Business Valuation Report

PEACHTREE PLUMBING, INC.

5529 Red Bluff Boulevard
Atlanta, GA 30329

As of June 30, 2006

Prepared by:

Lewis Martin, Certified Valuation Analyst

United Financial, LLC
P.O. Box 7207
Fremont, CA 94537

March 31, 2007

Mike Jones & Shirley Jones
Principal Owners
Peachtree Plumbing, Inc.
5529 Red Bluff Boulevard
Atlanta, GA 30329

Re: Peachtree Plumbing, Inc. Fair Market Value of a Non-Marketable, Minority Interest at June 30, 2006.

Dear Mr. & Mrs. Jones:

In accordance with your request, I have prepared the attached formal valuation report of my opinion of the "Fair Market Value" of Peachtree Plumbing, Inc. (the Company) as a "Going Concern Value" as of June 30, 2006. The purpose of the valuation is to render an opinion of the fair market value of a non-marketable, minority interest in the Company for the purpose of a Charitable Contribution to a 501(c)(3) charity. The resulting estimate of value should not be used for any other purpose.

As it applies to the accompanying report, the term "fair market value" is defined by the Internal Revenue Service in its Revenue Ruling 59-60 as follows:

> *The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts.*

This valuation engagement was performed with reliance upon the accuracy and correctness of the financial records supplied to me. No personal audit was performed by the valuation analyst in order to ascertain or verify the authenticity of these records.

Users of this valuation report should be aware that business valuations may sometimes be based on future earnings potential that may or may not materialize. Therefore, the actual results achieved during the projection period will vary from the projections used in this valuation, and those variations may be material.

The accompanying report discusses certain assumptions and limiting conditions that apply to this opinion of value; and these assumptions and limiting conditions are integral to the understanding of the opinion rendered.

Based on the information contained in the following narrative report, and in my professional opinion, I have concluded that the estimate of value of a non-marketable, minority interest of ten thousand (10,000) shares of Peachtree Plumbing, Inc. common stock as of June 30, 2006 is:

<u>SIX HUNDRED FIFTY-FOUR THOUSAND THREE HUNDRED DOLLARS</u>

$654,300 or $65.43 Per Share.

I have no present or contemplated financial interest in the Company. My fees for this valuation are based on standard hourly rates and are in no way contingent upon the results of my findings. I have no responsibility to update this report for events and circumstances occurring subsequent to the date of this report.

Respectfully submitted,

Lewis Martin, Certified Valuation Analyst

United Financial, LLC

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INTRODUCTION

I. Purpose and Function

This is a formal valuation report of my opinion of the “Fair Market Value” of Peachtree Plumbing, Inc. (the Company) as a “Going Concern Value” as of June 30, 2006. The purpose of the report is to render an opinion of the fair market value of a non-marketable, minority interest in the Company for the purpose of a Charitable Contribution to a 501(c)(3) charity. The resulting estimate of value should not be used for any other purpose.

II. Approach

Consideration was given to the comprehensive rulings by the Internal Revenue Service (IRS), which outlines the factors significant to valuing businesses. In particular, within the context of Revenue Ruling 59-60, the IRS defines fair market value as “the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.” Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and the market for such property.

The valuation factors cited in Revenue Ruling 59-60 as those to be considered in valuing stock in closely held corporations includes the following:

- Nature and history of the business.
- The economic outlook in general and the economic outlook for the specific industry in particular.
- The book value of the stock and the financial condition of the business.
- The company’s earning capacity.
- The company’s dividend paying capacity.
- Existence or nonexistence of goodwill or other intangible value.
- Sales of the stock and the size of the block to be valued.
- The market price of stocks of corporations engaged in the same or similar lines of business whose interests are actively traded in a free and open market, either on an exchange or over the counter.

The remainder of this report deals in detail with various aspects of the value-related considerations listed above. The objective here is to examine the subject business in light of how these particular factors influence a final determination of value.

In general, there are three basic approaches to value:

1) Asset Based Approach: Defined in the International Glossary of Valuation terms as "a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities."

2) Income Approach: A general way of determining a value indication of a business's assets and/or equity using one or more methods wherein a value is determined by converting anticipated economic benefits into a single present amount.

3) Market Approach: A general way of determining a value indication of a business's assets and/or equity using one or more methods that compares the subject business to similar investments that have been sold on the open market.

The various methods of valuation that valuators use in practice are typically considered as subdivisions of these broad approaches. Further, valuation methods under the Market and Income approaches generally contain common characteristics such as measures of earning power, discount rates, capitalization rates and the application of selected multiples.

III. Sources of Information

Information was principally obtained through conversations with Mike Jones and Shirley Jones - the Company's principal owners. Financial data and other related documents were obtained from the Company's outside Certified Public Accountant. The Company operates its books on an accrual basis. This financial and other pertinent information has been accepted without further verification as correctly reflecting the Company's operating results and its financial condition during the period(s) under review. The valuation analyst conducted an on-site interview, and site visit / tour of the facilities on March 12, 2007. This site visit was supplemented by telephone calls to key professional staff.

The following documents were supplied to and reviewed by the valuation analyst:

- Historical Balance Sheet Summary for the years 2002 through 2006. *(The corporate year ends June 30).*
- Historical Income Statement Summary for the years 2002 through 2006.
- Rent Survey of the market area near the Company headquarters located at 5529 Red Bluff Blvd., Atlanta, GA 30329.
- Equipment Appraisal Report, along with a list of all equipment appraised.
- Salary Survey and Compensation Review for principal owners of the Company.
- Company Organization Chart showing management and key reporting relationships.

A brief description and discussion of the assets appraised, along with procedures used in the valuation of the overall entity will be presented in subsequent sections of this report.

IV. Limiting Conditions and Assumptions

1. This is a valuation report designed to give an opinion of fair market value. It is not an accounting report, and it should not be relied upon to disclose hidden assets or to verify financial reporting.

2. I have accepted the compiled financial statements of the company without testing their accuracy. The financial statements consist of balance sheets, income statements, and statements of cash flows. The accuracy of the financial statements is the sole responsibility of the management.

3. I have relied on representations made by the owner about the background and history of the business. The management has acknowledged to me that the information they provided was complete and accurate. However, I assume no responsibility for the accuracy of the information provided to me by the company's management.

4. All facts and data as set forth in this report were obtained from sources considered to be reliable. However, I assume no liability for the accuracy of the information provided to me by others.

5. This valuation report is based upon facts and conditions existing as of the date of valuation. I have not considered subsequent events. Unless specifically requested by the client and agreed upon by me, I have no obligation to update my report for such events and conditions.

6. The estimate of value opined to in this report applies only to the subject business. In addition, this estimate of value is valid only for its stated purpose.

7. The scope of this valuation engagement is limited to completing the valuation report as of June 30, 2006 and it does not require compliance with requirements for a charitable contribution under Treasury Regulation 1.170A-13.

8. The fee for this valuation engagement is not contingent upon the reported value estimate, the conclusion reported, or on any requested minimum valuation or specific valuation amount.

9. I have no present or prospective interest in the business that is the subject of this report and I have no personal interest or bias with respect to the parties involved.

10. Additional services, not within the scope of this report, such as, depositions as an expert witness, pre-trial conferences, settlement or court testimony if necessary, must be arranged by prior mutual agreement.

11. I RESERVE THE RIGHT TO CHANGE OR ALTER THIS APPRAISAL REPORT AFTER SUBMISSION, IF NEW FACTS ARE RECEIVED, WHICH, IN THE OPINION OF THE VALUATOR, WARRANT A CHANGE IN THIS REPORT. ADDITIONAL CHANGES WILL BE CHARGED AT THE SAME HOURLY RATE.

12. It is the client’s responsibility to read this report and to inform the valuation analyst of any errors or omissions of which he / she is aware prior to utilizing this report or prior to making it available to any third party.

13. With respect to real property owned and/or used by the Company, the valuation analyst renders no opinion as to title, which is assumed to be good and marketable. No legal search was done.

14. The liability of United Financial, LLC and Lewis Martin, is limited to the client only and to the engagement fee actually received by the valuation analyst. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions. The analyst is in no way responsible for any costs to discover or correct any deficiencies of any type present in the Company: physically, financially, and/or legally.

15. No one provided any significant professional assistance to the person signing this report.

16. Acceptance and/or use of this valuation report by client or by any third party constitutes acceptance of the above limiting conditions and assumptions. Valuation analyst liability extends only to the stated client, not to subsequent parties or to other users; and this liability is limited to the compensation received by the valuation analyst.

17. This accompanying analysis and report were completed in accordance with the National Association of Certified Valuators and Analysts (NACVA) Professional Standards.

OVERVIEW OF THE COMPANY

I. Business Description

Peachtree Plumbing, Inc. is a Georgia C Corporation and plumbing contracting company serving both residential and commercial clients. The industry in which it operates comprises establishments primarily engaged in one or more of the following activities: 1) plumbing installation, 2) servicing on-site plumbing systems, and 3) the combined activity of selling, servicing, and installing plumbing products, systems, and equipment. Its primary market areas are the states of Georgia and Florida.

II. History of the Business

Reginald Jones, founder of Peachtree Plumbing, Inc. (the Company) worked many years for a local residential developer. He was primarily responsible for running plumbing crews working at various sites in the local Atlanta area. This was during the period of 1978 to 1988. In January 1989 Reginald convinced several journeyman plumbers to join him in a new venture. It was at that time that the Company was founded and incorporated.

The Company remained fairly small until 2000 when founder Reginald Jones died. It was at that time that son Mike Jones, wife Shirley and their two children – Mark and Jill – inherited the Company. It was the intent of Reginald to provide something for his two grandchildren. To that end, Reginald Jones' Will specifically bequeathed 55,000 shares of issued and outstanding Company stock to his family. (See Section VI. below – Capitalization and Ownership). It was Reginald Jones' wish that the Company remain in family hands as long as possible. As such, he further stipulated that a family member (shareholder) be given a right of first offer or first right of refusal to purchase any of the 55,000 shares which might be tendered for sale.

Within two years following Reginald Jones' death, the Company began to shift away from a residential focus and into more commercial plumbing work. This shift was mainly the result of an increasing number of shopping malls and retail centers being built within the Company's main service area. In addition, Mike Jones - Reginald's son - assumed complete marketing responsibilities for the company. Mike led the marketing push into Florida and into other geographic locations outside the immediate Atlanta area.

The change in leadership resulted in a number of significant changes at Peachtree Plumbing, Inc. First, under Mike and Shirley's management, the Company has been more aggressive in its marketing efforts within the general construction trade. In addition, the Company no longer services the single-family residential consumer market for repair work. Finally, In addition to its commercial / residential developer business unit, the Company now offers contracted installation services through large home improvement retailers.

As of June 30, 2006, the date of valuation, the Company's annual gross revenues had grown to $7,295,000 and it employed fifty-one (51) employees.

III. Markets and Marketing

The Company is a plumbing contractor primarily serving residential and commercial new construction markets. The current product/service mix is eighty percent (80%) commercial and twenty percent (20%) residential. The primary market for the Company's services is the general construction markets of Georgia and Florida – with a major portion of its business originating in the Atlanta area. Depot Construction (a national chain of do-it-yourself stores), has only three (3) stores that use Peachtree services on a regular basis. In general, the Company's market area is moderately large and stable. Quality control is high, and there are no current or pending lawsuits against Peachtree or any of its clients.

Construction work tends to be cyclical in nature, as opposed to seasonal. Housing starts are higher in early spring, when the climate is more moderate. The Company tends to hire more sub-contractors and laborers during the summer and fall to address increasing workloads. Conversely, work is typically slower during the months of December and January.

In terms of a particular niche, the Company is a market leader in providing professional plumbing services to larger commercial development firms. Their services are distributed between and among several repeat customers: Newhall Homes – which builds moderately priced tract homes; Jackson Brothers Office Construction – builder / developer of tilt-up and fabricated metal office properties, warehouses, and storage units; do-it-yourself chain Depot Construction; and several independent licensed contractors.

The Company advertises primarily in the Atlanta and Florida area trade publications. Work outside the immediate Atlanta area has been limited, with that work usually coming as a result of referrals. Many of Peachtree services are marketed through the Company's solid reputation. In addition, Company CEO, Mike Jones, markets Peachtree through his participation and association with various construction trade organizations. Peachtree is licensed in both Georgia and Florida; and the Company's market share is estimated at 0.157% of the total construction starts in Atlanta, South Georgia, and Northern Florida. Mike also uses the "Green Sheets" to keep abreast of developments and opportunities in the Company's market areas.

Barriers to market entry are high, as this business segment tends to be rather capital intensive. There are also state license requirements which must be met. This represents yet another obstacle. Alternatively, exiting this market is relatively easy.

The Company has three (3) major competitors, which are listed below:

Name	**Location**	**Est. Market Share**
Major Pluming Contractors	Decatur, GA	18%
National Discount Plumbing	Charlotte, NC	37%
Rotor Rooters	Jacksonville, FL	5.5%

Even though the Company generates significant business in Florida, it has maintained a local focus. As a result, the Company is better able to respond to customers' tighter construction schedules.

The Company has a number of competitive strengths including, but not limited to, the following: 1) it is well established with 17 years of successful operation; 2) it enjoys a constant and steady work flow with no dependence on any one customer or general contractor; 3) the Company has an excellent work product and work ethic; 4) low employee turnover (with union workers); 5) well known and respected in the Atlanta construction industry; and 6) excellent facilities, equipment, and location. Finally, from a labor relations perspective, during the time of the valuation there was no incentive for organized labor to take any actions. This was due to the existence of "equilibrium" during that period. Everyone who wanted to work was employed.

Peachtree's competitive weaknesses are much more limited. Management is somewhat overextended, with 15 permanent staff and about a dozen construction personnel supervised by 4 foremen. In addition, the Company operates in a highly competitive unionized environment, where upward wage pressure tends to drive op labor costs.

IV. Management and Employees

There were fifty-one (51) full-time employees who were in place and working with Peachtree Plumbing, Inc. as of June 30, 2006 - the effective date of this valuation. The Company exists in a labor intensive environment. The employee turnover rate is relatively low by industry standards. This generally implies a high degree of employee satisfaction, along with a relatively constant level of construction work. The Company's production workers have excellent skills and are paid accordingly. There is also an adequate supply of labor in the area when occasional help is required. When necessary, temporary help is paid at average rates for the area. The Company operates a union shop and the owner passes these higher costs along to his client.

The following summary describes Management at the Company:

Mike Jones is the President and Chief Executive Officer of the corporation, as well as its major shareholder. He is responsible for bidding jobs, marketing the Company to the construction industry, and managing the overall business. Mr. Jones holds two state contractor's licenses – one for Georgia and the other for Florida. He is a master plumber and learned the trade as an apprentice.

Shirley Jones is Vice President and Co-owner. She is charge of all office related activities. Ms. Jones learned about the business from her husband Mike. She also takes care of the family aspect of the business, which sometimes involves entertaining clients, as well as client contact and follow-up.

Don Smith, Construction Manager, supervises four (4) construction foremen. He is also in charge of the quality control function. Mr. Smith learned his trade in the union, and is a master plumber.

Jack Schwartz, Estimator is responsible for producing job cost estimates and budgets. Mr. Schwartz graduated from City College and holds a bachelor's degree in production control and estimating.

Steve Gonzalez, Maintenance Foreman, supervises two (2) maintenance mechanics. Though lacking in formal training, Mr. Gonzalez is very effective in solving mechanical problems and issues. When warranted, he will outsource work rather than waste time searching for internal solutions.

David Black, Office Manager/Controller, supervises a two-person staff and oversees the finance, accounting and administrative side of the business. Mr. Black graduated from Montana State with a bachelor's degree in accounting. He was hired soon after founder Reginald Jones died, since the late Mr. Jones had been completely responsible for all accounting. Neither Mike Jones nor Shirley was capable of filling that role.

V. Facilities

The Company maintains its offices at 5529 Red Bluff Boulevard, Atlanta, Georgia. This is a leased facility which is owned by the Jones Family Limited Partnership (JFLP). According to a recently completed rent survey, the Company has been paying below market rents during the most recent five-year history. A hypothetical buyer adjustment to these rents would tend to increase costs and drive down the Company's overall value. It should be noted that JFLP is an asset separate and distinct from the Company. As such, JFLP is not part of this valuation for charitable contribution.

The facility consists of a two-story building located in primarily industrial area. Peachtree maintains 5,400 square feet of usable space. The upper floor contains offices, along with some inventory storage space; and the lower floor is devoted to shop work areas, garage space, and additional storage areas. In addition, there is an outside parking lot on site. The facilities and equipment appear to be in good working order.

The valuator conducted and on-site interview and site visit to tour the facilities on March 12, 2007. This site visit was supplemented by a telephone call to key professional staff.

VI. Capitalization and Ownership

Peachtree is a closely held company and is capitalized with one class of voting common stock shares. As of the valuation date, Peachtree Plumbing, Inc. had 55,000 shares authorized. The same amount was issued and outstanding as of June 30, 2006. The ownership distribution of the shares of the Company's stock, as of the valuation date, was as follows:

Shareholder	No. of Shares Owned	Pct. of Total Outstanding
Mike Jones	30,000	54.5%
Shirley Jones	20,000	36.4
Mark Jones	3,000	5.5
Jill Jones	1,000	3.6
Total	55,000	100.0%

VII. Financial Records and Management

Peachtree's fiscal year-end is June 30, and Company accounting is on an accrual basis. This is notwithstanding the fact that many transactions are conducted using cash. Company financial statements and fiscal management reports are generated monthly by an outside Certified Public Accountant (CPA). Mr. Black – Office Manager / Controller – supplies all data used in compiling reports. Although the CPA firm is tasked with providing these reports, no independent audit services are performed.

In addition, the Controller is responsible for handling the Company's billing and collections, deposits, and bank reconciliations. In terms of internal controls, checks, and balances, management feels that current procedures are adequate. This is based on trust placed in the Controller's ability to handle multiple layers of responsibility. While not the result of an audit based finding, the analyst recommended that management examine its internal control policies and procedures with the assistance of a qualified professional.

VIII. Expectations

Based on current revenues, stable operating costs, competitive strengths, and the overall state of the industry, Company management expects to remain profitable for the foreseeable future. Capital expenditures in the near term will likely stay flat – neither accelerating nor declining by a material amount.

ECONOMIC CONDITIONS AND INDUSTRY DATA

With respect to examining relevant factors contained in IRS Revenue Ruling #59-60, we also consider the general outlook of the national economy, regional/local economies, and the Plumbing Industry as of June 30, 2006. This is helpful in assessing both the risk profile and earnings potential of Peachtree Plumbing, Inc. which existed at the effective date of the valuation. That is, a given set of economic circumstances may have either a positive or negative effect upon the value of closely-held business stock.[2]

I. Overview of the National Economy[3]

In any business valuation, the general economic outlook as of the appraisal date should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

During the second quarter of 2006 Real Gross Domestic Product (GDP) – which is the broadest measure of the economy's health – stood at 2.7 percent. Though slightly below the three percent (3%) threshold, it was expected to rise slightly through the remainder of the year. During the same period the United States experienced higher prices in the broader economy. This was due to the persistence of higher gas and oil prices. As a result, inflation fears fueled cutbacks in consumer spending, business expenditures, and supplier contracts. Additionally, a rise in rents, along with higher home prices and interest rates had a dampening impact on housing markets.

II. Leading Economic Indicators

The Conference Board reported that six of the ten indicators that make up the index increased in June. The positive contributors - beginning with the largest positive contributor - were average weekly initial claims for unemployment insurance (inverted), index of consumer expectations, real money supply, average weekly manufacturing hours, interest rate spread, and manufacturers' new orders for non-defense capital goods. The negative contributors - beginning with the largest negative contributor - were vendor performance, building permits, and stock prices. The manufacturers' new orders for consumer goods and materials held steady in June.

