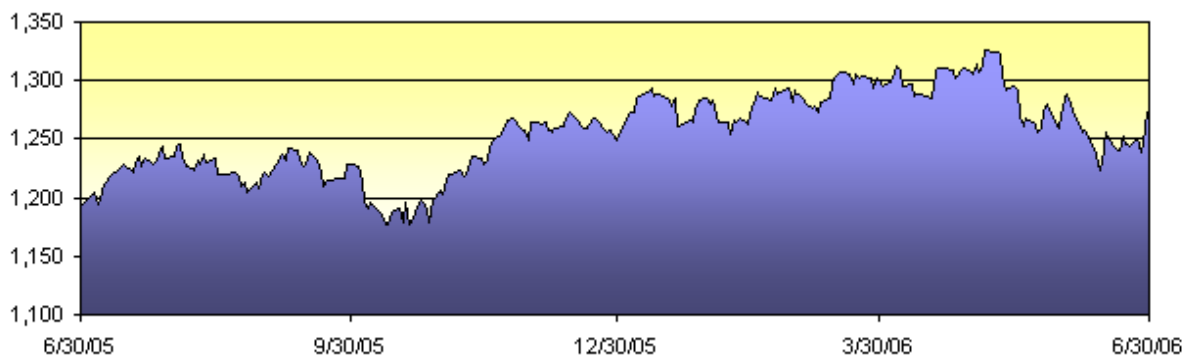


VALUE Quarterly is VALUE Incorporated's quarterly market review. VALUE Incorporated provides consulting services focused on the valuation of businesses, securities, intellectual property and assets for transaction, reporting and litigation purposes.

The second quarter of 2006 included a number of economic indicators turning down, including housing starts, durable goods orders and consumer confidence. The Dow Jones Industrial Average peaked on May 10 at 11,642, before retreating 8.0% to 10,706 on June 13 and closing at 11,150 for the quarter. The Federal Reserve raised its Fed Funds rate target to 5.25%, and meets again on August 8. August Fed Funds futures are currently predicting a 44.0% chance of a 25bp target rate hike. Gasoline prices rose again to an average of \$2.89 for regular unleaded nationwide. West Texas Crude rose to \$73.93 per barrel, an 11.0% increase for the quarter. Notably, computer memory prices rose 12.1% for the quarter.

**S&P 500**

<u>Year Ended 3/31/06</u>		<u>Quarter Ended 3/31/06</u>		<u>As of 3/31/06</u>	
12-Mo. Low	1,176.8	3-Mo. Low	1,176.8	Current Level	1,270.2
12-Mo. High	1,325.8	3-Mo. High	1,325.8	30-Day Avg.	1,256.3
12-Mo. $\Delta$	6.6%	3-Mo. $\Delta$	-1.9%	200-Day	1,262.1



<u>As of 6/30/05</u>		<u>As of 3/31/06</u>		<u>As of 6/30/06</u>	
Price to Earnings	18.87	Price to Earnings	17.97	Price to Earnings	17.01
Price to Book	2.78	Price to Book	2.83	Price to Book	2.73
Price to Sales	1.44	Price to Sales	1.47	Price to Sales	1.41
Dividend Yield	2.1%	Dividend Yield	1.8%	Dividend Yield	1.9%

**U.S. Stock Market Indices**

	<u>Current</u>	<u>30-Day Avg.</u>	<u>200-Day</u>	<u>Quarterly <math>\Delta</math>:</u>	<u>12-Month <math>\Delta</math>:</u>
S&P Barra Value Index	681.9	672.4	661.5	0.0%	10.1%
S&P Barra Growth Index	586.7	582.1	597.1	-3.8%	3.3%
Dow Jones Industrial Avg.	11,150.2	11,039.0	10,905.6	0.4%	8.5%
Russell 1000 Index	691.8	683.9	687.0	-2.1%	7.1%
Russell 2000 Index	724.7	704.1	704.5	-5.3%	13.3%
CBOE SPX Volatility Index	13.1	17.1	13.1	14.8%	8.6%

