



**IN THE CIRCUIT COURT OF
JEFFERSON COUNTY, ALABAMA**

STATE OF ALABAMA, ex rel,)
WALTER A. BELL, as Commissioner)
of Insurance.)
)
Plaintiff,)
)
v.)
)
BOOKER T. WASHINGTON)
INSURANCE CO., INC., an Alabama)
Corporation)
)
Defendant.)

Civil Action No. CV-2006-01083

**HEARING IS SET FOR
APRIL 17, 2007 AT 9:00 A.M.**

MOTION TO APPROVE REHABILITATION PLAN

COMES NOW Denise B. Azar, in her capacity as Receiver for Booker T. Washington Insurance Company, Inc., and files this Motion to Approve the Rehabilitation Plan for Booker T. Washington Insurance Company, Inc., attached hereto and incorporated herein by reference.

Respectfully submitted this the 16th day of March, 2007.



Robert F. Northcutt (NOR015)
C. Clay Torbert III (TOR006)

Attorneys for Denise B. Azar,
Chief of the Receivership Division of the
Alabama Department of Insurance

OF COUNSEL:
CAPELL & HOWARD, P.C.
150 South Perry Street (36104)
P.O. Box 2069
Montgomery, AL 36102
Telephone: (334) 241-8000
Facsimile: (334) 241-8282

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing to counsel of record listed below by electronic filing or by placing a copy of same in the United States mail, postage prepaid and properly addressed on this the 16th day of March, 2007:

Joseph S. Bluestein, Esq.
Sirote & Permutt, P.C.
P. O. Box 55727
Birmingham, AL 35255-5727

Jack B. Levy, Esq.
Balch & Bingham L.L.P.
PO Box 306
Birmingham, AL 35201-0306



OF COUNSEL



**IN THE CIRCUIT COURT OF
 JEFFERSON COUNTY ALABAMA**

STATE OF ALABAMA, EX REL.)	
WALTER A. BELL, as Commissioner)	
of Insurance)	
)	
Plaintiff,)	
)	CIVIL ACTION NO. CV-2006-01083
v.)	
)	
BOOKER T. WASHINGTON)	
INSURANCE CO., INC., an)	
Alabama corporation,)	
)	
Defendant.)	

REHABILITATION PLAN

On February 22, 2006, this Court issued a Consent Order of Rehabilitation, Permanent Injunction, Appointment of Receiver, and Other Relief for Booker T. Washington Company, Inc. (BTW). In that order, the Court stated the Receiver "...shall continue to operate the business of BTW with the purpose of rehabilitating, conserving and preserving said company under the present and further order and direction of the Court;...shall proceed to collect any and all debts due said company and shall recommend to the Court reasonable remedies to the causes and conditions which have made receivership necessary, if such remedies exist and are feasible." Court Order, paragraph 6. With the assistance of BTW management and consultants, the Receiver has identified several areas where changes and improvements may lead to the rehabilitation of the company, and submits the following plan to move BTW toward a successful rehabilitation.

As stated in the Receiver's Report to the Court filed August 18, 2006, the Receiver employed a Certified Public Accountant firm and an Actuarial firm to assist the Receiver in auditing BTW and its subsidiaries. The audits will provide information to assist the Receiver in filing required financial statements with the Department of Insurance, the Court, and any other regulatory entities.

Before member of the CPA firm can complete the audit of BTW, they must finish testing the life and policy loan masterfiles and verify ending loan balances. The masterfile testing is time-consuming because some application files are missing, and the resolution to this problem involves contacting policyholders directly to confirm information in masterfiles. The Receiver, BTW management

and the CPA firm are working together to reach a satisfactory resolution to these outstanding matters as soon as possible.

The actuarial firm issued its report on February 2, 2007. Based on the actuarial report and the information gained thus far from the accountants, the Receiver is prepared to request approval of a rehabilitation plan at this time.¹ The Receiver believes a plan for rehabilitation (as opposed to requesting a liquidation order) is appropriate because BTW's assets are capable of producing capital at a level not previously realized by the company. In addition, several individuals have contacted the Receiver to express their interest in the purchase of BTW and/or its subsidiaries. Other individuals have expressed an interest in various types of reinsurance agreements to assist the company in its rehabilitation. Therefore, the Receiver would like to pursue a rehabilitation plan that incorporates both a recognition and realization of the existing assets, and the potential for sale or reinsurance of some or all of BTW's insurance business.

HISTORY OF BOOKER T. WASHINGTON INSURANCE COMPANY AND ITS MAJOR AFFILIATES

A. Booker T. Washington Insurance Company

BTW was founded by the late Dr. A. G. Gaston in 1923 and later incorporated on December 22, 1931. Dr. Gaston started the company by offering members of local churches a policy that would provide funds for their funerals and relieve their fellow church members from the responsibility of burial expenses after the individual's death.

Dr. Gaston remained chairman and Chief Executive Officer of BTW until 1987, when he sold the Company to its employees through an Employee Stock Ownership Plan (ESOP).

BTW operates in Alabama and Tennessee, with service centers in Birmingham, Montgomery and Mobile, Alabama, and in Brownsville and Memphis, Tennessee.

Immediately prior to the court-ordered rehabilitation, BTW issued the following non-participating whole life policies:

- a. Fifteen year pay
- b. Premium payable to age 65
- c. Premium payable for the lifetime of the insured

¹ This request is being made prior to completion of the CPA firm's audit report. In the event the final audit affects this plan, the Receiver will return to the court with an amended Rehabilitation Plan.

- d. Graded death benefits first two policy years, premium payable during the lifetime of the insured
In addition to the whole life policies, BTW offered health and accident insurance plans.

B. Universal Life Insurance Company

BTW purchased Protective Industrial Life Insurance Company (PiiCO) in April 2004. At that time, Universal Life Insurance Company (ULICO) was a wholly-owned subsidiary of PiiCO. PiiCO and ULICO merged in 2004, with ULICO becoming the surviving company.

ULICO is licensed to operate in the following states: Alabama, Arkansas, District of Columbia, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, and Texas. ULICO's license was suspended by the Tennessee Department of Insurance after BTW was placed into receivership, but Tennessee has agreed to allow ULICO to continue to service its policies and to reinstate policies, pursuant to the policy language.

C. New Grace Hill Cemetery, Inc.

New Grace Hill Cemetery, Inc., was purchased in 1946 to complement the services provided by BTW. The Corporation expanded its cemetery operations in 1964 by acquiring Zion Memorial Gardens.

D. A. G. Gaston Construction Company

A. G. Gaston Construction Company, Inc. was founded in 1984 by Dr. A.G. Gaston at the request of the Secretary of Housing and Urban Development and the Housing Authority of the Birmingham District. A. G. Gaston Construction Company has evolved from a General Contractor firm to a Program and Construction Management firm. It provides construction management services to projects undertaken by governmental agencies and commercial clients.

STATUS OF BTW SINCE LAST REPORT

Since the last report to the court, the Senior Vice President /Treasurer of BTW resigned and the Human Resources Director retired. The Receiver has employed two persons to fill these positions, and in addition, has hired a staff accountant to assist in the Accounting Division of BTW. In addition to fulfilling the day-to-day operations of the company, these persons are also assisting the Receiver and others in identifying the areas needing improvement within the company. As a result of a reduction in force due to terminations and

resignations, BTW is realizing an annual net decrease in salaries and benefits of over \$300,000.00.

Problems in the Information Systems Division and the Accounting Division were identified during the most recent Insurance Department examination, and were amplified while gathering information for the actuaries and accountants. The problems encompass incomplete and/or inaccurate system structure (which caused systemic calculation problems) and accounting inconsistencies between BTW and its affiliates. For example, BTW's and Universal Life Insurance Company's general ledger accounts are currently kept on two different and independent software systems, while policy administration is maintained on one system without segregation between the two companies. The Receiver, all senior management of BTW, and consultants are working to solve these problems to produce accurate information needed to report the business affairs of the company.

