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Managing Director (effective
March 2006)

M. Brent Morse
Director

1210 East Cary Street
Suite 300
Richmond, VA 23219
(804) 340-8100

3060 Peachtree Rd. NW
Suite 780
Atlanta, GA 30305
(678) 904-5838

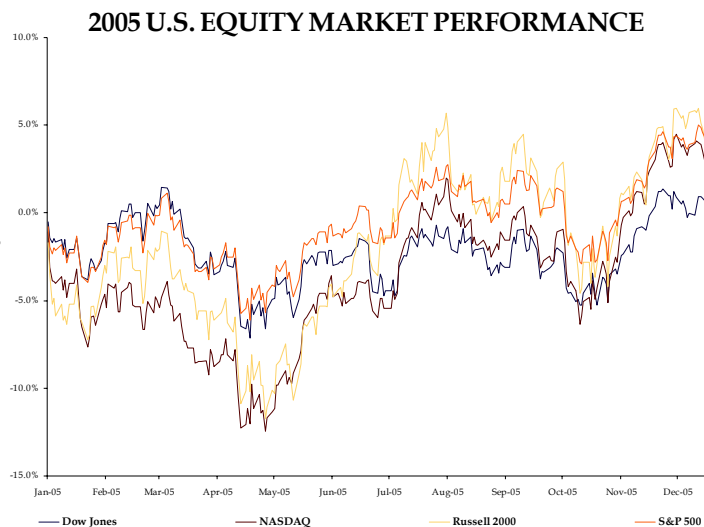
1812 Eastchester Drive
High Point, NC 27265
(336) 889-7878

www.carystreetpartners.com

ECONOMIC COMMENTARY BY MARSHALL ACUFF

Despite rising interest rates and energy prices, the U.S. stock market produced positive returns in 2005 thanks to better than expected revenue and profit margin growth, share buy backs, and favorable liquidity conditions. For 2006, we expect that for most companies, revenues and margins will not provide the positive surprises of 2005. Somewhat slower economic growth and increasing challenges to sustaining historical high profit margins may combine to produce corporate profits growth less than 10% compared to 13% for 2005.

The Federal Reserve may cease raising short-term interest rates in the first half of 2006, but there is little subsequent visibility of their lowering short-term rates. So far, despite high energy costs and rises in other commodity prices, final goods costs to the consumer have not risen very much. Wages, though, have been moving up faster than in recent years. We suspect the Fed will remain vigilant about the trend of corporate pricing and wage growth as well as the trend of final consumption.



We look for several trends to develop, some the same and some different than those in 2005. Each one carries investment significance. At this time last year, most observers feared a further drop in the dollar. In fact, the dollar advanced 12% in 2005, helped by rising U.S. interest rates and strong capital flows into the U.S. In 2006, we expect that the dollar will not rise and

may even decline as a reflection of its fundamental weakness, a slower U.S. economy, and some rise in interest rates outside the U.S. The investment beneficiaries would be gold and foreign bonds.

Another trend will be the continuation of a high level of merger and acquisition activity in the U.S. and abroad. Consolidation remains a major theme in a number of sectors and the robust availability of capital will encourage both buyouts and mergers. Consequently, 2006 should be another good year for investment bankers as they find ways to utilize the worldwide surplus of liquidity.

Distressed investing may be another strong theme over the next 24 months. During recent years, the ready availability of low cost funds has probably been utilized for financing a number of marginal businesses for which any slowing in growth and/or increased competition could present rising credit risks in the months ahead. In addition to a greater supply of distressed investments, we expect yield spreads to widen over the coming year.

Over the past two years and again for 2006, Wall Street strategists are optimistic about large cap stocks outperforming mid and small cap equities. Since 1999, the latter have outperformed the large caps and consequently relative valuations are comparatively low historically for the big cap stocks. While relative valuations do support greater interest in the large caps, the earnings growth for most of them is one-third to one-half less than it was during the 1990s. Looking at them on a price-earnings/growth (PEG) basis, most are trading about 1x their PEG ratio. For perspective, many of these same stocks were valued at less than 1x their PEG ratios before their surge in performance during the second half of the 1990s. For them to outperform other broad areas of the market, S&P profits growth will need to

expand less than 10%, relative stock performance would need to strengthen if the overall market corrects 5-10%, and their PEG ratios should be close to 1x. These criteria may be fulfilled later in 2006.