The leading index stood at 138.1 (1996=100) in June 2006. Based on revised data, this index decreased 0.6 percent in May and decreased 0.1 percent in April. During the six-month span through June, the leading index decreased 0.3 percent, with five out of ten components advancing. This slight decrease in the first six months would appear to indicate a period of flat to slow growth in the economy.

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[2] IRS Revenue Ruling #59-60, Section 4.Paragraph .02 (b)

[3] Excerpted information on the National Economy from *The National Economy – 2nd Quarter 2006 and Outlook through 2006* published by Center for Economic & Industry Research, LLC (CEIR) – See Appendix B

III. Industrial Production

Industrial production increased across all categories of durable goods with the exception of appliances, furniture, and carpeting. Output increased for all major categories of nondurable goods except foods and tobacco. Of particular note, the index for construction supplies increased 0.4 percent in June but was down at an annual rate of 0.9 percent in the second quarter of 2006.

IV. Consumer Spending

As of the valuation date, the national economy experienced a slowdown in consumer spending. The U.S. Census Bureau reported that advance estimates of U.S. retail and food services sales for June, adjusted for seasonal variation and holiday and trading-day differences, were $363.8 billion, a decrease of 0.1 percent from the previous month, but up 5.9 percent (±0.8%) from June 2005. Total sales for the April through June 2006 period were up 6.8 percent from the same period a year ago. The April to May 2006 percent change was up 0.1 percent.

Retail prices for goods other than food and energy increased more than expected in June 2006. The Consumer Price Index (CPI), the government's main inflation gauge, rose 0.2 percent in June after climbing 0.4 percent in May. Core CPI, which excludes volatile food and energy prices, rose by a higher-than-expected 0.3 percent. Economists were looking for a 0.2 percent rise in the core CPI.

The June increase left core CPI, considered by most economists to be the best gauge of the underlying inflation rate, up 2.6 percent from a year earlier - above the Fed's presumed comfort zone of about 2 percent. Moreover, the three-month annualized rate stands at 3.6 percent - well above the Fed's comfort zone. May's 0.3 percent gain in the core CPI was higher than expected, and sent stocks and bond prices tumbling on fears it would prompt the Fed to keep raising rates.

V. Labor Markets

The Conference Board Help-Wanted Advertising Index, a key measure of job offerings in major newspapers across America, dipped two points in May 2006. The Index now stands at 33. It was 38 one year ago. In the last three months, help-wanted advertising declined in all nine U.S. regions. Steepest declines occurred in the West South Central (-19.5%), West North Central (-17.9%) and Pacific (-17.3%) regions.

During the second quarter, businesses remained cautious about hiring when near-term economic prospects appeared soft. They remain fundamentally worried about the expense of new hiring (in terms of wages, as well as health and pension benefits) relative to pricing power. With some evidence that retail inflation may be picking up, that concern may be alleviated. But consumers worry about price hikes outstripping their wage gains, and may limit their spending increases.

VI. Stock Market

The Dow reached its quarterly high on May 10, when it peaked at 11,709.09. The Dow reported a steady decline, when it reached its low on June 13, after which the Dow rallied to the end of the quarter. The NASDAQ peaked on April 20, 2006 at 2,375.54. The NASDAQ reported a steady fall starting May 8 until it reached a low of 2,065.11 on June 14, 2006.

VII. Manufacturing

Economic activity in the manufacturing sector grew in June for the 37th consecutive month, while the overall economy grew for the 56th consecutive month. Manufacturing growth continued in June, and although growth slowed slightly, renewed strength in June's New Orders Index provided encouragement for the third quarter.

The manufacturing economy registered 53.8 percent, a decrease of 0.6 percentage point when compared to May's reading of 54.4 percent. However, a reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. A reading in excess of 42 percent, over a period of time, generally indicates an expansion of the overall economy. June results indicate that both the overall economy and the manufacturing sector are growing.

VIII. Outlook

The inflation scare in the first half of this year has extended the Fed’s tightening campaign increasing the probability of economic difficulty in 2007. External shocks threaten to exacerbate domestic economic problems. Strong growth in China and India, along with the threat of energy supply disruptions in the Middle East, could keep energy price inflation on the rise, despite the Fed’s attempts to keep inflation at bay. The Fed has very little, if any, control over global energy prices and energy supply. In order to contain inflation, the Fed may end up pushing rates too high, triggering a housing market and consumer- lead recession.

Retailers can expect the second half of the year to show moderate gains due to the slowdown in the housing market and other economic factors such as rising interest rates and higher gas prices. According to National Retail Federation’s latest Retail Sales Outlook, retail industry sales in the third quarter are expected to increase 5.5 percent, followed by a gain of 4.6 percent in the fourth quarter. Because of the strong first half, even with some deceleration in sales for the balance of the year, industry sales are tracking to a 6.0 percent gain for the year.

Despite the up-tick in consumer confidence, consumers remain concerned about the short-term outlook. Furthermore, the Present Situation Index lost ground for the second consecutive month - a signal that the economy is shifting into lower gear heading into the second half of 2006. Consumers may slow spending if energy prices continue to climb.

IX. States Economic Analysis[4]

State of Georgia

Per Capita Personal Income

The population of Georgia in 2006 was 9,363,941. Its rank was 9th in the nation. In 2006 Georgia had a per capita personal income (PCPI) of $32,025. This PCPI ranked 37th in the United States and was 87 percent of the national average, $36,629. The 2006 PCPI reflected an increase of 3.0 percent from 2005. The 2005-2006 national change was 5.6 percent. In 1996 the PCPI of Georgia was $22,945 and ranked 25th in the United States. The 1996-2006 average annual growth rate of PCPI was 3.4 percent. The average annual growth rate for the nation was 4.2 percent.

Total Personal Income

In 2006 Georgia had a total personal income (TPI) of $299,884,835*. This TPI ranked 11th in the United States. In 1996 the TPI of Georgia was $172,112,935* and ranked 11th in the United States. The 2006 TPI reflected an increase of 5.6 percent from 2005. The 2005-2006 national change was 6.6 percent. The 1996-2006 average annual growth rate of TPI was 5.7 percent. The average annual growth rate for the nation was 5.3 percent.

Components of Total Personal Income

Total personal income includes net earnings by place of residence; dividends, interest, and rent; and total personal current transfer receipts received by the residents of Georgia. In 2006 net earnings accounted for 71.6 percent of TPI (compared with 70.9 in 1996); dividends, interest, and rent were 14.8 percent (compared with 16.7 in 1996); and personal current transfer receipts were 13.6 percent (compared with 12.4 in 1996). From 2005 to 2006 net earnings increased 5.0 percent; dividends, interest, and rent increased 7.1 percent; and personal current transfer receipts increased 7.2 percent. From 1996 to 2006 net earnings increased on average 5.8 percent each year; dividends, interest, and rent increased on average 4.5 percent; and personal current transfer receipts increased on average 6.7 percent.

Earnings by Place of Work

Earnings of persons employed in Georgia increased from $229,330,881* in 2005 to $240,944,556* in 2006, an increase of 5.1 percent. The 2005-2006 national change was 5.7 percent. The average annual growth rate from the 1996 estimate of $136,854,951* to the 2006 estimate was 5.8 percent. The average annual growth rate for the nation was 5.5 percent.

[4] Information obtained from the USDOC, Bureau of Economic Analysis, September 20, 2007

State of Florida

Per Capita Personal Income

The population of Florida in 2006 was 18,089,888. Its rank was 4th in the nation. In 2006 Florida had a per capita personal income (PCPI) of $36,665. This PCPI ranked 20th in the United States and was 100 percent of the national average, $36,629. The 2006 PCPI reflected an increase of 5.6 percent from 2005. The 2005-2006 national change was 5.6 percent. In 1996 the PCPI of Florida was $23,655 and ranked 20th in the United States. The 1996-2006 average annual growth rate of PCPI was 4.5 percent. The average annual growth rate for the nation was 4.2 percent.

Total Personal Income

In 2006 Florida had a total personal income (TPI) of $663,260,710*. This TPI ranked 4th in the United States. In 1996 the TPI of Florida was $351,355,341* and ranked 4th in the United States. The 2006 TPI reflected an increase of 7.5 percent from 2005. The 2005-2006 national change was 6.6 percent. The 1996-2006 average annual growth rate of TPI was 6.6 percent. The average annual growth rate for the nation was 5.3 percent.

Components of Total Personal Income

Total personal income includes net earnings by place of residence; dividends, interest, and rent; and total personal current transfer receipts received by the residents of Florida. In 2006 net earnings accounted for 58.5 percent of TPI (compared with 57.4 in 1996); dividends, interest, and rent were 25.7 percent (compared with 26.3 in 1996); and personal current transfer receipts were 15.8 percent (compared with 16.3 in 1996). From 2005 to 2006 net earnings increased 6.7 percent; dividends, interest, and rent increased 10.1 percent; and personal current transfer receipts increased 6.7 percent. From 1996 to 2006 net earnings increased on average 6.8 percent each year; dividends, interest, and rent increased on average 6.3 percent; and personal current transfer receipts increased on average 6.2 percent.

Earnings by Place of Work

Earnings of persons employed in Florida increased from $408,245,360* in 2005 to $435,865,688* in 2006, an increase of 6.8 percent. The 2005-2006 national change was 5.7 percent. The average annual growth rate from the 1996 estimate of $226,229,424* to the 2006 estimate was 6.8 percent. The average annual growth rate for the nation was 5.5 percent.

**Note: All income estimates with the exception of PCPI are in thousands of dollars, not adjusted for inflation.*

X. Economic Outlook, Atlanta - Sandy Springs - Marietta, Georgia[5]

Peachtree Plumbing Inc. is headquartered in Atlanta, Georgia. The city of Atlanta is the capital of Georgia and it is part of a fairly large Metropolitan Statistical Area (MSA) which overlaps or contains approximately twenty (20) counties. Several large international firms are located in the area due to its close proximity to major areas in the eastern United States, along with various transportation services to these locations. Delta Airlines, UPS, Coca Cola, and Home Depot are some examples of international companies headquartered in Atlanta. It has the world’s largest passenger terminal complex and eighty percent (80%) of the population of the United States lives within a two-hour flight of Atlanta.

The U.S. Department of Commerce / U.S. Census Bureau reported the total number of residential building permits issued in the Atlanta – Sandy Springs – Marietta, GA MSA totaled 38,693 during the first half of 2006 – a 7.6 percent increase from the same period the previous year. The number of permits issued for single-family homes increased 2.3 percent from 30,115 during the first six months of 2005 to 30,795 during the same period the following year. The number of permits issued for residential structures containing two units fell 10.5 percent from 114 during the first two quarters of 2005 to 102 during the first two quarters of 2006, while the number of permits issued for residential structures containing three and four unites increased 256.6 percent from 83 during the first half of 2005 to 296 during the first half of 2006. The number of permits issued for residential structures containing five (5) or more units increased 33.00 percent from 5,640 during the first half of 2005 to 7,500 during the same period the following year.

Projections from Woods and Poole Economics, a national econometric research firm, indicate that the Atlanta economy is expected add approximately 63,000 jobs in 2006 and roughly 48,500 in 2007 – which comprise about two-thirds of the new positions in the state. Woods and Poole projected the population will increase 9.8 percent between 2005 and 2010; and the median age of the population will reach 34.6 years by 2010. Total employment is projected to increase 10.5 percent between 2005 and 2010, according to Woods and Poole. The firm further estimates that total earnings will increase 10.9 percent between 2005 and 2010, with the services sector accounting for 32.4 percent, or one-third, of the total earnings in the Atlanta – Sandy Springs – Marietta, GA MSA in 2010.

[5] Information obtained from the *Atlanta-Sandy Springs-Marietta, GA Metropolitan Area Study* published by CEIR - See Appendix C

XI. Plumbing Industry Data

A. Introduction

Peachtree Plumbing, Inc. operates in the Industry defined as "Plumbing, Heating and Air Conditioning Contractors" under the North American Industry Classification System (NAICS) code number 23822; the industry also includes Standard Industrial Code (SIC) numbers 1711, 1791, and 1796. The NAICS Association provides the following description: this industry comprises establishments primarily engaged in installing and servicing plumbing, heating, and air-conditioning equipment. Contractors in this industry may provide both parts and labor when performing work. The work performed may include new work, additions, alterations, maintenance, and repairs.

B. Industry Overview[6]

Demand for plumbing services and supplies was uneven across the U.S in 2006, according to a survey of contractors nationwide reported in Contractor Magazine online. Contractors in Syracuse, N.Y. and Cleveland, OH reported to have "nothing going on," while contractors in Kansas City and cities across California couldn't find enough help. High prices for metals and other raw materials, continuing consolidation of suppliers and more green building initiatives were some of the trends that began to affect the plumbing industry in 2006. Overall, plumbing contractors and manufacturers were optimistic about 2006 prospects, although no one expected the year to be better than 2005. Housing began to slow due to rising mortgage rates; however, many areas saw strengthening in commercial projects and sustained growth in the remodeling and renovation sector

1. Current Status

The Company is part of the construction sector, which is highly dependent on both national and local economic conditions. In addition, the residential construction industry is highly dependent upon mortgage interest rates; in the aftermath of the global economic downturn of 2001, the U.S. construction and engineering industries suffered – experiencing contraction in both 2002 and 2003. The industry is now in a period of recovery and it is anticipated to consistently post positive growth rates through 2010.

The U.S. construction and engineering industry generated total revenue of $479.3 billion in 2005, representing an increase of 6.1 percent over the previous year's value and a compound annual growth rate (CAGR) of 1.2 percent between 2001 and 2005.

[6] Excerpted information from *Plumbing Industry Report – Atlanta, GA 6/30/2006* published by CEIR - See Appendix D

2. Trends

The U.S. industry is facing significant cost increases. In particular, labor costs have increased in recent years – a problem that will be compounded as baby boomers reach retirement age. This decline is expected to contribute to a decline in the labor supply and will likely cause upward pressure on wages.

3. Industry Indicators

Overall 2006 will be a strong year for commercial activity but a slightly weaker year for overall construction. Rising interest rates will dampen the red-hot housing market in 2006, but overall construction will remain strong – supported by nonresidential construction. An increase in commercial and public construction will spur nonresidential growth through the remainder of 2006.

Demand for plumbing fixtures is forecast to expand 2.7 percent annually through 2010 to $5.8 billion. Gains will be bolstered by strong residential and nonresidential repair and improvement activity over the forecast period. In addition, solid growth in new nonresidential building and non-building construction will benefit plumbing fixture demand – particularly in the institutional and lodging segments.

C. Outlook

Looking forward, the construction and engineering industry in the United States is expected to accelerate from its current value growth position. With an anticipated CAGR of five percent (5%) between 2005 and 2010, the market is expected to expand to reach a value of $611.5 billion by the end of the period. The significant amounts of reconstruction necessary in the wake of the hurricane season of 2005 will increase revenues for companies operating in this industry, as will enhanced state funding for transport infrastructure construction.

XII. Implications for the Company

There are key influences at the National, State, and Regional levels, as well as within the Plumbing Industry that impact the Company's operations and performance. Taken together, these influences result in the following observation.

- From a macroeconomic perspective, the prospect for the Company was somewhat threatened. With the national economy slowing, there appears to be upward pressure on prices – as indicated by an increased Consumer Price Index (CPI) well above the Fed's comfort zone of two percent (2%). The overall outlook points to a slight downturn in the national economy in the year following the effective valuation date.
- The Company's performance would be buoyed by positive indicators within the regional/local economies. Factors such as increases in year-over-year building permits, a growing job market, and solid consumer earnings bode well for Peachtree.

- Plumbing Industry indicators point to solid performance in nonresidential construction. This performance coupled with steady demand for plumbing fixtures is expected to drive industry expansion at a projected rate of five percent (5%)

- Based on the foregoing, Peachtree's business should remain stable but grow at a lower rate than years prior to the effective valuation date. This slower growth rate would directly impact estimated revenue and profit outlook when using valuation methods based on future benefit streams.

FINANCIAL ANALYSIS

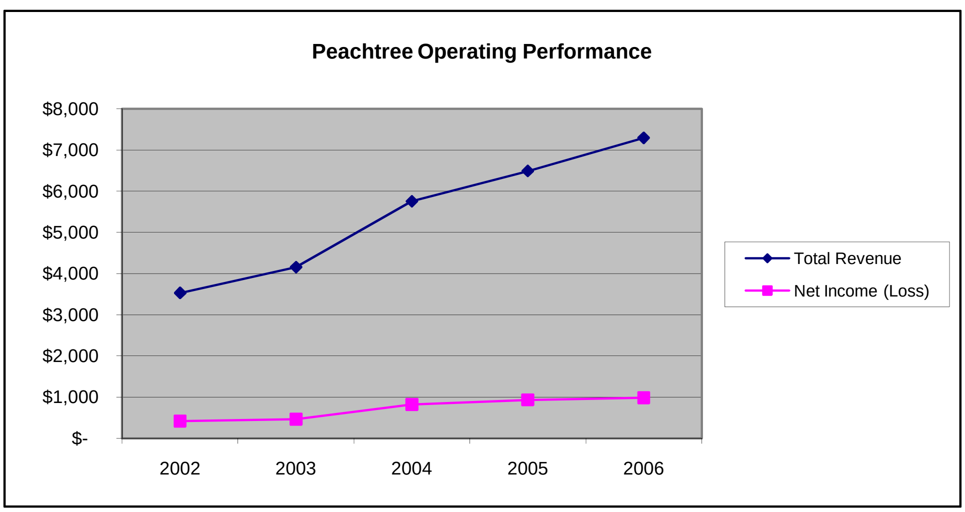
Generally speaking financial analysis is the process of examining a company's financial statements in order to assess the firm's performance over a certain time horizon. It seeks to answer critical questions such as: how has the company's financial position changed over time? Has it improved, remained the same, or worsened? Here, the analyst attempts to ascertain whether trends exist which might indicate the future direction in which the company may be headed. This is generally accomplished by examining relatively recent financial data and key operating metrics. Normally this involves a review of the most recent five (5) years operating results. Additional analyses include comparisons of the subject company in terms of its performance relative to industry peers.

The financial review of the Company included an analysis of the financial statements from five (5) fiscal years from 2002 to 2006. The Company's fiscal year end is June 30. Statements are prepared by the Company's outside CPA firm utilizing data supplied by Peachtree's Controller. It is the analyst's opinion that the years covered in this review are adequate in identifying any existing or operational trends that may affect the conclusion of value. A summary of the historical financial performance of the Company is presented in the table below:

PEACHTREE PLUMBING, INC.

Historical Performance, 2002-2006, As Reported on Accrual Basis

FYE June 30: (in 000's)	2002	2003	2004	2005	2006
Total Revenue	$ 3,529	$ 4,156	$ 5,755	$ 6,489	$ 7,295
Less: Operating Expenses	2,866	3,401	4,499	5,067	5,769
Income (Loss) From Operations	663	755	1,256	1,422	1,526
Other Income (Expense)	22	31	53	67	84
Income (Loss) Before Taxes	685	786	1,309	1,489	1,610
Less: Income Taxes	270	324	491	558	626
Net Income (Loss)	$ 415	$ 462	$ 818	$ 931	$ 984



I. Historical Data

A. Balance Sheet

The following represents the historical assets, liabilities, and equity of Peachtree Plumbing, for the years ended June 30.

