 01 January 2002 a final offer. This offer may include:
  - a. purchase of the property as offered by IES on 13 July 2001
  - b. purchase of the property at a lowered price (to lower the break-even point).
  - c. an offer to continue to lease the facility

### **Additional Recommendation for Researchers**

At the beginning of this research, IES management intuitively believed that the purchase of the subject training academy was a “good deal”. Only after a formal, quantitative analysis was completed, was it determined that management’s “gut feeling” was wrong. In fact, should IES have proceeded with the purchase as originally agreed to with the bank, IES would have made a significant financial mistake.

Thus, while the specific recommendations of this report relate to the subject facility, one significant recommendation emerges applicable to any chief fire officer contemplating a significant purchase resulting from the desire to enter into a new area of service delivery. That recommendation is to take the time to conduct a formal economic analysis, and resist the temptation to move ahead based upon less formal evaluation processes (gut-feeling, group-think, etc.).

## FOOTNOTES

1. Corporate Brochure. (2000). [Brochure]. Corpus Christi, TX: Industrial Emergency Services, L.L.C.
2. Federal Emergency Management Agency (January 7, 1991). *National Fire Academy Executive Leadership Course NFA-EL-PM*. Emmitsburg, MD: National Emergency Training Center.
3. Appraisal Report (June 24, 2000), *Fire Training Center, 82 acres – Salco Road, Axis, AL 36505*. Mobile, AL: M. D. Bell Company, Inc.
4. Finkler, Steven A. (2001). *Financial Management for Public, Health, and Not for Profit Organizations*. Upper Saddle River, NJ: Prentice Hall.
5. Huber, Jeffrey L. (August 1998). *Justification for Goshen Fire Department's live-fire training facility*. Emmitsburg, MD. National Fire Academy.
6. Gorrondona, Earl B. (September 1990). *A training facility: is it necessary and can we afford it?*. Emmitsburg, MD. National Fire Academy.

## REFERENCES

Appraisal Report (June 24, 2000), *Fire Training Center, 82 acres – Salco Road, Axis, AL 36505*. Mobile, AL: M. D. Bell Company, Inc.

Corporate Brochure. (2000). [Brochure]. Corpus Christi, TX: Industrial Emergency Services, L.L.C.

Federal Emergency Management Agency (January 7, 1991). *National Fire Academy Executive Leadership Course NFA-EL-PM*. Emmitsburg, MD: National Emergency Training Center.

Finkler, Steven A. (2001). *Financial Management for Public, Health, and Not for Profit Organizations*. Upper Saddle River, NJ: Prentice Hall.

Gorrondona, Earl B. (September 1990). *A training facility: is it necessary and can we afford it?*. Emmitsburg, MD. National Fire Academy.

Huber, Jeffrey L. (August 1998). *Justification for Goshen Fire Department's live-fire training facility*. Emmitsburg, MD. National Fire Academy.

U.S. Fire Administration (January 1, 2001). *Executive Fire Officer Program – Operational Policies and Procedures – Applied Research Guidelines*. Emmitsburg, MD. National Fire Academy.





**Industrial Emergency Services, L.L.C.**

Charter Bank Bldg., Suite 200  
 801 N. Navigation Blvd.  
 Corpus Christi, TX 78408-2644

Phone: 361.653.7100

Fax No.: 361.653.7120

Reference No.:	
Date:	29 SEPT 00
TO:	BRUCE E. AUSTIN, JR.
Company:	REGIONS BANK
Fax No.:	334.690. <del>1401</del> 1401
FROM:	LEONARD G. DEONARINE
SUBJECT:	ACCEPTANCE OF COUNTER OFFER
Pages:	6 (including cover)

ATTACHED PROVIDED BEFORE  
 DEADLINE OF 5:00 pm TODAY.

PLEASE RESPOND.

LGD



September 25, 2000

Mr. Leonard G. Deonarine  
Industrial Emergency Services, LLC  
Charter Bank Building  
801 N. Navigation Blvd., Suite 200  
Corpus Christi, Texas 78408-2644

Dear Mr. Deonarine:

Thank you for your offer to purchase of September 18, 2000, on the 82+/- acre fire safety training facility in Axis, Alabama. After careful consideration we would like to propose a counter offer as detailed below:

**\*Purchase price of \$750,000.00.**

**\*Seller will convey title by statutory warranty deed and provide an owner's title policy for the purchase price to buyer subject to a one year right of redemption from the date of foreclosure.**

**\*Pro ration of taxes for the current year.**

**\*Seller will allow 30 days from acceptance of this counter offer for buyer's completion of due diligence inspection. Upon the expiration of said 30 day period buyer must accept and remove this condition or terminate interest in the purchase of said property. Earnest money will be returned if interest is terminated.**

**\*Seller will also allow 30 days from date of acceptance for buyer to secure financing, the terms of which must be satisfactory to buyer. Either party may terminate this contract after this period unless buyer obtains financing and provides seller with a commitment letter from a financial institution within 30 days from day of this acceptance. If buyer is unable to obtain satisfactory financing, buyer may terminate this contract and earnest money will be refunded.**

September 22, 2000  
Page 2

\*Sale must be closed within 60 days of acceptance.


