

EXPERIENCE  
INTEGRITY  
COMMITMENT  
SOLUTIONS

FOR MORE INFORMATION:

Mark M. Gambill  
*Managing Partner*

INVESTMENT BANKING

Thomas H. Tullidge, Jr.  
*Managing Director*

Kip R. Caffey  
*Managing Director*

F. Marcus Fariss  
*Managing Director*

Tim Black  
*Director*

WEALTH MANAGEMENT

A. Marshall Acuff, Jr.  
*Managing Director*

Paul Rocheleau  
*Managing Director*

M. Brent Morse  
*Director*

Mary Jane Lassiter  
*Director*

1210 East Cary Street  
Suite 200 & 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](http://www.carystreetpartners.com)

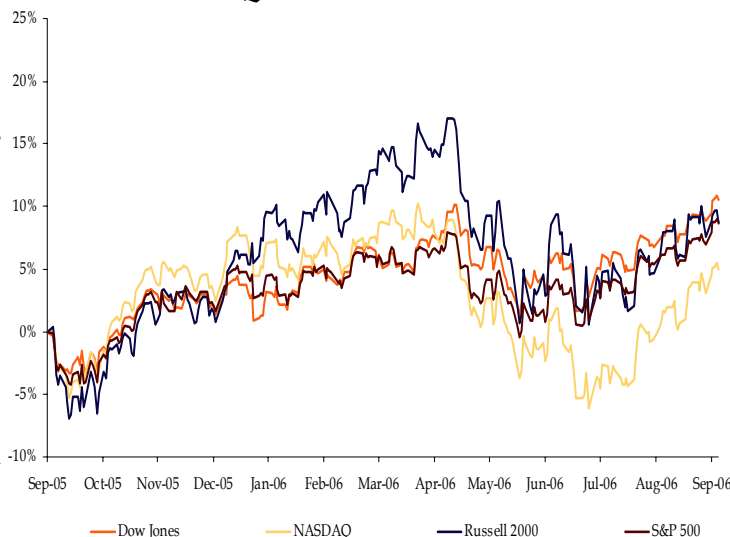
### ECONOMIC COMMENTARY BY A. MARSHALL ACUFF

The stock market rally that began in July continued through September, producing the best performing third quarter in nine years and one of the few positive returning Septembers in memory. Most of the impetus for the gains came from weakening commodities prices, especially oil and gas. Cessation of rate hikes by the Federal Reserve, the absence of a major hurricane season, and a push to put money in the market before the end of the third quarter also contributed to the strength of equities. The third quarter gains spilled over into October and year-to-date the total return of the S&P 500 is nearly 11%. Interestingly, the S&P 500 outperformed 80% of mutual funds and most hedge fund strategies during the third quarter.

An increasing number of economic indicators are pointing to slower growth. The sales of housing and autos may continue to weaken in the months ahead. Consequently, production in both industries is sliding in an attempt to rebalance inventories with sales.

Currently, production of autos and houses is below that of the rate of sales growth. If this trend continues, excessive inventories should be reduced leading to a pick-up in future production. The recent decline in energy prices, together with rising employment and incomes, bodes well for consumer spending in the holiday season and beyond. Worrisome, though, is the fact that wage growth is moving ahead of productivity gains. If this trend continues, the Federal Reserve will take note.

LTM U.S. EQUITY MARKET PERFORMANCE



Although we have obtained or derived the information within this document from sources we believe to be reliable, we do not represent that this information, either expressly or implied, is accurate or complete. Any opinions or estimates contained in this document represent our judgment at this time, and are subject to change without notice. Data contained within was compiled as of September 30, 2006 and may have changed in the interim. Cary Street Partners Holdings LLC is the sole owner of Cary Street Partners LLC and Cary Street Partners Investment Advisory LLC. Cary Street Partners LLC is a registered broker dealer through which we conduct our investment banking business and Cary Street Partners Investment Advisory LLC is a registered investment advisor through which we conduct our wealth management business.

Corporate profits are expected to continue their double digit increases through year end, although we may see a few more disappointments than in prior quarters this year. The levels of profits and profitability remain historically high. As a percentage of GDP, earnings have doubled since the early 1980s from 4% to 8.6%, the highest level in 40 years. This substantial improvement in profits reflects better cost control, more efficient use of technology, and declining depreciation costs. A slowing economy, though, will put some pressure on margins next year with profits likely to rise 7-8% compared to a 15% gain in 2006.

