2008 MARKS 25 YEARS SERVING THE INDUSTRY

Founded in 1983, MBI will be celebrating its 25 year anniversary in 2008. For a quarter century, MBI has served the non-residential modular construction industry in its mission to grow industry capabilities by encouraging innovation, quality, and professionalism. For more information about MBI and its service to the industry, visit modular.org.
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Mike Ridley
VP Sales & Marketing
Britco Structures

Laurie Robert
VP Sales & Marketing
NRB Inc.

MBI STAFF

Executive Director
Tom Hardiman
x 208, tom@modular.org

Director of Operations
Steven Williams
x 203, steven@modular.org

Director of Membership Services
Aileen Holland
x 206, aileen@modular.org

Communications Manager
Audra Book
x 202, audra@modular.org

Special Projects Coordinator
Erin Denby
x 205, erin@modular.org

Office Manager
Annie Diggs
x 207, ann@modular.org

Modular Building Institute
944 Glenwood Station Lane, Ste. 204
Charlottesville, VA 22901
Toll Free: 888-811-3288
Fax: 434-296-3361
**OVERVIEW**

According to many industry participants, 2006 was a banner year for commercial modular construction. Many companies reported double-digit revenue growth for the year, fueled by strong construction activity in the education, health care and government markets. Additionally, the market was (and continues to be) red-hot in certain geographic areas such as the western Provinces of Canada and surrounding areas, while traditional markets like California, Texas, and the Mid-Atlantic United States remained solid. Following overall economic trends, the central region of the United States continued to lag behind other areas.

2006 also saw many residential modular and manufactured housing companies “test the commercial waters” perhaps to help offset the slump in the housing market. With the continued decline in the HUD code manufactured housing market, we expect to see increased competition for commercial projects in the near future.

Many end users are also becoming increasingly aware of the inherent “environmentally-friendly” benefits of building with modular construction. As more agencies and organizations embrace the green building movement, we believe modular construction companies are well-positioned to serve this growing demand.

However, the biggest trend that we recognized for the year was the increased interest and attraction of capital to the industry. Several companies entered into agreements with private equity firms while others acquired and/or merged with former competitors. Despite the credit concerns associated with the housing industry, we expect to see more interest from capital markets for the foreseeable future.

This report addresses many of the frequently asked questions regarding the commercial modular industry as well as details certain financial conditions and trends. While not comprehensive from a global perspective, we believe this report represents the best data available on the commercial modular industry, particularly in North America.
ALL MEMBERS OF MBI SUBSCRIBE TO THE FOLLOWING INDUSTRY CODE OF ETHICS:

The Modular Building Institute has adopted these articles to promote and maintain high standards of professional service and ethical business conduct among its members and the industry.

- A member shall deal fairly with customers, colleagues, fellow members, and the general public.
- A member shall conduct his or her professional life in accordance with the interest of MBI, the commercial factory-built structures industry, and the general public.
- A member shall adhere to honesty and integrity and to generally accepted principles of professional conduct.
- A member shall not engage in any practice, which tends to corrupt the integrity of MBI, the commercial factory-built structures industry, or process of government.
- A member shall not intentionally misrepresent information concerning his or her financial and professional business background.
- A member shall make proper, just and prompt payment for all contractual obligations.
- A member shall abide by all lawful agreements to which he or she is a party, including all agreements with suppliers.
- A member shall compete vigorously, and fairly, with other members.

We pledge:

- To conduct ourselves professionally, with truth, fairness, and responsibility to our customers, MBI, and the commercial factory-built structures industry.
- To improve our individual competence and advance the knowledge and proficiency of the commercial factory-built structures industry through continuing education.
- To subscribe to and offer to the public quality products at a fair price.
- To promote greater awareness of alternative construction methods and practices.
- To participate fully in the MBI Seals Program, if a dealer or manufacturer of modular buildings.
- And to adhere to the articles of the Code of Ethics as adopted by the governing Board of the Modular Building Institute.

Look for the MBI seal as a visible sign that your provider subscribes to the MBI code of ethics:
INTRODUCTION

ABOUT MBI
Founded in 1983, the Modular Building Institute is the only international non-profit trade association serving the commercial modular buildings industry. Our members are manufacturers and dealers of commercial modular structures, as well as associates supplying building components, services, and financing. It is our mission to grow the industry and its capabilities by encouraging innovation, quality, and professionalism through communication, education, and recognition.

ABOUT MODULAR CONSTRUCTION
No matter who you are, you have probably been in or used a modular building. Countless industries regularly use permanent or temporary modular buildings including schools, banks, restaurants, hospitals, medical clinics, daycare centers and correctional facilities—just to name a few.

Modular buildings offer fast delivery, ease of relocation, low-cost reconfiguration, and enormous flexibility. It is easy to see why many choose these fast, safe and efficient buildings. Commercial modular buildings are non-residential structures, 60 to 100 percent factory-built and designed to be constructed at one location then used by occupants at a final destination. The word “modular” describes a construction method where individual modules, stand-alone or assembled together, make up larger structures. While many are two, three, and four stories high, modular designs have been created for buildings much higher, complete with stairwells and elevators.

These buildings are essential in cases where speed, temporary space, and the ability to relocate are necessary. Unique to modular construction, module assembly and site work can occur at the same time, permitting earlier occupancy. Modern, multi-story factory-built buildings with concrete and steel floors, brick exteriors, sheet-rock interiors, windows, lighting, computer hook-ups, electrical service, plumbing, heating, air conditioning and restrooms are often constructed in half the time of a site-built building.

Primarily, four stages make up factory-built construction. First, design approval by the end user and any regulating authorities; second, assembly of module components in a controlled environment; third, transportation of modules to a final destination; and fourth, erection of modular units to form a finished building.

Specifications for modular buildings are usually communicated to a manufacturer by a customer through a dealer. Dealers, responding to the space requirements of retail customers, work with customers to order new buildings from manufacturers and arrange for delivery and installation of the buildings when construction is complete. Dealers usually offer a variety of financing and leasing opportunities and range in size from single, small sales offices with little or no lease fleet to large, well-capitalized companies with very large fleets.

Modular manufacturers produce their buildings in independent, single-location facilities. Responding to dealer requests, they generally operate as wholesale suppliers of modular units. Construction occurs indoors away from harsh weather conditions preventing damage to building materials and allowing builders to work in comfortable conditions.