PLAN TO RESTRUCTURE AND ENHANCE THE EXISTING ASSETS OF BTW

The Receiver believes BTW's assets are capable of producing capital at a level not realized previously by the company. The Rehabilitation Plan, therefore, contains proposals for the sale of some of the assets, and for actions to be taken to increase the value of other assets.

A. Sale of Home Office Building

BTW owns a 57,101 square foot building (currently used as its home office) and an adjacent 163 space parking deck at 1728 3rd Avenue North, Birmingham, Alabama. In January 2006, BTW engaged Southpace Properties to market the building with a list price of \$4.6 million for the building and parking deck. Several persons or entities have expressed an interest in the property, but the Receiver has not received an offer she felt was adequate to submit to the Court for approval. BTW recently extended the agreement with Southpace Properties for an additional year. Exhibit "A" is the sales flyer prepared by Southpace Properties. Exhibit "B" is a January 2006 appraisal of the home office building prepared by Graham & Company.

Sale of the home office building will provide an immediate cash advantage to BTW because there is no mortgage on the building. Upon sale of this building, BTW plans to move into the building (Pythian Temple) located next door. A subsidiary of BTW (BTW Broadcasting Service) owns the Pythian Temple building, and therefore, relocation to this space will provide BTW sufficient office space, with little additional cost to the company.

B. Restructure and Enhancement of Non-Insurance Subsidiaries

BTW has several wholly-owned non-insurance subsidiaries. These are:

1. S&G Funeral Directors, which owns New Grace Hill Cemeteries, Inc. and S&G Public Relations
2. Gaston Construction Company, which owns 50% of Gaston-Thacker Partners,
3. BTW Broadcasting Service

See Exhibit "C," which sets out the corporate structure of these subsidiaries. S&G Funeral Directors, BTW Broadcasting Service, and S&G Public Relations are corporations which are no longer operational. The Receiver proposes to dissolve these corporations. The dissolution of these corporations will leave A. G. Gaston Construction Company and New Grace Hill Cemeteries as the remaining non-insurance subsidiaries of BTW. Because of outstanding matters involving Gaston-Thacker General Partners, A. G. Gaston Construction Company will continue to own 50% of that corporation, until the outstanding matters are resolved.

1. New Grace Hill Cemeteries, Inc.

New Grace Hill Cemeteries, Inc. (hereinafter referred to as NGH, Inc.) owns two cemeteries, New Grace Hill Cemetery and Zion Memorial Gardens. In the past, both cemeteries depended upon discounted cash flows by factoring pre-need contracts to meet their financial obligations. In addition, previous evaluations indicated there was little room for expansion at New Grace Hill Cemetery, and Zion Memorial Gardens would deplete its available grave spaces within one year of the evaluation. Further research has revealed there is room for future burials at both cemeteries.

a. Zion Memorial Gardens

Zion Memorial Gardens is in the process of developing a 6-acre tract it currently owns for new grave sites. An older cemetery (1800's) exists on part of the 6-acre tract. Coordination between state agencies, archaeologists and other land development professionals has resulted in a plan to successfully utilize this land for future burial sites. Engineering estimations state that approximately four of the six acres will be available for future burial plots that can be sold by Zion Memorial Gardens.

On October 16, 2006, this Court approved New Grace Hill Cemetery, Inc.'s plan to apply for a loan in the amount of \$400,000 to be used to develop this 6

acre tract of land. In November, 2006, First Tuskegee Bank issued to New Grace Hill, Inc. a letter of commitment regarding the loan of \$400,000. NGH, Inc. expects to close on the loan by March 30, 2007.

11-Acre tract of land at Zion Memorial Gardens

Zion Memorial Gardens currently owns approximately 11 acres of land across the street from the operational cemetery. Initially, the development of this land was cost-prohibitive because of drainage problems. Since that time, the Alabama Department of Transportation has agreed to purchase a portion of the 11 acre tract to create rights-of-way for the future widening of Tarrant-Huffman Road, which runs between the operational cemetery and the 11 acre tract of land. Because certain improvements will be made to the property when the State of Alabama completes its project, the cost prohibitive encumbrance will be removed.

Management for New Grace Hill, Incorporated will write a business plan for the development of the 11-acre tract of land. This tract of land should be reserved for future development and expansion of Zion Memorial Gardens.

Land adjacent to Zion Memorial Gardens

There is additional acreage adjacent to Zion Memorial Gardens that Zion Memorial Gardens may be able to purchase for further expansion. It is the recommendation of the Receiver to investigate the feasibility of obtaining the adjacent land for future burial sites.

b. *New Grace Hill Cemetery*

New Grace Hill cemetery owns approximately 2 acres of land adjacent to the existing cemetery property. Engineering estimations state that approximately all of the 2 acres is available for future expansion. Management for New Grace Hill, Incorporated will propose a business plan for the development of the 2-acre tract of land. This tract of land should be reserved for future development and expansion of New Grace Hill Cemetery.

Additional lots surrounding New Grace Hill Cemetery

Additional parcels of land surrounding New Grace Hill Cemetery appear to be unoccupied or abandoned. Preliminary work has been done in determining the neighborhood's perception of New Grace Hill Cemetery's expansion operation onto these parcels. Some parcel owners have stated to New Grace Hill management that they are willing to sell their property to New Grace Hill Cemetery in order for it to expand its operation.

Management for New Grace Hill Cemetery will conduct a feasibility study addressing the cost of expanding New Grace Hill Cemetery's property onto surrounding parcels of land. The feasibility study should specifically address acquisition of the land and the cost effectiveness of developing the parcels for future burial sites. If the conclusion of the feasibility study is conducive for expansion, management should write a business plan outlining the acquisition and development of additional parcels of land surrounding New Grace Hill Cemetery.

4. A.G. Gaston Construction Company

A. G. Gaston Construction Company, a wholly owned subsidiary of BTW, was founded in 1984 by Dr. A. G. Gaston to provide training/skills to tenants of the housing projects. Today, Gaston operates primarily as a Construction Management firm with diverse support capabilities.

The Receiver plans to expand Gaston's ability to bid on additional construction projects by obtaining a Disadvantaged Business Enterprise (DBE) certification, allowing Gaston access to numerous federal and state contract opportunities, which require a certain level of participation by DBE certified entities. Gaston has not been successful in obtaining DBE certification in the past, due to the corporate ownership of Gaston. In order to obtain this certification, Gaston proposes to sell 51% of the outstanding stock of Gaston to a qualifying minority individual. The Receiver has already received a valuation of 51% of the stock of Gaston, and has received an offer for 51% of the stock from a qualifying individual. At the appropriate time, the Receiver will request this Court and the Department of Insurance to approve the sale.

C. Sale or Reinsurance of Business

The Court order states the Receiver "...shall have authority to negotiate sales of property, blocks of BTW policyholders, or other assets of BTW when necessary or desirable, but if she shall receive an offer for same, before making a private or public sale, Denise B. Azar, as Receiver, shall report the terms of such offer to the Court for such action or approval as the Court may deem proper." Court Order, paragraph 7.

The Receiver has received numerous communications from persons and entities interested in purchasing or reinsuring BTW and its affiliates' book of business. The Receiver would like to employ consultant(s) to assist her in determining the benefit of any such transactions to BTW, and to advise her in soliciting proposals from interested parties at the appropriate time. This Rehabilitation Plan provides for transferring up to 100% of BTW's and/or

Universal Life Insurance Company's insurance contracts to a qualified bidder. After receipt of any such proposals, the Receiver will report the terms of the proposals to the court, and recommend a proposal to the court for approval.

Following the Court's preliminary approval of the Rehabilitation Plan, the Receiver will obtain an evaluation of the business from a qualified advisor and then invite interested parties to bid competitively for the transaction(s) determined to be in the company's best interest.