We believe the U.S. stock market will remain in a trading range during the course of 2006. Moreover, returns may be more modest than the bulls now expect. Stock picking will be more important in 2006 than 2005. In selecting stocks for purchase with new money, we suggest focusing on companies with the potential to grow their revenues consistently and/or faster, even if the economy's growth moderates, and the potential to improve their margins. Rising dividends remain an important consideration. Dividends should rise another 10-11% in 2006, compared to the 12% growth in 2004 and 2005. Finally overseas markets may continue to outpace the U.S., but their absolute returns will be less than in 2005.

2005 PERFORMANCE OF SELECTED INTERNATIONAL EQUITY INDICES



FINANCIAL PLANNING

Congress is still gridlocked over any extension of the lower 15% long-term capital gains and dividends rates. Under current law, the 15% tax rates expire at the end of 2008. The main fight seems to center around the elimination or reduction in the Alternative Minimum Tax (AMT) versus the 15% rates. This will prove to be a hotly contested debate throughout the upcoming legislative session as many Republicans feel the lower rates are more important while almost all Democrats feel strongly about dealing with AMT and letting the 15% rates disappear.

The new year brought changes to the estate and gift tax exclusion amounts and top tax rates as shown in the following chart.

	Exclusion Amount	Top Tax Rate
Estate Tax	\$2,000,000	46%
Generations Skipping Tax	\$2,000,000	46%
Gift Tax	\$1,000,000	46%

The exclusion amounts will remain at these levels until 2009 when the Estate Tax and GST amounts each increase to \$3.5 million. In 2010, there will be a total repeal of the estate tax followed in 2011 by a full return of the old estate and gift amounts and rates.

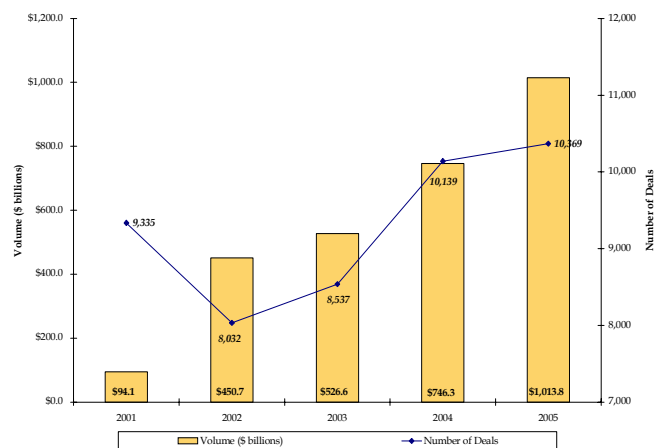
Remember the annual present interest gifting exclusion amount has been increased to \$12,000 per donor to each recipient with no limit on the number of recipients. Also of special note, the IRS remains vigilant in its efforts to crack down on abusive family limited partnerships.

DEAL MARKETS

MERGERS AND ACQUISITIONS

The M&A market enjoyed its best year since 2000, as aggregate deal value for 2005 soared to more than \$1 trillion compared to \$746 billion in 2004. The average deal size grew to a healthy \$259 million from \$200 million in the prior year.

US M&A MARKET: 2001 - 2005



Source: MergerStat.

The underlying fundamentals contributing to the strength of last year's M&A volume continue to look positive and bode well for deal activity as we head into 2006. The reasons for this continued optimism include:

1. *Liquidity* – The debt markets continue to be strong, illustrated by the rise in average debt multiples of highly leveraged loans from 3.7x EBITDA in 2001 to an average of 4.3x in 2005.
2. *Abundant private equity capital* – Buyout funds raised a record \$173.5 billion in 2005, over four times the amount raised in the previous year. In an effort to compete with corporations for virtually any sized transaction, private equity groups are raising larger and larger funds and join-

ing forces with other firms creating “club” deals to buy ever bigger companies.