Overall, we agree with the consensus view for a soft landing in the economy in 2007. We do not see a significant downturn at this time with the world still awash with liquidity. The Fed could raise rates again, but stable to slightly lower rates are more likely in 2007. Nonetheless, longer term bond yields are forecast to rise if the soft landing scenario unfolds because of the possibility that inflation may not be dampened very much by the time the economy begins to pick up.

Despite the recent stock market exuberance, investors are cognizant of a slower period of growth for the economy and profits next year. The surprise would be greater than expected gains in both areas. Portfolio diversification will remain important because expectations about performance are now much higher than they were in July. Still, the stock market should be higher next year than it will be for 2006.

## DEAL MARKETS

### MERGERS AND ACQUISITIONS

Following the precedent set in several of the prior quarters, the M&A market remained remarkably strong but experienced mixed results year-over-year. The U.S. M&A market produced 2,632 deals in the third quarter, down from the 2,857 deals announced during the same period in 2005. At the same time, however, the quarter's smaller number of deals generated \$18.4 billion more in deal value than the third quarter of 2005. Such an increase in total deal value continues to reflect hearty valuations as the average price on a U.S. deal reached \$258.1 million, rising from \$212.4 million in the third quarter of 2005. Credit conditions continue to be favorable as debt to EBITDA ratios of large leveraged buyouts (issuers with greater than \$50 million EBITDA) rose to 5.8x from 5.6x in the second quarter of this year, allowing buyers to scale back equity contributions to an eight year low of 28%.

M&A market sentiments remain optimistic for a variety of reasons. For one, still replete with cash after quarter upon quarter of strong growth, public and private companies alike stand capable and willing to engage in deals that provide upside to their bottom lines. At the same time, rising equity prices, including a Dow surpassing 12,000, might encourage public companies to dive into deals using their stock as currency. Finally, private equity firm fundraising is heading into record territory. As a result of such sentiments, deal value metrics continue to indicate strong M&A interest. In the middle market, the average Enterprise Value to EBITDA multiple matched the 10.0x that it posted in the third quarter of 2005, but as always the range of multiples remains widely driven in each case by the business fundamentals of the target company and its industry.

## FINANCING MARKETS

*Venture Capital* - Q3 saw a small dip in venture investing from the previous quarter. Venture capitalists invested \$6.2 billion in 797 deals, representing an 8% decrease from Q2 when \$6.8 billion was invested in 907 deals. Early and seed stage companies, however, saw a 10% increase in investment from quarter to quarter, rising to a total of \$1.2 billion in 278 deals. While not yet of a long enough duration to be conclusive, this trend may indicate that, after several years of struggling, early stage investing is finally improving. While seed and early stage investing rose, expansion investing fell by 10% and late stage investing dropped by 13%. Sparked in part by an interest in finding alternative energy sources, investments in energy-related companies continued to receive increasing commitments, reaching a six year high of \$575 million in 45 deals.

Despite this significant level of activity, concerns persist for VCs. Due to a strong fundraising environment, VCs continue to be flush with cash, but struggle to find attractive investment opportunities. Consequently, some firms have slowed funding to avoid more pressure to put the money to work when deals on the table may not bring the most profitable results. Recently, prominent venture firm *Sevin Rosen* announced that it would return \$250 to \$300 million in commitments it had received, citing structural weaknesses in the venture industry, most notably, the fact that there is too much money chasing after too few deals.

*Debt* - While Americans took time off to enjoy the waning months of summer, middle market loans took note and settled in at a slightly lower, but still respectable \$7 billion pace for the third quarter. Despite the "end-of-summer" slowdown, annual middle market loan numbers remained robust and compared favorably year-over-year. During the

first nine months of 2006, leveraged loan volume just managed to eclipse the \$24.7 billion posted during the same period in 2005 and reached \$25 billion. As has been the case for some time now, loans backing M&A activity continue to drive the new issues. So far this year, small-cap borrowers have accessed the leveraged-loan market for over \$14 billion to appease their voracious M&A appetite, an increase of 42% over the same period in 2005. From discussions with a variety of industry players, we believe liquidity from the debt markets will remain more than sufficient to continue to fuel middle market M&A activity. Banks and other lenders are continuing to have to work very hard to find enough places to lend their abundant capital pools.

