T. A. ATWOOD COMPANY

Bill Spears is a member of T.A. Atwood's Board of Directors. You work for Mr. Spears. Mr. Spears is Atwood's outside corporate attorney. As a member of the board, Mr. Spears has received a proposal by Mr. Atwood (dated Jan. 10, 2007) to acquire hauling equipment eliminating the need for outside hauling services. Mr. Atwood has requested that the board review the proposal and make recommendations. Mr. Spears has asked you to draft the memo to Mr. Atwood on his behalf.

Recommendation

Based upon the analysis that follows, we believe that the purchase of ten tractor-trailer rigs that will eliminate outsourcing of our asphalt hauling is worthwhile. As shown on Exhibit One in the first year of the project profits will increase by 15% (relative to 2006) and will generate net cash inflows.

Bringing asphalt hauling in-house will also provide us greater control over our own operations. We estimate that an additional $700,000 in annual revenue is likely providing 90,000 pre-tax profits from jobs we currently turn down due to scheduling difficulties with our current contract carrier.

Investment Being Considered

The investment involves the acquisition of liquid asphalt transportation equipment used in paving projects. The liquid asphalt is supplied by American Oil Company's facility in Wilmington, North Carolina. For the past six years, we have been using a contract carrier, E. C. Whitfield, to pick up the liquid asphalt from American Oil in Wilmington and deliver it to our storage facilities near Winston-Salem. E. C. Whitefield provides this hauling service for a number of contractors and has a fleet of specialty tractors and trailers. Their heated trailers keep the asphalt from solidifying and have a capacity of 6,000 gallons. A rig (tractor and trailer) can make two hauls in a day. We paid E. C. Whitfield $1,050,000 last year for hauling services.

Equipment Cost

Based upon a review of several vendors (data is available for your review) we have selected Cummins Corporation as the vendor that can best meet our equipment needs. These prices are predicated upon purchasing 10 tractors and trailers. The price of per rig is as follows:

Tractor	$51,540
Trailer	21,136
Maintenance Equip.	6,725
Total	$79,401

Based upon the analysis of Atlas Consulting Group our expected operating costs are as follows.

Operating Costs

1. *Drivers' Wages*

   Drivers will be full-time. Runs on weekends will be paid at overtime rates (time and one-half). Based upon our research, labor cost per rig is estimated to be $45,100 per annum. There is a sufficient labor pools to meet our needs.

2. *Maintenance*

   Annual maintenance cost of $3,800 per rig is based upon information obtained from Roadway Express and Pilot Freight historical averages for comparable equipment. This figure included both scheduled and unscheduled maintenance. Maintenance expense per rig will generally increase four to six percent per annum. With proper maintenance, the rigs should have a useful life of eight to twelve years.

3. *Insurance*

   Annual insurance premiums of $2,000 per unit are estimated by C.C. Insurance Agency. After five years, insurance premiums will increase by 25% per unit.

4. *Fuel*

   Cost per annum is based upon the Cummins' test run that indicated a consumption of 6.14 miles per gallon. A cost of $3.60 per gallon includes the road tax. The fuel cost, therefore, was $112.60 per trip times 373 trips per year for a total annual cost of $42,000 per rig.

Financing

We prefer to purchase the rig through an equipment loan. Because the equipment represents adequate security for such a loan, it would have little or no effect on the company's existing loans and would not affect the ability to finance other projects. We can borrow up to 80% of the equipment cost from Ford Motor Credit at annual rate of 6% for a 7-year loan with monthly payments. We plan to borrow 75% of the equipment cost.

Other Considerations

Our policy is to depreciate equipment of this type on a straight line basis for both tax and reporting purposes. IRS allows for a seven-year depreciation life.

In the course of considering the possibility of doing the hauling in-house, we discussed the matter with Ed Whitfield, the president of E.C. Whitfield. Whitfield expressed concern over the prospect of losing all or most of the business since it represented substantial volume and profits. Ed offered us a three-year fixed price contract at our current cost as incentive from doing the hauling in-house. If we decide to acquire our own rigs, Ed will handle our overflow needs. Based upon the expected number of trips our overflow needs will be approximately $25,000 per annum.

Background on the Company

Two brothers founded T. A. Atwood in 1987. Over a period of years, the company became one of the leading contractors in North Carolina specializing in highway construction, paving and landscaping. One of their larger projects was the construction of a section of Interstate 40. In the early nineties, the recession in the construction industry and some ventures into real estate projects had caused substantial cash flow problems for the company. The firm operates in eight counties with the Winston-Salem area representing over 60% of their business.

Jon Atwood assumed overall operating responsibility in 2005. In 2006, the firm borrowed $1 million @5.5% and purchased Sam Atwood’s 50% ownership interest for $1.3 million providing Jon with 100% ownership of the company. Exhibit 2 provides summary balance sheets and income statements for years 2004 through 2006.

EXHIBIT ONE
FINANCIAL ANALYSIS SUMMARY

Gross Profit from Additional Revenue		90,000
Savings From Present Hauling Costs		1,050,000
Outside Loads		25,000
Driver Wages		451,000
Maintainence		38,000
Insurance		20,000
Fuel		420,000
Interest Expense		35,730
Depreciation		102,087
Change in Pre-tax Income		48,183
Taxes @ 40%		19,273
After tax Income		28,910
Add Back Depreciation		102,087
First Year Cash Flow		130,997
First Year Cash Flow	**130,997**	
Annual Principal Payment	**85,073**	
Net Cash Flow In Year One	**45,924**	

EXHIBIT TWO
SUMMARY FINANCIAL STATEMENTS

($000)	2006	2005	2004
Cash	155	416	378
Accounts Receivable	1,115	985	908
Inventory	177	150	144
Other Current Assets	154	50	100
Total Current Assets	1,601	1,601	1,530
Land	86	78	70
Building	270	246	220
Equipment	3,358	3,064	2,779
Gross Fixed Assets	3,714	3,388	3,069
Accumlated Depreciation	2,341	2,136	1,906
Net Fixed Assets	1,373	1,253	1,163
Total Assets	2,974	2,854	2,693
Current Maturities of LTD	115	38	42
Accounts Payable	699	625	569
Customer Advances	101	110	91
Other Current Liabilities	76	105	65
Total Current Liabilites	991	878	767
Long-term Debt	975	160	200
Common Stock	229	458	458
Retained Earnings	779	1,358	1,268
Shareholders Equity	1,008	1,816	1,726
Total Liabilities & Equity	2,974	2,854	2,693
($000)	**2006**	**2005**	**2004**
Revenue	9,943	8,875	8,087
Cost of Revenue	8,812	7,935	7,150
Gross Profit	1,131	940	937
Selling Expense	325	315	290
Interest Expense	60	54	49
Administrative Expense	425	390	350
Pre Tax Income	321	181	248
Taxes	125	75	95
After Tax Income	196	106	153