PEACHTREE PLUMBING, INC.
Historical Balance Sheet Summary

For Year Ended June 30: (in 000's)	**2002**	**2003**	**2004**	**2005**	**2006**
Assets					
Current Assets					
Cash	$ 209	$ 350	$ 1,005	$ 1,435	$ 1,403
Accounts Receivable (WIP)	290	750	689	714	891
Inventory	25	30	39	45	49
Other Current Assets					
Loans to Stockholders	0	0	0	0	0
Short-term Investments	50	65	514	1,220	2,150
Total Current Assets	574	1,195	2,247	3,414	4,493
Fixed Assets					
Property, Plant & Equipment	450	475	550	675	900
Land	900	900	900	900	900
Other Fixed Assets	12	15	13	18	25
Total Fixed Assets	1,362	1,390	1,463	1,593	1,825
Other Assets					
Deposits	150	150	150	150	150
Other	0	0	0	0	0
Total Other Assets	150	150	150	150	150
Total Assets	$ 2,086	$ 2,735	$ 3,860	$ 5,157	$ 6,468
Liabilities & Equity					
Current Liabilities					
Notes Payable (Short-term)	73	88	111	119	135
Accounts Payable	11	13	15	12	10
Other Current Liabilities	3	5	2	4	3
Total Current Liabilities	87	106	128	135	148
Long-term Liabilities					
Notes Payable	705	830	1,158	1,517	1,831
Other Long-term Liabilities	0	0	0	0	0
Total Long-term Liabilities	705	830	1,158	1,517	1,831
Stockholder's Equity					
Common Stock	55	55	55	55	55
Paid-in Capital	465	465	465	465	465
Retained Earnings	774	1,236	2,054	2,985	3,969
Other Equity					
Dividends	0	43	0	0	0
Total Other Equity	0	43	0	0	0
Total Stockholder's Equity	1,294	1,799	2,574	3,505	4,489
Total Liabilities & Equity	$ 2,086	$ 2,735	$ 3,860	$ 5,157	$ 6,468

B. Income Statements

The following represents the historical income and expenses of Peachtree Plumbing, for the years ended June 30.

PEACHTREE PLUMBING, INC.
Historical Income Statement

For Year Ended June 30: (in 000's)	**2002**	**2003**	**2004**	**2005**	**2006**
Revenues					
Total Revenue	$ 3,529	$ 4,156	$ 5,755	$ 6,489	$ 7,295
Operating Expenses					
Officer's Compensation	120	144	168	192	240
Other Salaries & Wages	1,691	1,991	2,757	3,109	3,495
Rent	36	42	48	54	66
Payroll Taxes	196	231	320	360	405
Truck/Equipment/Auto Expense	325	411	463	520	633
Insurance	29	36	49	61	78
Legal/Professional Expenses	26	27	29	31	41
Travel & Entertainment	4	4	5	5	5
Director Fees	3	5	6	10	18
Pension & Profit Sharing	35	42	58	65	73
Depreciation & Amortization	57	68	86	84	73
Interest Expense	58	68	94	107	120
Other Operating Expenses	286	332	416	469	522
Total Operating Expenses	2,866	3,401	4,499	5,067	5,769
Income from Operations	663	755	1,256	1,422	1,526
Other Income/(Expense)	22	31	53	67	84
Earnings Before Tax	685	786	1,309	1,489	1,610
Income Tax Expense	270	324	491	558	626
Net Income/(Loss)	$ 415	$ 462	$ 818	$ 931	$ 984

C. Industry Comparative Analysis

1. Comparison to Risk Management Association (RMA)

It is important to know that the company is more or less successful than its competitors in the same industry, or that it is maintaining a stable position with respect to competitors.[1] Therefore, analyzing the company's financial performance is an important aspect in determining value. It is important to understand how well the company is performing relative to its peers, as this has a direct impact in assessing risk which impacts the company's value.

Information concerning industry rates of return and other measures of financial performance was obtained from company data. Industry norms were obtained from Risk Management Association (RMA). RMA collects financial statements of banks' borrowing customers and then compiles industry statistics, which are published annually. These statistics are organized by company size, in terms of assets and sales/revenue levels.

RMA industry data is further broken down into four (4) groups of equal size. These groups are called "quartiles" and represent the relative strength or weakness of all the company ratio values being reported. The upper quartile shows the average value of the top 25% of the companies in the study. Similarly the lower quartile is the average value for the weakest 25% of the business within a particular industry group; and finally, the median quartile indicates where the middle 50% of the companies is found.

For purposes of this analysis we examined those companies within the same North American Industry Classification System (NAICS) code and also within the same Standard Industrial Classification (SIC) as PEACHTREE PLUMBING, INC. The nature of the business for the subject Company is as follows:

<u>NAICS 23822, SIC 1711, 1791, and 1796</u> - Plumbing, Heating and Air Conditioning Contractors

This industry comprises establishments primarily engaged in installing and servicing plumbing, heating, and air conditioning equipment. Contractors in this industry may provide both parts and labor when performing work. The work performed may include new plumbing projects, additions, alterations, maintenance, and repairs.

[1] IRS Revenue Ruling #59-60, Section 4.Paragraph .02 (b)

PEACHTREE PLUMBING, INC.

2. Industry Comparative Ratio Analysis

The following table compares RMA (2006) under NAICS # 23822 & SIC's 1711, 1791, 1796 - industry ratios versus those of the subject company: Peachtree Plumbing, Inc; Median Quartile information formed the basis of the comparison. RMA 2006 data for businesses with sales of $5-10MM during the period from 4-1-2005 through 3-31-2006 was used in the analysis. Results are based on information obtained from 220 financial statements.

	*Subject Company 6-30-2006	Median Quartiles Industry	Company vs. Industry	Risk Assessment
LIQUIDITY RATIOS				
Current Ratio	30.4	1.6	Better (+)	Low
Quick Ratio	15.5	1.3	Better (+)	Low
Sales / Accounts Receivable	8.2	5.6	Better	Low
Sales / Working Capital	1.7	12.1	Worse	High
COVERAGE RATIO				
Earnings (EBIT) / Interest Expense	14.4	7.3	Better (+)	Low
LEVERAGE RATIOS				
Net Fixed Assets / Tangible Net Worth	0.4	0.3	Worse	Moderate
Total Liabilities / Tangible Net Worth	0.4	1.8	Better	Low
OPERATING RATIOS				
% Profits Before Taxes / Tangible Net Worth	35.9%	25.9%	Better	Low
% Profits Before Taxes / Total Assets	24.9%	7.9%	Better (+)	Low
Sales / Net Fixed Assets	4.0	32.3	Worse (-)	High
Sales / Total Assets	1.1	3.1	Worse	High

* General Note: All comparisons per Subject Company are made based on the Balance Sheet as of June 30, 2006 and the operating results as reported for the same period ended.

Ratio Analysis Observations & Conclusions

The following discussion of the Company's financial condition relative to the industry makes reference to the financial ratios presented on the preceding page.

Overall Assessment

When compared to other companies within its industry group, PEACHTREE PLUMBING, INC. outperformed the Median Quartile – in roughly two-thirds of the categories under review. This indicates a relatively low risk assessment in measuring the stability of the company's current and future earnings base. Therefore, the firm's risk profile dictates using fairly lower subjective capitalization and discount rates to estimate values. Lower capitalization/discount rates translate into higher overall value.

Liquidity Ratios

With the exception of the Sales / Working Capital ratio, the Company's liquidity ratios exceed the industry's Median Quartile segment. Liquidity ratios measure the adequacy and quality of the Company's current assets to meet current liabilities.

Coverage Ratios

Coverage ratios measure a firm's ability to service its debts. These ratios indicate how much Company cash flow is available to cover the firm's short-term financial obligations. Peachtree's Coverage Ratio is nearly double the industry Median Quartile. Again, this indicates a much lower risk profile than the Company's peer group.

Leverage

Leverage ratios measure the Company's ability to weather downturns; and in some cases may reflect the existence of underutilized borrowing capacity. Moreover, highly leveraged firms (those with heavy debt in relation to net worth) are more vulnerable to business downturns than those with lower debt to worth positions. The Company's leverage ratios are mixed when compared to the industry. This demonstrates management's ability to continue funding PEACHTREE PLUMBING, INC. growth internally without using outside debt. The lower ratio indicates greater borrowing capacity.

Operations

Operating ratios are designed to assist in evaluating management performance. The Company's Return on Equity and Return on Assets ratios are substantially higher than the Median Quartile in the industry.

Asset Efficiency

Efficiency ratios, such as Sales/Fixed Assets and Sales/Total Assets, measure how effectively the Company utilizes its assets to generate sales and profits. It should be noted that firms with largely depreciated fixed assets or a labor intensive operation may cause a distortion in this ratio. The Company is below Median Quartile industry averages in this category.

II. Financial Analysis Summary

In summary, the Company has experienced steady growth in both gross sales revenue and net profits over the five-year period covering fiscal years 2002 to 2006. The Company holds a somewhat stronger position in its industry relative to firms of similar size and comparable operating characteristics. In particular it maintains a high level of liquidity, strong cash flow to debt service ratio, and a lower overall debt load in comparison to industry peers. In addition, strong operating profit ratios show that the Company has demonstrated above average performance in utilizing its available assets to generate earnings and profits. It needs improvement in the area of employing assets to drive sales revenue. While the Company operates in an industry susceptible to changes in the national economy, Peachtree's financial stability is such that it should be able to weather a moderate to strong downturn. Therefore, as of the date of valuation, the Company appears to be financially sound. Based on the company's relative fiscal strength, a lower subjective risk for the enterprise is indicated. Less risk translates into a lower capitalization rate when comparing the Company to the universe of suitable alternatives.

III. Adjustments to Financial Statements

Nearly every valuation analysis requires normalization adjustments to company financial statements. These adjustments are typically used to adjust historical financial statements so that they more clearly reflect the business' normal condition as of the valuation date. Such normalizations are usually the result of financial circumstances, events, or transactions of a nonrecurring, non-operating, or non-market nature.

Generally speaking, business value is a function of the company's ability to generate earnings. Public company management objectives are to maximize profits and to increase shareholder value. In contrast, owners of closely held companies exercise tremendous flexibility over the way earnings and profits are reported. Small business reporting is often done in such a way as to minimize tax liability. That is, many closely held business owners select certain accounting practices based on tax consequences. As a result, the valuation analyst frequently needs to "normalize" historical financial statements prior to implementing selected valuation approaches.

Normalizations are adjustments to financial statements to account for items not representative of the current going-concern status of the business. Normalizing adjustments could include elimination of the effects of discontinued operations, adjusting for the effects of nonrecurring events, or adjustment of abnormal depreciation charges. For example, non-operating or nonrecurring income or expense adjustments are removed from the income statement due to those items being unrelated to business operations or highly unlikely of future recurrence.

Similarly, discretionary adjustments involve removing certain expenses which are usually under the direct and complete control of management – typically company owners. Examples of these adjustments include, but are not limited to: owners' compensation in excess of market levels; inflated travel and entertainment expense over and above that which would be necessary in the normal conduct of the business; personal use of company owned automobiles; certain related party transactions – such as transactions between the owner and the company; and excess compensation paid to family members.

The ultimate goal of making the foregoing adjustments is to accurately reflect the entity's financial position as of the valuation date as well as to represent normal operating results during the periods under study. In this valuation, the following normalization adjustments are reflected accordingly and those adjustments are presented in the following sections.

A. Balance Sheet Adjustments

As of June 30, 2006, certain balance sheet items were adjusted to reflect normalized value. Those adjustments are described below, along with the appropriate reference "Notes" on the accompanying Normalized Balance Sheet Summary. *(Scheduled figures have been rounded to the nearest thousand dollars)*

1. **Cash.** RMA ratio results indicate Cash & Equivalents on the Balance Sheet at 10.9% of Total Assets in the $2MM-$10MM Asset size category. To bring this line item more in live with similar companies, Excess Cash was removed in the amount of $703,000.
2. **Inventory.** The Company utilizes a last-in first-out (LIFO) method to cost inventory for tax purposes. This tends to understate the value of the inventory, especially during periods of rising prices. However, the inventory value using a lower of cost or market using a first-in first-out (FIFO) method indicates a value as of June 30, 2006 of $53, 650.
3. **Non-operating Asset: Short-term Investments.** Per Company management, Peachtree owns stock carried on the books. These investments are not used in current business operations,
4. **Property, Plant & Equipment.** The Company leases its building, plant and facilities from an affiliated Family Limited Partnership. The fair market value of equipment owned and used in Company operations is based on a separate machinery and equipment appraisal. The equipment value conclusion as of June 30, 2006 is $1,358, 250.
5. **Non-operating Asset: Land.** The Company owns land - valued at $900,000 – which is classified as investment property. Though not used in current business operations, the land is adjacent to the current location and is intended for future expansion. This land could be included in the sale of the Company.
6. **Reconciling Adjustment.** This is an adjustment made in order to group totals in order to reconcile the adjustments to specific line items.

Normalized Balance Sheet Summary

PEACHTREE PLUMBING, INC.

Normalized Tangible Equity as of 6/30/2006

Description	Notes	Accounting Balance	Adjustments	Normalized Balance
Assets				
Current Assets				
Cash	1	$ 1,403	(703)	$ 700
Accounts Receivable (WIP)		891		891
Inventory	2	49	5	54
Other Current Assets				0
Loans to Stockholders		0		0
Short-term Investments	3	2,150	(2,150)	0
Total Current Assets		4,493	(2,848)	1,645
Fixed Assets				
Property, Plant & Equipment	4	900	458	1358
Land	5	900	(900)	0
Other Fixed Assets		25		25
Total Fixed Assets		1,825	(442)	1,383
Other Assets				
Deposits		150		150
Other		0		0
Total Other Assets		150	0	150
Total Assets		$ 6,468	$ (3,290)	$ 3,178
Liabilities & Equity				
Current Liabilities				
Notes Payable (Short-term)		135		135
Accounts Payable		10		10
Other Current Liabilities		3		3
Total Current Liabilities		148	0	148
Long-term Liabilities				
Notes Payable		1,831		1831
Other Long-term Liabilities		0		0
Total Long-term Liabilities		1,831	0	1,831
Stockholder's Equity				
Common Stock		55		55
Paid-in Capital		465		465
Retained Earnings		3,969		3,969
Other Equity				
Dividends		0		
Total Other Equity		0	0	0
	6		(3,290)	(3,290)
Total Stockholder's Equity		4,489	(3,290)	1,199
Total Liabilities & Equity		$ 6,468	$ (3,290)	$ 3,178

B. Income Statement Adjustments and Notes

Specific adjustments are described below, along with the appropriate reference "Notes" on the accompanying Normalized Income Statement. It should be noted that "weighted average" figures are based on a weighting of Company results obtained in the most recent two years. This is due primarily to an upward trend in revenue and profits. In addition, sales revenues in 2006 were roughly double results achieved in 2002. Therefore, the last two years operating results – with a particular emphasis on the latest year – represent the best indication of the future benefit stream.

1. Rent. Peachtree leases its facilities and offices from a related company – Jones Family Limited Partnership. Based on a rent survey conducted by Commercial Realty Company, the market rent for a facility of this size and type is $6,000 per month - or $72,000 annually. By substituting this amount it results in additional rent expense for each of the five years under review.

2. Excess Officers' Compensation. Personnel Consultants conducted an industry salary survey and determined that reasonable annual combined compensation for Company officers is $158,000. Excess Officers' Compensation is added back in years 2004, 2005, and 2006.

3. Income Taxes. This is calculated based on a weighted average of actual tax liability experienced in 2005 and 2006.

4. Depreciation & Amortization. Weighted average Depreciation expense for 2005 and 2006 is added back in order to calculate Normalized Gross Cash Flow because it is a non-cash item.

5. EBIT Before Officer's Compensation. This is the weighted average normalized earnings before interest, taxes, and officer compensation. It provides the basis of the Discretionary Earnings (DE) calculation used in comparing companies within the same industry.

6. Normalized Revenue. This is the weighted average normalized top line revenue or sales. Similar to EBIT before Officer's Compensation, it provides a basis of comparing companies within the same industry.

Normalized Income Statement

PEACHTREE PLUMBING, INC.

Notes	For Year Ended June 30: (in 000's)	2002	2003	2004	2005	2006
	Revenues	$ 3,529	$ 4,156	$ 5,755	$ 6,489	$ 7,295
	Operating Expenses	2,631	3,121	4,151	4,684	5,336
	Officer's Compensation	120	144	168	192	240
	Operating EBITDA	778	891	1,436	1,613	1,719
	Depreciation & Amortization	57	68	86	84	73
	Operating Income (Loss) - EBIT	721	823	1,350	1,529	1,646
	Miscellaneous (Income) Expense	(22)	(31)	(53)	(67)	(84)
	Interest Expense	58	68	94	107	120
	Pre-Tax Income (Loss)	685	786	1,309	1,489	1,610
	Normalizing Adjustments:					
	Rent per Books	36	42	48	54	66
	Market Rent	72	72	72	72	72
1	Additional Rent Expense	(36)	(30)	(24)	(18)	(6)
	Officer's Compensation at Market	158	158	158	158	158
2	Excess Officers' Compensation	0	0	10	34	82
	Total Adjustments	(36)	(30)	(14)	16	76
	Normalized Pre-Tax Income (Loss)	649	756	1,295	1,505	1,686
	Weightings Applied	0	0	0	1	2
	Weighted Pre-Tax Income (Loss)	$ -	$ -	$ -	$ 1,505	$ 3,372
	Aggregate Pre-Tax Income (Loss)					$ 4,877
	Divide by Aggregate Weights Applied					3
	Weighted Average Normalized Pre-Tax Income (Loss)					$ 1,626
3	Income Taxes (Estimated @ 38%)					618
	Weighted Average Normalized After-Tax Income (Loss)					1,008
4	Depreciation & Amortization (Weighted Average)					77
	Weighted Average Normalized Net Cash Flow					$ 1,085
	Operating Income (Loss) - EBIT	$ 721	$ 823	$ 1,350	$ 1,529	$ 1,646
	Weightings Applied	0	0	0	1	2
	Weighted EBIT	$ -	$ -	$ -	$ 1,529	$ 3,292
	Aggregate EBIT					$ 4,821
	Divide by Aggregate Weights Applied					3
	Weighted Average Normalized EBIT					$ 1,607
	Add: Officer's Compensation (One Officer Only)					100
5	Weighted Average Normalized EBIT Before Officer's Compensation					$ 1,707
	Operating Income (Loss) - EBITDA	$ 778	$ 891	$ 1,436	$ 1,613	$ 1,719
	Weightings Applied	0	0	0	1	2
	Weighted EBITDA	$ -	$ -	$ -	$ 1,613	$ 3,438
	Aggregate EBITDA					$ 5,051
	Divide by Aggregate Weights Applied					3
	Weighted Average Normalized EBITDA					$ 1,684
	Add: Officer's Compensation (One Officer Only)					100
	Weighted Average Normalized EBITDA Before Officer's Compensation					$ 1,784
6	Computation of Weighted Average Normalized Revenue:					
	Revenues	$ 3,529	$ 4,156	$ 5,755	$ 6,489	$ 7,295
	Weightings Applied	0	0	0	1	2
	Weighted Revenues	$ -	$ -	$ -	$ 6,489	$ 14,590
	Aggregate Normalized Sales					$ 21,079
	Divide by Aggregate Weights Applied					3
	Weighted Average Normalized Sales					$ 7,026

METHODS CONSIDERED AND REJECTED

I. Book Value

"Book Value" is somewhat of a misnomer because it does not represent any value at all. It is an accounting term, not a business valuation term. Book value means the sum of the asset accounts, net of depreciation and amortization, less the liability accounts as shown on the balance sheet.

Assets usually are accounted for at historical cost minus depreciation, which is computed by one of the various methods. Some assets may be completely written off the books. Liabilities are usually shown at face value. Intangible assets do not normally appear on the balance sheet unless they were purchased or where the actual cost of development was recorded on the books.