## U.S. Stock Market Sectors

Standard & Poor's 500:	Current	30-Day Avg.	200-Day	Quarterly $\Delta$ :	12-Month $\Delta$ :
Aerospace & Defense	342.4	339.6	319.3	0.8%	17.2%
Airlines Index	156.0	151.2	155.2	-9.0%	14.1%
Automobiles Index	107.2	99.0	101.5	9.1%	-13.6%
Chemicals Index	228.8	224.7	224.2	-1.0%	4.4%
Computers	364.5	373.2	392.6	-9.7%	0.8%
Div. Financials Index	680.3	677.4	663.2	-2.0%	16.8%
Energy Index	420.4	399.4	395.7	3.8%	22.5%
Food/Staples Retail	187.8	182.2	180.4	2.4%	1.4%
Health Care Index	350.7	349.9	363.0	-5.4%	-2.6%
Insurance Index	345.2	345.3	352.2	-1.6%	7.9%
Real Estate Index	146.4	142.0	137.1	-1.4%	15.3%
Software Index	441.7	430.0	476.4	-10.7%	-4.5%
Semiconductor & Equip.	340.5	340.9	380.1	-8.9%	-9.0%

Standard & Poor's 500:	6/30/2006		3/31/2006		6/30/2005	
	Price to		Price to		Price to	
	Earnings	Sales	Earnings	Sales	Earnings	Sales
Aerospace & Defense	19.1	1.1	20.2	1.1	20.5	1.0
Airlines Index	24.1	1.6	25.7	1.9		0.5
Automobiles Index		0.1		0.1	22.0	0.1
Chemicals Index	13.9	1.3	14.4	1.3	15.6	1.3
Computers	20.7	1.4	24.1	1.5	22.3	1.4
Div. Financials Index	13.0	1.8	14.3	1.9	13.8	1.9
Energy Index	10.7	1.0	11.1	1.1	11.8	1.1
Food/Staples Retail	20.4	0.6	20.2	0.5	22.0	0.6
Health Care Index	19.5	1.7	22.6	1.8	25.3	1.9
Insurance Index	15.0	1.3	15.6	1.3	12.3	1.2
Real Estate Index	47.7	5.7	53.9	5.4	55.3	5.2
Software Index	22.0	5.2	25.5	6.1	24.1	5.9
Semiconductor & Equip.	19.2	3.2	21.6	3.6	23.7	3.8

## Macro-Economic Indicators

	Money Supply (M2)	New Orders (Durables)	Housing Starts	Consumer Confidence	Personal Income	GDP (Chain Wtd.)	CPI-U
	6/19/2006	5/31/2006	5/31/2006	5/31/2006	5/31/2006	3/31/2006	5/31/2006
Quarterly $\Delta$ :	0.7%	-4.9%	-0.8%	-2.6%	1.1%	1.4%	1.8%
12-Month $\Delta$ :	4.7%	3.3%	-3.8%	1.6%	5.4%	3.7%	4.3%

### Interest Rates (June 30, 2006)

	1-Year	5-Year	10-Year	20-Year	30-Year
US Treasury	5.33%	5.15%	5.25%	5.35%	5.27%
AA Corporate	5.59%	5.66%	5.95%	6.11%	6.04%
A Corporate	5.74%	5.87%	6.13%	6.50%	6.52%
B Corporate	6.89%	7.87%	8.40%	8.63%	8.64%

### Interest Rates (March 31, 2006)

	1-Year	5-Year	10-Year	20-Year	30-Year
US Treasury	4.88%	4.82%	4.92%	5.02%	4.89%
AA Corporate	5.11%	5.28%	5.58%	5.77%	5.69%
A Corporate	5.27%	5.52%	5.78%	6.11%	6.12%
B Corporate	6.06%	7.19%	7.71%	7.97%	7.91%

**Federal Reserve Watch**

Current Rate (Overnight)	5.25%
Current Target (6/29/06)	5.25%
Next Meeting	8/8/2006
Fed Funds Futures (Aug.)	5.36%