\*This counter offer shall expire, Friday, September 29, 2000 at 5:00 p.m.  
central time.

Sincerely,



Bruce E. Austin, Jr.  
Vice President and  
Commercial Credit Manager

I/We hereby accept the terms of this counter offer this 29<sup>TH</sup> day of 2000,  
2000. \*

  
Robert P. Anderson, Jr.  
President & Finance Chief  
Industrial Emergency  
Services, LLC

\* SUBJECT TO TERMS FOUND ON  
"ATTACHMENT 1"



Industrial Emergency Services, L.L.C. (IES) accepts the terms of Regions Bank, including the counter offer price of \$750,000, as contained in their letter of 25 September 2000, with the following conditions:

IES requests that Regions Bank assemble, for review by IES, documents and other information ("The Material") about the subject property necessary for IES to begin its due diligence process.

Regions Bank will have 14 days to assemble "The Material" in advance of the arrival of IES personnel on 16 October 2000. "The Material" will be assembled in the main classroom building on the subject site. IES will have full access to the site for 5 days in which to determine the completeness of "The Material". IES makes no representation that this 5-day period will be adequate to fully complete its due diligence process.

The 30-day and 60-day time periods referenced in Regions Bank letter of 25 September will begin on 23 October 2000.

"The Material" to be assembled by Regions Bank for review by IES includes:

1. All drawings, blueprints, sketches, calculations, engineering work, piping & instrument distribution (P&ID) documentation, and any other pertinent information, regarding the design and actual construction of the property and all improvements to same, including:
  - A. The site
  - B. Wastewater treatment plant, pond and system
  - C. Fuel delivery, storage, transmission and control system(s)
  - D. All utility systems including: electrical distribution, sewer and/or septic, propane and/or other fuels to heat buildings, telecommunications and data transmission systems, etc.
  - E. Security systems
  - F. Fixed fire protection systems for the entire site to include firefighting training props as well as automatic sprinkler protection for site buildings.
2. All materials regarding the "design premise", engineering standards, regulatory requirements, or any other criteria used for the design and construction of the facility, and corresponding documentation of adherence and/or compliance with those standards.

3. All operating manuals, standard operating procedures, guidelines, or any other materials documenting how the facility is to be safely operated including:
  - A. All fire training props and facilities
  - B. All rotating and mechanical equipment
  - C. All safety systems
  - D. All utility systems
4. Copies of all inspection reports (safety, environmental, structural, mechanical, etc.) conducted at the facility since inception.
5. Certificates of origin, or other documentation, related to the refining and/or chemical process equipment donated to the facility by industry.
6. Certificates of origin of all chemical containers currently on the site (i.e. 55-gallon drums, etc.). An explanation of what the "vacuum truck" at the site was used for.
7. An inventory of all fuel and otherwise hazardous materials currently on the site.
8. Standard operation procedures and other guidelines used during the start-up of the facility.
9. All general lesson plans, training guides and "prop specific" lesson plans for the site's training facilities.
10. All environmental and operation permits issued by regulatory agencies (i.e. State and U.S. Environmental Protection Agency) regarding the use and ownership of the facility.(i.e. air permits, wastewater discharge permits, water use permits, etc.). Evidence of the transferability of those permits (i.e. is Regions Bank now the environmental permit holder by virtue of being the current owner?)
11. Test results of the outfall and/or discharge of the wastewater treatment system.
12. Complete physical descriptions, drawings, and surveys of the property including meets and bounds descriptions and all other customary legal descriptions. Current information regarding the property's zoning or other legal categorization. A topographical drawing of the site including all improvements.

13. All of the findings of due diligence efforts conducted by Regions Bank throughout the property's history and specifically as related to the foreclosure on the subject property.
14. Any evidence of existing environmental contamination and documentation of any knowledge of environmental excursions or other regulatory violations committed by the prior owner(s).
15. Titles to the motor vehicles and trailers currently on the subject property.
16. Copies of utility bills and other pertinent information from which monthly and annual operating costs can be derived.

Ownership of "The Material" will transfer to IES along with the site and all associated equipment, property and appurtenances, upon close of the sale.





