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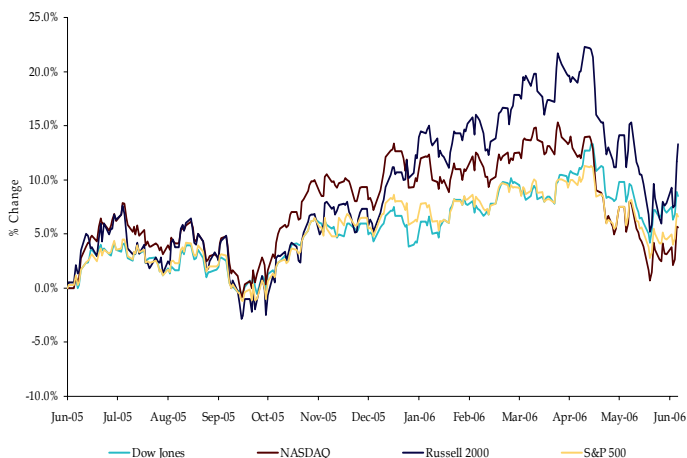
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ECONOMIC COMMENTARY BY A. MARSHALL ACUFF

Stock markets had their ups in the first quarter and their downs in the quarter just ended. At the close of the second quarter, the S&P 500 stood 3.4% below its May peak. Nonetheless, the S&P 500 returned 2.7% including dividends for the first six months of 2006.

Most of the volatility during the second quarter stemmed from a negative shift in perception about inflation and interest rates and was exacerbated in June by increased worries about growth of the economy and profits. Concerns about tightening monetary policies outside the U.S., especially in Japan also contributed to increased volatility in commodities markets as well as in stocks. Presently, increasing signs indicating a slowing of the economy's growth have eased worries about future interest rate hikes by the Federal Reserve. While it is currently even money that the Fed will raise rates again in August, the odds are better than even that rate increases will cease by Fall. Near

LTM U.S. EQUITY MARKET PERFORMANCE



term, favorable second quarter earnings may help the stock market, but investors will be sensitive to managements' views about profits and profitability over the remainder of the year and into 2007. With slowing growth in the economy and profit reporting ahead, the stock market is unlikely to sustain much of a rally. Moreover, of concern in the months ahead is the fact that stock analysts have yet to reduce the aggregate of their individual companies' earnings estimates. Until they do, in response to slower eco-

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conomic growth, we expect further volatility in stocks during the months ahead as profit growth moderates. At this time, we believe that any shift in profit growth expectations represents a greater risk to the market than does an additional rise in interest rates.

In response to this outlook, Cary Street Partners has, in recent months, encouraged adding liquidity to portfolios. Furthermore, small cap stock holdings have been deemphasized while we are suggesting large cap holdings be increased in the months ahead. Tactically, we believe that developed markets may outperform emerging markets, but strategically the latter are likely to outperform the former. Alternative investments are likely to continue to provide advantageous diversification, especially those associated with distressed investing. Year to date, the stock market is performing somewhat like the typical second year of the four year election cycle. Students of the stock market know, however, that the best year for the market is usually the third of the four year cycle. While still early, we believe 2007 will be a better year for stocks than 2006.

FINANCIAL PLANNING

ESTATE TAX DEBATE

The month of June brought plenty of healthy debate on the estate tax repeal and reform issue. For those of you new to the subject, our current estate tax law, which provides for a gradual reduction in rates and an increase in exemption amounts through 2010, is scheduled to expire in 2011. This means, if the law remains unchanged, our top federal estate tax rate will climb to 55% in 2011 and the estate exemption amount will be capped at \$1 million per person. For 2006 the estate tax is tiered, ranging from 18% to 46%, with an exemption of \$2 million per person.

The general consensus is that a complete repeal of the estate tax is unlikely. On June 8th, the Senate rejected the Death Tax Repeal Permanency Act of 2005. However, as of July 8th, the House voted 230-180 in favor of a new measure that eliminates the estate tax and ties in a federal minimum wage increase from \$5.15 an hour to \$7.25 over the next three years. This new entanglement may not bring any more success than other bills that failed in the Senate where Democrats and GOP moderates have successfully fought the estate tax repeal measure.