3. *Strategics are being more aggressive* – Several years of earnings growth coupled with internal cost cutting have left corporations with record levels of cash and healthy balance sheets. These companies remain reluctant to return only so much cash to shareholders and now are looking aggressively for acquisitions.

4. *Hedge funds enter the mix* – Hedge funds are now competing for leveraged buyouts and throwing their large capital bases into the fray. Hedge funds are generally freer in terms of industry concentration and investment size and are quickly becoming formidable players in the acquisition market.

Given these trends in the marketplace and the risk that the 15% capital gains tax rates may disappear, we are seeing many private business owners taking the time to consider their liquidity and other strategic alternatives.

FINANCING MARKETS

The capital raising environment remained strong in 2005 as venture investors continued to put to work their large caches of capital and lenders remained aggressive. The IPO market experienced a solid, but not spectacular year and only looked off compared to the international IPO markets.

Venture Capital - Venture capitalists invested \$21.7 billion in 2,939 deals throughout 2005, closely mirroring 2004 investment totals. In the fourth quarter of 2005, \$5.1 billion of capital was put to work in venture deals, off from the third quarter’s \$5.4 billion and last year’s fourth quarter of \$5.7 billion. In the public markets, venture-backed companies raised \$2.2 billion through IPO’s in 2005, less than half the amount raised in the prior year. Although the IPO market

was less lucrative in 2005, the M&A market for venture backed companies was as strong as ever. M&A volume for venture-backed companies increased 17% to \$27.3 billion. A final trend of special interest to entrepreneurs is the rise in seed and first-round investments by venture capitalists. New investments reached a four-year high in 2005 with 901 companies receiving their first round of institutional capital. The strong fund-raising environment over the last several years and the active M&A market have pushed some investors back to early stage investments.

Debt - The leveraged loan market experienced another strong year in 2005, with volume finishing 11.4% higher than 2004. After a slow third quarter, the fourth quarter of 2005 rebounded to close 15.6% above Q3. However, the fourth quarter’s volume did not reach the same levels of Q1 and Q2, and was down 2.6% from Q4 of 2004. Average debt / EBITDA multiples continue to rise and, at 4.3x, are at their highest levels since 1999, having increased every year since 2001. The high yield bond market slowed in 2005 after two record years of new issuance. The refinancings that helped drive volume the past two years declined during the second half of 2005, and new issuance was driven primarily by event related transactions, such as acquisitions and leveraged buyouts.

Equity - Globally, 2005 represented a stellar year for the IPO market with volumes increasing 18% over 2004. The domestic IPO market, unfortunately, did not realize that same growth. In 2005, the United States was the only major world market to show a decline in both the number of IPOs and dollar volume. In 2005, 211 companies came to market raising \$35.9 billion, down from 2004 when 236 companies raised \$45.0 billion. This decline is attributable to several factors including increasingly cumbersome regulatory burdens (Sarbanes-Oxley), excessive compliance costs, and the year’s marginal stock market performance.

Domestic Equity Markets

<i>(Returns)</i>	Q4 2005	CY 2005
Dow Jones	1.4%	(0.6%)
NASDAQ	2.5%	1.4%
S&P 500 ⁽¹⁾	2.1%	4.9%
Russell 2000 ⁽¹⁾	1.1%	4.6%

(1) Return includes dividends.

International and Emerging Equity Markets

<i>(Returns)</i>	Q4 2005	CY 2005
EAFE	6.8%	26.0%
Europe	4.2%	21.6%
Pacific ex Japan	1.1%	15.4%
Japan	16.4%	42.9%
BRIC (Brazil, Russia, India, China)	4.7%	34.2%

Hedge Funds

<i>(Returns)</i>	Q4 2005	CY 2005
CSFB Tremont Hedge Fund Index	1.6%	7.6%
MSCI Hedge Fund Composite Index	1.1%	8.1%

Source: Morgan Stanley Capital International and The Wall Street Journal.