While modules are being assembled in a factory, site work is occurring at the same time. This permits earlier building occupancy and contributes to a much shorter overall construction period, reducing both financing and supervision costs. Saving even more time and money, nearly all design and engineering disciplines are part of the manufacturing process.

Also unique to modular is the ability to simultaneously construct a building’s floors, walls, ceilings, rafters, and roofs. During site-built construction, walls cannot be set until floors are in position, and ceilings and rafters cannot be added until walls are erected. On the other hand, with modern modular methods of construction, walls, floors, ceilings, and rafters are all built at the same time, then brought
together in the same factory to form a building. This process often allows modular construction timelines half that of conventional, stick-built construction.

### Accelerated Modular Construction Timeline

| Design | Engineering | Site Preparation & Foundation | Time Savings | Construction |

### Typical Site-Built Construction Timeline

| Design | Engineering | Site Preparation | Construction |

**MEETING A HIGHER STANDARD**

Combining traditional building techniques, quality manufacturing, and third-party agencies who offer random inspections, testing, and certification services for quality control, temporary and permanent modular buildings are built in strict accordance with appropriate local, state, and national regulations and codes. Some would even say that due to the extra durability needed for travel, factory-built buildings are more durable than conventional structures. As a result of meeting and often exceeding site-built standards, modular construction has the same life expectancy as traditionally built buildings, and can, with proper maintenance, last indefinitely.

According to a 1993 Federal Emergency Management Agency (FEMA) report following Hurricane Andrew, “The module-to-module combination of the units appears to have provided an inherently rigid system that performed much better than conventional residential framing.”

**MEETING NEEDS ACROSS ALL INDUSTRIES**

**PERMANENT MODULAR CONSTRUCTION**

**Education.** From single classrooms to complete campuses, permanent modular construction offers public, private, and charter schools what other construction methods cannot: accelerated project timelines, more economical pricing, and less disruption. Permanent modular schools are indistinguishable from other schools and can be constructed to any architectural and customer specifications. MBI members design and build schools of all types and sizes using traditional building materials like wood, steel, and concrete. Virtually any size permanent school can be built, installed, and ready for occupancy in as little as 90 days. Perhaps most importantly, using off-site technology, open construction sites are eliminated while school is in session. Students are safer and teachers compete with less disruption.

**General Office.** Permanent modular buildings serve as corporate headquarters, satellite bureaus, institutional and administrative buildings, and offices for small businesses. Modern single- and multi-story buildings can be configured in a number of ways to include independent offices, conference rooms, elegant lobbies, kitchens, restrooms, and large open spaces for cubicles or other partition systems. MBI members have architectural and engineering designs for workspace planning, storm water management, landscaping, parking, and zoned heating and air conditioning. If it is time to capitalize on company growth, modular buildings are a fast, economical approach.

**Retail/Hospitality.** Modular construction is accelerated construction. Why is this so important to banks, restaurants, convenience stores, daycares, and other retail establishments? Because earlier occupancy means greater revenue faster. In fact, it’s not uncommon for many modular buildings to be up and running in as little as 24 hours—an important consideration for retailers of all types. Typical retail applications include hotels and motels, restaurants and diners, banks, golf pro shops, convenience stores, gas stations, car washes, college bookstores, and concession stands, to name a few. MBI manufacturers
and dealers provide full-service general contracting including site, mechanical, and electrical work. Permanent modular construction can accommodate emerging business demands and can be customized to meet financial needs, space requirements, and deadlines.

Healthcare. Permanent modular construction offers quiet, safe, and clean applications for medical, surgical, clinical, and dental use. The insight MBI members have from designing and building thousands of medical facilities has resulted in satisfied healthcare professionals the world over. Whenever organizations or communities need a new rehabilitation clinic, emergency room, operating room, hospital extension, laboratory, diagnostic center, or other medical facility, permanent modular buildings can be custom built to the tightest budgets while maintaining strict medical and aesthetic specifications.

Equipment & Storage. Day in and day out, noncombustible permanent modular construction offers durability and strength for equipment and storage. Communications shelters, chemical storage buildings, generator housing, materials storage, and mechanical control rooms are all custom designed and built by MBI members to guard business investments. Theft, inclement weather, and extreme climates are no match for the quality found in these high-tolerance heated and air conditioned buildings that are wood, steel, or precast concrete and that have exteriors of steel, brick, stone aggregate, or stucco.

Security & Control. Permanent modular buildings can be custom built to address a variety of access and control situations. Toll booths, tickets sales offices, guard stands, and weigh stations are common smaller applications. One- and two-story wood and steel buildings have straight walls or walls that are tilted to improve views and reduce glare. Much larger, more complex buildings can include correctional facilities that range from small regional jails to full-blown maximum security prisons. Cells can be equipped with toilets and showers, lighting, bunks, fixed windows, and security doors—all factory installed.

Industrial. When factory floor space is at a premium, one- and two-story modular in-plant offices, mezzanines, and storage platforms offer durability and permanence, while at the same time being flexible enough to relocate when needs change. Industrial buildings are custom engineered to suit each application, made of non-combustible steel construction, and assembled with unique fastening systems that lock panels together quickly and easily. A wide variety of windows, doors, electrical and communications packages, sound and temperature controls, and fire prevention systems can also be installed. Common applications are quality control rooms, break rooms, and computer and equipment shelters.

Government. Government customers consist of federal, state and local public sector organizations and state highway administrations. The industry has enjoyed success in focused niches such as prisons and jails, courthouses, military installations, as well as national and border security buildings.

MEETING NEEDS ACROSS ALL INDUSTRIES
TEMPORARY MODULAR CONSTRUCTION

Education. Temporary modular buildings have become a critical factor in managing student demographics and increasing enrollments. Modular classrooms are also ideal for use during new construction or renovation. Convenient, flexible, cost-effective temporary buildings can be delivered and operational in as little as 24 hours. Temporary modular classrooms are measured for quality and code-compliance by state or third-party agencies through routine and random inspections, testing, and
certification services. Single classrooms or multiple buildings can be arranged in clusters to create a campus feel. MBI members supply steps, decks, ramps, and even furniture. Members also offer lease, purchase, and lease-to-purchase financing for a variety of public and private school needs.

