

PRESS RELEASE

FARKAS BERKOWITZ & COMPANY

1025 Connecticut Avenue, N.W., Suite 1204

Washington, D.C. 20036

202-833-7530 FAX: 202-833-1555

www.farkasberkowitz.com

CONTACT: Alan L. Farkas

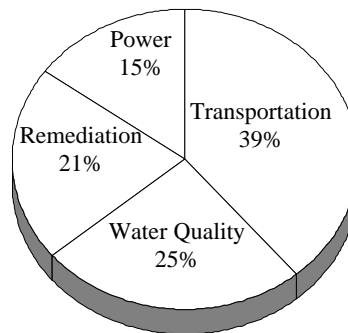
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ENVIRONMENTAL AND INFRASTRUCTURE ENGINEERING FIRMS ENJOY ROBUST GROWTH, AS THE LARGEST FIRMS OUTPACE OTHERS

Washington, DC. June 4, 2007. The U.S. environmental and infrastructure engineering market grew 12.4 percent in 2006, its highest growth rate in seven years. All major market segments enjoyed solid growth. Exhibit 1 shows the distribution of the infrastructure and environmental engineering market among the major market segments.

Exhibit 1:
Distribution of the \$24 Billion Market
for Infrastructure and Environmental Engineering in 2006



Source: Farkas Berkowitz & Company
Based on *ENR* Top 500 Design Firm Survey for 2006

Farkas Berkowitz & Company presented its Nineteenth Annual State-of-the-Industry-Report to an audience of 90 chief executives on May 8 in Washington, DC during the thirteenth annual Farkas Berkowitz Forum, an invitation only gathering of CEOs of leading environmental and infrastructure firms.

The Farkas Berkowitz & Company report reveals that the top five to ten firms in each market segment grew considerably faster than their smaller competitors. As in years past, Farkas Berkowitz & Company calculates for each market how gross revenues from domestic and international projects are shared among three tiers: the top five firms, the next ten firms, and all other firms participating in the *ENR* Top 500 Design Firm Survey. This year the firm also calculated the growth rates for each tier. Because the market share statistics are based on both domestic and international revenues, the growth rates for each tier are not necessarily consistent with our estimate of the U.S. market growth rate.

In the transportation engineering market, the top 15 firms enjoyed an average growth rate of 14 percent versus just 8 percent for firms too small to be counted among the top 15. In power engineering, the top 5 firms averaged a 55 percent rate of growth versus 33 percent for those in the third tier; in water quality engineering segment, the top 5 averaged a 19 percent rate versus 11 percent for the third tier; and in the remediation consulting and engineering segment, the top 5 grew 13 percent versus only 2 percent for those in the third tier. Exhibit 2 shows details of growth rates by tier:

Exhibit 2:
Gross Revenue Growth Rate in 2006 of Firms Grouped by Size

Market Segment	2006 Growth Rate		
	Top 5 Firms	Next 10 Firms	All Other Firms
Transportation	11%	19%	8%
Power	55%	29%	33%
Water Quality	19%	13%	11%
Remediation	13%	10%	2%

Source: Farkas Berkowitz & Company
Based on *ENR* Top 500 Design Firm Survey for 2006

Alan Farkas, Managing Director of the firm, noted, “Part of the explanation for the faster rate of growth among larger firms is their participation in international markets.” The *ENR* survey shows that international revenue for U.S.-based firms grew faster than revenue from domestic projects. He went on to point out, “However, we believe that other more fundamental factors help to explain the faster rate of growth among the largest firms in each market. First, market growth rates vary geographically, and the largest firms have systematically invested in those states and regions that are enjoying more rapid growth, states like California, Texas, and Florida.” He also noted, “In industrial and federal markets, having a national and international presence is becoming an increasingly potent source of competitive advantage, one that only the largest firms enjoy.” Finally, he

commented that larger firms are better able to participate as members of design-build teams or as program management consultants. In every market, design-build and program management services are growing faster than engineering design services.

Transportation Engineering

Farkas Berkowitz estimates that the transportation engineering market grew 7 percent in 2006 after recording nearly a 12 percent growth rate in 2005. The firm estimates the U.S. transportation engineering market in 2006 at \$9.4 billion.

Commenting on the individual transportation segments, Mr. Farkas said, “The highway and bridge segment is a great example of the importance of location to the prosperity of transportation engineers. If you are serving a state or locale that is rapidly growing, and they have bitten the political bullet to fund transportation improvements, then you enjoyed a better-than-average growth rate in 2006.” He elaborated, “As further evidence of the diminishing role of federal funding, the federal Highway Trust Fund is now projected to become insolvent by federal fiscal year 2009.” In addition to the increasing importance of state and local funding sources, he noted the continuing momentum of public-private partnerships as a future source of funding.