Interest Rates

	12/31/2005	9/30/2005	12/31/2004
Federal Funds	4.25%	3.75%	2.25%
30 Year Treasury	4.55%	4.57%	4.82%
10 Year Treasury	4.39%	4.33%	4.22%
LIBOR - 6 Month	4.70%	4.23%	2.78%

Source: The Wall Street Journal.

Key Economic Indicators

Unemployment Rate		4.9%
Capacity Utilization		80.7%
	<u><i>S&P Earnings Growth</i></u> ⁽²⁾	<u><i>GDP Outlook</i></u> ⁽²⁾
Q4 05	8.9%	1.1%
Q1 06	6.1%	3.4%
2004	21.0%	4.2%
2005	11.2%	3.5%
2006	7.1%	3.4%

(2) Statistics represent average of analyst estimates as of the end of 2005 and are derived from various sources. Figures subject to change. Actual figures are in **Bold** and estimates are *italicized*.

Initial Public Offerings

<i>Totals</i>	Q4 2005	Q3 2005	Q4 2004
Number of Deals	49	75	75
Aggregate Volume (\$MM)	\$7,533	\$10,228	\$14,696
<i>Q4 Notable Deals:</i>	Date	Amt (\$MM) ⁽¹⁾	Return ⁽²⁾
Clear Channel Outdoor	11/11/2005	\$630	11.4%
Tronox	11/22/2005	\$245	(6.6%)
International Coal Group	12/12/2005	\$231	(13.6%)
Under Armour	11/17/2005	\$181	194.7%

(1) Excludes underwriter over allotment.

(2) Represents performance from IPO date through December 31, 2005.

Venture Capital

<i>Totals</i>	Q4 2005	Q3 2005	Q4 2004
Number of Deals	709	742	798
Aggregate Volume (\$MM)	\$5,084	\$5,445	\$5,676
<i>Q4 Notable Deals:</i>	Date	Amt (\$MM)	Industry
Cornice, Inc.	12/15/2005	\$97	Info. Tech.
Cerimon Pharmaceuticals	10/27/2005	\$70	Pharma.
Perlegen Sciences	12/30/2005	\$50	Biotech

Source: PwC MoneyTree and The VC Deal.

High Yield New Issuances

<i>Totals</i>	Q4 2005	Q3 2005	Q4 2004
Number of Deals	73	84	125
Aggregate Volume (\$MM)	\$18,736	\$22,589	\$28,636

Mergers & Acquisitions

<i>Totals</i>	Q4 2005	Q3 2005	Q4 2004
Number of Deals	2,342	2,496	2,398
Aggregate Volume (\$MM)	\$281,900	\$211,900	\$209,800
<i>Q4 Notable Deals:</i>	Ann. Date	Amt (\$MM)	
Burlington Recs., acquired by ConocoPhillips	12/12/2005	\$35,600	
Guidant, acquired by Boston Scientific	12/5/2005	\$25,000	
Georgia-Pacific, acquired by Koch	11/13/2005	\$21,000	
Jefferson-Pilot, acquired by Lincoln Natl.	10/10/2005	\$7,700	

Source: Mergerstat, The Wall Street Journal, and Capital IQ.

IPO MARKET				
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DEAL ACTIVITY:

	2002	2003	2004	2005
Number of Deals	83	82	236	211
Volume (billions)	\$22.6	\$14.1	\$45.0	\$35.9

Notable Deals in the Southeast and Mid-Atlantic

Company	Location	IPO Date	Proceeds (millions)	Return at 12/31/05
NetStar, Inc.	Sterling, VA	6/28/05	\$605.0	38.6%
Intercontinental Exch.	Atlanta, GA	11/16/05	\$478.4	39.8%
Fairpoint Comm	Charlotte, NC	2/4/05	\$462.5	(44.0%)
Syniverse Holdings	Tampa, FL	2/10/05	\$281.9	30.6%
Diamondrock Hosp.	Bethesda, MD	5/26/05	\$273.9	13.9%
Worldspace Corp.	Silver Spring, MD	8/4/05	\$249.2	(30.9%)
Ruth's Chris	Heathrow, FL	8/8/05	\$234.0	0.5%
Pike Electric Corp.	Mount Airy, NC	7/26/05	\$189.0	15.9%
James River Group	Chapel Hill, NC	8/8/05	\$80.0	10.3%
CBeyond Comm	Atlanta, GA	11/2/05	\$73.6	(14.2%)
Amerisafe, Inc.	DeRidder, LA	11/17/05	\$72.0	11.9%
NCI, Inc.	Reston, VA	10/24/05	\$54.1	30.8%