D. Sale of Excess Real Estate

Over the past few years, BTW and Universal have acquired over 90 parcels of real estate, primarily from foreclosing on mortgage loans and other investing activities. Due to the constraints of Statutory Accounting Principles, the value of these properties is not fully reflected in BTW's or Universal's financial statements. Selling these properties will allow the Company to reinvest the cash in liquid, marketable securities, and upon approval of this Plan, the Receiver will make every effort to market and sell these properties.

E. Strategic Partner

The Company and its subsidiary have approximately 200,000 policyholders in several southeastern states. The Company's current business is a home services based book of life insurance products, primarily targeted to African Americans to provide them adequate financial protection to meet their death and disability financial needs through the sale of life and health insurance. The Company believes a significant opportunity exists in the home services market to sell a variety of life insurance products to the growing African American market.

Studies demonstrate that while ownership of life insurance among African Americans is high (primarily burial or pre-need policies), many are underinsured and there are growing needs for other life insurance products as the total wealth of the African American market increases.

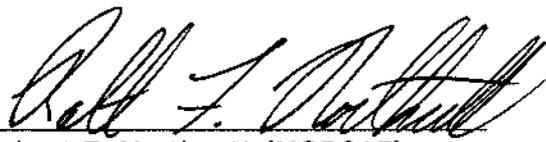
As one of the ten largest African American owned life insurance companies in the country, BTW is uniquely positioned to profit from the growing financial product needs in the African American community. A strategic partner that may serve a different segment of this market could provide BTW with a customer base and capital to help capture future sales opportunities. This "partnership" could take the form of a joint venture, a capital infusion to the Company or the outright purchase of the Company or business.

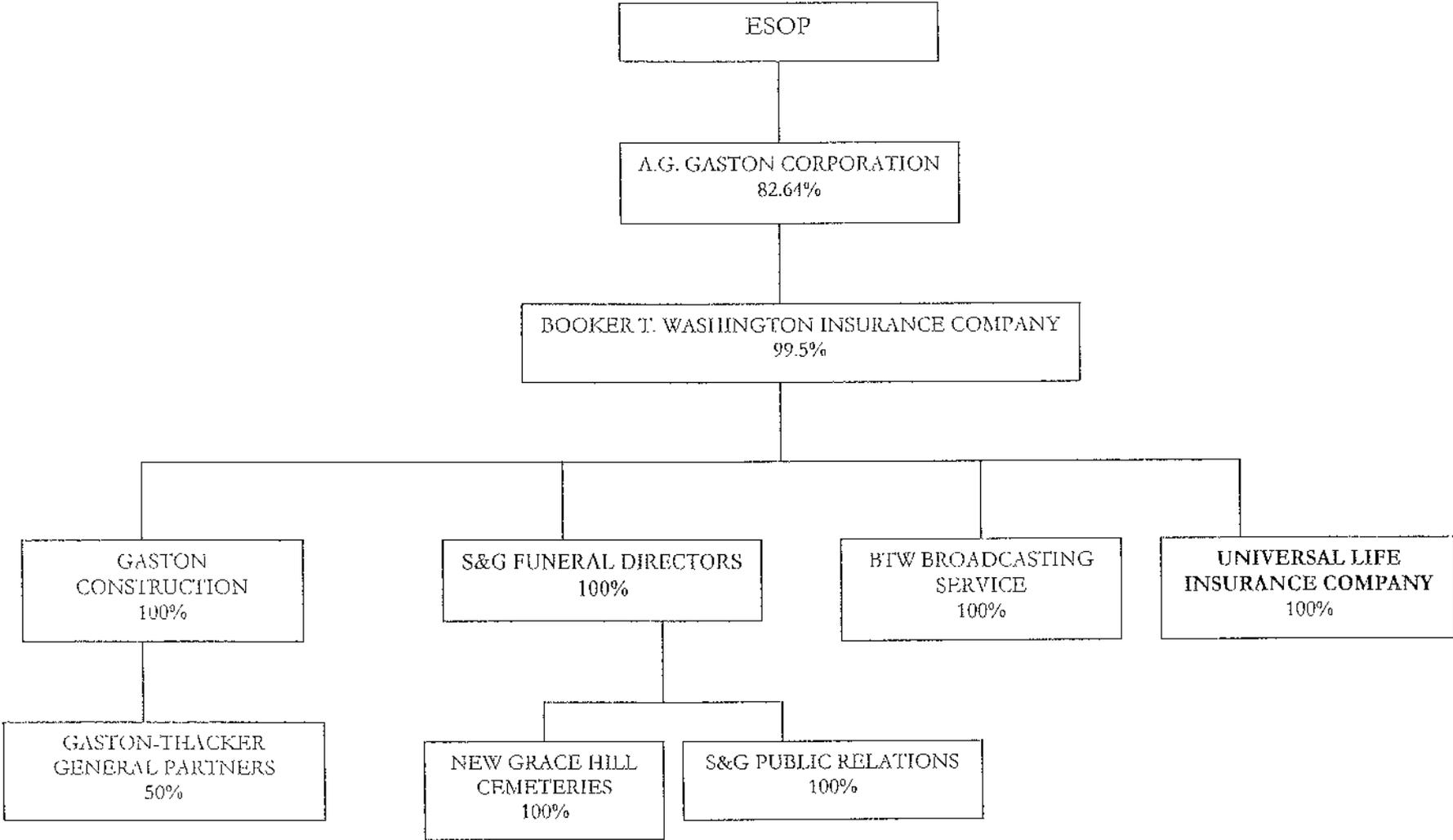
CONCLUSION

The Receiver respectfully requests this Court to set the Motion to Approve the Rehabilitation Plan for BTW for a hearing, with notice being sent to the appropriate parties. After such a hearing, the Receiver requests that the Court approve the Plan, with the Receiver continuing to report regularly on the status of the Plan, and to make additional requests to the Court as needed.

Respectfully submitted this the 16th of March, 2007.


Denise B. Azar
Receiver, Booker T. Washington
Insurance Company


Robert F. Northcutt (NOR015)
CAPELL & HOWARD, P.C.
150 South Perry Street (36104)
P O Box 2069
Montgomery AL 36102
Telephone: (334) 241-8000
Facsimile: (334) 241-8282



FOR SALE



1728 3RD AVENUE NORTH

Building size:

Approximately 57,101 +/- SF Office
Average Floor Size - 10,000 +/- SF

Property Type:

Professional Office

Parking:

163 space adjoining parking deck

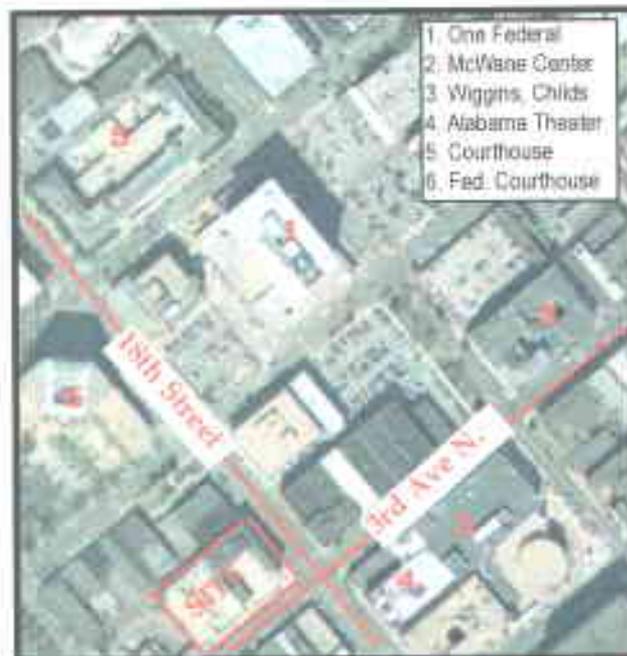
Sale Price:

\$3,100,000.00 - Building

\$1,500,000.00 - Deck

***Owner will not sell separately**

Appraisal available upon request



Southpace Properties, Inc.
300 North 21st Street
Suite 900
Birmingham, Alabama 35203
www.southpace.com