APPENDIX B  
INDUSTRIAL EMERGENCY SERVICES, L.L.C. 44

ROBERT C. ANDREWS, JR., P.E.  
President  
Chief Executive Officer  
Fire Chief

LEONARD G. DEONARINE, CET, OIBST  
Senior Vice President  
Deputy Fire Chief

LARRY DAVIS, SFPF, CFPS  
Staff Division Chief

GLORIA J. GIL, CPS  
Executive Assistant  
Office Manager

HEADQUARTERS  
Charter Bank Building — Suite 200  
801 N. Navigation Blvd.  
Corpus Christi, TX 78408-2644  
Phone: 361.653.7100  
FAX: 361.653.7120  
Internet: www.iesllc.com

DANIEL GARCIA  
Vice President  
Deputy Fire Chief

LOUISIANA OPERATIONS  
C/O Motiva Enterprises, LLC  
Highway 44 & 70  
Convent, LA 70723  
Phone: 225.562.7681 (Ext. 3964)  
FAX: 225.296.3874

BARRY BROWNING, MBE  
Chief Fire Officer

UNITED KINGDOM, EUROPE  
MIDDLE EAST, PACIFIC RIM  
55 Ferndale Road  
New Milton  
Hampshire  
BH25 5EX  
United Kingdom  
Phone/FAX: +44.1425.615282

07 November 2000  
RCA2000-024

VIA UPS: Airbill No.  
1Z 01A R04 22 1000 080 7

Charles Moye  
Emergency Response Coordinator  
Ciba Specialty Chemicals Corporation USA  
Ciba Road  
McIntosh, AL 36553

Re: FIRE TRAINING ACADEMY – AXIS, AL

Dear Charles:

Deputy Chief Lenny Deonarine and I enjoyed our telephone discussion with you yesterday.

As we discussed, Industrial Emergency Services, L.L.C. (IES) is currently in negotiation with Regions Bank to purchase the recently foreclosed upon Fire Training Academy in Axis, AL. IES has provided Regions Bank with earnest money, however, the process has become "bogged down" due to the difficulty in obtaining design and operational documentation for the facility.

We would like to take advantage of your kind offer to assist us in rebuilding the missing documentation. There are two (2) items specifically that you can help us with.

1. Inquire within Ciba Specialty Chemicals as to what documentation may be available due to Ciba's prior engineering and other project support activities.
2. Inform the members of the Greater Mobile Industrial Association (GMIA) of IES' current efforts to purchase and reactivate the Fire Training Academy and also request their assistance in helping us reconstruct the necessary documentation to properly and safely operate the facility.

Also, inquire amongst the GMIA members as to what their current levels of interest are in the Fire Training Academy reopening.

You advised us that GMIA will have its regularly scheduled monthly meeting this Thursday, 09 November.



We've prepared some folders for you to distribute at Thursday's GMIA meeting. Additionally, please feel free to distribute the folders to anyone else you deem appropriate. Each folder contains the following information:

- A copy of this letter.
- A list of materials which we provided to Regions Bank in an attempt to assemble documentation about the Fire Training Academy, so that IES could begin its "due diligence".
- An IES brochure so that the GMIA members can learn about IES.
- Business cards for both Deputy Chief Deonarine and me.

IES is committed to reopening the Fire Training Academy in Axis, AL. We believe that the facility would be beneficial in achieving IES internal training goals. We are also very excited about providing local, cost effective, quality fire and related emergency response training to the industrial community in the greater Mobile area. We believe there are two critical steps in our path-forward:

1. IES must be able to document the design and operational procedures from which the school was originally built, so that we may operate the school safely.
2. IES must evaluate the potential customer utilization of the school so that we may determine if the facility is economically feasible.

We believe both of these critical steps, while difficult to complete, are possible and we remain optimistic.

Charles, thank you for your assistance. I look forward to your feedback after the GMIA meeting on Thursday.

Sincerely,



Robert C. Andrews, Jr., P.E.  
President & Fire Chief

gg

Enclosed: IES Folders (25)

pc: L. G. Deonarine, Senior Vice President & Deputy Fire Chief  
D. Garcia, Vice President & Deputy Fire Chief  
Bruce E. Austin, Jr. – Regions Bank, Mobile, AL  
Subject File: Training Academy Foreclosure – Axis, AL  
RCA Correspondence File