**General Office.** When production demand rises, modular buildings can temporarily enlarge a current facility without permanent alterations to the site. Because the space is not permanent, many companies are able to expand without the budget approval process necessary for traditional capital expenses. Temporary modular offices can be single- and multi-story buildings configured to include independent offices, conference rooms, and large open spaces for cubicles or other partition systems. Large and small businesses as well as local and state governments are typical users of temporary modular office space.

**Retail.** Accelerated modular construction saves time and money. Standard floorplans are available for immediate delivery while custom buildings are built to customer specifications in weeks, not months. Unique to modular construction is the fact that while buildings are being built in a quality-controlled factory, site work is occurring at the same time. This means a much shorter overall construction period. Why is speed so important? Earlier occupancy means faster revenue generation. Typical retail applications include new home sales centers, banks, golf pro shops, automobile dealerships, college bookstores, and concession stands. When emerging business needs are short term, temporary modular buildings accommodate any financial situation, space requirement, and deadline.

**Healthcare.** Temporary modular buildings used in healthcare applications are designed and constructed to uncompromising standards of quality. A new clinic, hospital extension, laboratory, diagnostic center, MRI unit, dentist office, or other medical facility can be open for business and serving communities in as little as a few days. When interests are for serving patients as quickly as possible in the most safe and aesthetically pleasing environments available, temporary modular construction offers quick quiet, safe, and clean buildings. Furthermore, there is an unlimited choice of interior décor and furniture and equipment leasing.

**Construction-Site & In-Plant.** Temporary modular buildings have their roots in construction-site trailers, where speed, temporary space, and relocatability are important. Used as standard field offices, construction-site and in-plant buildings are available for immediate delivery. Standard construction is wood, but steel units are available to meet noncombustible requirements. In-plant buildings are available as single- or two-story units for industrial environments with noise-reducing insulation and are typically moveable by forklift and include electrical and communications wiring, heating, air conditioning, and even plumbing.

**Security.** Temporary modular buildings can be custom built for a variety of access and control situations. Toll booths, tickets sales offices, guard stands, and weigh stations are common applications. One- and two-story wood and steel buildings have straight walls or walls that are tilted to improve views and reduce glare. MBI members supply a full line of portable storage containers for either short- or long-term. Heavy-duty storage units feature ground-level entry with double-swing doors for easy accessibility and are ideal for construction-site storage, equipment storage, warehousing, recordkeeping, industrial manufacturing, retailing, and other applications.

**Equipment & Storage.** Economical and convenient equipment and storage buildings offer on-site protection from inclement weather and theft. Day in and day out, modular buildings offer durability and strength. Equipment shelters for construction sites,
chemical storage buildings, temporary generator housing, and other applications are designed and built by MBI members to guard business investments. These buildings can be as simple as steel containers to units that are heated and air conditioned with exteriors of brick, stone aggregate, or stucco.

**GENERAL INDUSTRY DESCRIPTIONS, DEFINITIONS AND CLASSIFICATIONS**

Our industry is often categorized and analyzed by the investment and research community as “Manufactured housing” for manufacturers and “Equipment rental and leasing” for dealers. Neither category is accurate or adequate. For example, in the past year, the manufactured housing industry has experienced declines in the neighborhood of fifteen percent while non residential construction has risen by about the same figure. Additionally, the equipment rental and leasing category includes car and truck rental establishments as well as building facilities.

Commercial modular buildings are non-residential factory built structures designed to meet federal, state and local building codes and are capable of being relocated. The commercial modular building industry is comprised of four distinct participants:

- Manufacturers/wholesale that sell only to dealers;
- Manufacturers/direct that sell to retail customers as well as to dealers;
- Independent dealers/developers and general contractors; and,
- Suppliers to the dealers and manufacturers.

The majority of manufacturers/wholesale are private, independent single-location facilities. Manufacturers generally operate as wholesale suppliers of modular buildings to industry dealers. The wholesale manufacturers respond to dealer requests for quotations and build both mobile offices and customized modular buildings. Manufacturers that either maintain their own lease fleet or sell new and used mobile offices and modular buildings directly to retail customers are referred to as manufacturers/direct companies.

Independent dealers respond to retail customer requirements for mobile and modular space. The dealers lease or sell new and used modular buildings and mobile offices. Dealers generally work with a customer to complete a space plan, order a new building from a wholesale manufacturer or manufacturer-direct and arrange for delivery and installation of the building. Dealers may subcontract the delivery and installation or perform the work with their own personnel. Dealers range in size from single location sales operations with little or no lease fleet to large, well-capitalized lessors with sales offices nationwide.

Suppliers include component suppliers such as plywood, steel, heating and air conditioning systems, frames, chassis, plumbing and electrical fixtures as well as freight companies, installation crews, financing, insurance and bonding companies.

The mobile and modular building industry has expanded over the years to include a multitude of uses where speed of occupancy, relocatability and the temporary need for space are primary market drivers. The industry responds to an ever-increasing need to provide timely delivery of flexible and complex commercial structures. An end user’s annual budgeting or appropriation process fits squarely with the primary market drivers of the industry: flexibility of design and the ability to rapidly deliver temporary space in a cost-effective manner. The modular buildings and mobile offices are not “land attached” and can generally be moved from one site to another site that later becomes more usable or profitable. Shifting demographics play a significant role in the relocatability of these structures, particularly for the educational markets.

The modular building industry can be divided into two major segments: single and doublewide factory built buildings generally leased on a short-term basis (together referred to herein as “mobile offices”) and
Multi-unit (three or more) modular buildings ("modular buildings") typically leased for longer terms. The mobile office and modular building segments will be referred to collectively as the "modular building industry."

Individual mobile offices vary in size, with the smallest measuring 8' x 16' and the largest 18' x 84'. Typical construction is wood frame mounted on a steel chassis, with fixed or removable axles and hitches. These offices are generally built to the same model building code as those built on-site. With normal maintenance a mobile office will last indefinitely. While generally built to one of three national model building codes, mobile offices may be land-locked in the state(s) in which they bear a state seal indicating compliance with that states' current version of the building codes. Mobile offices intended for rental on construction sites are deemed to be "temporary" and generally do not require a state seal. Mobile offices intended for use at a site other than a construction site generally do have a state seal(s). Building code enforcement procedures are assumed by state agencies which may contract their duties to independent third party inspection agencies. While state codes and procedures differ, there is growing state-to-state code compliance reciprocity. The typical rental period for single mobile offices other than classrooms is between three and eighteen months. Classrooms usually remain on lease with a single lessee for periods well in excess of thirty-six months.