For More Information Contact:
John Lauriello, CCIM, SIOR
or
Blake Crowe, CCIM
205-326-2222

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2200 Woodcrest Place
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Mike Graham, CPM, SIOR
Sonny Culp, SIOR
Ogden S. Deaton, SIOR
Jack Key, SIOR
Dan Lovell, SIOR
J. Claude Tindle, SIOR, CRE
Jack Brown, SIOR
Walter H. Brown, Jr.
Thomas P. Krebes, FMA, RPA
Dorothy Wozny
Sam J. Carroll IV
Hayden L. Scott
Hayden Montgomery
Eric R. vonCannon
Larry Ethridge

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Industrial & Office Parks

Building Owners & Managers
Association International



Complete Analysis Summary Appraisal Report

FOR

Mrs. Josie Skanes, CFE, FLMI, ACS
Senior Vice President
Booker T. Washington Insurance Company
1728 3rd Avenue North
Birmingham, Alabama 35203

PROPERTY

Mid-Rise Office Building / Parking Deck
Booker T. Washington Insurance Building
1728 3rd Avenue North
Birmingham, Alabama 35203

Effective Date
January 17, 2006

Report Date
January 2006

GCI 2721

GRAHAM & COMPANY

Birmingham • Huntsville • Jacksonville, FL

January 20, 2006

Commercial Real Estate
Sales, Leasing, Management,
Development, Appraisals,
Consulting

Mrs. Josie Skanes, CFE, FLMI, ACS
Booker T. Washington Insurance Comapny
1728 3rd Avenue North
Birmingham, Alabama 35203

Graham & Company, Inc.
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Suite 210
Birmingham, Alabama 35209
Phone (205) 871-7100
Fax (205) 871-3331
www.grahamcompany.com

Re: Mid-Rise Office Building / Parking Deck
Booker T. Washington Insurance Building
1728 3rd Avenue North
Birmingham, Alabama 35203

Dear Ms. Skanes:

At your request, I have prepared the enclosed **Complete Analysis** submitted as a **Summary Appraisal Report**. This report will serve as an update to the previously completed appraisal in November 2004. A physical inspection of the subject property was made on November 3, 2004 by Steve Graham and Hayden Scott. As of January 2006, it was reported that no significant changes in the building have occurred since November 2004, our most recent inspection date. No current inspection has been made since there have been no significant changes in the building. This appraisal will have an effective date of January 17, 2006.

The property consists of two improvements, a mid-rise office building and a parking deck. The office building is a five-story building with a partially finished below grade level. The masonry building was constructed in 1928 and consists of 57,101 sf of finished gross building area on a site of 10,000 sf. A five-level staggered concrete parking deck adjoins the building and consists of 163 spaces on a site of 17,500 sf. As a parking deck, it is in good condition and is an appropriate use of the site for serving the adjoining office building and other public and private needs in the nearby blocks of the Birmingham CBD. It will, however, at best, constitute a limited market property in that the number of users/purchasers will be limited.

This appraisal was developed as a "Complete Analysis" in accordance with Standards Rule 1 of the Uniform Standards of Professional Appraisal Practice (USPAP). The appraisal is being reported as a "Summary Appraisal Report" in accordance with Standards Rule 2-2(b) of USPAP. We have incorporated the prior report by reference and the November 2004 must be consulted when cited.

Set out below in the accompanying appraisal report, the estimated "As Is" market value effective January 17, 2006, is reconciled at the below values:

Office Building: \$3,400,000
Parking Deck: \$1,500,000

Steve Graham, MAI, CRP
Mike Graham, CFM, SOR
Sonny Culp, SOR
Ogden S. Deaton, SOR
Jack Key, SOR
Dan Lovell, SOR
J. Claude Tindle, SOR, CRE
Jack Brown, SOR
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Association International



GRAHAM & COMPANY, INC.

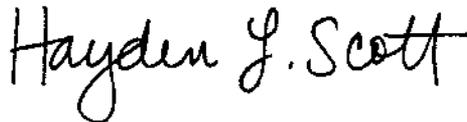
Mrs. Jose Skanes
Transmittal Letter
Page 2

Based on our observations of the market and discussions with sales agents, the probable marketing time for the office building is 8 to 12 months and 12 to 18 months for the parking deck, a limited market property.

Yours very truly,



Steven V. Graham, MAI
Member Appraisal Institute
Certified General Real Property Appraiser
Alabama Certificate No. G00140



Hayden L. Scott
Licensed Real Property Appraiser
Alabama Certificate No. L00279

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Exhibit 1: Qualifications of the Appraisers

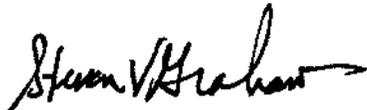
Certification
Steven V. Graham, MAI

I, the undersigned, do certify that with respect to the property identified as:

Mid-Rise Office Building / Parking Deck
Booker T. Washington Insurance Building
1728 3rd Avenue North
Birmingham, Alabama 35203

To the best of my knowledge and belief...

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased professional analyses, opinions, and conclusions.
- 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.
- I have no bias with respect to the property that is the subject of this report or to the parties involved in this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The use of this report is subject to the requirement of the Appraisal Institute relating to review by its duly authorized representatives.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.
- This assignment was made subject to regulations of the State of Alabama Real Estate Appraisers Board. The undersigned state certified appraiser has met the requirements of the Board that allow this report to be regarded as a certified appraisal.
- No one has provided significant professional assistance to the persons signing this report.
- The most recent physical inspection of the subject property took place in November 2004 by Steve Graham and Hayden Scott. According to representatives of the building owner, no changes have taken place since the time of previous inspection; thus, no recent inspection has been made.
- In my opinion, the "As Is" market value of the subject property, effective January 17, 2006 is estimated at \$3,400,000 for the building and \$1,500,000 for the parking deck.



Steven V. Graham, MAI
Certified General Real Property Appraiser
Alabama Certificate Number G00140

Certification
Hayden L. Scott

I, the undersigned, do certify that with respect to the property identified as:

Mid-Rise Office Building / Parking Deck
Booker T. Washington Insurance Building
1728 3rd Avenue North
Birmingham, Alabama 35203

To the best of my knowledge and belief...

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved in the assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the appraisal.
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Hayden L. Scott

Hayden L. Scott
Licensed Real Property Appraiser
Alabama Certificate Number L00279

Graham & Company, Inc.

General Limiting Conditions

1. The distribution, if any, of the total valuation in this report between land and improvements applies only under the state program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
2. The report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with proper written qualification and only in its entirety.
3. The appraiser herein by reason of this appraisal is not required to give further consultation, testimony or be in attendance in court with reference to the property in question unless arrangements have been previously made.
4. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of the appraiser.
5. This appraisal covers the property as described in this report, and the areas and dimensions as shown herein are assumed to be correct.
6. The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes with future conditions.
7. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
8. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of ADA could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible noncompliance with the requirements of ADA was not considered in estimating the value of the property.

General Assumptions

1. No responsibility is assumed for the legal description or for matters including legal or title consideration. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
5. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined and considered in the appraisal report.
9. It is assumed that all required license, certificates of occupancy, consents or other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimated contained in this report is based.
10. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.

EXECUTIVE SUMMARY

Report Type/Format: Complete Analysis; Summary Appraisal Report

Property Appraised: Mid-rise office building / Parking Deck
Booker T. Washington Insurance Building
1728 3rd Avenue North
Birmingham, Alabama 35203

Property Type: Office Building; Adjoining Parking Deck

Interest Appraised: Fee Simple Estate

Land Area:

Total Site Area	0.63 acres	27,500 sf
Building Site Area	0.23 acres	10,000 sf
Parking Deck Site	0.40 acres	17,500 sf

According to the Board of Equalization records, a portion of the parking deck is on the building's parcel. But, the improvements are assessed separately on individual parcels.