**“The Material” to be assembled by Regions Bank (or by others) for review by IES includes:**

1. All drawings, blueprints, sketches, calculations, engineering work, piping & instrument distribution (P&ID) documentation, and any other pertinent information, regarding the design and actual construction of the property and all improvements to same, including:
  - A. The site
  - B. Wastewater treatment plant, pond and system
  - C. Fuel delivery, storage, transmission and control system(s)
  - D. All utility systems including: electrical distribution, sewer and/or septic, propane and/or other fuels to heat buildings, telecommunications and data transmission systems, etc.
  - E. Security systems
  - F. Fixed fire protection systems for the entire site to include firefighting training props as well as automatic sprinkler protection for site buildings.
2. All materials regarding the “design premise”, engineering standards, regulatory requirements, or any other criteria used for the design and construction of the facility, and corresponding documentation of adherence and/or compliance with those standards.
3. All operating manuals, standard operating procedures, guidelines, or any other materials documenting how the facility is to be safely operated including:
  - A. All fire training props and facilities
  - B. All rotating and mechanical equipment
  - C. All safety systems
  - D. All utility systems
4. Copies of all inspection reports (safety, environmental, structural, mechanical, etc.) conducted at the facility since inception.
5. Certificates of origin, or other documentation, related to the refining and/or chemical process equipment donated to the facility by industry.
6. Certificates of origin of all chemical containers currently on the site (i.e. 55-gallon drums, etc.). An explanation of what the “vacuum truck” at the site was used for.



7. An inventory of all fuel and otherwise hazardous materials currently on the site.<sup>47</sup>
8. Standard operation procedures and other guidelines used during the start-up of the facility.
9. All general lesson plans, training guides and "prop specific" lesson plans for the site's training facilities.
10. All environmental and operation permits issued by regulatory agencies (i.e. State and U.S. Environmental Protection Agency) regarding the use and ownership of the facility.(i.e. air permits, wastewater discharge permits, water use permits, etc.). Evidence of the transferability of those permits (i.e. is Regions Bank now the environmental permit holder by virtue of being the current owner?)
11. Test results of the outfall and/or discharge of the wastewater treatment system.
12. Complete physical descriptions, drawings, and surveys of the property including meets and bounds descriptions and all other customary legal descriptions. Current information regarding the property's zoning or other legal categorization. A topographical drawing of the site including all improvements.
13. All of the findings of due diligence efforts conducted by Regions Bank throughout the property's history and specifically as related to the foreclosure on the subject property.
14. Any evidence of existing environmental contamination and documentation of any knowledge of environmental excursions or other regulatory violations committed by the prior owner(s).
15. Titles to the motor vehicles and trailers currently on the subject property.
16. Copies of utility bills and other pertinent information from which monthly and annual operating costs can be derived.



APPENDIX C  
INDUSTRIAL EMERGENCY SERVICES, L.L.C. 48

**ROBERT C. ANDREWS, JR., P.E.**  
President  
Chief Executive Officer  
Fire Chief

**LEONARD G. DEONARINE, CET, OHST**  
Senior Vice President  
Deputy Fire Chief

**LARRY DAVIS, SFPE, CFPS**  
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**DANIEL GARCIA**  
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**LOUISIANA OPERATIONS**  
C/O Motiva Enterprises, LLC  
Highway 44 & 70  
Convent, LA 70723  
Phone: 225.562.7681 (Ext. 3964)  
FAX: 225.296.3874

**BARRY BROWNING, MBE**  
Chief Fire Officer

**UNITED KINGDOM, EUROPE  
MIDDLE EAST, PACIFIC RIM**  
55 Ferndale Road  
New Milton  
Hampshire  
BH 25 5EX  
United Kingdom  
Phone/FAX: +44.1425.615282

13 July 2001  
LGD2001-021

VIA Fax: 334.690.1096

Mike Garner  
Assistant Vice President  
Special Assets Department  
Regions Bank  
106 St. Francis Street  
Mobile, AL 36602

Re: **Acceptance of Counter Offer for Fire Training Center  
(82+/- Acres Fire Training Site)**

Dear Mike:

I am pleased to inform you that Industrial Emergency Services, L.L.C. (IES) accepts your counter offer of 09 July 2001 to purchase the subject property at a price of \$675,000.00.

Thank you also for considering providing IES with financing for the property. We will begin the process of providing you with financial statements, tax returns, and information regarding our bank of record.

We have begun to check on the status of the facility's operating permits with the Alabama Department of Environmental Management. We expect to hear back from them next week to see what we will have to do in order to obtain environmental permits for the Training Center.

I would like to extend a personal note of thanks to you and your team at Regions Bank for working with us to restore this facility to its original vital role in preparing dedicated emergency responders, as well as protecting our environment, our property, and most importantly our children.