The longer the time after an individual asset or liability item is placed on the books, the less likely that the book value of the particular item will bear any identifiable relationship to any standard of value for the individual item. Moreover, the value impact for the entity as a whole would be much less.

The value of the enterprise is generally a function of the cash flows and/or earnings of the business. It is the assemblage of these assets which, when utilized properly, result in the production of earnings. That is, the values of the individual assets are much less important than the manner in which management has utilized them. For the foregoing reasons, the Book Value Method was not considered.

II. Liquidation Value

"Liquidation Value" is, in essence, the antithesis of "Going Concern Value." Liquidation value is generally defined to mean net proceeds that could be realized if the assets of the business were sold off and the business terminated. If the going concern value, as indicated by capitalization of the company's earning capacity as an operating entity, is less than the liquidation value, this indicates that the business is worth more dead than alive. The rational economic decision in such a case would be to reinvest any proceeds in something else. Not all small businessmen are prone to making decisions that are rational on economic grounds alone, and many businesses whose liquidation value is greater than their going concern value still operate.[7]

III. Dividend Paying Capacity

Revenue Ruling 59-60, Section 4(e) states: *Primary consideration should be given to the dividend-paying capacity of the company rather than the dividends actually paid in the past … where an actual or effective controlling interest in a corporation is to be valued, the dividend factor is not a materiel element, since the payment if such dividends is discretionary with the controlling stockholders. The individual or group in control can substitute salaries and bonuses for dividends, thus reducing net income and understating the dividend-paying capacity of the company. It follows, therefore, that dividends are less reliable criteria of fair market value than other applicable factors.*

[7] Source: Valuing Small Businesses and Professional Practices, by Dr. Shannon Pratt, A.S.A.

The Company has not paid dividends in past years and does not intend to pay dividends in future years. Therefore, this Dividend Paying Capacity Method was not considered valid.

IV. Discounted Cash Flow

Discounted Cash Flow (DCF) is a valuation method based on the concept that enterprise value today is based on the present value of future cash flow, discounted at a particular rate. The selection and calculation of that rate is based on determining the level of risk associated with achieving the projected cash flow. In addition, it is extremely difficult in many cases to predict future income streams for small size businesses especially when only two key officers or limited stockholders are the main reason for success or failure of the business. That is, lack of management depth places uncertainty on the Company's ability to generate cash flows well into the future. This method is more suitable in cases where credible information suggests future growth rates are expected to outstrip current or more recent results. This method was not employed because the Company management did not indicate any significant changes in expected earnings or cash flow for the foreseeable future.

VALUATION OF THE SUBJECT

Having given due consideration to the rejected methods described in the previous section, the analyst selected the following approaches as most appropriate value indicators for the subject Company. This was done in accordance with the approaches described in the Introduction Section (page 7):

- Asset Based Approach: Adjusted Net Assets Method
- Income Approach: Capitalization of Earnings Method
- Market Approach: Direct Market Method

I. Adjusted Net Assets Method

This method is used to value a business based on the difference between the fair market value (FMV) of the business assets versus its liabilities. In applying the Adjusted Net Assets method the analyst separately identifies all tangible and intangible assets at their FMV and then deducts the fair market value of all liabilities. This approach usually applies only to the valuation of controlling ownership interests since owners have the ability to benefit directly from values locked up in the assets of the business.

Referring to the Normalized Balance Sheet Summary as of June 30, 2006, certain items were adjusted from book value to fair market value. It should be noted that one line item adjustment was based on an independent appraisal of company equipment and machinery. In addition, non-operating real estate was deducted from fixed assets. Please refer to page 31 "Balance Sheet Adjustments" for more detailed descriptions, along with explanatory notes.

As shown on the aforementioned summary, the indicated value of the Net Tangible Assets under this method is: **$1,200,000 (*Rounded)***

The value indicated by this method is on a "control" and "marketability" basis with respect to the net tangible asset value. In addition, the indicated value should not be interpreted as an estimate of liquidation value.

II. Capitalization of Earnings Method

This is one of the primary methods used in the Income Approach to valuation. It takes into consideration an important element of Revenue Ruling 59-60. That is, "the earning capacity of the company" is an important factor in the determination of enterprise value.

A. Overview of Methodology

The capitalization of earnings method is often the appropriate method to use when estimating the value of a closely held entity. It is applicable when it appears that a company's current and historical earnings are most representative of its future prospects. Those prospects should point in the general direction of stable earnings accompanied by a long-term sustainable growth rate. Alternatively, if expected earnings are less stable and/or less predictable, then a discounted future earnings method would be more applicable.

The basic concept is to determine the company's present value as a function of the projected future benefits that would accrue to an owner or principal investor in the enterprise. Investors are primarily concerned with realizing a certain rate of return on their investment. Stated another way, this is the "investor's required rate of return." Moreover, once the future economic benefit stream of a company has been determined, applying the investor's required rate of return results in the value of such an investment. This is the fundamental basis of the capitalization of earnings (i.e. future economic benefit stream) method.

B. Capitalization of Earnings Method Applied

Under this method, a normalized future benefit stream is divided by the capitalization rate in order to arrive at an indication of value. The capitalization rate is defined as the difference between an investor's required rate of return and the investment's estimated long-term growth rate. The steps involved in utilizing the capitalization of earnings method are as follows:

1. Estimate the appropriate economic benefits stream and determine whether this benefit stream is applicable to equity or to invested capital.
2. Determine the appropriate capitalization rate applicable to the economic benefit stream selected in Step 1.
3. Capitalize the economic benefits stream into an operating value.
4. Adjust for non-operating assets and/or liabilities to determine the fair market value of the enterprise at the date of valuation.

1. Economic Benefit Stream

The first step, selecting appropriate economic benefits stream, should be the benefits stream that best represents the most likely outcome - in terms of future returns attributable the interest being valued. The selection process requires identifying the type of economic benefits (i.e., cash flow, earnings, or dividends); and then determining the number of years to be used in the analysis. Under the capitalization of earnings method, a single benefit stream may be used to represent future earnings. This approach is commonly associated with the "single period capitalization of earnings" valuation method.

In this case the analyst selected net cash flow after taxes available to stockholders as the economic benefits stream to be capitalized. This selection was made because net cash flow after taxes represents the best proxy for the return available to stockholders of the company – a return that could be paid out without impairing the ability of the company to meet its obligations, finance operations, and maintain adequate working capital.

Please refer to the Normalized Income Statement (page 34), for the calculation of normalized net after tax income ($1,008,000). For purposes of this valuation net cash flow is defined as net income after taxes, plus depreciation, minus expected additions to working capital, minus expected capital expenditures, minus loan principal repayments – net of new loan principal.

Therefore, the calculation of Net Cash Flow to Equity is as follows:

	Net income after taxes (normalized)	$1,008,000
+	Depreciation and amortization	77,000
-	Additions to working capital[8]	-0-
-	Capital expenditures[9]	-0-
+ or -	Changes in long-term debt	-0-
=	Net Cash Flow to Equity	$1,085,000

This net (after tax) cash flow economic benefits stream represents the net cash flow after interest expense as well. That means that the return to the Company's debt holders has been accounted for and has been essentially eliminated. So the remaining income measures the amount available to equity owners only. Therefore, capitalizing this benefits stream produces a value directly available to the equity owner(s) of the Company.

2. Selection of the Appropriate Capitalization Rate

According to IRS Revenue Ruling #59-60, Section 6. - Capitalization Rates "A determination of the proper capitalization rate presents one of the most difficult problems in valuation." Capitalization rates vary among particular types of businesses and from one period of time to another. Expressed as a percentage, the more speculative or the lower the expected growth rate in the business's income stream, the higher the capitalization rate; conversely, the less speculative or the higher the expected growth rate in the income stream, the lower the capitalization rate.

The capitalization rate can be expressed as the divisor used to convert an economic benefit stream into value. Alternatively, the discount rate is a rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into present value and is most appropriately used in conjunction with forecasted income streams. Basically, the difference between the two rates is that the capitalization rate equals the discount rate less the expected growth rate.

In order to derive the capitalization rate, we start with calculating the applicable discount rate. To determine the discount rate for the subject company, the analyst utilized the build-up method. In the applying this method the discount rate is "built up" by summing up the following factors: the risk-free rate of return, the common stock equity risk premium, small stock size premium, and a company specific risk premium.

The risk-free rate of return is based on investors' required rate of return for the "riskless" use of their funds. Although there is no such thing as a truly risk free investment, the risk-free rate generally used is that rate available on instruments considered to have virtually no possibility of default. The rate of return earned on long-term U.S. Government bonds is considered a good proxy for the risk-free rate of return. As of June 30, 2006, the date of valuation, the rate of return on a long-term (20-year) U.S. Government Treasury Bond was 4.60%. Therefore, the risk-free rate

[8] As of the valuation date, management estimates that the Company will not require additional working capital to fund operations.
[9] Company does not anticipate any significant capital expenditures in the foreseeable future.

of return is 4.60%[10].

The common stock equity risk premium return is the additional rate of return required by investors in the market to compensate them for the additional risk in investing in a stock security as compared to a long term U.S. Government security. In the Ibbotson Associates' Stocks, Bonds, Bills and Inflation 2006 Yearbook, it is shown that the average total returns earned on large corporate stocks has been approximately 7.10% higher than the average total annual returns for long term U.S. Government bonds. Therefore, in developing a discount rate, the analyst added an equity risk premium of 7.10% to the risk-free rate of return.

The same Ibbotson Associates' study indicates that the smallest stocks traded on the New York Stock Exchange - defined as the lower level of the 10^{th} decile (10b) - earned an additional 9.8% premium over the larger stocks traded on the exchange. This small stock premium was added to the risk-free rate of return and the equity risk premium.

Furthermore, investing in the stock of a closely-held business involves additional elements of risk which must be offset by offering a higher rate of return to investors. This additional risk may be from specific risks associated with the industry or those risks may be related to the particular company as compared to the entire marketplace. Although there is little empirical evidence to assist the appraiser in determining this subjective risk premium, I have considered the following factors:

1. The business's financial ratios.
2. The long term outlook for the subject company's industry.
3. The depth of the subject company's management.
4. The degree of competition for the subject business's revenues.
5. The historical trend in the subject company's after tax earnings.
6. The geographic region the subject company conducts business in.

Based on the relative risk associated with each of the listed items, the analyst assigned a percentage – from one percent (1%) to three percent (3%) – to each element. Lower risk is indicated at the one percent level, while two percent represents medium or reasonably expected risk, with higher risk associated with the three percent level (see “Capitalization Rate Conclusions” table below). Selected rates are a function of information obtained and presented in other areas of this report - such as the Economic Conditions and Industry Date section, as well as the Financial Analysis summary. After considering the aforementioned factors, it is my opinion that the “subjective risk premium” for Peachtree Plumbing, Inc. is estimated at twelve percent (12.0%).

Finally, the capitalization process requires an estimate of the long-term sustainable growth rate. As noted previously, this growth rate is used to convert the discount rate calculated from the build-up method into a capitalization rate. Although there is no objective manner in which to calculate this figure, a subjective estimate can be derived using actual Company operating experience as a basis. For purposes of this exercise, the analyst examined year-over-year net income growth over the two most recent years. The observed weighted average growth rate was

[10] *Ibbotson’s 2006 SBBI Valuation Yearbook*

8.4%, with the rate decelerating to 5.7% in 2006 - the date of valuation. Taken together with all the external and macro-economic influences, it is my opinion that the long-term growth rate can be set at three percent (3%). This conservative estimate preserves and recognizes a higher level of risk inherent in slowing of economic activity observed for the national economy and for the Plumbing Industry as a whole.

Summing the risk-free rate of return, the equity risk premium, the small stock risk premium, the subjective risk premium, and accounting for the long-term growth rate results in a capitalization rate of 29.6%.

The following exhibit shows the components that make up the capitalization rate as 6-30-2006.

3. Capitalization Rate Conclusions

Table 1

Cost of Capital			
Risk-free Rate of Return		4.6%	
Common Stock Equity Risk Premium		7.1%	
Small Stock Risk Premium		9.8%	
Company Specific Premium			
Business Financial Ratios	1.0%		
Long-term Outlook for the Industry	3.0%		
Depth of Company Management	2.0%		
Degree of Competition within Company Industry	3.0%		
Historical Company After Tax Earnings Trend	1.0%		
Geographic Location	2.0%		
Total Company Specific Premium		12.0%	
Total Cost of Equity			33.5%
Less Sustainable Growth			3.0%
Next Year Capitalization Rate			30.5%
Current Year Capitalization Rate (div by 1 + growth rate)	1.03 factor		29.6%
Selected Capitalization Rate			**29.6%**

4. Summary and Calculation of Value

Value of Equity using Capitalization of Earnings Method:

Net Cash Flow to Equity	$1,085,000
Capitalization Rate Applicable to Net Cash Flow to Equity	29.6%
Fair Market Value (FMV) of 100% Equity, as if Freely Traded	$3,665,540
FMV *(Rounded)*	**$3,700,000**

The indicated value is a control value. Since the subject interest being valued is a Minority Interest, valuation adjustments for lack of control and lack of marketability will be discussed and applied in a different section.

III. Direct Market Method

The Direct Market Method (DMM) is one of several methods included in the Market Approach to business valuation. It is the preferable method for valuing closely held businesses of mid-size and smaller. That is because the DMM uses information on actual sales of closely held businesses to develop a value estimate for the target business.

<u>The DMM and the Principle of Substitution</u>: The DMM is based on the Principle of Substitution, which underlies all appraisals of economic value.

The Principle of Substitution tells us that

> *The economic value of a thing tends to be determined by the cost of acquiring and equally desirable substitute.*

In other words, no rational person would knowingly pay more for something than it would cost to obtain an *equally desirable* substitute.

The key words here are "equally desirable." That is, the Principle of Substitution does not call for "identical" businesses as substitutes for the target business. Instead it calls for investments whose desirability is equal to that of the target business.

In the Direct Market Method, all transactions for which the market data is available are considered as a statistical group that defines the market for businesses of the same general type (e.g. SIC code) as the subject business. In this particular case, the SIC being studied is 1711 – Plumbing Contractor and plumbing related businesses, as these are most similar to the valuation subject – Peachtree Plumbing, Inc.

The Direct Market Method uses databases of sales of controlling interests in closely held businesses. The analyst chose the Institute of Business Appraisers, Inc. (IBA) valuation database for this assignment. There are a number of factors that make this a very credible source of business sales transaction information. Established in 1978, the IBA is a pioneer in business appraisal education and certification. In addition, the IBA is the original professional society devoted exclusively to the valuation of closely held businesses. Finally, the IBA database contains information on over 23,000 business sales transactions – the largest source of its kind.

In applying the IBA based Direct Market Method, the Revenue, Earnings[11], and Sales Price, for each reported sales transaction – within the appropriate SIC – was used to derive calculated Price-to-Sales and Price-to-Earnings multiples (ratios) for each transaction. It should be noted that these are typically asset sales as opposed to "stock sale" transactions, where the selling company transfers stock to the buyer. What is typically included in an asset sale are all the fixed assets necessary in operating the business, along with business inventory in some cases.

This approach is in contrast to a stock sale where the consideration or deal price includes all the assets and liabilities of the corporation – known and unknown. These other assets/liabilities include cash, notes, receivables and payables. Therefore at the conclusion of applying the DMM value derivation step, adjustments will be required to account for those assets and liabilities which are recorded on the Company books, but would not ordinarily be included in a typical asset transaction observed in the IBA database.

[11] Earnings (also called "Discretionary Earnings") in the IBA database is defined as annual reported earnings for the last full year prior to the Sale Date before owner's compensation, interest, and taxes

The sample size of fourteen (14) transactions appears adequate for our purposes. Each of these transactions qualified on the basis of reporting every relevant data element used in the analysis – namely, Revenue, Earnings, and Sales Price. Although the date of each transaction was included as well, the analyst does not consider this a material element in the determination of whether to use or exclude a particular transaction.

Noted business appraisal expert and author "Ray Miles did a study on the *IBA Market Data Base* and concluded that there were no long-term secular changes over time in the multiples of the industries represented in that database, and, therefore, the whole 20 years of data are relevant."[12]

See Table 2 below for DMM sample results:

Table 2

Sale Date	SIC Code	Revenue	Earnings	Sales Price	P/R Ratio	P/E Ratio
05/25/99	1711	900,000	228,000	228,000	0.25	1.00
01/01/92	1711	996,000	228,000	433,000	0.43	1.90
05/01/03	1711	100,000	50,000	49,000	0.49	0.98
01/01/01	1711	180,000	87,000	10,000	0.06	0.11
01/01/00	1711	475,000	163,000	250,000	0.53	1.53
01/01/93	1711	880,000	168,000	430,000	0.49	2.56
01/01/85	1711	600,000	60,000	100,000	0.17	1.67
06/01/90	1711	883,000	126,000	225,000	0.25	1.79
05/22/07	1711	1,149,000	338,000	662,000	0.58	1.96
11/01/01	1711	75,000	28,000	5,000	0.07	0.18
01/01/93	1711	95,000	29,000	35,000	0.37	1.21
01/01/92	1711	996,000	53,000	433,000	0.43	8.17
03/01/98	1711	489,000	103,000	210,000	0.43	2.04
01/01/91	1711	843,000	116,000	485,000	0.58	4.18
				Coefficient of Variation	**0.29**	1.40
				Median Ratio	**0.43**	1.73
				Mean Ratio	0.37	2.09

The first step in determining the most appropriate ratio to use is by measuring and comparing the respective "Coefficient of Variation" calculation. The coefficient of variation measures the degree of dispersion that exists within a particular data set. A lower the coefficient of variation translates into a tighter observed data pattern which indicates less "variability" within the sample. Given the much lower coefficient of variation in the Price-to-Revenue ratio of 0.29, it is reasonable to conclude that this is the stronger factor to apply to the subject Company.

[12] Shannon P. Pratt, *The Market Approach to Valuing Businesses*, 2nd ed. (New Jersey: John Wiley & Sons, 2005)

Next, we simply multiply the Weighted Average Normalized Sales (Revenue) shown on page 34 by the appropriate multiplier. The factor used is the Median Price-to-Revenue Ratio – which is 0.43. This results in an indication of the derived enterprise value using the DMM (control basis).

Enterprise Value Using the Direct Market Method (control basis):

Weighted Average Normalized Revenue	$7,029,000
Median Price-to-Revenue Ratio	0.43
Indicated Enterprise Value	$3,022,470

Finally, in order to calculate the entity value of Peachtree Plumbing, Inc. – based on one hundred percent (100%) of the Company's issued and outstanding shares – certain balance sheet items are added to the above enterprise value. As stated previously, these are assets and liabilities that would ordinarily be transferred in a stock transaction versus an asset sale of the type captured in the IBA transaction database. These balance items include cash, working capital, and short-term liabilities necessary to support on-going business operations following the transfer of stock in a company sales transaction.

Total Entity Value (control basis):

Indicated Enterprise Value (from above)		$3,022,470
Balance Sheet Adjustments:		
Cash (excludes excess)	$700,000	
Accounts Receivable	891,000	
Accounts Payable	(10,000)	
Other Current Liabilities	(3,000)	
Total Adjustments	$1,578,000	
Entity FMV (control basis)		$4,600,470
	(Rounded)	**$4,600,000**

IV. Non-Operating Assets Adjustment

Non-operating assets include excess cash of $703,000, short-term investments of $2,150,000 and Company-owned land valued at $900,000. This results in a total adjustment to the indicated value calculations of $3,753,000 (rounded). Results of the non-operating asset adjustment are shown in the table below:

Description	Valuation Method Applied		
	Adjusted Net Asset	**Capitalization of Earnings**	**Direct Market**
Indicated Value	$1,200,000	$3,700,000	$4,600,000
Non-operating Assets	3,750,000	3,750,000	3,750,000
Total Entity Value (control basis)	**$4,950,000**	**$7,450,000**	**$8,350,000**

APPLICABLE DISCOUNTS

Equity interests in business organizations may be ranked via a concept called "levels of value". Whether and to what extent to apply certain discounts depends greatly on the particular interest's level of value. Relative ownership value in a company's shares can be expressed in terms of the following order:

- Controlling interest - this relates to the value of the business as a whole. It is based on an ownership interest greater than 50%, with the owner's interest in the whole enterprise simply calculated in direct proportion to the company's full value. In relative terms, this is the highest level of value that one can attain.