Reporting on other segments of the transportation engineering market, Mr. Farkas estimated the growth of the transit market at 5 to 7 percent in 2006, with local funding outpacing federal. Engineers supporting railroads finally saw the release of pent-up demand as capital spending for railroads increased some 28 percent in 2006, according to the American Association of Railroads. Farkas Berkowitz estimates that the rate of growth of the engineering market was comparable to that of the growth in capital spending. The firm estimates that the airport market segment grew better than 5 percent in 2006, continuing its slow recovery after the market debacle of 2002. Mr. Farkas noted that the FAA has recently reported that the demand for capacity was flat in 2006, but the improving financial health of airlines augers well for the future. The ports and harbors market niche continued its fourth consecutive year of double-digit growth, as the South outpaces other regions of the country.

Power Engineering

According to Farkas Berkowitz, the power engineering market surged a phenomenal 36 percent in 2006 to \$3.4 billion, after a strong recovery of 15 percent in 2005. Mr. Farkas noted, “The roller-coaster ride continues. Over the last ten years, the market has experienced rapid growth and sharp declines, with the direction changing every couple of years.”

Mr. Farkas pointed out, “Power engineers continue to benefit from the build-out of coal-fired power plants, but for those plants in permitting, siting, and preliminary design, increasing concerns over climate change are having a chilling effect on their prospects.” Mr. Farkas noted that other important drivers of a robust power engineering market include work to improve the reliability of the electrical transmission grid, continuing

work on LNG terminals, a robust national pipeline market, and the build-out of a variety of alternative energy sources, of which wind energy and ethanol are among the most notable.

Water Quality Engineering

The engineering market related to drinking water and wastewater treatment grew by 15 percent in 2006, according to the State-of-the-Industry Report. This market now totals \$6.1 billion.

Mr. Farkas said, “2006 was the eighth consecutive year of double-digit or near double-digit growth in this market.” Design-build, management advisory services, and water resources engineering are segments that are growing faster than the overall design market. “We estimate the growth of design-build at approximately 25 percent in 2006,” said Mr. Farkas. “We now believe that the municipal water and wastewater design-build market is well in excess of \$1 billion per year.”

Remediation Consulting and Engineering

The firm estimates that the overall remediation consulting and engineering market grew 6 percent in 2006 to \$5.1 billion. The report notes that the growth rate has been slowing over the last two years. Mr. Farkas explained, “As was the case in 2005, those firms serving the federal market suffered declining revenues, while those firms serving the industrial market enjoyed double-digit growth rate in remediation services.”

The industrial market for environmental compliance services recorded another strong year in 2006, according to the Farkas Berkowitz report. “Energy development continues to fuel the very robust permitting market,” said Mr. Farkas. He explained, “For every energy facility that gets built, at least ten get studied, and these ten generate plenty of revenue for environmental consultants.”

Federal Markets

The Farkas Berkowitz report estimates that the U.S. Department of Defense remediation spending declined by well over 15 percent in 2006. The report goes on to forecast that 2007 could be even worse. Mr. Farkas noted, “The picture in 2006 and the one that is developing in 2007 are very similar to what we saw in 2005. Budget uncertainty due to late appropriations and the priority to fund the war in Iraq and Afghanistan have meant that funding for remediation and other environmental services has been in short supply.”

“The greatest disappointment to the DOD contractor community has been the failure of Congress to appropriate funds to support the base realignment and closure program (BRAC),” according to Mr. Farkas. Mr. Farkas reminded the audience that BRAC, MILCON, and the global repositioning of troops were estimated to cost in excess of \$35 billion over a six-to-seven-year period. “Virtually none of that has been expended, and we are theoretically into the second year of the program,” observed Mr. Farkas. He went

on to note, “Executives of many firms who are expected to play major roles in BRAC have expressed to me their total frustration over the disarray they see at the Corps of Engineers and NAVFAC, the two agencies with the greatest responsibility for BRAC implementation.” The Farkas Berkowitz report forecasts that BRAC spending should be significant in 2008.

For remediation services procured by the U.S. Department of Energy, the State-of-the-Industry Report notes that funding for DOE’s environmental program has steadily declined from its peak of \$7.1 billion in federal FY 2005 to the \$5.7 billion requested for 2008. Nevertheless, the report notes that this market is still large, and many procurements will take place later this year and next. Mr. Farkas observed, “The new round of contracting gives many firms the opportunity to break into the ranks of the top four suppliers to this market. The top four today are Bechtel, CH2M HILL, Fluor, and Washington Group International. Those firms with an opportunity to expand their market share include Northrop-Grumman, Lockheed-Martin, Energy Solutions, and Parsons.”

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Farkas Berkowitz & Company is a management consulting firm serving companies that provide design, construction, and operational services for government and industry. Established in 1983, the firm assists clients with strategy, mergers and acquisitions, and operations improvement. Inquires should be addressed to Alan Farkas at 202-833-7530 or farkas@farkasberkowitz.com or visit their website: www.farkasberkowitz.com.