Sincerely,

Leonard G. Deonarine  
Senior Vice President & Deputy Fire Chief

pc: Project File: Training Academy Foreclosure - Axis, AL  
Robert C. Andrews, Jr., President & Fire Chief  
LGD Correspondence File



APPENDIX D

# REGIONS BANK TELEFAX TRANSMISSION FORM

49

TO: Leonard Desrosiers

FROM: Mike Lauer

Department/Office - \_\_\_\_\_

DATE: 9-10-01

FAX # \_\_\_\_\_

If received incomplete, call \_\_\_\_\_

\_\_\_\_ Message below  
9 # of pages including this one

MESSAGE:

Signed: \_\_\_\_\_

SEP-10-2001 10:25 FROM:CREDIT ADMIN 334 690 1096

TO:91361653712010845 P:2/9

Sent by: IND EMERG SRVS, LLC 3616537120;

09/07/01 12:23; JetFax #549; Page 2/9 <sup>50</sup>

Received: 9/ 8/01 12:17; 334 690 1096

-> IND EMERG SRVS, LLC; Page 2

SEP-6-2001 12:03 FROM:CREDIT ADMIN 334 690 1096

TO:91361653712010845 P:2/9

**LEASE AGREEMENT**

STATE OF ALABAMA:

COUNTY OF MOBILE:

THIS LEASE, made this 15<sup>th</sup> day of September, 2001, by and between **REGIONS BANK**, hereinafter called "Lessor," of the one part and **IES, LLC**, hereinafter called "Lessee" of the other part:

**WITNESSETH:**

In consideration of the mutual covenants, promises and representations contained herein, the parties hereto agree as follows:

**Section 1. Lease Estate.** The Lessor does hereby demise and let the premises located in Mobile County, Alabama, "the Property" and more particularly described as follows:

Beginning at a point where the West line of Section 15, Township 1 South, Range 1 West intersects the South right-of-way line of Salco Road (an 80 foot right-of-way) thence run along the South right-of-way of Salco Road the following: run North 36 degrees 42 minutes 00 seconds East 90.27 feet to the P.C. of a 1,518.62 foot radius curve to the left; thence run along said curve an arc distance of 796.07 feet to the P.T. of said curve, thence run North 7 degrees 31 minutes 32 seconds East 135.38 feet to the P.C. of a 1,343.38 foot radius curve to the right; thence run North 34 degrees 30 minutes 58 seconds East 153.61 feet to the P.C. of a 1,371.28 foot radius curve to the right; thence run along said curve an arc distance of 781.85 feet 0 degrees 18 minutes 24 seconds West 3,625.06 feet to a point; thence run North 89 degrees 47 minutes 06 seconds West 1,258.38 feet along the West line of Section 15 1,471.26 feet to a concrete monument marked C-3; thence continue North 0 degrees 18 minutes 24 seconds East 34.99 feet to the point of beginning.



SEP-10-2001 10:26 FROM:CREDIT ADMIN 334 690 1096

TO:91361653712010845 P:3/9

Sent by: IND EMERG SRVS, LLC 3816537120;

09/07/01 12:23; JetFax #549;Page 3/9 51

Received: 9/ 6/01 12:17; 334 690 1096

-> IND EMERG SRVS, LLC; Page 3

SEP-6-2001 12:04 FROM:CREDIT ADMIN 334 690 1096

TO:91361653712010845 P:3/9

TO HAVE AND TO HOLD the Property unto Lessee, its successors and assigns, for the Lease term hereinafter set forth, and on and subject to the terms, covenants and conditions hereinafter set forth. The interest of Lessee in the Property and the improvements thereon created hereby, if any, is herein sometimes called the "Leasehold Estate."

The Lessor covenants that the Lessee on paying the fixed rent, hereinafter referred to as "rent", and performing all the covenants and agreements herein contained shall peaceably and quietly have, hold and enjoy the Leasehold Estate.

Section 2. Use. The Lessee may use the Leasehold Estate for the purpose of operating an industrial emergency services training facility and such other uses as the Lessee deems to be an appropriate part or extension of the said industrial emergency services training facility.

Section 3. Lease Term. The primary term of this Agreement for the lease of the Leasehold Estate shall be a period of four (4) months beginning on the 1st day of September, 2001, and ending on the 31st day of December, 2001; this primary term together with any renewals thereof as provided for herein shall hereinafter sometimes be called the "Lease Term."

Section 4. Renewal of Lease Term. Provided Lessee is not in default beyond any applicable period to cure, the term of this Lease may be extended, at the mutual option of the Lessee and the Lessor, for the continued occupancy of the entire Leasehold Estate for successive periods of four (4) months, such periods being herein sometimes referred to as the "Extended Terms." Such options to extend shall be exercised by the Lessee giving written notice to the Lessor not less than thirty (30) days prior to the expiration of the then existing primary or extended term. The extended terms shall be upon the same terms, covenants and conditions as are set forth herein.