In addition to construction site offices, individual mobile offices are used as classrooms, sales offices, in-plant offices and general commercial offices. Specialty mobile units function as office/storage combinations, restrooms, showers, decontamination units, change units, restaurants, diners, fast food buildings, equipment shelters and branch banks.

Unlike mobile offices, which generally offer standard floor plans and standard features, modular buildings are often designed and built to meet the specific requirements of the initial end user. Modular buildings provide high quality, rapidly built, relocatable or permanent solutions to the space demands of a broad client base. Simultaneous manufacturing and site work often allows modular building occupancy to occur much faster than traditional methods of construction. A shorter construction period can reduce both construction period financing and supervision costs and can put the building to work sooner. Nearly all engineering, design, and architectural disciplines are coordinated with the manufacturing team, thereby ensuring a more seamless construction delivery process.

Combining the design flexibility of traditional building methods with the quality of controlled manufacturing, the industry has refined a construction process which provides speed, economics, and architectural aesthetics. Historically, modular buildings have been used as hospital and diagnostic health care facilities, educational facilities, daycare centers, correctional facilities, banks, commercial office buildings and in a variety of high tech fast-growth industries.

These practical time and money saving alternatives to site-built buildings effectively meet the specialized needs of diverse businesses. Customers served by modular buildings include federal, state and local governments, school boards, corporations, non-profit organizations, Indian tribes, quasi-government entities like the U.S. Postal Service, as well as individuals, partnerships, and sole proprietorships. Other uses include medical facilities, airport facilities, military installations, restaurants, churches, retail businesses, and remote telecommunications switch stations. Some facilities are used as an adjunct to existing buildings while others are stand-alone buildings. Flexibility and reutilization are the hallmarks of modular buildings. Unlike structures built on-site which generally have fixed utilization and occupancy design, modular units fulfill a unique function of reutilization that is not site specific. It is not unusual to have a modular building serve a wide variety of users during its long life span.
Since users of the relocatable buildings are diverse, specific industry slowdowns do not significantly impact sales and leasing companies. The number of industries (as measured by North American Industry Classification System “NAICS”) that lease or purchase our product is numerous, but more common categories include:

- 236220 Commercial and Institutional Building Construction
- 321991 Manufactured Home (Mobile Home) Manufacturing
- 321992 Prefabricated Wood Building Manufacturing
- 332311 Prefabricated Metal Building and Component Manufacturing
- 444190 Other Building Material Dealers –Prefabricated Building Dealers
- 531120 Lessors of Nonresidential Buildings

The flexibility of these buildings makes them a secure investment. During severe economic downturns, these conditions allow lessors to enjoy cash flows adequate to service debt. This flexibility is further enhanced by the ability to relocate buildings to more prosperous cities or industries as opportunities arise. Certain market segments of the industry are counter-cyclical. This is particularly true of education, prisons, and governmental agencies that want to transfer funding for facility needs from capital budgets to operating budgets. This concept also applies to industries which may want to expand but are uncertain about the long-term strength of their growth. Budget driven companies often opt for leased facilities. In such cases modular buildings offer benefits and options without long-term capital commitments.

**COMMON DESIGN CONSIDERATIONS**

Commercial modular buildings are cutting-edge facilities of the highest quality, efficiency, endurance, and design: cost-effective permanent and temporary buildings that respond to ever-changing demands. Virtually indistinguishable from site-built construction and meeting the toughest national, state, and local codes in addition to sometimes stringent aesthetic specifications, costs of a modular building are typically competitive with convention construction. However, modular buildings are built in a climate- and quality-controlled environment, where savings of as much as 50% in overall construction time are not uncommon. Following is a list of things to keep in mind when designing a modular building:

- Three-dimensional modules have widths that are typically 8-, 10-, 12-, 14-, and 16-feet with 12- and 14-feet being the most common. Framing dimensions are typically 2-inches less than nominal size.
- Module lengths are up to 70-feet, usually in 2-feet increments.
- Module heights vary from approximately 11-feet to 13-feet, not including the height of the unit’s transport trailer or frame.
- Type-V wood-frame construction is the most common and economical type of construction. Some manufacturers also build with steel and concrete and can meet the requirements for Type-I, -II and, -III construction.
- Multi-story modular buildings can be built up to the maximum stories allowed by code.
- When possible, restrooms should be designed so that marriage lines do not split the space, making installation of floors and water closets easier.
- Multiple roof framing styles are available. Some can be completed in the factory, while others may require the installation of site-installed trusses.
- Modular buildings can be configured using modules of various lengths and widths.
- Each module must be capable of self-support during shipping and setup phases of a modular project even though they are usually engineered as a complete structure.
- Typically, the modular building manufacturer is responsible for the structural design and submittal documents for plan review by governing authorities or third-party agencies. Architects provide the greatest value in modular building projects by developing space plans, the “look” of the elevations both
interior and exterior, and specifications for the materials to be used. The specific structural details will
vary between building manufacturers depending on the capabilities of each.

- Every state and some local jurisdictions have adopted rules and ordinances that govern the movement
  of oversize loads over roadways. When designing a modular building for an area with which you are
  not familiar, it is a good idea to check with a trucking company that regularly transports modular
  buildings in that area to best understand what limits exist.

- Since many special and unique requirements affect the cost-effectiveness of a modular building, it is
  important to consult a commercial modular building professional during the project’s design phase so
  that the building can be reviewed for the most efficient “buildability.”
DATA COLLECTION

Data for this report was compiled from previously conducted quarterly reports collected and analyzed by Robert W. Baird Company. In 2006, MBI entered into an alliance with Baird to conduct these surveys to determine various trends within the industry. Approximately sixty dealer and manufacturing companies (both members and non–members of MBI) participated in the quarterly surveys. In addition to the Baird surveys, MBI obtained data from a variety of sources including a prepared survey questionnaire sent to members and non-members in the industry, public SEC filings, and direct communication with company leaders.