- Marketable minority interest – is the value of a minority interest which lacks control, but has the benefit of liquidity in the marketplace. Public company equity investments are good examples of this value level. These can be readily converted to cash by the shares' owner/investor. This is clear advantage over the lowest level of value, Non-marketable minority shares. However, as compared to control shares, minority shares lack various benefits available to control shareholders. The following comprise some of these important control factors; these include but are not limited to the ability to:

    - Appoint or change operational management
    - Determine management compensation and perquisites
    - Set operational policy and strategic policy and change the course of the business
    - Acquire, lease, or liquidate business assets, including plant, property, and equipment
    - Select suppliers, vendors, and subcontractors with whom to do business and award contracts
    - Declare and pay cash and/or stock dividends

  For any given company, the difference between the value of control shares and minority shares depends to a great extent on how these prerogatives of control are exercised. For example, if cash that could be available for dividends is given as a bonus to the control owner, the difference in value between control and minority shares is likely to be substantial.[13]

- Non-marketable minority interest – this is the value of a minority interest which lacks both control and market liquidity. That is, it is an interest level holding less than 50% ownership; so this minority shareholder cannot exert control over the company – not unlike the Marketable minority interest investor. In addition, this is the level of value in which a minority interest in a closely held company would fall. This is the lowest level of value. All things being equal, a single minority interest share lacking in liquidity is worth less than a control share in the same company.

[13] Shannon P. Pratt, *The Market Approach to Valuing Businesses*, 2nd ed. (New Jersey: John Wiley & Sons, 2005), p. 145

The purpose of the subject valuation is to render an opinion of the fair market value of a non-marketable, minority interest in the Company. Due to limitations inherent in this lower level of value - as described above - it is necessary to apply certain discounts to these interests. That is, because of the lack of control and the nonexistence of a ready market, these interests must be discounted in order to induce a hypothetical willing buyer to purchase the shares.

I. Minority Interest Discount

While a premium may be appropriate in valuing controlling shares in either public or private companies, a minority discount will only be applicable when valuing shares in a closely held company. This is because publicly traded shares are already priced as minority holdings, requiring no discount from the quoted value of the stock.

The same pricing assumption does not apply to minority shares in a private company. The effect of applying a minority interest discount in a closely-held or private company is to reduce the value of partial ownership interest below its proportional share of the business. For example, discounting a 20% shareholder interest by a 25% minority interest discount would reduce its *share value* to 15% of the overall business value.

Further, for all the reasons that a controlling stockholder may enjoy power and economic benefit, the minority stockholder may not. In some cases the minority stockholder may actually benefit from the actions of the majority. As an example, if the majority sells out at a control premium to a new control owner who succeeds in enhancing the value of the company, the minority owner will share in that gain. However, the minority shareholder in a private company is generally not able to control his or her own destiny, which results in the value of the minority shares being discounted.

While calculation of the pro-rata share of the business value is straightforward, determining the discount to be applied requires careful consideration. Comparative market data involving the sale of non-controlling ownership interest in closely held businesses is hard to find. However, there is plenty of pricing information available regarding public company stock sales, which can provide useful guidance.

One useful source of public information stock sales is the *Mergerstat Review*. It is one of the most popular sources of quantitative information regarding control premium comparisons observed in market transactions. The data show the acquisition price paid in comparison with the publicly traded market price just prior to the acquisition. By examining these acquisition premiums offered for the control of a publicly traded company, one can estimate the difference between the value of controlling and non-controlling shares.

Once the control premium is established, the corresponding minority interest discount can be derived by using a mathematical formula. This approach is used because of the scarcity of empirical data on minority interest discounts. The derived minority interest discount may be expressed as follows:

Minority discount percent = 100% - [100% / (100% + Control premium %)][14]

[14] Z. Christopher Mercer and J. Michael Julius, *Mergers and Acquisitions Handbook for Small and Midsize Companies, Edited by Thomas L. West and Jeffrey D. Jones,* (John Wiley & Sons, 1997), p. 175

According to *Mergerstat Industry Analysis (2005)* data, the average premium offered in control acquisition transactions was 34.5 percent.

The 34.5 percent average control premium therefore implies a minority interest discount of 25.7 percent [100% - (100% / 100% + 34.5%))].

II. Discount for Lack of Marketability

By and large, investors prefer liquid investments and are therefore very averse to a lack of liquidity. "Consequently, all things being equal, investors pay more, often much more, for an investment that is highly liquid than an otherwise comparable investment that is not liquid. Conversely, investors usually demand substantial discount to attract their money to an illiquid investment compared with an otherwise similar liquid investment."[15] As such, an investment's marketability is directly related to its liquidity or the lack thereof.

The *International Glossary of Business Valuation Terms* defines marketability as "the ability to quickly convert property to cash at a minimal cost."[16] The Discount for Lack of Marketability (DLOM) is the amount by which the value of a business ownership interest is reduced to reflect the lack of its marketability.

Determining the appropriate discount for lack of marketability of small business ownership interest relies upon two common approaches:

- Comparison with discounts involving the sale of restricted stock of public companies.
- Comparison with discounts derived from the price differentials between the private stock sale transactions of companies that offer their stock to the public shortly thereafter.

These studies comprise a large body of empirical data to aid in quantifying the DLOM for minority interests. A major advantage in using these studies is that each has a public market component.

A. Restricted stock studies

Holders of restricted stock generally are unable to sell it on the open market for some time. There is a limited private market for these securities. These transactions involve "letter" stocks – stocks that are identical to the corresponding freely traded stocks except they are restricted from trading in the open market for a certain period. Also, their selling price can be readily compared to the price of the un-restricted stock of the same company sold on the open market. This can help determine the discount for relative lack of restricted stock marketability.

PPC's Guide to Business Valuations[17] cites a variety of studies that address the issue of discounts for lack of marketability. All of these studies are based on analyses of minority

[15]Shannon P. Pratt, *The Market Approach to Valuing Businesses*, 2nd ed. (New Jersey: John Wiley & Sons, 2005), p. 153

[16] The *International Glossary of Business Valuation Terms*, a joint publication of the American Institute of Certified Public Accountants, American Society of Appraisers, Canadian Institute of Chartered Business Valuators, National Association of Certified Valuators and Analysts, and Institute of Business Appraisers, distributed as a supplement to *Shannon Pratt's Business Valuation Update* (February 2000).

[17] Jay E. Fishman, et Al. *PPC's Guide to Business Valuation*s. Thomson Reuters. February 2009.

interests. Independent studies of restricted stock transactions provide data on hundreds of transactions. The studies cite a range of discounts on restricted stocks, generally around 25-35%:

Table 3

Study	Years Covered	Average Discount %
SEC Overall Average	1966-69	25.80%
SEC Non-reporting OTC Companies	1966-69	32.60%
Gelman	1968-70	33.00%
Trout	1968-72	33.50%
Moroney		35.60%
Maher	1969-73	35.40%
Standard Research Consultants	1978-82	45.00%
Willamette Management Associates	1981-84	31.20%
Silber Study	1981-88	33.80%
FMV Study	1979-April 1992	23.00%
FMV Restricted Stock Study	1980-2001	22.10%
Management Planning	1980-96	27.10%
Bruce Johnson	1991-95	20.00%
Columbia Financial Advisors	1996-Feb 1997	21.00%

B. Pre-IPO stock price comparisons

The selling prices paid by private buyers for stock of closely held companies shortly before the company registers its stock for a public offering can be compared to the public offering share price of the same company. This may provide useful marketability comparisons for closely held small business ownership interests which typically do not sell on a public market.

A second approach is to analyze the relationship between the prices of companies whose shares were initially offered to the public (IPO) and the prices at which their shares traded privately within a five month period immediately preceding the public offering. A series of studies conducted by John D. Emory at Robert W. Baird & Co., Inc. indicate median and mean lack of marketability discounts of 44% to 47%, respectively (see Emory, John D., "The Value of Marketability as Illustrated in Initial Public Offerings of Common Stock, February 1992 through July 1993," Business Valuation Review, December 1993, pp. 3-5).

The objective of the Emory studies is to relate the prices at which private transactions took place before an IPO and the price at which the stock was subsequently offered to the public, in order to objectively gauge the value of marketability. The majority of the companies in the survey reflected discounts exceeding 30%. The highest discounts indicated in the sample were 82% and 94%.

The implication of the studies is clear: presumably arm’s length transactions taking place within a short time of the actual IPOs occur at substantial discounts to the ultimate public offering price. These studies support both the validity and magnitude of marketability discounts in general, and particularly for companies that are not public offering candidates. These are business for which the prospects for shareholder liquidity may be remote. Minority interest in a smaller, closely-held company like Peachtree certainly falls into that category.

C. Regulatory Acceptance and Court Decisions

The foregoing studies have been accepted by both the Internal Revenue Service (IRS) and the courts as providing evidence of validity and the extent in applying DLOM to non-marketable minority business interests.

Revenue Ruling 77-787

The IRS published Revenue Ruling 77-287 in 1977 “to provide … guidance to taxpayers, Internal Revenue Service personnel, and others concerned with the valuation … of securities that cannot be immediately resold because they are restricted from resale pursuant to Federal securities laws.” The SEC Institutional Investors study was referenced specifically as providing guidance. It was the only study of that time, and reflected a mean discount of 25.8%.

Court Decisions

Further guidance for marketability discounts can be found in various court decisions. These decisions provide insight into the discounts allowed in various circumstances. The analyst examined evidence from court decisions, not to cite as direct evidence in the instant case, but to review how courts have previously interpreted the objective evidence presented. In addition, court cases provide general guidance concerning the nature of evidence deemed acceptable in previous decisions.

A survey performed by Thomas Solberg (Thomas A. Solberg, “Valuing Restricted Securities: What Factors Do the Courts and the Service Look For,” Journal of Taxation, September 1979, pp. 150-54) of fifteen cases indicated a mean discount of 37.4%. A similar study by Phillip Moore (Phillip W. Moore, “Valuation Revisited,” Trusts & Estates, February 1987, pp. 40-52), which analyzed fourteen cases by the U.S. Tax Court from 1969 through 1982, indicated wide variations in the decisions but with a trend toward allowing higher discounts.

In “Estate of Berg” (61 TCM 1991-279), the Tax Court relied upon an expert’s analysis of specific factors that influenced the magnitude of a minority interest discount (20%) and a marketability discount (10%). The expert’s specificity appeared to be persuasive to the court. Other experts in the Berg case were admonished by the court for presenting discount analyses that were “exceedingly general and lacking in specific analysis of the subject interest.”

In “Estate of Jung” (101 TIC. No.28), the Tax Court allowed a 35% discount for lack of marketability for a 21% interest in Jung Corp., a manufacturer and distributor of elastic textile goods. Jung’s revenues ($68 million) and profits ($3.1 million) had been growing for several years, a dividend was being paid, and there was a reasonable knowledge that the company could be an attractive acquisition candidate. Of particular note is that the court relied upon several of the empirical studies cited above.

The various studies indicate that a marketability discount in the range of 35%-40% is near the mean. Court cases are increasingly referring to objective data, but the courts are asking for data and analysis that relate to the specific cases in question, not mere averages. It is important to note that the actual range of discounts can be very wide with the top end of the range at 70% or more, depending on the features and circumstances of the subject company.

Estate of Mandelbaum

In order to address the issue of data/analyses relevance, the analyst considered certain factors specific to the subject Company. In *Estate of Mandelbaum*, the parties stipulated to a minority as if publicly traded value, so the only issue was the discount for lack of marketability. The expert witness for the IRS cited only restricted stock studies, but the witness for the taxpayer cited restricted stock studies and both Emory and Willamette pre-IPO studies. The court used the studies cited by the taxpayer's expert (35% average discount for restricted stock studies and 45% average discount for private transactions prior to IPOs). The court then listed nine factors – now often referred to as the *Mandelbaum factors* (see below) – that might cause the marketability discount in a given instance to be higher or lower than the benchmark averages.[18]

The nine (9) Mandelbaum factors are as follows:

- Financial statement analysis
- Dividend policy
- Nature of the company, its history, its position in the industry, and its economic outlook
- Management
- Amount of control in the transferred shares
- Restrictions on transferability
- Holding period for the stock
- Company's redemption policy
- Costs associated with a public offering

D. Company Analysis

In consideration of the relevant results obtained in the empirical studies, along with assessing qualitative elements contained in the Mandelbaum factors:

- Restricted stock studies with average discounts if approximately 35%, and
- Pre-IPO studies, which showed average discounts of roughly 45%
- More than half of Mandelbaum factors tend to dictate higher DLOM

I feel that there should be a slight increase from the 40% "benchmark average" from the two empirical studies. Therefore, the discount for lack of marketability is set at 42%.

[18] *Mandelbaum v. Commissioner*, 69T.C.M. (CCH) 2852, T.C.M. (RIA) 95, 255 (June 12, 1995)

RECONCILIATION OF INDICATED VALUES

As this point in the valuation process, the analyst now assigns a confidence level to values derived from the various methods applies and the approaches employed. This is not the application of a prescribed formula. Rather, the purpose here is to assist the reader in understanding the valuator's judgment in according more or less confidence to any particular method under consideration. This involves active consideration of the pertinent factors in reaching the final estimate of value.

The Adjusted Net Asset Method – This method treats the business as a collection of assets, and in effect, values the business in terms of its assets, net of liabilities. This method is most appropriate in valuing holding companies. On that basis, the analyst does not believe this is an appropriate method for valuing an operating company such as Peachtree Plumbing, Inc.

The Capitalization of Earnings Method – This method treats the business as a pure investment activity. As such, it places most of the emphasis on measuring the investment from a financial return perspective. This method depends greatly on the reliability of the appropriate capitalization rate. According to Revenue Ruling 59-60 "… determination of the proper capitalization rate presents one of the most difficult problems in valuation." [19] In addition, a significant component of the capitalization rate depends on purely subjective elements. For these reasons, this method does not seem appropriate and was therefore not chosen.

The Direct Market Method – The Direct Market Method (DMM) has several advantages over other methods of valuing mid-sized and smaller businesses. First, it uses information taken *directly from the market* for closely held businesses. In addition, as compared to methods falling under the Income Approach, the DMM eliminates the very difficult challenge of determining the appropriate capitalization or discount rates for use in converting income to value. Another very important advantage of the DMM is that it permits the placing of the target business in the context of the overall market, rather than assuming that the target business corresponds with the "average". Therefore, the analyst believes that this is the most appropriate method for valuing the subject company.

[19] Revenue Ruling 59-60, SEC. 6

PEACHTREE PLUMBING, INC.

Reconciliation and Adjustment of Indicated Values

Non-marketable Minority Interest of One Share of Common Stock

Table 4

VALUATION METHOD	VALUATION APPROACH	INDICATED VALUE (1)	SHARES OUTSTANDING	VALUE PER SHARE
Adjusted Net Asset Method	Asset	$ 4,950,000	--	--
Capitalization of Earnings Method	Income	$ 7,450,000	--	--
Direct Market Method	Market	$ 8,350,000	55,000	$ 151.82
	Less: Discount for lack of control: 25.7%			$ (39.02)
	Marketable Minority Interest Value			$ 112.80
	Less: Discount for lack of marketability: 42.0%			$ (47.38)
	Non-marketable, Minority Interest Value			$ 65.43

Note:(1) See page 45

CONCLUSION OF VALUE

I have completed the valuation engagement of Peachtree Plumbing, Incorporated. This valuation was performed solely to assist in conjunction with the gifting of stock to a 501(c)(3) charity. The resulting estimate of value should not be used for any other purpose or by any other party for any purpose. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based on my analysis of the facts and circumstances, as described in this report, my opinion of the fair market value of one share of Peachtree Plumbing, Inc. stock on a minority interest, non-marketable basis, as of June 30, 2006 is $65.43. Therefore, the fair market value of charitable contribution of 10,000 shares is $654,300.

This conclusion is subject to Limiting Conditions & Assumptions listed in this report. I have no obligation to update the report or the opinion of value for information that comes to my attention after the date of this report.

CERTIFICATION OF VALUATION ANALYST

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is my personal, unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
4. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
5. No one provided significant professional assistance to the person signing this report.

March 31, 2007

Lewis Martin, Certified Valuation Analyst

United Financial, LLC

REPORT APPENDICES

Appendix A: Appraiser Qualifications

United Financial, LLC, specializes in valuation and related issues. Since its formation in 1984, the firm has been retained in many valuation engagements. The firm has performed various services in the following areas:

- Litigation support
- Ownership buy-outs / shareholder matters
- Estate and gift tax
- Charitable contributions
- Merger / Acquisition opinion of value
- Buy-sell agreements

LEWIS MARTIN, CVA - Founder, UNITED FINANCIAL, LLC

Lewis Martin has over 30 years experience in general business management and financial analysis. Since 1995 he has specialized in business valuations / appraisals for small to medium sized firms. In addition to these services, he has owned and operated a consulting practice, which provided professional advisory services to large private and public sector clients. His corporate work experience is the areas of financial analysis / systems, marketing and accounting with such companies as Control Data Corporation, Ross Systems, Inc. and Wells Fargo Bank.

EDUCATION & AFFILIATIONS

B.S UNIVERSITY OF CALIFORNIA, BERKELEY
Hass School of Business Administration

Member NACVA (National Association of Certified Valuators and Analysts

Institute of Business Appraisers (I.B.A.) - Past member

VALUATION EXPERIENCE

- Consumer Retail, Services, Automotive, Computer / Technology related businesses.
- Companies Sales Revenues: $100 thousand to $10 million

SPECIALIZED TRAINING / SEMINARS

NACVA (National Association of Certified Valuators and Analysts)

Training consisted of workshops and lectures focusing on Business Appraiser Financial Statement recasting methods, developing Capitalization (Cap) Rates, applying Direct Market Data, and related Appraisal Techniques.

Appendix B: The National Economy – 2nd Quarter 2006 and Outlook for 2006

The following is a discussion and analysis of the national economy for the second quarter of 2006. It is based upon the Center for Economic and Industry Research's review of current economic statistics, articles in the financial press and economic reviews from current business periodicals. The purpose of the review is to provide a representative "consensus" on the condition of the national economy and its general outlook for the remainder of 2006.

General Overview

The persistence of high gas and oil prices into the second quarter of 2006, after several years of double- digit percentage increases and anticipated new record highs in the following summer months, is finally leading to higher prices in the broader economy.

There is a growing sense among consumers and businesses that the rise in energy prices is more permanent than they thought, and they are starting to adjust their spending and supplier contracts accordingly. This is bad news for the Federal Reserve, as it means current inflation trends are becoming more entrenched in the rest of the economy and will soon start to filter into expectations about future inflation.

The trucking and transportation industry is now actively and openly passing along higher fuel costs to their customers. Air fares and hotel room rates are on the rise. Perhaps more insidious is the jump in rents, as high home prices and rising interest rates shut more potential home buyers out of the housing market. The idea is that higher prices lead to ever higher prices. The only way for the Fed to short-circuit this process is to slow demand enough so that companies can no longer safely pass along price increases without losing a significant number of customers and market share.