Improvements:

Building	57,101 sf
Floor 1	9,904 sf
Floor 2	9,904 sf
Floor 3	9,904 sf
Floor 4	9,904 sf
Floor 5	9,904 sf
Basement (Finished)	7,581 sf
Basement (Unfinished)	2,323 (not included in GBA)
Parking Deck	70,000 sf
	163 parking spaces

Please see improvement section of this report for a more detailed description of the improvements.

Tax ID #: 22-36-2-034-010.000 (Building); 22-36-2-034-009.000 (Parking Deck)

Highest and Best Use: Office; Parking

VALUE ESTIMATES:

	Office Building	Parking Deck
Land Value Indication	\$450,000	\$700,000
Cost Approach	\$3,100,000	\$1,500,000
Sales Comparison Approach	\$3,400,000	N/A
Income Approach	\$3,400,000	N/A
Reconciliation	\$3,400,000	\$1,500,000

Estimated Marketing Time: 8 - 12 months (building); 12 -18 months (parking deck)

SCOPE OF THE APPRAISAL

In the estimate of market value, as set forth in this report, the most recent inspection of the subject property was made on November 2004. Reportedly, no significant changes have been made to the building since this time; thus, no current inspection was made. The appraisers have reviewed the subject neighborhood and made an exterior inspection of the subject improvements. The effective date of the appraisal will be January 17, 2006. The subject property data, regarding the improvements, stated in this report were provided by the client and by observation at the time of inspection.

An analysis of city and neighborhood data was based on information extracted from the 2000 Census, The Birmingham Regional Planning Commission, Alabama State Data Center, and The Birmingham Chamber of Commerce. Neighborhood data was compiled from demographic statistics for the City of Birmingham and based on a physical inspection of the area. An inspection of the surrounding neighborhood was made in an effort to determine if any positive or negative trends exist pertaining to the level of market activity, trends in sales and listing prices, demographic trends, and any other factors affecting neighborhood appeal.

Comparable sales were considered from the surrounding area. A comprehensive search for improved sales was made with sources ranging from Graham & Co., Inc. appraisal files, other appraisers, Realtors, and other persons knowledgeable of the subject property's marketplace. The sales considered were judged reasonable indicators of a range in value for the subject property and were judged to be the best available. I have examined the income characteristics of comparable properties in an effort to arrive at a value estimate. An examination of comparable rents was made in order to determine the income generating ability of the subject. Additionally, I have computed a replacement cost new for the subject improvements. After assembling and analyzing the data defined in the scope of the appraisal and applying the three conventional approaches to value, a final estimate of value was made.

DEFINITION OF MARKET VALUE

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal considerations for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

DATE OF VALUATION

The effective date of the appraisal will be January 17, 2006.

DATE OF THE REPORT

This report was completed in January 2006.

PROPERTY RIGHTS APPRAISED

The property rights appraised are a fee simple estate. The subject building is partially owner occupied (1st, 2nd, and 3rd floors) and partially leased (4th and 5th floors). <<somewhere we need to reference the lease expiration of the leases, unless month to month.<<

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the "As Is" market value of the subject property effective January 17, 2006.

¹Federal Register, Volume 55, Number 163, August 22, 1990, pages 34228 - 34229. Also as appears in the Uniform Standards of Professional Appraisal Practice, USPAP, The Appraisal Foundation, 2005 Edition.

INTENDED USE OF THE REPORT

This appraisal is being used for state insurance regulations.

INTENDED USERS OF THE REPORT

The intended users of this report are officials with:

*Booker T. Washington Insurance Company
1728 3rd Avenue North
Birmingham, Alabama 35203*

ESTIMATED MARKETING TIME

No change from November 2004 report, 12 to 18 months.

THREE YEAR SALES HISTORY

The Uniform Standards of Professional Appraisal Practice (USPAP) requires the appraiser to discuss any sales transactions that have occurred within the past three years as of the effective date of the appraisal. The subject is currently owned by Booker T. Washington Insurance Company, Inc. BTW has owned the subject property including the parking deck for more than three years. No other sales transactions have taken place within the past three years.

IDENTIFICATION OF THE PROPERTY

No changes from November 2004 report.

ZONING

No changes from November 2004 report.

AD VALOREM TAXES

According to the Jefferson County Courthouse records, the subject is assessed to Booker T. Washington Insurance Co., Inc. The 2005 tax assessments are located below.

Parcel ID	22-36-4-034-010.000 (Office Building)	
Land Value:	\$249,900	\$14.70 psf
Improvement Value:	\$2,916,300	\$51.07 psf
Appraised Value:	\$3,166,200	
Assessment Rate:	20%	
Assessed Value:	\$633,240	
Millage Rate:	0.0695	
Taxes Due:	\$44,910.18 (includes \$15.00 storm water fee)	

Parcel ID **22-36-2-034-009.000 (Parking Deck)**

Land Value: \$115,800 \$10.69 psf
Improvement Value: \$964,800 \$13.78 psf
Appraised Value: \$1,080,600
Assessment Rate: 20%
Assessed Value: \$216,120
Millage Rate: 0.0695
Taxes Due: **\$15,035.34 (includes \$15.00 storm water fee)**

NEIGHBORHOOD DATA

See comments and neighborhood photographs from November 2004 report. The CBD continues to grow and show signs of rehabilitation, renovation, and conversions of both small and large buildings for office, retail, and residential uses. The urban renewal originally focused around 20th Street properties but is slowly stretching east and west, towards the subject property. We expect this urban renewal to continue into the foreseeable future. New neighborhood developments for 2005 and 2006 include the potential redevelopment of the Cabana Hotel to residential and the certainty of the Sears redevelopment for The Entrepreneurial Center. These west oriented projects and others suggest an improving area and more stable property uses and values.

SITE DATA

No changes from November 2004 report.

DESCRIPTION OF IMPROVEMENTS

According to representative of the building owner, there have been no significant changes in the improvements since the November 2004 report. Please see this report for a description of the improvements.

HIGHEST AND BEST USE

No changes from November 2004 report.

VALUATION

No changes from November 2004 report.

COST APPROACH

The cost approach is a valuation methodology used to compare the cost to develop a property of similar utility. Deductions are made for the three types of depreciation; physical, functional and external. To the depreciated value of the improvements is added the underlying land value for an indication of value from the cost approach.

Land Value

No changes in land value from November 2004 report.

Improvement Value

The only changes made in the cost approach grid were the change in time and locale

factors. All other items remain as stated in the November 2004 report. Please see the updated cost approach grids below.

Cost Approach

Mid-Rise Office Building
Booker T. Washington Insurance
1728 3rd Avenue North
Birmingham, Alabama 35203

GBA (including basement)	57,101 sf
GBA (not including bsmt)	49,520 sf
Land	10,000 sf
Land Building Ratio	0.18
Effective Date	1/17/06
Quality	Good
Class	C
Built	1928

Building:

	Units	Cost	RCN
Building	49,520	\$103.69	\$5,134,729
Basement - Finished	7,581	\$53.19	\$403,233
Basement - Unfinished	2,323	\$22.31	\$51,826
Replacement Cost New			\$5,589,788
Adjusted RCN	1.14	0.92	\$5,862,570
Soft Costs	5.00%		\$293,128
Entrepreneurial Profit	5.00%		\$293,128
Replacement Cost New			\$6,448,827

Depreciation:

	Effective Age	Economic Life	Dep %	
Building	25	40	62.50%	\$3,365,815
Basement - Finished	35	40	87.50%	\$370,047
Basement - Unfinished	35	40	87.50%	\$47,561
Economic			0.00%	\$0
Functional			0.00%	\$0
Total Depreciation				\$3,783,423
Depreciated Value of Improvements				\$2,665,404
Land Value	10,000 sf		\$45.00 sf	\$450,000
Indicated Value				\$3,115,404
Rounded				\$3,100,000