This total number of responses represent approximately ten percent of the overall commercial modular industry internationally, but is much more heavily focused on North and South American operations. Based on our analysis of all available data, MBI believes that the commercial modular industry is approximately a $5 billion dollar industry in North and South America and perhaps twice as large internationally. Previous MBI surveys have significantly underestimated the size and impact of the modular market in areas such as the UK, Germany, Spain, and Japan. While we realize that this methodology may not address all issues, it nonetheless represents the most complete and accurate data available for the diverse commercial modular industry.

ABOUT BAIRD

Baird, established in 1919, is an employee-owned, international wealth management, capital markets, private equity and asset management firm with offices in the United States, Europe and Asia. Baird’s principal operating subsidiaries are Robert W. Baird & Co. in the United States and Robert W. Baird Group Ltd. in Europe. Baird also has an operating subsidiary in Asia supporting Baird’s private equity operations.

Robert W. Baird & Co. is a member of the New York Stock Exchange and other principal exchanges and the Securities Investor Protection Corporation (SIPC). Robert W. Baird Ltd. and Baird Capital Partners Europe are authorized and regulated in the United Kingdom by the Financial Services Authority.

REVIEW OF DESCRIPTIVE STATISTICS

An “average” can be calculated using three different methods. The mean is the numerical average, which is the sum of the responses divided by the number of responses. “Mean” is the most commonly understood meaning of average. The median is the response that lies in the middle of a sequence, i.e., the value above and below which there are an equal number of responses (regardless of the values of those responses). The mode is the most frequently occurring response. The mean and median are provided throughout this report.

In a sample or population that has a normal or “bell-shaped” frequency distribution, the mean, median and mode all have the same value. This generally occurs when there are a large number of similar responses. “Similar” is a relative term. Similarity among observations is reported as a standard deviation which measures the dispersal of the observations. A sample population with a normal distribution has 68% of the observations within one standard deviation of the mean, and 95% of the observations within two standard deviations of the mean. When a small number of atypical observations distort the mean relative to the median and mode, the distribution is skewed. This generally occurs when there are a small number of responses or when the responses contain a significant outlier. By way of example, if survey results provide significantly different measures of average lease fleet size, then the population has a wide distribution (many dealers with 400 units and one dealer with 60,000 units). WHEN THE POPULATION IS SKEWED, AS IS THE CASE WITH SOME OF OUR DATA, A MEDIAN AVERAGE GENERALLY PROVIDES A BETTER ESTIMATE OF THE “AVERAGE” RESPONDENT.

Calculation of the appropriate “average” is essential in the quest to ascertain the size of the commercial modular building industry. As an example, if we were curious as to the total number of mobile offices and modular buildings in active lease fleets, the most accurate measure would be if all industry
participants would truthfully disclose the number of units in their own lease fleet at a given point in
time. Since this is not feasible, a reasonable method to estimate the total number of units in domestic
lease fleets is to calculate a reliable average and multiply by the number of active industry participants.
Accuracy of this estimate is a function of numerous factors including clarity of the survey questions
asked, veracity of the responses, confidence in the calculated averages and estimate of the total number of
industry participants.
The Modular Building Institute (MBI) partnered with Robert W. Baird & Co. (Baird) for the purpose of preparing joint industry surveys on the commercial modular construction market. Below are joint survey results as reported for five quarters, beginning in the second quarter of 2006.

As evidenced by the quarterly Baird surveys, leasing revenue continues to grow at mid-double-digit figures. "During the recent quarter, by how much has leasing revenue increased/decreased compared to a year ago, excluding acquisitions?"

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Lease revenue growth (excluding acquisitions) vs one year ago</th>
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<tbody>
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</tbody>
</table>

Utilization is a measure of the percent of dealer fleet on lease compared to the total fleet. Not surprisingly, the growth in utilization rate drops as the industry approaches the low eighty percent range, a healthy range. "During the recent quarter, how much has average utilization rate increased or decreased compared to a year ago?"

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Dealer utilization rate growth vs one year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>3.50 bps</td>
</tr>
<tr>
<td>3Q06</td>
<td>2.00 bps</td>
</tr>
<tr>
<td>4Q06</td>
<td>1.00 bps</td>
</tr>
<tr>
<td>1Q07</td>
<td>0.50 bps</td>
</tr>
<tr>
<td>2Q07</td>
<td>-1.00 bps</td>
</tr>
</tbody>
</table>

"During the recent quarter, how much has average rental rate increased or decreased?"

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Average rental rate increase vs one year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>10%</td>
</tr>
<tr>
<td>3Q06</td>
<td>8%</td>
</tr>
<tr>
<td>4Q06</td>
<td>6%</td>
</tr>
<tr>
<td>1Q07</td>
<td>2%</td>
</tr>
<tr>
<td>2Q07</td>
<td>6%</td>
</tr>
</tbody>
</table>

Dealers remain optimistic about the health of the industry, continuing to forecast double-digit leasing growth. "Over the next twelve months, at what rate do you forecast your leasing revenue will grow, excluding acquisitions?"

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Dealer leasing revenue forecast for next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>16%</td>
</tr>
<tr>
<td>3Q06</td>
<td>17%</td>
</tr>
<tr>
<td>4Q06</td>
<td>17%</td>
</tr>
<tr>
<td>1Q07</td>
<td>13%</td>
</tr>
<tr>
<td>2Q07</td>
<td>10%</td>
</tr>
</tbody>
</table>
Unit sales growth rebounded posting double-digit growth in the second quarter. “During the recent quarter, by how much has unit sales growth revenue increased/decreased compared to a year ago, excluding acquisitions?”

Unit sales revenue growth vs one year ago
2Q06 .................................................. 17%
3Q06 .................................................. 21%
4Q06 .................................................. 16%
1Q07 .................................................. -4%
2Q07 .................................................. 10%

Dealers are reporting that the cost of new units are increasing, but have leveled off for the second quarter of 2007. “During the recent quarter, by how much has the cost of new units increased/decreased compared to a year ago?”

Cost of new units vs one year ago
2Q06 .................................................. 19%
3Q06 .................................................. 11%
4Q06 .................................................. 10%
1Q07 .................................................. 4%
2Q07 .................................................. 4%

Dealers remain optimistic about unit sales revenue growth, however, not as optimistic as the first quarter of 2007. “Over the next twelve months, at what rate do you forecast your unit sales revenue will grow, excluding acquisitions?”