Section 5. Rent. The Lessee shall pay to the Lessor monthly rent of ONE THOUSAND AND NO/100 DOLLARS (\$1,000.00) in lawful money of the United States, in advance, on the first day of each month throughout the term of this lease. The rent shall be payable at the office of the Lessor or at such other place as the Lessor may designate in writing.

Section 6. Utilities and Janitorial Expenses. Lessee shall pay all janitorial costs due or to become due on the Leasehold Estate. The Lessee shall pay One Hundred percent (100%) of all electrical, gas and water costs for the Leasehold Estate, including initial installation costs and deposits.

Section 7. Lessee Repairs and Maintenance. Lessee shall have no obligation to make any repairs to the Leasehold Estate except for (a) repairs to damages and defects caused by the Lessee's wanton, reckless or intentional misconduct, and (b) routine maintenance and upkeep. Lessee shall keep the Leasehold Estate in a clean and orderly condition.



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**Section 8. Repairs by Lessor.** Lessor shall not be obligated to make any repairs to any part of the Leasehold Estate. Lessor reserves the right after reasonable notice and at any time to enter upon said Leasehold Estate by its employees, their workmen, contractor, architect, artisans and laborers, to make such repairs and to do such work on or about the Leasehold Estate as Lessor may deem necessary or proper or that Lessor may be lawfully required to make.

**Section 9. Lessor's Access to Leasehold Estate.** Lessor reserves the right to visit and inspect the Leasehold Estate at all reasonable times, and to show the Leasehold Estate to prospective tenants and purchasers during the last thirty (30) days of this lease.

**Section 10. Alterations.** Lessee will make no alterations in or to the Leasehold Estate and will not paint any part of the Leasehold Estate without the consent of the Lessor, except as otherwise herein provided.

**Section 11. Improvements.** All improvements and additions to the Leasehold Estate shall adhere to the Leasehold Estate, and become the property of the Lessor.

**Section 12. Furniture and Fixtures.** All furniture, equipment and trade fixtures are to remain the property of the Lessor, and may not be removed from the Property by the Lessee.

**Section 13. Insurance.** A. The Lessee shall at all times during the Lease Term, at its sole cost and expense, keep the Property, Leasehold Estate, and all fixtures, equipment and personal property insured against loss or damage by fire and other casualty under an "all risk" commercial insurance policy, including without limitation coverage for flood, in an amount equal to the full replacement cost thereof. Such policy shall be endorsed to name Lessor as the loss payee. Any deductible contained in the policy shall be the sole responsibility of the Lessee.

B. The Lessee shall at all times during the Lease Term, at its sole cost and expense, maintain commercial general liability insurance in a per occurrence amount of not less than \$2,000,000.00 combined single limit applying to bodily injury, including death, and property damage that may occur as a result of Lessee's occupancy of the Property or as a result of Lessor's ownership of the Property. Such policy shall be endorsed to name Lessor as an additional insured.

**Section 14. Indemnification.** The Lessee shall indemnify, defend and hold Lessor harmless from and against any and all claims, damages, demands, defenses, counterclaims, actions, proceedings, liabilities, judgments, losses, penalties, fines, or expenses (including, without limitation, attorney's fees) (i) for personal injury, death or property damage occasioned by any act or omission of the Lessee, its agents, or employees occurring in, about or on the Property, and (ii) for any breaches of this



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Agreement by Lessee. The indemnification contained in this Agreement shall survive the expiration or termination of this Agreement.

**Section 15. Disabilities Compliance.** Lessee shall be solely responsible for complying fully with the American with Disabilities Act of 1990 (ADA), and any rules or regulations promulgated thereunder, with respect to the Leasehold Estate.

**Section 16. Destruction of Leasehold Estate.** If the Leasehold Estate is destroyed to the extent that same is rendered wholly untenantable by fire, windstorm, riot, insurrection, or other cause without fault of Lessee, Lessor shall have the election to terminate this Lease, and rent shall be payable only to the time of destruction. Lessor shall have thirty (30) days from the time such damage shall have occurred to elect whether Lessor shall or shall not repair or restore the Leasehold Estate to substantially the same condition in which it existed immediately before such damage or destruction. Lessee shall be notified of such election in writing. Lessor shall not be required to repair or reconstruct any personal property, furniture, trade fixtures or office equipment which are located in the Leasehold Estate. If Lessor elects to repair and restore the Leasehold Estate as aforesaid, Lessor shall make such repairs as soon thereafter as is practicable upon exercising all reasonable diligence, subject to conditions arising beyond Lessor's control, and from the time such damage occurs until the repairs are completed, an abatement of rent shall occur to the extent the Leasehold Estate is unfit for use by Lessee in the ordinary course of business.