**US Dollar LIBOR Rates**

	6/30/2006	3/31/2006
7-Day	5.32%	4.81%
1-Month	5.33%	4.83%
3-Month	5.48%	5.00%
6-Month	5.59%	5.14%

**Top Quarterly Merger and Acquisition Announcements**

Date	Target	Acquirer	Offer (\$MMs)
5/29/06	Kinder Morgan Inc.	consortium	\$ 26,526.5
5/ 7/06	Golden West Financial Corp.	Wachovia Corp.	24,602.9
6/23/06	Kerr-McGee Corp.	Anadarko Petroleum Corp.	18,355.7
6/26/06	Pfizer Consumer Healthcare	Johnson & Johnson	16,600.0
4/ 2/06	Lucent Technologies Inc.	Alcatel SA	14,443.5
6/27/06	Univision Communications	consortium	12,605.5
5/ 8/06	Fisher Scientific Intl. Inc.	Thermo Electron Corp.	11,352.8
5/25/06	AmSouth Bancorporation	Regions Financial Corp.	10,167.4
5/ 1/06	Aramark Corp.	management group	7,756.2
4/ 3/06	General Motors Acceptance	consortium	7,400.0
6/ 5/06	Trizec Properties Inc.	Brookfield Properties Corp.	6,699.1
5/ 3/06	Warner Music Group Corp.	Emi Group Plc.	6,440.5
6/23/06	Western Gas Resources Inc.	Anadarko Petroleum Corp.	5,217.3
5/ 2/06	CNL Retirement Properties Inc.	Health Care Pptys Invest Inc.	5,166.6
6/30/06	Travelport	Blackstone Group	4,300.0
5/31/06	West Corp.	investor group	3,713.7
4/25/06	Conwood Co. LP	Reynolds American Inc.	3,500.0
6/12/06	Maverick Tube Corp.	Tenaris SA	2,822.2
4/17/06	Aztar Corp.	Columbia Sussex Corp.	2,685.1
6/12/06	Pacific Energy Partners LP	Plains All Amer Pipeline LP	2,408.9

**Currency & Commodity Spot Prices**

	Current (\$)	Quarterly $\Delta$ : 12-Month $\Delta$ :	
Euro Spot	\$ 1.28	5.5%	5.6%
Japanese Yen Spot	114.47	-2.8%	3.2%
Gold Spot \$/oz	615.05	5.4%	41.2%
Silver Spot \$/oz	11.10	-3.6%	57.4%
DRAM (computer memory) Price Index	3,361.80	12.1%	9.3%
Bloomberg West Texas Intermediate	73.93	11.0%	29.1%
U.S. Average Gasoline Price	2.89	12.0%	30.8%
USDA Cattle	83.20	-0.3%	3.5%
USDA Middling Grade Cotton	52.29	-3.9%	-4.9%

Source: Bloomberg LP

## Ask VALUE...

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**Question:**

What am I required to do to comply with the valuation requirements under the new Section 409A of the Internal Revenue Code?

**Answer:**

Section 409A changes the burden of proof in determining whether an option has been granted at a price less than fair market value. The IRS has expressed its intent to honor reasonable valuation conclusions reached under any of three "safe harbor" methods.

1. A determination of value by a qualified independent appraiser as of a date no more than 12 months before the transaction date.
2. A determination of value evidenced by a written report prepared by a person "with significant knowledge and experience or training in performing similar valuations." Certain factors (e.g., tangible and intangible assets, present value of future cash flows, etc.) must be addressed in the written report.
3. Subject to certain restrictions, some emerging growth companies may base their valuations on a non-lapse restriction ("buy/sell agreement"), which requires the transferee to sell such common stock only at a formula price based on book value, a reasonable multiple of earnings, or a reasonable combination thereof.

The restrictions on the use of these safe harbors may depend upon your company's specific circumstances. We recommend you seek the advice of a qualified professional.

-Travis Keath, CFA CPA  
Principal, VALUE Incorporated

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To submit a question for an upcoming VALUE Quarterly, please contact us via email or call us directly.

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