Dealer unit sale revenue forecast for next 12 months
2Q06 .................................................. 19%
3Q06 .................................................. 14%
4Q06 .................................................. 19%
1Q07 .................................................. 20%
2Q07 .................................................. 7%

Dealers continue to forecast a solid growth rate in capital expenditures for fleet purchases (stock items such as construction offices and classrooms). “Over the next twelve months, at what rate do you forecast your fleet spending will increase compared to the prior twelve months?”

At what rate do you forecast fleet spending to increase compared to prior 12 months
4Q06 .................................................. 14%
1Q07 .................................................. 8%
2Q07 .................................................. 11%

**MANAGEMENT & OPERATIONS**
The following data was obtained from a survey sent to MBI members as well as non members. Seventeen dealers responded.

Median number of units in fleet ............... 1,300
Mean average age of unit in fleet ............ 6.5 years
Industry utilization rate at 12/31/06 ......... 82.30%
Dealer mean average income statement and profitability ratios

### Income:
- Leasing: 45%
- Sale of New Units: 28%
- Sale of Used Units: 8%
- Other – trans, delivery, service: 19%
- Total Income: 100%

### COGS:
- 58.8%

### Gross Profit Margin:
- 41.2%

### Net profit Margin (after taxes):
- 6.06%

### Return on Assets:
- 6.6%

### Return on Equity:
- 16.1%

#### Net profit margin of publicly traded dealers for Year End 2006
- McGrath Rentcorp: 15.4%
- Mobile Mini: 15.6%
- Williams Scotsman: 7.2%
- Industry Average: 6.06%

**Dealers: Major Markets Served**

- General office (includes construction site): 35%
- Education: 24%
- Commercial, retail, restaurant, and convenience stores: 23%
- Military, emergency, and government: 8%
- Healthcare: 4%
- Industrial or workforce housing: 3%
- Kiosks, guardhouses, and communication shelters: 4%
DIRECT AND WHOLESALE MANUFACTURERS

The Modular Building Institute (MBI) partnered with Robert W. Baird & Co. (Baird) for the purpose of preparing joint industry surveys on the commercial modular construction market. Below are joint survey results as reported for five quarters, beginning in the second quarter of 2006. Wholesale manufacturer revenue growth is directly influenced by the dealer segment, while direct manufacturer (and dealer) revenues are impacted by market indicators such as those listed on page 19 of this report.

First quarter 2007 figures are lower than one year ago due to the high volume of construction associated with Hurricane Katrina in first quarter of 2006. Second quarter 2007 figures reflect the growth in the overall industry from last year.

Manufacturing revenue growth (excluding acquisitions) vs 1 year ago

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>10%</td>
</tr>
<tr>
<td>3Q06</td>
<td>8%</td>
</tr>
<tr>
<td>4Q06</td>
<td>16%</td>
</tr>
<tr>
<td>1Q07</td>
<td>-9%</td>
</tr>
<tr>
<td>2Q07</td>
<td>11%</td>
</tr>
</tbody>
</table>

Manufacturers remain optimistic about future growth, but recent quarter responses indicate that optimism is more guarded than in previous quarters.

Manufacturer revenue forecast for next 12 months

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>13%</td>
</tr>
<tr>
<td>3Q06</td>
<td>3%</td>
</tr>
<tr>
<td>4Q06</td>
<td>10%</td>
</tr>
<tr>
<td>1Q07</td>
<td>10%</td>
</tr>
<tr>
<td>2Q07</td>
<td>7%</td>
</tr>
</tbody>
</table>

Second quarter figures show that the industry is producing more floors now than one year ago.

Floors produced vs one year ago

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>14%</td>
</tr>
<tr>
<td>3Q06</td>
<td>7%</td>
</tr>
<tr>
<td>4Q06</td>
<td>14%</td>
</tr>
<tr>
<td>1Q07</td>
<td>-11%</td>
</tr>
<tr>
<td>2Q07</td>
<td>9%</td>
</tr>
</tbody>
</table>

Lead times vary based on geographic regions. In some busier markets, lead times have been as high as 12 months. In general, however, lead times range between 8-12 weeks.

Lead times

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Lead Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q06</td>
<td>8 weeks</td>
</tr>
<tr>
<td>4Q06</td>
<td>12 weeks</td>
</tr>
<tr>
<td>1Q07</td>
<td>9 weeks</td>
</tr>
<tr>
<td>2Q07</td>
<td>11 weeks</td>
</tr>
</tbody>
</table>

Cost of materials is up slightly for the second quarter of 2007 but does not appear to have had a negative impact on production.

Raw materials inflation vs one year ago

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q06</td>
<td>9%</td>
</tr>
<tr>
<td>3Q06</td>
<td>4%</td>
</tr>
<tr>
<td>4Q06</td>
<td>1%</td>
</tr>
<tr>
<td>1Q07</td>
<td>-1%</td>
</tr>
<tr>
<td>2Q07</td>
<td>3%</td>
</tr>
</tbody>
</table>
MANAGEMENT & OPERATIONS

The following data was obtained from a survey sent to MBI members as well as non members. Eighteen manufacturers responded.

mean revenue per company ........................................ $19,690,693
mean number of employees ....................................... 177
mean number of factories ........................................... 1.5
mean number of floors produced ............................... 707
mean sq ft produced .................................................. 262,676

gross profit margin
range:........................................................................ 11-64%
mean:........................................................................ 21.66%
median:.................................................................... 16.16%

net profit margin
range:........................................................................ 0-13%
mean:........................................................................ 7.02%
median:.................................................................... 7.20%

ROA median ................................................................ 15%
ROE median ................................................................ 20%

Manufacturers: Major Markets Served

- General office (includes construction site) 46%
- Education 24%
- Retail, restaurant, and commercial 10%
- Military, emergency, and government 10%
- Healthcare 5%
- Industrial or workforce housing 2%
- Kiosks, guardhouses, and communication shelters 4%
MARKET INDICATORS

There are several market indicators that serve as predictors for the health and viability of the commercial modular industry.

**Non Residential Construction Starts.** If this number increases, that generally has a positive impact on the commercial modular industry. Dealer utilization rates historically increase due to increased demand for construction site offices. Companies engaged in permanent modular construction also benefit. According to the U.S. Census Bureau, the value of non-residential construction put in place has grown by 17% over the last year.