Leading Indicators

The Conference Board reported that leading economic indicator index declined slightly two of the three months during the second quarter 2006. The Conference Board's leading economic indicators include the following:

- Vendor Performance
- Building Permits
- Interest Rate Spread
- Stock Prices
- Average Weekly Claims for Unemployment Insurance
- Index of Consumer Expectations
- Conference Board's Money Supply, M2
- Average Weekly Manufacturing Hours
- Manufacturer's New Orders for Non-Defense Capital Goods
- Manufacturer's New Orders for Consumer Goods and Materials

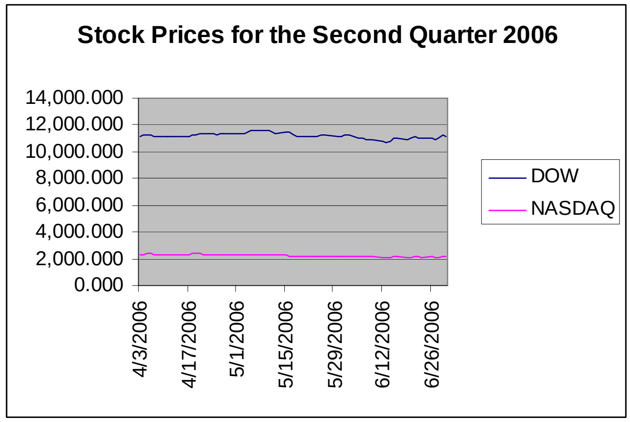
Economy at a Glance			
	April	May	June
Industrial production (2002=100)	112.2	112.3	113.2
Retail sales (billions of dollars)	363.6	364.1	363.8
Unemployment Rate (%)	4.7	4.6	4.6
PMI (Manufacturing Diffusion Index)	57.3	54.4	53.8
Consumer confidence (1985=100)	109.8	104.7	105.4
Leading indicators (1996=100)	138.7	137.9	138.1
Leading indicators (% Change)	-0.1	-0.6	0.1

Six of the ten indicators that make up the leading index increased in June. The positive contributors - beginning with the largest positive contributor - were average weekly initial claims for unemployment insurance (inverted), index of consumer expectations, real money supply, average weekly manufacturing hours, interest rate spread, and manufacturers' new orders for non-defense capital goods. The negative contributors - beginning with the largest negative contributor - were vendor performance, building permits, and stock prices. The manufacturers' new orders for consumer goods and materials* held steady in June.

The leading index stood at 138.1 (1996=100) in June 2006. Based on revised data, this index decreased 0.6 percent in May and decreased 0.1 percent in April. During the six-month span through June, the leading index decreased 0.3 percent, with five out of ten components advancing.

The coincident index stood at 122.9 (1996=100) in June 2006. Based on revised data, this index increased 0.1 percent in May and increased 0.2 percent in April. During the six-month period through June, the coincident index increased 1.1 percent.

The lagging index stood at 123.7 (1996=100) in June, with all seven components advancing. The positive contributors to the index - beginning with the largest positive contributor - were average duration of unemployment (inverted), commercial and industrial loans outstanding, change in CPI for services, change in labor cost per unit of output, average prime rate charged by banks, ratio of consumer installment credit to personal income*, and ratio of manufacturing and trade inventories to sales*. Based on revised data, the lagging index increased 0.2 percent in both May and April.



The Dow reached its quarterly high on May 10, when it peaked at 11,709.09. The Dow reported a steady decline, when it reached its low on June 13, after which the Dow rallied to the end of the quarter. The NASDAQ peaked on April 20, 2006 at 2375.54. The NASDAQ reported a steady fall starting May 8 until it reached a low of 2065.1101 on June 14.

Industrial Production

The production of consumer goods rose 0.9 percent in June. The output of durable consumer goods moved up 2.2 percent and was led by an increase in the production of automotive products, which jumped 4.2 percent after having fallen in the previous two months. In the second quarter, the production of automotive products registered its first gain in three quarters. The output of home electronics increased for a second month in June and was up 10.4 percent from the previous year. The index for miscellaneous durable goods moved up, while the index for appliances, furniture, and carpeting dropped. The production of nondurable consumer goods rose 0.4 percent, as the output of consumer energy products gained 1.4 percent and the production of non-energy nondurable consumer goods edged up 0.1 percent. Output increased for all major categories of nondurable goods except foods and tobacco. In the second quarter, the output of non-energy nondurable consumer goods increased at an annual rate of 3.2 percent, while the output of consumer energy products advanced 11.6 percent.

The index for business equipment advanced 0.7 percent in June and at an annual rate of 13.2 percent in the second quarter, its twelfth consecutive quarterly rise. The production of transit equipment rose 0.8 percent in June, and the output of information processing equipment advanced 1.3 percent. The index for industrial and other equipment edged up after having fallen in May; output in this category increased at an annual rate of 11.9 percent in the second quarter. The production of defense and space equipment rose 0.9 percent in June.

The index for construction supplies increased 0.4 percent in June but was down at an annual rate of 0.9 percent in the second quarter. The index for business supplies increased 0.6 percent in June and moved up at an annual rate of 5.9 percent in the second quarter.

The production of materials advanced 0.8 percent in June, and the output of both energy and non-energy materials increased. All of the major categories of durable materials posted gains in June. Among nondurable materials, a decline in the output of textiles was more than offset by increases in the production of paper and of chemicals

Manufacturing output rose percent 5.4 percent in the second quarter, about the same rate as in the previous quarter. In June, the overall factory operating rate increased 0.4 percentage points, to 81.1 percent. The production of durable goods rose 1.0 percent and was led by a 3.3 percent gain in the output of motor vehicles and parts. Gains were widespread among the other major categories of durable goods, although the indexes for wood products and for furniture and related products fell. The production of computer and electronic products rose 1.3 percent, a slightly smaller gain than those recorded in the first two months of the second quarter.

The output of utilities increased 0.7 percent in June; both electricity generation and natural gas output increased by similar amounts. The operating rate at utilities rose to 86.8 percent. The output of mines increased 1.2 percent, and the utilization rate for mining advanced 1.2 percentage points, to 91.1 percent.

Retail Sales

While industry-related sales paint a somewhat rosier picture than Commerce numbers, it still represents a slight slowing in consumer spending. The U.S. Census Bureau reported that advance estimates of U.S. retail and food services sales for June, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $363.8 billion, a decrease of 0.1 percent from the previous month, but up 5.9 percent (±0.8%) from June 2005. Total sales for the April through June 2006 period were up 6.8 percent from the same period a year ago. The April to May 2006 percent change was up 0.1 percent.

Gasoline stations were up 20.4 percent from June 2005 and sales of non-store retailers were up 12.3 percent from last year. Health and personal care stores showed strong gains, increasing 8.6 percent unadjusted from last year, while increasing a slight 0.7 percent seasonally adjusted over May. Sporting goods, hobby, book & music stores also showed robust growth, increasing 11.3 percent unadjusted from last June, while increasing a modest 0.4 percent seasonally adjusted from the previous month. Clothing and clothing accessories stores, benefiting from the summer heat rose 5.9 percent unadjusted from last June, while only increasing 0.3 percent from May. Building material and garden equipment and supplies dealers still showed steady growth, up 8.4 percent unadjusted from last June. However, seasonally adjusted comparisons from the previous month show a 1.0 percent decline. In spite of a slowing housing market, furniture and home furnishings stores remain healthy with a 10.4 percent increase in sales unadjusted from last year and 1.3 percent seasonally adjusted increase month-to-month.

Retail prices for goods other than food and energy rose more than expected in June 2006. The Consumer Price Index, the government's main inflation gauge, rose 0.2 percent in June after climbing 0.4 percent in May. Core CPI, which excludes volatile food and energy prices, rose by a higher-than-expected 0.3 percent. Economists were looking for a 0.2 percent rise in the core CPI.

The June increase left core CPI, considered by most economists to be the best gauge of the underlying inflation rate, up 2.6 percent from a year earlier - above the Fed's presumed comfort zone of about 2 percent. Moreover, the three-month annualized core rate stands at 3.6 percent, well above the Fed's comfort zone. May's 0.3 percent gain in the core CPI was higher than expected, and sent stocks and bond prices tumbling on fears it would prompt the Fed to keep raising rates.

The Fed has raised its key lending rate, which currently stands at 5.25 percent, 17 consecutive times since June 2004 in a fairly predictable manner. The central bank's next move is a matter of widespread uncertainty on Wall Street, as Chairman Ben Bernanke and other Fed policy-makers have said any hike or pause will depend on the most recent economic data.

Job Growth

The Conference Board Help-Wanted Advertising Index, a key measure of job offerings in major newspapers across America, dipped two points in May 2006. The Index now stands at 33. It was 38 one year ago. In the last three months, help-wanted advertising declined in all nine U.S. regions. Steepest declines occurred in the West South Central (-19.5%), West North Central (-17.9%) and Pacific (-17.3%) regions.

During the second quarter, businesses remained cautious about hiring when near-term economic prospects appear soft. They remain fundamentally worried about the expense of new hiring (in terms of wages, as well as health and pension benefits) relative to pricing power. With some evidence that retail inflation may be picking up, that concern may be alleviated. But consumers worry about price hikes outstripping their wage gains, and may limit their spending increases.

New online job ads increased in May to 2,354,500, according to The Conference Board Help-Wanted Online Data Series. The May level was 91,800, or 4 percent above the previous month and followed a sharp decline in April. Despite the increase, the number of new ads for online jobs in May was lower than in March, which was the month with the highest count since The Conference Board launched the Help-Wanted Online Data series in April 2005. In May, there were 1.57 online job ads per 100 persons in the U.S. labor force, compared with 1.51 in April 2006 and 1.60 in March.

Manufacturing

Economic activity in the manufacturing sector grew in June for the 37th consecutive month, while the overall economy grew for the 56th consecutive month. Manufacturing growth continued in June, and although growth slowed slightly, renewed strength in June's New Orders Index provides encouragement for the third quarter. The sector is benefiting from the weaker dollar and business investment.

The PMI indicates that the manufacturing economy grew in June for the 37th consecutive month as it registered 53.8 percent, a decrease of 0.6 percentage point when compared to May's reading of 54.4 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. A PMI in excess of 42 percent, over a period of time, generally indicates an expansion of the overall economy. The June PMI indicates that both the overall economy and the manufacturing sector are growing.

The Institute o f Supply Chain Management's (ISM) New Orders Index registered 57.9 percent in June. The index is 4.2 percentage points higher than the 53.7 percent registered in May. ISM's Production Index registered 55.1 percent in June, 2.1 percentage points lower than the 57.2 percent reported in May. ISM's Employment Index contracted in June following 12 consecutive months of growth. The index registered 48.7 percent in June compared to 52.9 percent in May, a decrease of 4.2 percentage points. ISM's Supplier Deliveries Index for June registered 55 percent, a decrease of 2.6 percentage points when compared to May's reading of 57.6 percent. The ISM Customers' Inventories Index is at 45.5 percent in June, 1.5 percentage points higher than the 44 percent reported in May. Manufacturers' inventories contracted in June as ISM's Inventories Index registered 46.9 percent, a 1.1 percentage point decrease when compared to May's reading of 48 percent.

In June, the ISM Prices Index was 76.5 percent, indicating manufacturers are paying higher prices on average when compared to May. While 39 percent of supply executives reported paying the same prices and 4 percent reported paying lower prices, the majority of respondents (57 percent) reported that prices were higher than the preceding month.

Consumer Confidence

The Conference Board Consumer Confidence Index, which had decreased in May, posted a slight increase in June. The Index now stands at 105.7 (1985=100), up from 104.7 in May. The Present Situation Index decreased to 132.7 from 134.1. The Expectations Index, however, edged up to 87.6 from 85.1 last month.

Consumers' overall assessment of current conditions, while favorable, declined for the second consecutive month. Those claiming conditions are "good" declined to 26.8 percent from 28.5 percent. Those claiming conditions are "bad" eased to 14.9 percent from 15.2 percent. Labor market conditions were mixed. Consumers saying jobs are "plentiful" decreased to 28.1 percent from 29.1 percent, while those claiming jobs are "hard to get" decreased to 19.9 percent from 20.2 percent.

Consumers' outlook for the next six months, which had deteriorated in May, improved moderately in June. Those expecting business conditions to worsen decreased to 11.8 percent from 12.9 percent. Those expecting business conditions to improve increased to 16.8 percent from 16.5 percent.

The outlook for the labor market was also somewhat more optimistic. Those expecting more jobs to become available in the next six months increased to 15.6 percent from 14.8 percent in May. Those expecting fewer jobs declined to 17.0 percent from 18.0 percent. The proportion of consumers anticipating their incomes to increase in the months ahead remained virtually unchanged at 17.1 percent.

Outlook

The inflation scare in the first half of this year has extended the Fed's tightening campaign and raised the end-point on Fed rate hikes, raising the probability economic difficulty in 2007. External shocks threaten to exacerbate domestic economic problems. Strong growth in China and India, along with the threat of energy supply disruptions in the Middle East, could keep energy price inflation on the rise, despite the Fed's attempts to keep inflation at bay. The Fed has very little, if any, control over global energy prices and energy supply. In order to contain inflation, the Fed may end up pushing rates too high, triggering a housing market and consumer- lead recession.

Retailers can expect the second half of the year to show moderate gains due to the slow down in the housing market and other economic factors such as rising interest rates and higher gas prices. According to National Retail Federation's latest Retail Sales Outlook, retail industry sales in the third quarter are expected to increase 5.5 percent, followed by a gain of 4.6 percent in the fourth quarter. Because of the strong first half, even with some deceleration in sales for the balance of the year, industry sales are tracking to a 6.0 percent gain for the year.

Despite the up-tick in consumer confidence, consumers remain concerned about the short-term outlook. Furthermore, the Present Situation Index lost ground for the second consecutive month, a signal that the economy is shifting into lower gear heading into the second half of 2006. Consumers may slow spending if energy prices continue to climb.

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Appendix C: Atlanta-Sandy Springs-Marietta, GA Metropolitan Area Study

Overview

A metropolitan/economic study is a straightforward look at the economy in a specific geographic area. Data for this study was found in a wide variety of reliable sources, ranging from government web sites to regional reports. This was done to give a realistic view of the economy. The study looks at the key economic factors of the area including population, income, and earnings and employment by industry. The numerous tables and graphs that accompany this report show how the major industries are doing relative to the overall economy and their respective share of the economy. The graphs provide a good snapshot of the recent trends and offer good insight as to what is discussed in the report, such as how one industry compares to another. Any economic trends that take place can be seen with a quick glance at the graphs and reviewed more closely with the specific data from the tables. The direction and rate of change from year to year for major economic factors are clearly indicated.

Having good economic information for a geographic area can be useful in a variety of ways. Whether a business has done well or not, a metropolitan/economic study can be utilized when making a correlation between the performance of the business and the overall state of the economy. A metropolitan study can help to show what type of trend or the amount of growth a business in a particular industry might be expected to have during certain years. Other purposes include being utilized by local Chambers of Commerce, developers, companies deciding whether to expand or relocate, and anyone needing comprehensive economic information on an area.

Atlanta-Sandy Springs-Marietta, GA MSA

The Atlanta-Sandy Springs-Marietta, GA MSA is made up from Barrow County, Bartow County, Butts County, Carroll County, Cherokee County, Clayton County, Cobb County, Coweta County, Dawson County, DeKalb County, Douglas County, Fayette County, Forsyth County, Fulton County, Gwinnett County, Haralson County, Heard County, Henry County, Jasper County, Lamar County, Meriwether County, Newton County, Paulding County, Pickens County, Pike County, Rockdale County, Spalding County, and Walton County.

Located in northwestern Georgia, the area is well served by abundance of major roadways; including interstates and state and national highways. This allows for good access to other areas of the state and nation, making it easy to get raw materials and finished goods in and out of the area. The Atlanta area is a major east-west and north-south crossroads for the state as well as that region of the United States. Atlanta has the world's largest passenger terminal complex, and 80 percent of the population of the United States lives within a two-hour flight of Atlanta.

Atlanta is the home to many national and international firms. Atlanta is also home to many professional sports teams, such as Baseball's Braves, Football's Falcons, Basketball's Hawks, and Hockey's Thrashers. Atlanta was also home to the 1996 Olympic Summer Games. Atlanta is also home to three symphonies, Atlanta Community Orchestra, Atlanta Pops Orchestra, and Atlanta Symphony Orchestra, as well as the Atlanta Opera, and Atlanta Ballet Company.

Population

Woods and Poole estimated the population of the Atlanta-Sandy Springs-Marietta, GA MSA in 2005 totaled 4,972,219. Table 1 shows the population estimate for the Atlanta-Sandy Springs-Marietta, GA MSA in 2005.

Table 1-Population Estimate for Atlanta-Sandy Springs-Marietta, GA MSA (2005)		
	Number	Percent
Total Population	4,972,219	100.0%
Age Under 5 Years	392,848	7.9%
Age 5 to 9 Years	351,989	7.1%
Age 10 to 14 Years	356,412	7.2%
Age 15 to 19 Years	338,305	6.8%

Age 20 to 24 Years	336,747	6.8%
Age 25 to 29 Years	376,185	7.6%
Age 30 to 34 Years	430,736	8.7%
Age 35 to 39 Years	425,216	8.6%
Age 40 to 44 Years	426,225	8.6%
Age 45 to 49 Years	379,378	7.6%
Age 50 to 54 Years	316,589	6.4%
Age 55 to 59 Years	270,752	5.4%
Age 60 to 64 Years	183,667	3.7%
Age 65 to 69 Years	126,115	2.5%
Age 70 to 74 Years	99,175	2.0%
Age 75 to 79 Years	70,592	1.4%
Age 80 to 84 Years	49,094	1.0%
Age 85 Years and Over	42,194	0.8%

Source: Woods and Poole

Woods and Poole estimated the median age of the population of the Atlanta-Sandy Springs-Marietta, GA MSA in 2005 was 34.0 years old. Woods and Poole further estimated that 26.4 percent of the population of the Atlanta-Sandy Springs-Marietta, GA MSA in 2005 was 17 and younger, while 7.8 percent of the population was 65 and over.

Total Personal Income

The U.S. Department of Commerce/Bureau of Economic Analysis reported that total personal income in the Atlanta-Sandy Springs-Marietta, GA MSA totaled $173.2 billion in 2005, a 15.6 percent increase from the 2002 total personal income of $149.8 billion. Total personal income consists of net earnings, transfer payments and dividends, interest and rent. In 2005, net earnings accounted for 76.9 percent of total personal income in the Atlanta-Sandy Springs-Marietta, GA MSA.

Per Capita Personal Income

The per capita personal income in the Atlanta-Sandy Springs-Marietta, GA MSA increased 6.1 percent from $32,825 in 2002 to $34,825 in 2005.

The cost of living in the Atlanta area is less expensive than the national average, according to the ACCRA Cost of living Index. The ACCRA Cost of Living uses several categories to measure the cost of living within specific areas. The national average is equal to 100. Table 2 shows the ACCRA Cost of Living for Atlanta, GA, and how it compares with other locations. The table shows the composite score for each location as well as the components of the composite score.