**Section 17. Partial Destruction.** If the Leasehold Estate shall be damaged by fire, the elements, unavoidable accident or other casualty, without fault of Lessee, but are not thereby rendered untenantable, Lessor shall have the election to cause the damage to be repaired, and the rent meanwhile shall be abated in accordance with the tenantable portion of the Leasehold Estate.

**Section 18. Surrender of Possession.** The Lessee will, upon the expiration or termination of this lease, surrender the quiet and peaceable possession of the Leasehold Estate in the like good order as the same were in at the commencement of said term, unless meanwhile repaired or improved, in which event, from the time of such repairs or improvements as to that portion so repaired or improved, natural wear and tear excepted.

**Section 19. Non-Waiver.** The failure of the Lessor or the Lessee to insist, in any one or more instances, upon a strict performance of any of the covenants of this lease shall not be construed as a waiver, or relinquishment for the future of such covenant, but the same shall continue and remain in full force and effect.

**Section 20. Holding Over.** Should the Lessee continue to occupy the Leasehold Estate after the expiration of the Lease Term, then the Lessee shall continue as a lessee under the terms of this Lease Agreement (except as to duration) from month to month; provided, however that the receipt of rent under any such holding over shall not constitute a waiver by Lessor.



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**Section 21. Eminent Domain.** If the whole of the Leasehold Estate shall be taken by Federal, State, County, City, public utility, or other authority (all the foregoing referred collectively as "Public Authority") for public use or under any statute, or by right of eminent domain, then when possession shall be taken thereunder of the Leasehold Estate, the term hereby granted and all rights of the Lessee hereunder, shall immediately cease and terminate, and the Lessee shall not be entitled to any damages therefor except that the rent shall be adjusted as of the date of such termination of the lease. If but a part of the Leasehold Estate be taken by right of eminent domain, this lease shall continue in full force and effect, as to the Leasehold Estate remaining and provided such Leasehold Estate remaining is capable of continued enjoyment by the Lessee for the uses and purposes provided for hereunder, and such taking shall not constitute a termination of this lease, or a constructive eviction of Lessee. However, the rent payable hereunder shall be adjusted as to the time of such taking to equitably reflect the change in the size of said remaining Leasehold Estate.

**Section 22. Successors and Assigns.** Every provision hereof applicable to the Lessor and every provision hereof applicable to the Lessee shall also bind, apply to and run in favor of "their respective successors in interest," as fully as if said quoted words were inserted after the words "Lessor" and "Lessee" wherever they appear herein, except that this provision shall not permit the assignment of the lease, or the sub-leasing of the Leasehold Estate.

**Section 23. Waiver of Liability.** Lessor shall not be liable in any manner to Lessee or any other party for any injury to or death of persons unless caused by the willful misconduct of Lessor. In no event will Lessor be liable in any manner to Lessee or any party as the result of the reckless, wanton, or intentional acts or omissions of Lessee, its agents, employees, contractors or any other tenant of the Leasehold Estate.

**Section 24. Lessee's Default.** Upon the happening of any one or more of the events as expressed below in (a) to (g) inclusive (which said events shall separately and severally constitute a default hereunder at Lessor's opinion), the Lessor shall have the right at the option of the Lessor to: (1) declare all unpaid rent for the unexpired term of this Lease Agreement to be due and payable and Lessor may proceed to collect the same as though such rent was payable in advance; (2) annul and terminate this lease, and thereupon re-enter and take possession of the Leasehold Estate; or (3) re-enter and re-let the Leasehold Estate from time to time, as agents of the Lessee, and such re-entry and/or re-letting shall not discharge the Lessee from any liability or obligations hereunder, except that net rents (that is, gross rents less the expense of collecting and handling, and less commissions) collected as a result of such re-letting shall be a credit on the Lessee's liability for rents under the terms of this lease. Nothing herein, however, shall be construed to require the Lessor to re-enter and re-let in such event. Nor shall anything herein be construed to postpone the right of the Lessor to sue for rents, whether matured by acceleration or otherwise.



(a) In the event the Lessee should fail to pay one or more of said installments of rent as and when the same become due, or fail to pay on demand any amount due Lessor and secured as additional rent hereunder.

(b) In the event an execution or other legal process is levied upon the goods, furniture, effects or other property of the Lessee brought on the Leasehold Estate, or upon the interest of the Lessee in this Lease.