Base Figure	\$101.64	\$51.14	\$22.31
Adjustment Factors			
HVAC	<u>\$2.05</u>	<u>\$2.05</u>	
Adjusted Base Figure	\$103.69	\$53.19	\$22.31

Parking Deck

GBA - 5 levels	87,500 sf
Land	17,500 sq.ft.
Effective Date	1/17/2006
Quality	Average
Built	1982

Parking Deck:

Marshall Class B Average, 14/34	Units	Cost	RCN
Parking Deck Structure	163	\$8,500	\$1,385,500

Replacement Cost New \$1,385,500

Site Improvements:

None

RCN \$1,385,500

Marshall Factors	Time	Locale	
Adjusted RCN	1.12	0.92	\$1,427,619

Soft Costs \$142,762

Replacement Cost New \$1,570,381

Depreciation:

	Effective Age	Economic Life	Dep %	
Parking Deck Structure	25	45	55.56%	\$793,122
Economic			0.00%	\$0
Functional			0.00%	\$0
Total Depreciation				\$793,122
Depreciated Value of Improvements				\$777,259
Land Value	17,500 sf		\$40.00 sf	\$700,000
Indicated Value				\$1,477,259
Rounded				\$1,500,000

SALES COMPARISON APPROACH

The sales comparison approach derives a value indication by comparing the subject property to similar properties that have sold recently, applying appropriate units of comparison, and making adjustments, based on the element of comparison, to the sales price of the comparables.

Office buildings are typically analyzed on a price per square foot of improvements basis. A comprehensive search for comparable improved sales was conducted. These sales were the best available at the time of this report and were believed to accurately reflect the value of the subject property. On the following pages, each sale is described on a summary sheet, a sales comparison grid, a location map, and concluding remarks of the estimated value.

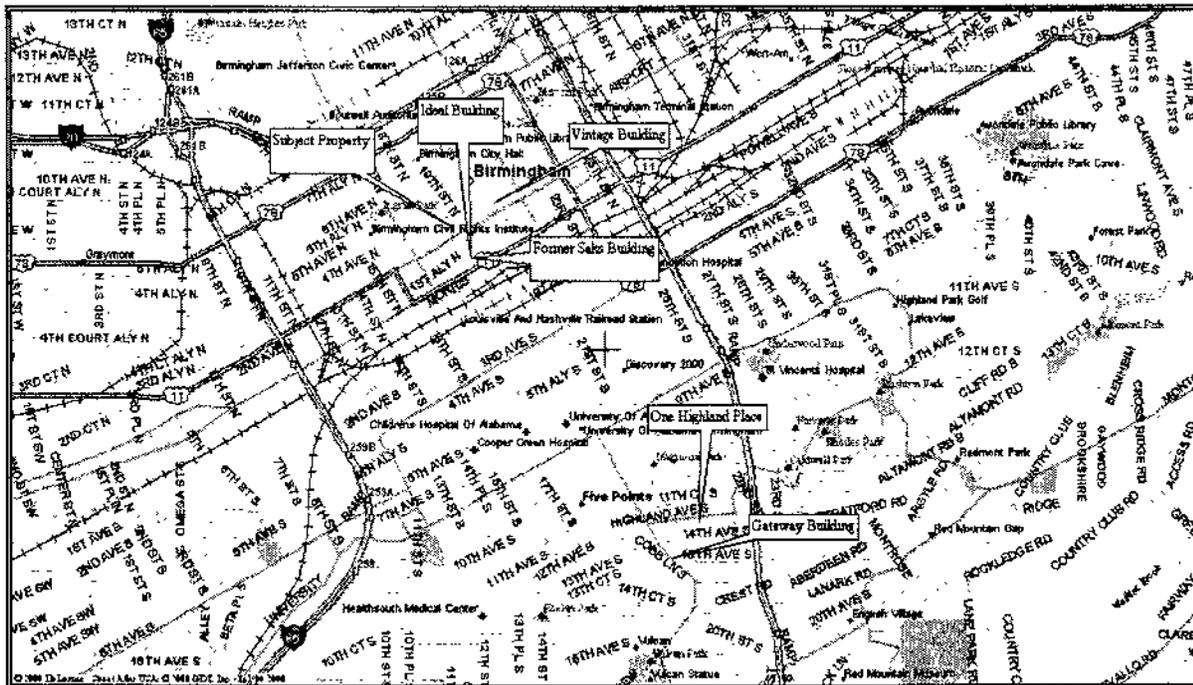
Sales Comparison Approach

Mid-Rise Office Building
Booker T. Washington Insurance
1728 3rd Avenue North
Birmingham, Alabama 35203

Building Site Area 10,000 SF
GBA 57,101 SF
LBR 0.18
Effective Date: 1/17/2006

	Oct-02	May-01	Oct-03	Sep-05	Mar-05
Sale Date	Oct-02	May-01	Oct-03	Sep-05	Mar-05
Record ID	1758	1121	1842	2641	1956
Property	Overlook Building	Gateway Office Building	One Highland Plaza	Office Building	Ideal Building
Location	3620 8th Avenue South Southside	1401 20th Street South Southside	2151 Highland Avenue Southside	120 Summit Parkway Homewood	111 19th Street North Birmingham CBD
Sales Price	\$2,400,000	\$1,784,574	\$5,600,000	\$1,335,000	\$950,000
Land (SF)	111,069	89,140	111,589	55,773	4,000
GBA	36,796	35,151	70,852	23,080	24,000
Price/SF	\$85.22	\$50.77	\$79.04	\$57.84	\$39.58
Market Conditions					
Adjustment	8%	10%	6%	0%	2%
Adjusted \$/SF	\$70.44	\$55.85	\$83.78	\$57.84	\$40.38
Location					
Adjustment	5%	0%	0%	5%	0%
Adjusted \$/SF	\$73.96	\$55.85	\$83.78	\$60.73	\$40.38
Age/Condition					
Year Built	1961	1955	1957 & 1961	1987	1910
Effective Age	25	25	15	25	25
Subject Effective Age	25	25	25	25	25
Adjustment	0%	0%	-25%	0%	0%
Adjusted \$/SF	\$73.96	\$55.85	\$62.84	\$60.73	\$40.38
Functional Utility					
Interior Finish	Similar	Similar	Superior	Similar	Similar
Adjustment	0%	0%	-5%	0%	0%
Parking	yes	yes	yes	yes	no
Adjustment	-10%	-5%	-5%	-5%	0%
Adjusted \$/SF	\$66.57	\$53.05	\$56.71	\$57.70	\$40.38
Size					
Adjustment	-5%	-5%	0%	-5%	-5%
Adjusted \$/SF	\$63.24	\$50.40	\$56.71	\$54.81	\$38.36

Sales Comparison Approach Conclusion:



Sale #1 – Overlook Building, Birmingham Southside. This 36,796 sf building sold in October 2002 for \$2,400,000 or \$65.22 sf. An upward adjustment was made for the change in market conditions since the time of sale. Inferior location. There is parking associated with this building. A downward adjustment was made for the smaller size of the comparable relative to the subject. After adjustments, the adjusted unit price per sq. ft. is \$63.24 .

Sale #2 – Gateway Building, Birmingham Southside. This 35,151 sf building sold in May 2001 for \$1,784,574 or \$50.77 psf. An upward adjustment was made for the change in market conditions since the time of sale. There is parking associated with this building. A downward adjustment was made for the smaller size of the comparable relative to the subject. After adjustments, the adjusted unit price per sq. ft. is \$50.40 .

Sale #3 – One Highland Place, Birmingham Southside. This 70,852 sf office building sold in October 2003 for \$5,600,000 or \$79.04 psf. Superior age/condition. Superior interior finishes relative to the subject. Parking is associated with the building. After adjustments, the adjusted unit price per sq. ft. is \$56.71 .