While repeal is unlikely, on June 22nd the House of Representatives passed a compromise estate tax reform bill, H.R. 5638. The bill is now being debated in the Senate where it needs at least 60 votes to pass. H.R. 5638 would increase the estate exemption amounts to \$5 million per person (\$10 million per couple). It would also lower the estate tax rate to match the capital gains tax rate (currently 15%) for estates under \$25 million. For estates over \$25 million it would set the estate tax rate to double the capital gains tax rate (30%).

H.R. 5638 has a provision that repeals the federal tax deduction for estate and inheritance taxes. Several states, including Virginia, New York, North Carolina, New Jersey as well as the District of Columbia have estate and/or inheritance taxes. This repeal would cause the Federal estate tax to be calculated on the portion of the estate that had already been used to pay state estate/inheritance taxes. In other words, double taxation. The aftershock effect of this repeal would add increased pressure on these states to drop those taxes, which in turn would affect those states' bottom line.

There are multiple reform proposals in the works should the Senate not pass H.R. 5638. All of these proposals re-

volve around at least one of two issues: changing the estate tax rate and changing the estate exemption amount.

In a nutshell, changing the estate tax rate would have a far larger impact on our national budget than changing the estate exemption amount. The Joint Committee on Taxation estimates that the implementation of H.R. 5638 would cost \$238 billion between 2007 and 2016.

DEAL MARKETS

MERGERS AND ACQUISITIONS

The second quarter of 2006 saw the torrid pace of the M&A market build upon the precedent set in the first quarter of the year. The U.S. M&A market's 2,637 transactions had an aggregate deal value of \$334.4 billion, compared to 2,905 deals generating an aggregate deal value of \$246.4 billion in the same period in 2005. Despite a small dip in transaction volume, spending continued to increase as the number of deals valued at over \$1 billion climbed ever higher. A similar trend was also present in the middle market where transaction volume fell from 2,825 deals in the second quarter of 2005 to 2,526 deals in the second quarter of this year, but aggregate deal value climbed to \$57.2 billion compared with \$55.4 billion over the same time period last year.

There is a sentiment in the marketplace that the current M&A boom will continue due to the tremendous amount of capital held by financial and strategic buyers. Private equity groups raised \$96 billion for new funds in the first half of 2006 (a level not reached since 2000) and invested approximately \$60 billion in new deals during the last twelve months. Meanwhile, several years of strong profit growth have left corporations with stockpiles of cash not seen in decades. In addition, favorable conditions in the debt and

mezzanine markets have allowed equity payments as a percentage of total M&A transaction capitalization to fall from 39% in Q1 to 31% in Q2. These factors continue to push up valuations, with the average purchase price multiple for middle market deals rising to 8.3x EBITDA from 7.8x in Q1. The strength of the M&A market is beginning to cause concern among some insiders, as rising valuations and adventurous transaction structures begin to push the envelope.

FINANCING MARKETS

Venture Capital - In the second quarter, venture capitalists invested the highest dollar amount in the most deals since Q1 2002, according to the MoneyTree Report. Venture investing grew to \$6.3 billion in 856 deals compared to 818 deals and \$6.2 billion in the previous quarter. In addition to investing, venture capitalists were also busy raising capital as they managed to garner commitments for new funds of \$11.2 billion during the quarter. Fifty firms raised that sum (an average of nearly \$225 million per firm), which marked a sharp increase from the \$6.7 billion raised in the first quarter. According to the National Venture Capital Association, the \$11.2 billion total was boosted by three unusually large funds, one of which is, at least for now, the biggest on record. Oak Investment Partners raised \$2.6 billion and two other firms also had funds that totaled over \$1 billion.

Debt - Middle market loan volume picked up going from \$6.4 to \$8.6 billion, a jump of 34% over Q1 and a 6% increase over the same quarter for 2005. M&A deals, including leveraged buyout credits, represented half the total loan volume, which marked a \$600 million increase over Q1. Year to date, M&A related loan volume rested at \$8 billion, an increase of \$2.1 billion over the same period a year ago. While the debt markets remain solvent, our sense of the

middle market is that lenders are becoming more conservative as they look at new credits.