(c) In the event a petition in bankruptcy or a petition under the Bankruptcy Act, or any amendment thereto is filed by or against the Lessee or the Lessee is adjudged a bankrupt.

(d) In the event an assignment for the benefit of creditors is made by the Lessee.

(e) In the event of the appointment of a Receiver of Lessee's property.

(f) In the event the Lessee, before the expiration of said term, without the written consent of the Lessor, vacates the Leasehold Estate or abandons the possession thereof, or uses the same for purposes other than the purpose for which the same are hereby let, or ceases to use the Leasehold Estate for the purpose herein specified.

(g) In the event the Lessee fails to perform in any material respect any of the terms, conditions, covenants or provisions of this Lease, and such failure shall not be cured or remedied within the grace period, if any, provided herein to cure such default, on the part of the Lessee herein contained.

**Section 25. Re-Entry.** Upon the expiration of the Lease Term hereunder or upon termination of this Agreement and the Lease Term hereunder, it shall be lawful for the Lessor to re-enter and repossess the Leasehold Estate immediately without process of law, and the Lessee, in such event, does hereby waive any demand for possession thereof, and agrees to surrender and deliver the Leasehold Estate, including the improvements, peaceable to the Lessor immediately upon such expiration or termination.

**Section 26. Legal Expenses.** In the event of employment of an attorney for the collection of any amount due hereunder or the enforcement of any right, or for the institution of any suit for possession of the Leasehold Estate, or to attempt to prevent any default hereunder or to pursue any remedy as a result of a default or threatened default hereunder the defaulting party agrees to pay the attorney's fee of the non-defaulting party so incurred,

**Section 27. Amendments.** This Agreement may be changed, amended, or modified only by written document, duly executed by the parties hereto.



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**Section 28. Binding Effect; Governing Law.** This Agreement shall inure to the benefit of and be binding upon the respective successors in interest of Lessor and Lessee, and shall be governed and construed in accordance with the laws of the State of Alabama.

**Section 29. Partial Invalidity.** If any term, covenant, condition or provision of this Lease is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be effected, impaired or invalidated.

**Section 30. Relationship of Parties.** Nothing contained in this Lease shall be deemed or construed by the parties or by any third person to create the relationship of principal and agent or of partnership or of joint venture or of any association between Lessor and Lessee, and neither the method of computation or rent nor any other provisions contained in this Lease nor any acts of the parties shall be deemed to create any relationship between Lessor and Lessee, other than the relationship of Lessor and Lessee.

**Section 31. Interpretation and Definitions.** The language in all part of this Lease shall in all cases be simply construed according to its fair meaning and not strictly for or against Lessor or Lessee.

**Section 32. Counterparts.** This lease agreement may be executed in two counterparts, each of which shall constitute one and the same instrument.

**Section 33. Notices.** Whenever any notice is required or permitted hereunder, such notice shall be in writing and shall be mailed to the party to received same by United States Certified Mail prepaid, with return receipt requested, addressed to the addressees at the location written opposite their name below, or at such other address as they may specify and written notice to be delivered in accordance herewith:

LESSOR:

LESSEE:

Regions Bank

IES, LLC

Michelle Demel

201 N. Navigation Blvd. Suite 200

Corpus Christi, TX 78408-2644

Attn: \_\_\_\_\_

Attn: Gloria J. Gil

**Section 34. Title of Articles and Sections.** Any titles of Sections of this Agreement are inserted for convenience of reference only, and shall be disregarded in construing or interpreting any of its provisions.



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Section 35. Waivers. Any right or remedy which the Lessor or the Lessee may have under this Agreement, or any provision of this Agreement, may be waived only in writing by the party making such waiver. No waiver made by either party with respect to the performance of any obligation of the other party, or any condition to its own obligation under this agreement, shall be considered a waiver of any rights of the party making the waiver with respect to the particular obligation of the other party or condition of its own obligation beyond those expressly waived, or a waiver or any other rights of the party making the waiver with respect to any other obligations of the other party.

Section 36. Entire Agreement. This document represents the entire agreement and understanding of the parties. No other promise, inducement, or representation of any kind has been relied upon by either party in entering into this agreement. Likewise, there are no other promises, inducements or representations which have been made by either party which are not set forth in this agreement.

IN WITNESS WHEREOF, the Lessor and the Lessee have caused this lease to be executed as of the date and day first above written.

LESSOR:

REGIONS BANK

BY: Mike Borel

ITS: Asst Vice President

LESSEE:

IES, LLC

BY: Leonard H. Deane

ITS: SENIOR VICE PRESIDENT  
& Deputy Fire Chief