Table 2-ACCRA Cost of Living Index in Select Areas (2Q 2006)							
Metropolitan Area	Composite	Grocery	Housing	Utilities	Transport	Health Care	Misc.
New York (Manhattan), NY	204.7	146.8	372.0	150.2	116.3	130.9	141.7
San Francisco, CA	169.4	140.3	275.2	88.2	116.3	124.5	139.0
Washington, DC	140.9	110.9	218.2	121.0	109.6	112.3	107.9
Boston, MA	136.4	119.2	161.8	131.5	108.6	125.5	133.0
Miami, FL	114.4	102.2	137.6	92.6	108.4	117.6	107.8
Chicago, IL	114.2	109.2	131.1	109.1	107.7	111.4	106.2
Orlando, FL	104.9	106.1	104.1	110.5	108.6	96.3	103.5
Atlanta, GA	**97.7**	**98.6**	**93.2**	**85.8**	**111.2**	**107.9**	**99.3**
Raleigh, NC	96.1	98.6	87.6	97.2	101.1	103.7	99.4
Dallas, TX	94.4	101.9	76.2	111.9	108.6	102.1	96.2

Source: Huntsville, AL Chamber of Commerce

Earnings

The U.S. Department of Commerce/Bureau of Economic Analysis reported earnings in the real estate and rental and leasing sector increased 34.3 percent between 2002 and 2005. However, the industry accounted for just 3.3 percent of total non-farm earnings in 2005. The government sector, which accounted for 11.9 percent of total non-farm earnings, increased 19.1 percent between 2002 and 2005. It should be noted that no single sector accounted for more than 12 percent of total non-farm earnings in 2005, thus pointing to a fairly diverse economy. Table 3 shows the percentage change in earnings of key non-farm sectors between 2002 and 2005.

Table 3-Earnings by Key Non-farm Sector 2002 - 2005		
	Total % Change 02-05	% of 2005 Non-farm Total
Forestry, fishing, related activities, and other	N/A	N/A
Mining	N/A	N/A
Utilities	N/A	N/A
Construction	22.8%	6.5%
Manufacturing	10.0%	8.6%
Wholesale trade	13.9%	8.2%
Retail trade	9.4%	6.1%
Transportation and warehousing	-2.6%	4.4%
Information	6.0%	7.3%
Finance and insurance	16.3%	7.3%
Real estate and rental and leasing	34.3%	3.3%
Professional and technical services	17.4%	11.1%
Management of companies and enterprises	43.7%	3.2%
Administrative and waste services	27.1%	5.3%

Educational services	19.2%	1.3%
Health care and social assistance	21.9%	6.8%
Arts, entertainment, and recreation	-1.3%	0.9%
Accommodation and food services	18.9%	2.7%
Other services, except public administration	12.9%	2.6%
Government and government enterprises	19.1%	11.9%

Source: U.S. Department of Commerce/Bureau of Economic Analysis

The U.S. Department of Commerce/U.S. Census Bureau reported the total number of residential building permits issued in the Atlanta-Sandy Springs-Marietta, GA MSA totaled 38,693 during the first half of 2006, a 7.6 percent increase from the same time period the previous year. The number of permits issued for single-family homes increased 2.3 percent from 30,115 during the first six months of 2005 to 30,795 during the same time period the following year. The number of permits issued for residential structures containing two units fell 10.5 percent from 114 during the first two quarters of 2005 to 102 during the first two quarters of 2006, while the number of permits issued for residential structures containing three and four units increased a whopping 256.6 percent from 83 during the first half of 2005 to 296 during the first half of 2006. The number of permits issued for residential structures containing five or more units increased 33.0 percent from 5,640 during the first half of 2005 to 7,500 during the same time period the following year.

Georgia’s corporate income tax is 6 percent. Tax collections in the state of Georgia were up $1 billion during the first three quarters of the fiscal year, which ends June 30. The state is expected to end the fiscal year with a surplus.

Water is expected to be a key issue for Atlanta.

Atlanta saw a 2.2 percent gain in the Consumer Price Index in March and April 2006, the biggest jump in overall costs for consumer goods such as cars, clothes, gas and homes in ten major U.S. cities tracked by the government. The hefty gain in Atlanta's CPI was mainly due to the region's higher costs for gas, as well as homes, cars and all the purchases that go along with maintaining those two big-ticket items. Transportation and housing costs in Atlanta rose 5.1 percent and 7.3 percent respectively during March and April.

Employment

The U.S. Department of Labor/Bureau of Labor Statistics reported the civilian labor force of the Atlanta-Sandy Springs-Marietta, GA MSA increased 3.0 percent from 2,589,696 in June 2005 to 2,666,358 in June 2006. The number unemployed fell 8.5 percent from 142,839 in June 2005 to 130,678 in June 2006. The unemployment rate fell from 5.5 percent in June 2005 to 4.9 percent in June 2006. Table 4 shows the percentage change in employment of key non-farm sectors operating in the Atlanta-Sandy Springs-Marietta, GA MSA.

Table 4-Employment by Key Non-farm Sector (# of jobs, f/t & p/t) 2002 - 2005		
	Total % Change 02-05	% of 2005 Non-farm Total
Forestry, fishing, related activities, and other	N/A	N/A
Mining	N/A	N/A
Utilities	N/A	N/A
Construction	10.9%	6.5%
Manufacturing	-3.5%	6.3%
Wholesale trade	2.3%	5.3%
Retail trade	2.0%	10.5%
Transportation and warehousing	0.6%	4.0%
Information	-9.7%	3.4%
Finance and insurance	3.2%	4.9%
Real estate and rental and leasing	28.1%	4.9%
Professional and technical services	8.3%	8.0%
Management of companies and enterprises	0.4%	1.4%
Administrative and waste services	14.4%	8.6%
Educational services	5.9%	2.0%
Health care and social assistance	12.1%	7.4%
Arts, entertainment, and recreation	5.5%	1.7%
Accommodation and food services	10.8%	6.9%
Other services, except public administration	6.9%	5.4%
Government and government enterprises	5.5%	11.1%

Source: U.S. Department of Commerce/Bureau of Economic Analysis

In 2004, Atlanta was home to 24 Fortune 1000 companies, including Coca-Cola, Home Depot, BellSouth, Delta Airlines and UPS. Table 5 shows the top employers in DeKalb County.

Table 5-Top Employers in DeKalb County and the Greater Metro Area	
Company	Employees
Delta Air Lines	27,344
Emory University	22,242
Wal-Mart	17,689
BellSouth Corp.	15,800
DeKalb County Schools	12,968
Publix Super Markets	10,650
Wellstar Health System	10,112
City Of Atlanta	8,657
United States Postal Service	8,520
IBM	7,500
DeKalb County Government	7,498
Georgia Department of Human Resources	7,425
United Parcel Service	7,351
Suntrust Banks	7,287
Emory Healthcare	6,690
Cox Enterprises	6,177
Waffle House	6,093
Centers for Disease Control and Prevention	6,002

Source: DeKalb County Office of Economic Development

The Atlanta economy is expected to add about 63,000 jobs in 2006 and about 48,500 in 2007, roughly two-thirds of the new positions in the state. That growth, and the quality of the jobs, falls short of the pace set during the 1990s, when the economy repeatedly expanded by more than 100,000 jobs. Now only one in five of the new jobs will be jobs paying more than $60,000 a year. That sluggishness at the high end of incomes is the result of a shift in the local economy. During the 1990s, job growth was often led by the technology and transportation sectors. This time, growth comes disproportionately from tourism, where low-paying jobs are typical, along with other jobs in leisure and hospitality.

Projections

Woods and Poole projected the population of the Atlanta-Sandy Springs-Marietta, GA MSA will increase 9.8 percent between 2005 and 2010. Woods and Poole expect the median age of the population will reach 34.61 by 2010. Woods and Poole also anticipates that in 2010, 25.7 percent of the population will be 17 and younger, while 8.7 percent of the population will be 65 and over.

Total employment is projected to increase 10.5 percent between 2005 and 2010, according to Woods and Poole. The agricultural services sector is projected to increase employment 16.2 percent between 2005 and 2010. However, the sector is projected to account for just 1.0 percent of total employment in 2010. The services sector, which is projected to account for 36.0 percent of total employment in the Atlanta-Sandy Springs-Marietta, GA MSA in 2010, is projected to employment 14.8 percent between 2005 and 2010.

Woods and Poole projected total earnings will increase 10.9 percent between 2005 and 2010. The mining sector is projected to increase earnings 25.5 percent between 2005 and 2010. However, the sector is projected to account for just 0.2 percent of total earnings in 2010. The services sector, which is projected to account for 32.4 percent of total earnings in the Atlanta-Sandy Springs-Marietta, GA MSA in 2010, is projected to increase earnings 12.0 percent.

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Appendix D: Plumbing Industry Report – Atlanta, GA 6/30/2006

Introduction

This study examines the plumbing industry via the construction and plumbing industries. The focus of the report is to identify trends within the plumbing industry, as well as to identify key elements that drive the sector. This study also examines the industry in the Atlanta, GA area and identifies trends that influence the plumbing industry as well as demographic data that drive the sector. The accompanying charts are provided in support of the information provided. This study is intended to give a realistic view of the industry and can serve as a guide in comparing a particular business to the industry at large.

Overview

Demand for plumbing services and supplies was uneven across the U.S in 2006, according to a survey of contractors nationwide reported in Contractor Magazine online. Contractors in Syracuse, N.Y. and Cleveland, OH reported to have “nothing going on,” while contractors in Kansas City and cities across California couldn’t find enough help. High prices for metals and other raw materials, continuing consolidation of suppliers and more green building initiatives were some of the trends that began to affect the plumbing industry in 2006. Overall, plumbing contractors and manufacturers were optimistic about 2006 prospects, although no one expected the year to be better than 2005. Housing began to slow due to rising mortgage rates; however, many areas saw strengthening in commercial projects and sustained growth in the remodeling and renovation sector.

Construction Industry

The general construction industry is fragmented, with smaller operations collectively dominating. There are a number of large players with nationwide coverage. Many smaller companies manage to survive in this competitive market due to the localized, specialized nature of their operations.

The residential construction segment accounts for about 54 percent of the construction industry. The rest is spent on private non-residential construction and public construction and public projects. The entire sector employs an estimated 8 million workers.

The construction sector is highly dependent on both local and national economic conditions. The residential construction industry is acutely dependent upon mortgage rates.

In the immediate aftermath of the global economic downturn of 2001, the United States construction and engineering industry suffered, experiencing contraction in 2002 and 2003. The industry is now in a period of recovery and is anticipated to post positive growth rates consistently until the end of the decade.

The U.S. construction and engineering industry generated total revenues of $479.3 billion in 2005, representing an increase of 6.1 percent on the previous year’s value and a compound annual growth rate (CAGR) of 1.2 percent between 2001 and 2005.

Table 1-United States Construction & Engineering Industry Value		
Year	Billions of Dollars	Percentage Change
2001	456.6	N/A
2002	441.1	-3.4%
2003	433.1	-1.8%
2004	451.8	4.3%
2005	479.3	6.1%
CAGR, 2001-2005: 1.2%		

Source: Datamonitor

The construction and engineering industry in the United States currently generates 82.4 percent of total industry value for the Americas. This percentage share has declined slightly over the past five years, down from an industry share of 84 percent in 2001. However, the U.S. industry is predicted to recover slightly, reaching a share of 83 percent in 2010. The U.S. industry is mature and becoming saturated.

The U.S. industry is facing significant cost increases. Labor costs have also increased in recent years, a problem that will be compounded as the baby boomers reach retirement, as the supply of laborers declines, the upward pressure on wages will increase.

Following a robust gain of 11 percent in 2004, total domestic construction increased 9.2 percent in 2005, in nominal terms. Total construction is expected to decelerate to 6.9 percent, in 2006, followed by a mild three-year downturn. Total construction grew 8.3 percent in the first quarter of 2006, with spending on residential construction rising a modest 0.7 percent and nonresidential construction growing 2.7 percent. This trend is expected to continue, with nonresidential investment exceeding residential investment into the fourth quarter of 2007, a reversal not witnessed for several years.

Overall, 2006 will be a strong year for commercial activity but a slightly weaker year for overall construction, as the booming housing market decelerates and home prices transition to a relatively soft landing. Rising interest rates will dampen the red-hot housing market in 2006, but overall construction will remain strong, supported by robust nonresidential construction. An increase in commercial and public construction will spur non-residential growth throughout 2006.

Improving budget outlooks allowed state and local governments to spend more freely in 2005. About 90 percent of public construction spending comes from state and local governments. Even with climbing fuel prices, rising interest rates and many businesses looking to cut costs, investment growth is giving the manufacturing sector an extra boost this year. Manufacturing output is expected to increase nearly 5.0 percent, and a primary recipient will be the machinery sector. Manufacturing was a main driver of nonresidential construction in 2005, and it will be even stronger this year. However, while manufacturing construction will remain at a healthy level in 2007-08, growth is expected to slow.

Plumbing Fixtures & Fittings

Market size demand for plumbing fixtures and fittings in the U.S. totaled $9.7 billion in 2005 based on annual growth of 3.0 percent from 2000. Plumbing product demand is related to building construction, as more than 95 percent of fixtures and fittings are installed inside buildings.

Trends in plumbing fixture and fitting demand, however, do not necessarily move in lockstep with those of building construction, as the aftermarket in plumbing products can support demand in face of weak new construction activity. Generally, advances in the plumbing product market lag that of building construction. For much of the 1995 to 2000 period, plumbing product price increases were limited, posting growth slower than the building construction price deflator. During most of the 1995 to 2005 period, rising real household income helped generate demand for plumbing products in kitchen and bathroom renovations. In 2001, the U.S. entered a recession and subsequently struggled through a year and a half of fitful growth. Consequently, plumbing product demand slowed, even declining in 2001 and 2002. In 2004, the plumbing product market emerged from its slump to post the strongest yearly gains since 1995. The strong growth was driven by gains in the new housing market and a rebound in non-residential construction spending.

Table 2 - National Key Indicators for Plumbing Products (billions dollars U.S.)					
				% Annual Growth	
Item	**2000**	**2005**	**2010**	**05/00**	**10/05**
Gross Domestic Product	9,817	12,500	16,150	5.0	5.3
Resident Population (Millions persons)	282.2	296.4	309.8	1.0	0.9
Residential Construction Expenditures	380.0	632.5	674.0	10.7	1.3
New Housing	270.4	476.0	475.0	12.0	0.0
Improvement	109.6	156.5	199.0	7.4	4.9
Non-residential Construction Expenditures	306.3	317.5	496.0	0.7	9.3
Private Housing Completions	1824	2074	1815	2.6	-2.6

Source: The Freedonia Group, Inc.

Heating Ventilation and Air-Conditioning

Heating, air-conditioning, and refrigeration systems consist of many mechanical, electrical, and electronic components, such as motors, compressors, pumps, fans, ducts, pipes, thermostats, and switches. Technicians often specialize in either installation or maintenance and repair, although they are trained to do both. They also may specialize in doing heating work or air-conditioning or refrigeration work. Some specialize in one type of equipment—for example, hydronics (water-based heating systems), solar panels, or commercial refrigeration. Plumbing skills may be required for installation and maintenance and repair of many climate systems.

Sophisticated control systems along with more sophisticated plumbing fixtures (whirlpool tubs, steam rooms, multiple shower spray systems), are also finding their way into high-end hotels. Guest rooms in luxury hotels provide a glimpse of what networked homes may be like in the next decade, as do some of the systems for homes already on the market.

Table 3 - Plumbing and HVAC Contractors, U.S. Total						
Year	2001	2002	2003	2004	2005	% Change
Employees	828,859	829,301	848,187	891,199	933,572	12.6%
Establishments	83,892	86,684	89,733	93,538	96,835	15.4%
Wages (1000)	32,468,843	33,025,988	33,970,543	36,392,663	39,291,249	21.0%
Average Annual Pay	39,173	39,824	40,051	40,836	42,087	7.4%

Source: U.S. Department of Labor/ Bureau of Labor Statistics

The number of plumbing and HVAC contractors in the U.S. increased 12.6 percent from 828,859 in 2001 to 933,572 in 2005. The number of establishments increased 15.4 percent from 83,892 in 2001 to 96,835 in 2005.

Concern for the environment has prompted the development of new energy (and water)-saving heating and air-conditioning systems. An emphasis on better energy management should lead to the replacement of older systems and the installation of newer, more efficient systems in existing homes and buildings. Also, demand for maintenance and service work should increase as businesses and homeowners strive to keep increasingly complex systems operating at peak efficiency. Regulations prohibiting the discharge and production of CFC and HCFC refrigerants should continue to result in the need to replace many existing air conditioning systems or modify them to use new environmentally safe refrigerants. The pace of replacement in the commercial and industrial sectors will quicken if Congress or individual States cut the time needed to fully depreciate the cost of new HVACR systems, which is being considered. Table 4 contains a "short list" of the largest HVAC Companies in the U.S.; Appendix A provides a more comprehensive list, including number of employees, and what percentage of their business is from new construction, remodel/retrofit, and service contracts.

Table 4 - Largest HVAC Companies- Nationwide

Company/Location	$ Millions
ComfortSystemsUSA,Houston	$781.81
EMCORGroup,Norwalk,Conn.	$683.39
ServiceExperts/LennoxRetail,Dallas	$654.10
ACCOEngineeredSystems,Glendale,Calif.	$378.51
CentricaNorthAmerica/ResidentialServicesGroup,Dublin,Ohio	$348.00
AmericanResidentialServicesLLC,Memphis,Tenn.	$345.85
Cal-AirInc.,Whittier,Calif.	$180.00
LimbachFacilityServicesLLC,Pittsburgh	$163.20
TDIndustries,Dallas	$123.50
PPLEnergyServicesGroup,Allentown,Pa.	$106.50

Source: Contractor Magazine

Traditionally, many organizations with extensive pipe systems have employed their own plumbers or pipe fitters to maintain equipment and keep systems running smoothly. But, to reduce labor costs, many of these firms no longer employ full-time, in-house plumbers or pipe fitters. Instead, when they need a plumber, they rely on workers provided under service contracts by plumbing and pipefitting contractors.

Construction projects generally provide only temporary employment. When a project ends, some pipe layers, plumbers, pipe fitters, and steamfitters may be unemployed until they can begin work on a new project, although most companies are trying to limit these periods of unemployment in order to retain workers. In addition, the jobs of pipe layers, plumbers, pipe fitters, and steamfitters are generally less sensitive to changes in economic conditions than jobs in other construction trades. Even when construction activity declines, maintenance, rehabilitation, and replacement of existing piping systems, as well as the increasing installation of fire sprinkler systems, provide many jobs for pipe layers, plumbers, pipe fitters, and steamfitters.

Industry Indicators

U.S. shipments of HVAC controls totaled $1.7 billion in 2005, or 75 percent of total shipments. Between 2000 and 2005, HVAC control shipments declined 6.9 percent per year as the economic recession limited demand for HVAC equipment, especially in the lackluster nonresidential market, which makes use of some of the more expensive computerized and electronic products and systems.

Shipments of computerized energy controls for buildings declined 12.6 percent per year between 2000 and 2005 to $298 million. This sub-segment in particular was affected by the recession as spending in the office and commercial sector of the nonresidential building market declined. Spending on controls during the historical period suffered as few new commercial/office buildings were constructed and replacement of existing HVAC equipment with more expensive integrated climate control systems was postponed. In 2004 and 2005, computerized energy control shipments finally began a slow recovery.

Shipments of environmental control parts and components that are sold separately declined 11.8 percent per year between 2000 and 2005 to $86 million. As environmental controls have become more complex, separate parts and components for HVAC and appliance controls are not as readily consumed. Replacing the entire unit is easier and may be less costly, depending on repair time, than dismantling and rebuilding a complex control to repair a single part.

Sophisticated control systems are also finding their way into high-end hotels, such as the Mandarin Oriental in Manhattan, New York. The hotel uses smart technology to improve customer service. Computer systems record guest preferences for room temperature, lighting and other conditions, and the data is stored for future retrieval. The environmental control systems are activated upon the guest's next arrival to regulate the environment before the guest steps into the room. These guest rooms in luxury hotels provide a glimpse of what networked homes may be like in the next decade, as do some of the systems for homes already on the market. For example, Smarthome's *INSTEON* lighting and appliance controls utilize dual-band, wireless home-controlled network technology. The system combines radio frequency communications with the home's existing wiring to provide connection for automatic or remote control of lighting, appliances and climate, as well as security and entertainment systems.