Equity - Despite volatile equity market conditions, funds raised through initial public offerings were up over the same period last year. Forty-six deals raised \$11.2 billion in the second quarter of 2006 compared with 43 deals that raised \$6.7 billion in the same period a year ago. The average size of the second quarter's IPOs was \$242 million versus \$160 million in the second quarter of 2005. Underlying the auspicious numbers is a rather stark contrast in market fundamentals between the beginning of the quarter and the end. While the IPO market began Q2 strong, volatility in the broader equity market combined with some poor IPO debuts (e.g. Vonage) led to a gradual decline in market dynamics. As a result, June saw poor performance in IPO debuts (over 60% priced below their original expected range), with many deals being pulled or delayed. Large deals emerged as the few immune to the decline. Heading into Q3, there are currently over 130 deals in IPO registration. Q3 should prove to be an important barometer for how the IPO market fares for the remainder of 2006.

Domestic Equity Markets

(Returns)	Q2 2006	LTM
Dow Jones	0.4%	8.5%
NASDAQ	(7.2%)	5.6%
S&P 500 ⁽¹⁾	(1.4%)	8.6%
Russell 2000 ⁽¹⁾	(5.0%)	14.6%

(1) Return includes dividends.

International and Emerging Equity Markets

(Returns)	Q2 2006	LTM
EAFE	(0.3%)	23.7%
Europe	1.2%	21.5%
Pacific ex Japan	1.4%	14.4%
Japan	(4.6%)	34.4%
BRIC (Brazil, Russia, India, China)	(2.8%)	54.6%

Hedge Funds

(Returns)	Q2 2006	LTM
CSFB Tremont Hedge Fund Index	0.9%	14.5%
MSCI Hedge Fund Composite Index	0.5%	5.5%

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

Interest Rates

	6/30/2006	3/31/2006	6/30/2005
Federal Funds	5.25%	4.75%	3.25%
30 Year Treasury	5.19%	4.89%	4.22%
10 Year Treasury	5.15%	4.85%	3.94%
LIBOR - 6 Month	5.59%	5.12%	3.71%

Source: The Wall Street Journal.

Key Economic Indicators

Unemployment Rate		4.6%
Capacity Utilization		82.4%
	S&P Earnings Growth⁽²⁾	GDP Outlook⁽²⁾
Q1 06	15.5%	5.6%
Q2 06	9.9%	2.5%
Q3 06	12.0%	2.8%
2005	13.7%	3.2%
2006	9.2%	3.5%

(2) Statistics represent average of analyst estimates as of the end of Q2 2006 and are derived from various sources. Figures subject to change. Actual figures are in **Bold** and estimates are *italicized*.

Initial Public Offerings

Totals	Q2 2006	Q1 2006	Q2 2005
Number of Deals	46	43	43
Aggregate Volume (\$MM)	\$11,150	\$9,660	\$6,700
Q2 Notable Deals:	Date	Amt (\$MM) ⁽¹⁾	Return ⁽²⁾
Mastercard	5/25/2006	\$2,400	23.1%
Vonage	5/24/2006	\$531	(49.5%)
Burger King	5/18/2006	\$425	(7.4%)
J. Crew	6/28/2006	\$376	37.3%

(1) Excludes underwriter over allotment.

(2) Represents performance from IPO date through June 30, 2006.

Venture Capital

Totals	Q2 2006	Q1 2006	Q2 2005
Number of Deals	856	818	804
Aggregate Volume (\$MM)	\$6,345	\$6,200	\$6,300
Q2 Notable Deals:	Date	Amt (\$MM)	Industry
Amp'd Mobile	4/17/2006	\$150	Telecom
Current Communications	5/5/2006	\$130	Telecom
Nanosolar	6/22/2006	\$75	Energy

Source: MoneyTree Report and The VC Deal.

High Yield New Issuances

Totals	Q2 2006	Q1 2006	Q2 2005
Number of Deals	95	62	70
Aggregate Volume (\$MM)	\$31,910	\$25,948	\$16,473

Mergers & Acquisitions

Totals	Q2 2006	Q1 2006	Q2 2005
Number of Deals	2,637	2,492	2,905
Aggregate Volume (\$MM)	\$334,400	\$273,100	\$246,400
Q2 Notable Deals:	Ann. Date	Amt (\$MM)	
Golden West Financial, acq. by <i>Wichovia</i>	5/7/2006	\$25,500	
Inco, acquired by <i>Phelps Dodge</i>	6/26/2006	\$19,500	
Pfizer Consumer Healthcare, acq. by <i>J&J</i>	6/26/2006	\$16,600	
Univision, acquired by <i>Investor Group</i>	6/27/2006	\$12,110	

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