M&A MARKET				
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DEAL ACTIVITY:

	2002	2003	2004	2005
Number of Deals				
United States	8,032	8,537	10,139	10,369
SE/Mid-Atl. ⁽¹⁾	1,068	1,224	1,637	1,697

Volume (billions)

United States	\$450.7	\$526.6	\$746.3	\$1,013.8
SE/Mid-Atl. ⁽¹⁾	\$61.1	\$74.0	\$189.3	\$260.5

⁽¹⁾ Data for Southeast/Mid-Atl. is defined by using acquisition targets only.

Notable Deals in the Southeast and Mid-Atlantic

(Southeast or Mid-Atlantic Company is *italicized*)

Buyer	Target	Announced Date	Deal Value (millions)
<i>Bank of America</i>	<i>MBNA Corp.</i>	6/30/05	\$35,800
<i>Koch Forest Products</i>	<i>Georgia-Pacific</i>	11/13/05	\$21,000
<i>FPL Group</i>	<i>Constellation Energy</i>	12/19/05	\$11,300
<i>Verizon Comm</i>	<i>MCI Corp.</i>	2/14/05	\$10,746
<i>Lincoln National</i>	<i>Jefferson-Pilot</i>	10/10/05	\$7,700
<i>Capital One</i>	<i>Hibernia Corp.</i>	3/6/05	\$5,300

VENTURE CAPITAL MARKET				
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DEAL ACTIVITY:

	2002	2003	2004	2005 ⁽²⁾
Number of Deals				
United States	3,057	2,865	2,966	2,939
Southeast	185	158	171	117
Mid-Atlantic	281	246	218	186

Volume (millions)

United States	\$21,698	\$19,585	\$21,635	\$21,680
Southeast	\$1,225	\$729	\$969	\$589
Mid-Atlantic	\$1,699	\$1,200	\$1,278	\$1,056

⁽²⁾ Regional data through Q3.

Notable Deals in the Southeast and Mid-Atlantic

Company	Location	Date	Amount (millions)	Industry
Current Comm	Germantown, MD	7/8/05	\$100.0	IT
Netifice Comm	Atlanta, GA	3/9/05	\$55.0	IT
Tranzyme	Triangle Park, NC	5/16/05	\$32.0	Pharma.
Motricity	Durham, NC	7/13/05	\$30.0	Telecomm
Intellon Corp.	Ocala, FL	8/25/05	\$24.5	IT
LVL7 Systems	Morrisville, NC	2/10/05	\$21.0	Telecomm
CBeyond Comm	Atlanta, GA	1/12/05	\$17.0	Telecomm
Axerra Networks	Boca Raton, FL	9/20/05	\$16.3	Telecomm
SmartSynch	Jackson, MS	10/18/05	\$12.0	IT

DEBT MARKETS				
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	2002	2003	2004	2005
High Yield				
Number of Deals	231	435	477	322
Volume (millions)	\$60,051	\$116,550	\$114,576	\$81,309

Leveraged Loan

Number of Deals	452	574	746	988
Volume (millions)	\$139,440	\$165,602	\$265,157	\$295,444

Loan Default Rate⁽³⁾

	4.45%	2.28%	1.12%	1.98%
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Interest Rates

30 Year Treasury	4.79%	5.08%	4.82%	4.55%
10 Year Treasury	3.83%	4.26%	4.22%	4.39%
LIBOR - 6 Month	1.38%	1.22%	2.78%	4.70%

⁽³⁾ Calculated as the LTM number of defaults divided by the number of Issuers at the beginning of the 12-month period.