Earnings & Employment

The BLS reports that pipe layers, plumbers, pipe fitters, and steamfitters are among the highest paid construction occupations. In May 2006, the national median hourly earnings of plumbers, pipe fitters, and steamfitters was $20.56. The middle 50 percent earned between $15.62 and $27.54. The lowest 10 percent earned $12.30, and the highest 10 percent earned $34.79. Median hourly earnings in the industries employing the largest numbers of plumbers, pipe fitters, and steamfitters in May 2004 were as follows:

Table 5 - Earnings: plumbers, pipe fitters, and steamfitters, May 2004	
Natural gas distribution	$23.86
Nonresidential building construction	$21.55
Building equipment contractors	$19.85
Utility system construction	$18.29
Local government	$16.30

Source: U.S. Department of Labor/ Bureau of Labor Statistics

Apprentices usually begin at about 50 percent of the wage rate paid to experienced pipe layers, plumbers, pipe fitters, and steamfitters. Wages increase periodically as skills improve. After an initial waiting period, apprentices receive the same benefits as experienced pipe layers, plumbers, pipe fitters, and steamfitters.

Many pipe layers, plumbers, pipe fitters, and steamfitters are members of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada.

Plumbing and HVAC

Pipe layers, plumbers, pipe fitters, and steamfitters install, maintain, and repair many different types of pipe systems. For example, some systems move water to a municipal water treatment plant and then to residential, commercial, and public buildings. Other systems dispose of waste, provide gas to stoves and furnaces, or provide for heating and cooling needs. Pipe systems in power plants carry the steam that powers huge turbines. Pipes also are used in manufacturing plants to move material through the production process. Specialized piping systems are very important in both pharmaceutical and computer-chip manufacturing.

Although pipe laying, plumbing, pipefitting, and steam fitting sometimes are considered a single trade, workers generally specialize in one of five areas. *Pipe layers* lay clay, concrete, plastic, or cast-iron pipe for drains, sewers, water mains, and oil or gas lines. Before laying the pipe, pipe layers prepare and grade the trenches either manually or with machines. After laying the pipe, they weld, glue, cement or otherwise join the pieces together. *Plumbers* install and repair the water, waste disposal, drainage, and gas systems in homes and commercial and industrial buildings. Plumbers also install plumbing fixtures—bathtubs, showers, sinks, and toilets—and appliances such as dishwashers and water heaters. *Pipe fitters* install and repair both high- and low-pressure pipe systems used in manufacturing, in the generation of electricity, and in the heating and cooling of buildings. They also install automatic controls that are increasingly being used to regulate these systems. Some pipe fitters specialize in only one type of system. *Steamfitter*s install pipe systems that move liquids or gases under high pressure. *Sprinkler fitters* install automatic fire sprinkler systems in buildings.

The number of plumbing and HVAC contractors in the U.S. increased 12.6 percent from 828,859 in 2001 to 933,572 in 2005 (see Table 6). The number of establishments increased 15.4 percent from 83,892 in 2001 to 96,835 in 2005.

Table 6 - Plumbing and HVAC Contractors, U.S. Total

Year	2001	2002	2003	2004	2005	% Change
Employees	828,859	829,301	848,187	891,199	933,572	12.6%
Establishments	83,892	86,684	89,733	93,538	96,835	15.4%
Wages (1000)	32,468,843	33,025,988	33,970,543	36,392,663	39,291,249	21.0%
Average Annual Pay	39,173	39,824	40,051	40,836	42,087	7.4%

Source: U.S. Department of Labor/ Bureau of Labor Statistics

Plumbing Fixtures Manufacturing

Demand for plumbing fixtures is forecast to expand 2.7 percent per annum through 2010 to $5.8 billion. Gains will be bolstered by strong residential and nonresidential repair and improvement activity over the forecast period. In addition, solid growth in new nonresidential building and non-building construction will benefit plumbing fixture demand, particularly in the institutional and lodging segments. Consumer interest in higher-end fixtures will aid value demand advances as well. However, a weak new housing environment, highlighted by a decline in single-family housing completions, will restrain demand. Bathtubs and showers are expected to remain the largest fixture category in 2010, accounting for 46 percent of plumbing fixture demand; however, gains for these plumbing products will be limited by a weak new housing environment.

Above-average growth in demand for whirlpool bathtubs, showers, sinks, and hot tubs and spas will be aided by increasing residential remodeling activity, as the kitchen, bathroom and outdoor living area continue to increase in prominence in homes. Hot tubs and spas in particular will continue to benefit from personal income gains as consumers look for water recreation and spa-like higher-end fixtures at home. Toilet fixtures (water closet bowls, flush tanks and urinals) will post below-average gains through 2010, as most of the gains from the low-flow mandate have dissipated and new housing activity will wane from 2005 highs. Modest gains will be aided by non-residential construction activity.

Atlanta, GA

Atlanta has in recent years undergone a transition from a city of regional commerce to a city of international influence. Between 2000 and 2006, the Atlanta metropolitan area grew 20.5 percent, making it the fastest growing metropolitan area in the nation. As of July 2006, the Atlanta metropolitan area had an estimated population of 5,138,223. Atlanta is often considered a poster child for cities worldwide experiencing rapid growth and urban sprawl.

Atlanta has been in the midst of a construction and retail boom, with over 60 new high-rise or mid-rise buildings either proposed or under construction as of April 19, 2006. October 2005 marked the opening of Atlantic Station, a former Brownfield steel plant site redeveloped into a mixed-use urban district. In early 2006, Mayor Franklin set in motion a plan to make the 14-block stretch of Peachtree Street in Midtown Atlanta a street-level shopping destination envisioned to rival Beverly Hills' Rodeo Drive or Chicago's Magnificent Mile. In spite of civic efforts such as the opening of Centennial Olympic Park in downtown in 1996, Atlanta ranks near last in area of park land per capita among cities of similar population density, with 8.9 acres per thousand residents in 2005.

One of seven American cities classified as Gamma world cities, Atlanta ranks third in the number of Fortune 500 companies headquartered within city boundaries, behind New York City and Houston. Several major national and international companies are headquartered in Atlanta or its nearby suburbs, including four Fortune 100 companies: The Coca-Cola Company, Home Depot, and United Parcel Service in adjacent Sandy Springs. The headquarters of AT&T Mobility (formerly Cingular Wireless), the largest mobile phone service provider in the United States, and Newell Rubbermaid are also in Atlanta and around the metro area, as well as other major companies including Arby's, Chick-Fil-A, Earthlink, Equifax, Georgia-Pacific, Oxford Industries, Southern Company, SunTrust Banks, and Waffle House. Over 75 percent of the Fortune 1000 companies have a presence in the Atlanta area, and the region hosts offices of about 1,250 multinational corporations.

Delta Air Lines is the city's largest employer and the metro area's third largest. Delta operates the world's largest airline hub at Hartsfield-Jackson Atlanta International Airport and, together with the hub of competing carrier AirTran Airways, has helped make Hartsfield-Jackson the world's busiest airport, both in terms of passenger traffic and aircraft operations. The airport, since its construction in the 1950s, has served as a key engine of Atlanta's economic growth.

Atlanta has a sizable financial sector. SunTrust Banks, the seventh largest bank by asset holdings in the United States, has its home office on Peachtree Street in downtown. The Federal Reserve System has a district headquarters in Atlanta; the Federal Reserve Bank of Atlanta, which oversees much of the deep South, relocated from downtown to midtown in 2001. Wachovia announced plans in August 2006 to place its new credit-card division in Atlanta, and city, state and civic leaders harbor long-term hopes of having the city serve as the home of the secretariat of a future Free Trade Area of the Americas.

The auto manufacturing sector in metropolitan Atlanta has suffered setbacks recently, including the shutdown of Ford Motor Company's Atlanta Assembly plant in Hapeville in 2006. Kia, however, has broken ground on a new assembly plant near West Point, Georgia.

The city is a major cable television programming center. Ted Turner began the Turner Broadcasting System media empire in Atlanta, where he bought a UHF station that eventually became WTBS. Turner established the headquarters of the Cable News Network at CNN Center, adjacent today to Centennial Olympic Park. As his company grew, its other channels – the Cartoon Network, Boomerang, TNT, Turner South, CNN International, CNN en Español, CNN Headline News, and CNN Airport Network – centered their operations in Atlanta as well.

Cox Enterprises has substantial media holdings in and beyond Atlanta. Its Cox Communications division is the nation's third-largest cable television service provider; the company also publishes over a dozen daily newspapers in the United States, including The Atlanta Journal-Constitution. WSB – the flagship station of Cox Radio – was the first AM radio station in the South.

Atlanta is also home to the Centers for Disease Control and Prevention (CDC). Adjacent to Emory University, with a staff of nearly 15,000 (including 6,000 contractors and 840 Commissioned Corps officers) in 170 occupations, including: engineers, entomologists, epidemiologists, biologists, physicians, veterinarians, behavioral scientists, nurses, medical technologists, economists, health communicators, toxicologists, chemists, computer scientists, and statisticians.

Beige Books Indicators

According the Beige Book report for June 2006, indicators from the Atlanta Sixth District were mixed in April and May. While most retail merchants reported that sales rose at a solid pace and expressed an upbeat near-term outlook, some segments reported lower demand. Auto sales were varied, and dealers noted that sales of SUVs and large trucks were especially soft. Residential construction remained steady with sales near year-ago levels in most parts of the District. However, sales weakened in Florida, especially in the condominium market. Nonresidential construction advanced at a modest pace, and factory activity was mixed. Regional transportation companies continued to report strong demand for their services, and Florida's tourism industry posted good results in the spring. Bank loan demand continued to slow in parts of the District. Employers in several industries noted difficulty in obtaining skilled workers. Upward cost pressures were reported in many industries, whereas the ability to pass on these higher costs to customers remained mixed. Consumer spending seemed to be maintaining healthy levels, especially in areas receiving Katrina evacuees. Inventories were described as a bit heavy overall, but most merchants were still comfortable with their position, and continued to express a positive near-term outlook.

Real Estate

Beige Book reported that single-family home construction and sales were near 2005 levels in most parts of the District. However, Florida reports noted slowing in both construction and sales in April and May. Inventories of homes for sale in Florida remained higher than at the same time last year. In addition, Florida condominium sales continued to weaken with several project cancellations reported. Some parts of Katrina-damaged areas in Mississippi noted a modest improvement in residential construction activity, and some demolition work had begun in the New Orleans area.

Gradually declining vacancy rates and positive absorption indicated healthy demand in nonresidential real estate markets across the District. However, construction had only picked up modestly according to most contacts. The pace of nonresidential redevelopment in hurricane-hit areas remained modest, although some parts of the Mississippi coast were further along.

Table 7 - New Privately Owned Housing Units Authorized—
Unadjusted Units by Metropolitan Area—YTD June 2006

	Total	1 Unit	2 Units	3-4 Units	5 Units or more	Structures w/more than 5 units
Atlanta-Sandy Springs-Marietta, GA	38,693	30,795	102	296	7500	229

Source: U.S. Census Bureau

Employment and Prices

Contacts continued to report tight labor markets in many Sixth District areas. A growing number of employers expressed difficulty in attracting new employees to South Florida, reportedly because of housing affordability issues. A shortage of housing has also hampered labor availability in the Gulf Coast region.

Most reports noted continuing upward price pressures, especially for building materials and energy-related goods. Builders reported that prices for concrete, steel, copper, and zinc continued to move higher. High crude oil prices have pushed up the costs of petroleum-based goods such as PVC, roofing, and asphalt. Several contacts in coastal areas noted higher insurance costs. Despite these pressures, however, the ability to pass on higher costs to customers remained mixed. Slowing demand and strong competition were the most often cited reasons for not being able to raise prices.

Table 8 shows the number of Plumbers and HVAC Installers employed in the Atlanta-Sandy Springs-Marietta, GA Metropolitan Statistical Area (MSA) as reported by the U.S. Department of Labor/Bureau of Labor Statistics, and their relative wages.

Table 8– Plumbers, Pipefitters, and Steamfitters Atlanta-Sandy Springs-Marietta, GA MSA, May 2006					
Occupation	**Employment**	**Hourly mean wage**	**Annual mean wage**	**Hourly median wage**	**Annual median wage**
Plumbers, Pipefitters, and Steamfitters (472152)	5390	$19.32	$40,180	$18.57	$38,620

Source: U.S. Department of Labor/Bureau of Labor Statistics

Outlook

Looking forward, the construction and engineering industry in the United States is expected to accelerate from its current value growth position. With an anticipated CAGR of 5 percent in the 2005 to 2010 period, the market is expected to reach a value of $611.5 billion by the end of 2010. The significant amounts of reconstruction necessary in the wake of the hurricane season of 2005 will increase revenues for companies operating within this industry, as will enhanced state funding for transport infrastructure construction.

Table 9-United States Construction & Engineering Industry Value Forecast		
Year	Billions of Dollars	Percentage Change
2005	479.3	6.1%
2006	502.4	4.8%
2007	524.9	4.5%
2008	550.4	4.9%
2009	580.8	5.5%
2010	611.5	5.3%
CAGR, 2005-2010: 5.0%		

Source: Datamonitor

According to Woods and Poole earnings in the construction sector are expected to increase 10.5 percent from $9.6 million in 2005 to 10.6 million in 2010. Total employment in the construction sector is expected to increase 8.2 percent from 2005 to 2010.

High prices for metals and other raw materials, continuing consolidation of suppliers and more green building initiatives were some of the trends that affected the plumbing industry in 2006. Overall, plumbing contractors and manufacturers were optimistic about 2006, although slowing in the residential housing sector began to affect the industry by the close of 2006.

Table 10 - 2006 Housing Outlook (Percent change from previous year)				
Sector	**2004**	**2005**	**2006**	**2007**
Residential construction	10.3%	7.4%	-0.6%	0%
Housing starts	5.2	5.8	-7	3.4
Existing Home sales	9.7	4.7	-3.7	1.5
New single-family sales	10.8	7	-4.8	1.1
Single-family sales unit	6.6	6.6	-8	0.4
Multifamily unit sales	-0.9	2.2	-2.1	16.7

Sources: National Association of Realtors, Contractor magazine

It is expected that contractors and all market suppliers will operate well below capacity for several more years, which will keep home prices declining into next year. Starts are expected to return to a pace near 1.500 million by late 2008 and then gradually rise as the surplus of available homes is absorbed. Expect the surplus to be bigger than now reported. The housing decline is most severe in the Southeast, Southwest and the declining manufacturing centers in the Midwest.

The decline in new residential construction spending is expected to be largely complete this fall after a 21-month, 30 percent drop. The sub-prime mortgage collapse is now reducing the ability of banks to lend to the broader economy. This will keep the housing markets shrinking slowly for at least several more months as home sale prices continue to decline. No significant improvement is expected until well into 2008, when the current surplus inventory will have shrunk enough to stop the decline in home prices.

Job prospects for heating, air-conditioning, and refrigeration mechanics and installers are expected to be excellent. A growing number of retirements of highly skilled technicians are expected to generate many job openings. As the population and stock of buildings grows so will the demand for residential, commercial, and industrial climate-control systems. It is expected that the increased complexity of HVACR systems, increasing the possibility that equipment may malfunction, will also create opportunities for service technicians.

Demand for plumbing fittings is projected to grow 2.0 percent per year from 2005 to $5.1 billion in 2010. Advances will be aided by healthy gains in residential and nonresidential repair and improvement of kitchens and bathrooms. Additionally, accelerating growth in nonresidential construction spending is expected to bolster demand for fittings through 2010. Product developments -- such as a broader palette of finishes, electronic functionality and universally accessible control design -- will also help generate demand for plumbing fittings. Nevertheless, gains will be limited somewhat by a weak new housing environment, highlighted by an expected decline in single-family housing completions over the forecast period. The lavatory fittings and kitchen and other sink fittings sub-segments are both expected to advance at an above-average pace of 3.3 percent per annum through 2010, boosted by favorable repair and improvement expenditures. In addition, gains for lavatory fittings will be supported by the growing popularity of dual lavatories in master bedroom suites, while kitchen and other sink fittings will benefit from product enhancements and consumer trends toward higher-end fittings. ADA accessibility products are also forecast to exhibit strong growth over the forecast period.

According to the U.S. Bureau of Labor Statistics (BLS), employment of pipe layers, plumbers, pipe fitters, and steamfitters is expected to grow about as fast as average (9 to 17 percent increase) for all occupations through the year 2014. Demand for plumbers will stem from new construction and building renovation. Bath remodeling, in particular, is expected to continue to grow and create more jobs for plumbers. In addition, repair and maintenance of existing residential systems will keep plumbers employed. Demand for pipe fitters and steamfitters will be driven by maintenance activities for places having extensive systems of pipes, such as power plants, water and wastewater treatment plants, office buildings, and factories. Growth of pipe layer jobs will stem from the building of new water and sewer lines and pipelines to new oil and gas fields. Demand for sprinkler fitters will increase due to changes to State and local rules for fire protection in homes and businesses.

The BLS predicts job opportunities should be excellent in the plumbing profession because not enough people are seeking training. Pipe layers, plumbers, pipe fitters, and steamfitters make up one of the largest and highest paid construction occupations.

Overall, as residential construction has slowed, HVAC and plumbing contractors have begun to move into light commercial or service companies where demand has remained strong.

Appendix A. Top Industry Leaders--Table

Top Industry Leaders Percentage of HVAC Work						
COMPANY NAME	**Annual HVAC Vol. (in $ millions)**	**No. HVAC Employees**	**New Construction**	**Retrofit/ Renovation**	**Service**	**Area**
Emcor Group, Inc. Norwalk CT	$1,848	14,095	68%	24%	8%	Nationwide
Comfort Systems, Houston, TX	$820	5,863	54%	30%	16%	Nationwide
ACCO Engineered Systems, Glendale, CA	$365	1,800	65%	30%	15%	West Coast
Southland Industries, Irvine, CA	$285	1,456	55%	37%	8%	CA, NV, CO, HI, and Mid-Atlantic
TD Industries, Dallas, TX	$160	900	40%	30%	30%	TX, AZ
Hill Mechanical Group, Chicago, IL	$152	716	58%	35%	7%	Northeast IL
Brandt Engineering, Dallas, TX	$130	900	65%	35%	10%	TX, OK, LA, NM
Coastal Mechanical Services, Melbourne, FL	$103	NR	56%	11%	33%	Southeast US
John W. Danforth Co., Tonawanda, NY	$102	429	30%	62%	8%	Central/ Western NY
Ivey Mechanical Company, Kosciusko, MS	$100	700	65%	20%	15%	Nationwide
University Marelich Mechanical, Anaheim, CA	$100	400	95%	5%	0%	S. California
A.O. Reed & Co., San Diego, CA	$92	450	55%	30%	15%	S. California
Hill York & Associated Companies, Ft. Lauderdale, FL	$81	450	65%	20%	15%	S. Florida
Way Holding Ltd.,	$73	322	77%	11%	12%	TX, OK

Top Industry Leaders Percentage of HVAC Work						
Houston TX						
Lee Company, Franklin, TN	$70	500	60%	20%	20%	Construction: Nationwide Service: Mid-TN
MacDonald-Miller Facility Solutions, Seattle WA	$70	390	48%	35%	17%	Western WA/ N. Oregon
Critchfield Mechanical Menlo Park, CA	$68	400	85%	15%	0%	CA, NV, HI
Environmental Air Systems, Greensboro, NC	$62	550	60%	30%	10%	Southeast
Charles E. Jarrell Contracting, Earth City, MO	$57	305	55%	30%	15%	St. Louis, Western IL
Martin Petersen Co., Kenosha, WI	$52	240	60%	20%	20%	Chicago to Milwaukie