**Class size reduction initiatives tend to bode well for the modular industry.** As class size reduces, the demand for additional class space rises. This has been particularly true in certain parts of the United States such as California and Florida.

**Growing School Population.** According to the 2005 U.S. Census Bureau and Department of Education, America’s total classroom population is estimated to be 58 million, higher than any other time in U.S. history. This number includes children in pre-K programs as well as K-12.

**School funding.** Since 30% of the commercial modular industry is in the education market, school funding has a critical impact on business. Steady or increased funding levels to repair or replace aging infrastructure have a mostly positive impact on the industry, while decreases in funding create uncertainty and delay construction expansions.

**High Growth States.** States that experience fast growth rates, such as Arizona and Nevada, are challenged to provide adequate facility infrastructure. Modular construction is often an attractive option for these school districts, municipalities, and business owners.
**TOP 20 MBI DEALERS BY 2006 REVENUE**

Williams Scotsman, **Baltimore, MD**
GE Modular Space, **Wayne, PA**
Resun Corporation, **Dulles, VA**
Mobile Mini, **Tempe, AZ**
Mobile Modular Management Corp (McGrath Rentcorp), **Livermore, CA**
Pac-Van, **Indianapolis, IN**
Acton Mobile Industries, **Baltimore, MD**
Satellite Shelters, **Minneapolis, MN**
M Space Holdings, **New York, NY**
Vanguard Modular Building Systems, **Malvern, PA**
Pacific Mobile Structures, **Chehalis, WA**
Design Space Modular Buildings, **Fontana, CA**
Innovative Modular Solutions, **Naperville, IL**
Hawaii/Alaska Modular, **Kapolei, HA**
Triumph Leasing, **Littleton, MA**
Wilmot Modular Structures, **White Marsh, MD**
McDonald Modular Solutions, **Southfield, MI**
Mobilease Modular Space, **Thorofare, NJ**
Tyson Corporation, **Indianapolis, IN**
Sommer's Mobile Leasing, **Elyria, OH**

*Williams Scotsman acquired Hawaii/Alaska Modular Space in early 2007*

**Resun Corporation merged with GE Modular Space in early 2007 to create ModSpace**

**TOP 10 INTEGRATED MANUFACTURERS BY 2006 REVENUE**

ATCO Structures, **Calgary, AB, Canada**
PTI Travco Modular Structures, **Nisku, AB, Canada**
Modtech, **Perris, CA**
Comark Building Systems, **DeSoto, TX**
Northgate Industries, **Edmonton, AB, Canada**
Modular Technology, **Phoenix, AZ**
Ramtech Building Systems, **Mansfield, TX**
Britco Structures, **Milton, BC, Canada**
NRB, **Grimsby, ON, Canada**
Morgan Building Systems, **Dallas, TX**

**TOP 10 WHOLESALE MANUFACTURERS BY 2006 REVENUE**

Walden Structures, **Riverside, CA**
King's Custom Builders, **Ellaville, GA**
Design Space, **Douglas, GA**
Blazer Industries, **Aumsville, OR**
Amtex, **Garland, TX**
Indicom Buildings, **Barleon, TX**
Southeast Modular Manufacturing, **Leesburg, FL**
Mark Line Industries, **Bristol, IN**
Whitley Manufacturing, **South Whitley, IN**
Forest River, **Elkhart, IN**
APPENDIX

Depreciation/Residual Values
The economic value of a leased mobile office or modular building is determined by comparing
the total cost of the asset with the income producing capacity over its useful life. Cost includes
the initial manufactured cost plus all expenditures for items such as maintenance and taxes
incurred during its useful life. Income includes lease revenue during the buildings useful life
and sale value upon disposition. Residual value is understood to be the anticipated “value” of
the building at the end of the lease. In 2006, the mean annual depreciation was 5.19% per
unit compared to 4.6% in 2005.

While there is no specific IRS ruling pertaining to depreciation of modular buildings, the
following are intended to be general guidelines:

Always consult a professional tax advisor

Visit the IRS Website for additional resources:

The determination as to which depreciation recovery period to apply to the building is based
upon whether the property is considered real or personal.

Generally speaking, the buildings (modular units) alone do qualify for a faster depreciation
than real property. However, once affixed to a foundation, the decision as to whether the
property is real or personal (temporary or permanent) falls within the jurisdiction of the local
code official.

To help determine if a property is considered real (permanent, not intended to be moved),
consider the following:

The question of real vs. personal can be answered by both investigating the original building
design and a term called inherent permanency. Inherent permanency is a definition that
addresses the question of “Is this structure designed and intended for permanent use?” This
issue is relevant, as nearly any structure can be moved. To the extreme end of that scale, the
London Bridge was moved to Arizona - but certainly no one will say that this represents
relocatability. The question of inherent permanence asks at what point can you consider a
structure easily movable and when is it not easily relocatable or reasonably achievable.

Utilizing the six-way test that was established in the Federal court cases of Whiteco and
further used extensively in the Fox Photo case (a modular commercial structure), the courts
recommend that it be viewed under the 6 way test as established in the Whiteco case:

1. Is the property capable of being moved and has it in fact been moved? To facilitate off-
site construction, modular construction requires the manufacture and transport of sectional
units from the factory to another site where they will be connected together. The practice of
assembly and disassembly of modular units is an everyday industry occurrence. The modular
units are designed to be legally transported form the factory over the public highway before
use, therefore, reuse after disassembly is commonplace in practice and intended. Further,
under contractual obligation, typically the structure must be removed at the termination of the
contract of when needed. This most likely will not be the case for on-site constructed facilities.

2. Is the property designed or constructed to remain permanently in place? Non-residential
modular construction typically is designed and manufactured to be readily relocatable.
Foundation systems that are used by modular structures are a function of compliance with
locally prescribed model construction codes to support the structure. Depending on the prevailing local construction codes, foundation systems, not the structure, may or may not be sedentary or appear to be permanent.

For buildings leased, the term of the average original operating lease contract is, typically less than five years. At the termination of the lease, the structure must be removed from the site, relocated, and then would be utilized at another site.

Since the structure's modular units are initially intrinsically designed to be transported for highway movement from the factory to the first site, these structural units maintain their transportability for secondary, and subsequent moves. For these secondary moves, the act of disassembly typically does not substantially damage these sectional modular units. Additionally, it is common that once the modular units are removed, many of these units may be inventoried, re-configured, and reused at other sites.