Sale #4 – Office Building, West Homewood. This building sold in September 2005 for \$1,335,000 or \$57.84 psf. Slightly inferior location. A downward adjustment was made for the smaller size of the comparable relative to the subject. Parking is associated with the building. After adjustments, the adjusted unit price psf is \$54.81 .

Sale #5 – Ideal Building, Birmingham CBD. This is pending sale information for a 24,000 sf downtown multi-tenant building. Due to the smaller size of the comparable relative to the subject, a downward adjustment was made. After adjustments, the adjusted unit price psf is \$38.36 .

Sales Comparison Approach Conclusion:

Before adjustments, the sales represented a wide range of \$39.58 to \$79.04 sf. Adjustments were considered for market conditions, location, age/condition, functional utility, and size. The primary adjustments made were for market conditions, functional utility, and size. After adjustments were made, the unit values ranged between \$38.36 to \$63.24 per sq. ft., still a very wide range of indicators. The data is consistent in that it shows the wide disparity of data for the subject area. Sale #4 had a below market lease in place at the time of sale and Sale #5 had recently had some large tenants vacate prior to sale. Therefore, Sales 1 – 3 are better indicators of value. Based on this analysis, the estimated unit value of the subject is \$60.00 per sq. ft. Please see the calculations below.

SUBJECT (SF)	UNIT (\$/SF)	INDICATED VALUE
57,101	\$60.00	\$3,426,060
ROUNDED		\$3,400,000

INCOME APPROACH

This approach to value involves converting the potential future income for the subject into a present value. There are basically two ways of estimating the present value: direct capitalization and the discounted cash flow analysis. The direct capitalization method converts one year's net income into a value by applying an overall capitalization rate. The discounted cash flow (DCF) method involves the discounting of two or more years of cash flows by a discount rate. The length of time in the analysis is commonly called the holding period, and is often tied to a resale or refinancing of the project. In the DCF method, cash flows for each year are projected as well as a reversion (resale) value at the end of the holding period. The combined cash flows are then discounted by an appropriate discount rate that reflects investor expectations and the perceived risk for the subject property.

In this analysis, the Direct Capitalization method was the only method necessary. The building is partially owner occupied with the 4th & 5th floor multi-tenant. The rights appraised in this analysis are the fee simple interest; therefore, the current contract rents were compared with market rents to judge the reasonableness of the contract rents as well as establish rents for the owner-occupied portion of the building, Floors 1-3. A table with the current contracts is located below.

David Sullivan, Attorney	Suite 400 D	653	\$12.55	\$8,196	full service, no janitorial
		1,521	\$0.00	\$0	full service, no janitorial
Ronnie Williams/Renaissance Group	Suite 400	716	\$14.55	\$10,417	full service, no janitorial
		2,200	\$0.00	\$0	full service, no janitorial
BTW Federal Credit Union	Suite 300	200	\$12.00	\$2,400	full service, no janitorial
100 Blackmen	2nd Floor	254	\$12.00	\$3,048	full service, no janitorial
Fair Housing Authority	Suite 400 C	1,745	\$12.00	\$20,940	full service, no janitorial
Tucker & Groce	5th Floor	2,652	\$7.24	\$19,200	full service, no janitorial

Primarily, the current contract rents range from \$12.00 to \$12.50 per sq. ft. with the Tucker & Groce space renewing month-month at a below market lease and Ronnie Williams/Renaissance Group above market rent at \$14.55 per sq. ft.

A comparable rental analysis was also conducted. Below are summary sheets of the comparable market rents.

Market Rental Summary Table

Property/Location	Year Built	GBA	Occupancy	Avg. Rental Rate	Lease Structure
O'Neil Building, 2021 3rd Avenue N	1924, renovated 1988	19,990	100%	\$12.25	full-service
Vintage Building, 310 21st Street N	1900, renovated 1990's	13,520	70%	\$15.00	full-service
Massey Building, 2025 3rd Avenue N	1925 with renovations	65,000	100%	\$14.00	full-service
Ideal Building, 111 19th Street N	1928, renovated 1986 & 92	25,525	41%	\$12.25	full-service
Farley Building, 1929 3rd Ave N	1906, renovated 1986	35,000	89%	\$12.50	full-service
Young & Vann Building	1890's, renovated 2003	34,023	74%	\$14.00	full-service

Estimate of Market Rent:

All of the comparable rents above are multi-tenant Class B/C buildings similar to the subject and located in the CBD. Since typical office leases are full service, the analysis was based on a full service lease. The market rent was estimated in the range of the comparable rents. Due to the varied condition of some of the floors, rents varied as well. Floors 1 to 3 were considered to be in the best condition with some interior upgrades. The fourth floor and a portion of the fifth floor were judged to be similar in terms of interior finish. The other half of the fifth floor was in poor condition and usable for storage only at this time. The estimated market rents are listed below. The Potential Gross Income is calculated as follows:

Rental Income at Estimated Market Rents

Rental Income	SF	Market Rent	
Floors 1-3 (BTW)	29,712	\$14.00	\$415,968
Floor 4	9,904	\$12.50	\$123,800
Floor 5 (office)	2,652	\$12.50	\$33,150
Floor 5 (storage)	7,252	\$5.00	\$36,260
Basement (finished)	7,581	\$5.00	\$37,905
Basement (storage)	2,323	\$2.50	\$5,808
Potential Gross Income	59,424	\$10.99	\$652,891

Vacancy & Collection Loss: Based on our market analysis, the CBD has a wide range of occupancy levels based on the size, age/condition, and location of the properties. The subject currently has two vacancies. Based on the market and the subject's current occupancy, a 10% factor was applied.

EXPENSES:

After the vacancy/collection loss has been deducted from the PGI, an effective gross income is calculated. From this figure, expenses are deducted. Below is an estimate of the expenses.

- Management:* Management fees for office buildings can vary anywhere from 3% to 5% depending on the age, size, and number of tenants in the building. A 4.00% management fee was chosen in this analysis.
- Property Taxes:* The present property taxes have been discussed in the Ad Valorem tax section of this report. The 2005 tax charge for the office building is \$44,010.18.
- Property Insurance:* A typical range for this category is from \$.10 to \$.20 per sq. ft of NLA. Expense comparables for comparable office buildings in Birmingham range from \$.08 to \$.23 psf. We have estimated the subject's insurance at \$0.15 psf.
- Repairs/Maintenance:* This category generally covers long lived components of the improvements including electrical, plumbing, elevator, irrigation, and pest control. Expense comparables suggest a range of \$.50 to \$.70 psf for buildings of this size and age/condition. Therefore, we have used an estimate at the upper end of this range at \$0.70 psf.
- Janitorial/Cleaning:* This category takes into account the expense for the janitorial and cleaning contract. Expense comparables suggest a range of \$.62 to \$.88 psf. Therefore, a charge of \$0.75 psf was estimated. It should be noted that this item is not currently covered by the landlord but is at the tenant's expense. But, the market typically includes this item in a full-service lease.
- Grounds/Garbage:* This category takes into account the garbage pickup fees and keeping the grounds clean. Because the grounds are minimal, the expense should only cover the garbage pickup. Therefore, this item is estimated at \$0.10 psf.
- Utilities:* This expense is essentially the electricity, water, sewer, natural gas charges by the respective utility companies. Based on expense comparables, this expense ranges from \$1.74 to \$2.04 per sq. ft. An estimate of \$1.75 psf was used for the analysis.
- Reserves:* This item covers the amount of money that should be set aside in order to replace items such as the roof and other structural items. This item

has been estimated at \$0.15 per sq. ft. for this analysis.

Estimation of the Cap Rate:

After the expenses have been deducted, the resulting figure is the Net Operating Income. The next and final step in this approach is the estimation of a Capitalization Rate. A Cap Rate is the reflection of the risk involved in the investment based on the type of building, supply and demand and other real estate and investment factors. The cap rate can be derived from a variety of ways. The best method is to extract rates from actual sales from the market.

Below is a chart showing various office building sales with extracted overall rates.