3. Are there circumstances that show that the property may or will be moved? The term of the lease or the use of the structure dictates the removal of the modular sections. At the termination of the lease or use, lessor or user is required to disassemble and transport each of the modular sections to another site or return to inventory for re-use at a later time.

Since these structures are initially constructed in a remote factory, this design allows an industry-wide marketing application of short use of the structure in one location and the ready relocation to another site. This practice is prevalent in the educational, office, airport, institutional, restaurant, correctional, and medical facilities' markets to name but a few.

Since these structures have been transported over public highways at least once, the ability exists universally to disassemble and re-transport sectional units with minimal costs for permits and transit. The fees to obtain local disassembly permits are nominal in cost as well.

4. How substantial a job is removal of the property, and how time consuming? The job of removing the modular sections of the structures is facilitated by the very initial design and manufacture of the sectional units. Because of the inherent sectional design, disassembly time is minimal. Typical of costs, including time consumed and materials for disassembly and removal, are less the 20% of the replacement costs of the total structure.

Typical disassembly time is less than the time spent in the initial assembly. Typical removal includes disassembly and transportation to another site or to storage. Once in storage, the sectional units may again be transported and reassembled or reconfigured to suit the needs of the next lessee or owner. It is common industry practice to inventory sectional units, and re-configure on a site, as directed by the lessee of owner. The question of cost, time and intrinsic design provide the contrast between readily relocatable and improbability and costly relocation of a structure.

5. How much damage will the property sustain upon removal? Since these sectional units are inherently designed, manufactured, and transported in sectional format for site coupling, these units suffer minimal damage during disassembly. Typically disassembly and removal damage is less the 10% percent of replacement costs to the property. Once disassembled and transported, each sectional unit is capable of being readily re-used in another application or site. Site restoration costs are minimal after removal, and is usually addressed in contract language, therefore the intent to remove the structure is an integral part of the design and application. Contract leases typically specify that the structure is personal property in finite land and structure leases.

6. What is the manner of affixation to the property to the land? For the non-residential modular industry, the manner of affixation to the property is typically determined by local prevailing model construction codes. The manner of affixation to the site is not an indication of intent of permanence, rather it is a commonplace, as most states have a preemptive state-wide construction code for the structure, and local
agencies determine appropriate foundation, utility, and land use issues.
The affixation between the structure and the foundation system can be varied. With pier and pad systems, it is gravity or bolted systems or tack-welded systems. The attachment to the foundation is determined by structural requirements and not by intention of permanence.
Typical foundation systems used in conjunction with modular units allow for ready return to pre-installation status with little or minor site reconstruction costs. Foundation selection factors include wind, seismic, support, use, and access requirements in determination of appropriate systems. Typically, the termination of real or personal property is not one of the factors in the selection of foundation systems.
INDUSTRY TERMS

Modular: A method of construction that utilizes pre-engineered, factory-fabricated structures in three dimensional sections that are transported to be tied together on a school site. Typically, modular construction mean that between 80 to 95% are completed at the factory and then delivered to the site for final affixation.

Conventional: A construction method that utilizes assembly of structures on-site, employing multi-layered design and construction processes.

Permanent: Commercial structures serving fixed or lasting facility needs, and not envisioned to be removed or relocated. Can utilize either conventional or modular construction methods.

Relocatable: Commercial structures utilizing modular construction methods that can be transported over public roads. Designed to be constructed for efficient secondary relocations without the removal of either the floor, roof, or other significant structural modification. Frequently called Portables, and generally under 2000 sq. feet in size.

SAMPLE SPECIFICATIONS - WOOD/STEEL FRAME

- Fully welded channel perimeter frame with 14 gauge joists at 24” o.c.
- Double layer floor decking for increased rigidity.
- 2x4 wall framing @ 16” o.c.
- Single ply roof membrane.
- 1/2” CDX plywood roof sheathing.
- Insulation
  - Floor: 6” R-19 Fiberglass
  - Wall: 3 1/2” R-11 Fiberglass kraft faced
  - Roof: 6” R-19 Fiberglass kraft faced
- Floor finishes available include 1/8” vinyl tile, commercial grade carpeting, ceramic tile, quarry tile and roll goods.
- Standard wall finish provided is vinyl covered gypsum, 1/2” or 5/8” type ‘x’ as required. Optional finishes include: Ceramic tile, glassboard panels, Panel 15 and finished drywall.
- Acoustical suspended ceiling system 2’ x 4’ fissured miniboard panels.
- Standard 8’-0” ceiling height. Optional heights up to 9’-6” available.
- Exterior treatments available: Texture 1-11, vertical steel siding, synthetic stucco, brick face, vinyl siding, aluminum siding, glassboard panels and Panel 15.
- Wall or roof mounted HVAC units w/above ceiling concealed ductwork.
- Windows with double insulated glazing, bronze, mill or white frames. Size and type (fixed, horizontal slider, vertical slider) specified by customer.
- Commercial glass and/or hollow metal steel exterior doors with vision panels.
- Pre-finished solid core interior doors available with vision panels.
- Commercial quality vitreous china plumbing fixtures.
- Electrical service panels. All devices based on NEC and local codes.
- Fire alarm and fire suppression systems supplied based on building square footage and code requirements.
- Compliance with state and local codes through third party approval agency.
MBI sponsors are commercial modular construction leaders who have taken the initiative to align themselves with the institute in a collaborative effort to promote the industry, educate participants within the industry, and ensure a positive and ethical business environment throughout the industry.

Sponsorships allow MBI members to share their knowledge and resources in delivering industry-leading training events, communications tools, industry-trend publications, as well as informational resources for members and non-members alike. We gratefully acknowledge our Diamond Preferred, Platinum, Gold and Silver sponsors:

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**PPR Lyons Pride. 2007 Platinum Sponsor.**
Complete turnkey, national service provider of site management, transport, set-up, and GC site work. Learn more at [www.pprlyonspride.net](http://www.pprlyonspride.net)

**M Space Holdings. 2007 Gold Sponsor.**
Custom modular buildings: sales-leasing-financing; new or existing building. Learn more at [www.mspaceholdings.com](http://www.mspaceholdings.com)

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