Address	Date	Sq. Ft.	Price	Cap Rate
Highland View, 2545 Highland Avenue	Nov-05	14,450	\$1,850,000	8.84%
Office Building, 120 Summit Parkway	Sept-05	23,080	\$1,335,000	8.32%
Douglas Building, 2017 Morris Avenue	Jun-04	10,498	\$706,000	8.73%
One Highland Plaza, 2151 Highland Avenue	Oct-03	70,852	\$5,600,000	9.63%
Former Saks Building, 1900 1 st Avenue North	Apr-02	16,000	\$600,000	9.60%

The sales above indicate a range of 8.8% to 9.63%. National Investor Surveys are an additional method of deriving cap rates. According to the Korpacz Real Estate Investor Survey, 4th Quarter 2005, National CBD Office Market, the Going in Rates range from 4.50% to 9.50% with an average of 7.35%. The RERC Investment Survey, Winter 2005, CBD Office indicates a rate range of 6.5% to 7.8% with an average of 6.9%. There are no national market surveys conducted for Birmingham. Given the good location in the CBD and continuing downward trend of rates, yet age/condition of the building, an overall rate of 9.00% is suggested for the analysis.

Please see the Income Approach calculations below.

Income Approach

Mid-Rise Office Building
Booker T. Washington Insurance
1728 3rd Avenue North
Birmingham, Alabama 35203

Effective Date 1/17/2006

Rental Income	SF	Market Rent	
Floors 1-3 (BTW)	29,712	\$14.00	\$415,968
Floor 4	9,904	\$12.50	\$123,800
Floor 5 (office)	2,652	\$12.50	\$33,150
Floor 5 (storage)	7,252	\$5.00	\$36,260
Basement (finished)	7,581	\$5.00	\$37,905
Basement (storage)	2,323	\$2.50	\$5,808
Potential Gross Income	59,424	\$10.99	\$652,891
Vacancy/Collection Loss		10.00%	\$65,289
Effective Gross Income			\$587,601
Expenses:			
Management Fee	4.00%	\$23,504	
Property Taxes	\$0.77	\$44,010	
Insurance	\$0.15	\$8,914	
Repairs/Maintenance	\$0.70	\$41,597	
Janitorial/Cleaning	\$0.75	\$44,568	
Grounds/Garbage	\$0.10	\$5,942	
Utilities	\$1.75	\$103,992	
Reserves	\$0.15	\$8,914	
Total Expenses			\$281,441
Expenses as % of EGI			47.90%
Net Operating Income			\$306,161
Capitalized		9.00%	\$3,401,787
Rounded			\$3,400,000
Indicated Value per SF			\$59.54

RECONCILIATION

The estimates to value by the three approaches are summarized as follows:

	Office Building	Parking Deck
Land Value Indication	\$450,000	\$700,000
Cost Approach	\$3,100,000	\$1,500,000
Sales Comparison Approach	\$3,400,000	N/A
Income Approach	\$3,400,000	N/A

The **cost approach** is best suited for relatively new or proposed properties that have not yet incurred significant depreciation yet. For this reason, the cost approach is not a reliable indicator of value for the subject property for the office building. Because the parking deck is a limited market property, the cost approach is the best approach for this property and the only method considered.

The **sales comparison approach** is a good indicator of market value because it considers actual market sales and adjusts for differences. Because the subject property is typically an owner occupied product, this approach is very applicable. Sales were reviewed from the downtown Birmingham area as well as Southside area. These office buildings varied in age/condition, level of interior finish, and size. The data was considered average to good. There were no sales of parking decks in the Birmingham market because they primarily sell with an adjoining office building. For this reason, the sales comparison approach was not used for the parking structure.

The **income approach** is given equal weight with good rental data available. Rental data for similar downtown office buildings was reviewed to judge the reasonableness of the current contract rents as well as to estimate market rent for the space occupied by the owner. The expenses of operation are based on our knowledge and management of other similar office properties. The parking deck is not an investor product. Parking decks are not purchased for their income producing abilities; therefore, the income approach was not considered to be an applicable approach to value.

It is, therefore, in our opinion that the "As Is" market value of the subject property, effective January 17, 2006, is reconciled at the below values:

Office Building: \$3,400,000
Parking Deck: \$1,500,000

Marketing Time: Based on our observations of the market and discussions with sales agents, the probable marketing time for the office building is 8 to 12 months and 12 to 18 months for the parking deck, a limited market property.

Appendix

Exhibit 1

Qualifications of the Appraisers

Steven V. Graham, MAI

Hayden L. Scott

QUALIFICATIONS STEVE GRAHAM, MAI, CRE

Education:

1973 - B.A., University of the South, Sewanee, Tennessee
1978 - J.D., Cumberland School of Law, Samford University,
Birmingham, Alabama
Appraisal Institute Courses and Seminars

Real Estate Qualifications:

State of Alabama Broker's License - December 1978
Primarily involved in real estate appraisal and consulting in all types of
real estate.

MAI - Appraisal Institute, Certificate No. 7194

CRE - Member, Counselors of Real Estate, Certificate No. 1214
State Certified General Real Property Appraiser, G00140

Activities:

Birmingham Area Board of Realtors, Board of Directors 1993-94
Alabama State Bar - September 1978
Mid-South AL Chapter, Appraisal Institute, Officer 1990-1993,
Board of Directors, 1996-1998
Operation New Birmingham, Board of Directors, 1986-1992
Alabama Real Estate Appraisers Board, Chairman, 1990-1994
The Nature Conservancy of Alabama, 2000 - 2003
The Rotary Club of Birmingham, VP Club Service, 2001-02

Experience:

Appraising and counseling for a wide range of real estate: commercial,
industrial, office and investment properties.
Clients include various investors, attorneys, accountants and
corporations in addition to those outlined below:

AmSouth Bank
First American Bank
First Commercial Bank
Regions Banks
Colonial Bank
Vulcan Materials
Jefferson County
Blue Cross Blue Shield of Alabama
University of Alabama at Birmingham

Baptist Health Systems
Wachovia Bank
Compass Bank
EBSCO Realty
Protective Life
Morgan Stanley
Time Warner
DCH Regional Medical Center
Children's Health Systems

Commercial Real Estate
Sales, Leasing, Management,
Development, Appraisals,
Consulting

Graham & Company, Inc.
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Birmingham, Alabama 35209
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Steve Graham, MAI, CRE

Mike Graham, CPM, SIOR

Sonny Culp, SIOR

Ogden S. Deaton, SIOR

Jack Key, SIOR

Dan Lovell, SIOR

J. Claude Tindic, SIOR, CRE

Jack Brown, SIOR

Walter H. Brown, Jr.

Thomas P. Krebs, FMA, RPA

Dorothy Wozny

Sam J. Carroll IV

Hayden L. Scott

Hayden Montgomery

Eric R. vonCannon

Larry Ethridge

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Office Realtors

Appraisal Institute

Counselors of Real Estate

Institute of Real Estate
Management

National Association of
Industrial & Office Parks

Building Owners & Managers
Association International



QUALIFICATIONS HAYDEN L. SCOTT

Education:

1999 - B.S., Vanderbilt University, Nashville, Tennessee
2002 - M.B.A., University of Alabama at Birmingham, Birmingham, Alabama

License:

Licensed Real Property Appraiser
Alabama Certificate Number L00279

Real Estate Education Courses:

Appraisal Institute

120: Appraisal Procedures
310: Basic Income Capitalization
410: National USPAP
420: Business Practices and Ethics
520: Highest & Best Use Analysis and Marketability Analysis

Alabama Association of Real Estate Appraisers:
Fundamentals of Real Estate Appraisal

Lincoln Graduate Center:

Uniform Standards of Professional Appraisal Practice
Principles of Real Estate Appraisal

Associate Member of the Appraisal Institute

Prior Experience:

Ernst & Young, Human Resources Manager, 2000 - 2002

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