*Equity* - In the latter half of Q2, market fundamentals began to deteriorate and as a result several companies delayed or cancelled initial public offerings. The uncertainty caused by the delays led to a pessimistic outlook for IPOs entering Q3. Nevertheless, 10 of 14 IPOs in September priced within or above their expected price range. Furthermore, 11 of those stocks experienced first day gains. *Riverbed Technology*, a communications equipment company, managed a 57% gain in its first day of trading. Overall in Q3 there were 34 deals that raised \$6.0 billion, which was significantly less than the \$9.9 billion raised in the same quarter a year ago. However, with September's success and the market reaching new highs, the IPO market is positioned to continue the historical trend of strong fourth quarters.

## CARY STREET PARTNERS IS PLEASED TO WELCOME A NEW COLLEAGUE

**Mary Jane Lassiter**, a CERTIFIED FINANCIAL PLANNER™, has joined the firm as a Director in our Wealth Management practice. Mary Jane has extensive experience advising high-net-worth individuals and developing strategies for estate planning, business succession, stock option planning, retirement planning, life insurance planning, and other risk management techniques.

Prior to joining Cary Street Partners, Mary Jane held senior level positions at SunTrust, Wachovia Securities, and Scott and Stringfellow. She will complement Cary Street Partners' capabilities with her comprehensive knowledge of complex wealth planning issues and her ability to form personal relationships with her clients to understand and help them achieve their objectives. In the following section, Mary Jane shares some advice on year-end tax planning.

## FINANCIAL PLANNING

### YEAR-END TAX PLANNING

Although we're enjoying the first days of autumn with tailgate parties and football games, we will soon be hanging stockings and trimming trees. Before the crush of the holidays begins, take a moment and consider how best to position yourself for tax season. Reducing your taxes for 2006 is the priority, but some of the following strategies spotlight estate tax and retirement benefits as well.

### CHARITABLE GIVING

Leverage the value of your charitable gifts with appreciated stock which completely eliminates the capital gains

security, while the gift (as well as the deduction) is valued at the fair market value of the stock on the date of the gift. When reviewing gifts already made in 2006, be aware of the new tax provision that requires documentation from the charity for any cash gift made after August 17, 2006.

### USE IT OR LOSE IT

Take advantage of the annual exclusion. In 2006 individuals can make gifts of \$12,000 (\$24,000 for a married couple using gift splitting), free from gift taxes. If you are concerned about estate taxes at your death, give generously each year to your family members. Gifting is a great way to transfer your wealth to your heirs, not only reducing your estate by the value of the gift, but any future growth on the gift as well. When determining what asset to gift, consider the tax bracket of the recipient. You may want to consider gifting appreciated assets to children and grandchildren to take advantage of their lower capital gains rates when these assets are sold (note that the donor's cost basis is transferred with the stock). Because children under 18 are subject to the "kiddie tax" and pay tax at their parents' highest marginal rate, they may not be appropriate recipients. Children age 18 (increased from age 14 with new law) or older are likely to be in the two lowest brackets - 10% and 15% - and subject to the 5% capital gains rate in 2003 through 2007, and a 0% capital gains rate in 2008 - 2010. Keep in mind that once the year is over, the opportunity for making the gift is gone forever.

### RETIREMENT SAVINGS – PRE-RETIREMENT

Make the maximum contribution to your employer sponsored retirement plan. Assuming your current tax bracket is higher than it will be in retirement, you have reduced your current taxable income by the amount of your contribution (your employer may offer a match of some percent-

age of that contribution giving you a greater benefit), and deferred tax on the contribution and the growth on the assets inside the plan, while providing for increased financial security in retirement.

#### **USING YOUR IRA FOR CHARITABLE GIFTS**

Take advantage of the new IRA charitable rollover provision of the Pension Protection Act. Traditionally, funding charitable contributions with IRA withdrawals had a multitude of potentially negative tax drawbacks. This new provision allows an annual exclusion from gross income of up to \$100,000 for “qualified charitable distributions” from an IRA if the distribution is a result of a “Required Minimum Distribution” for an individual 70 ½ or older. This has a limited life as you are allowed this maximum \$100,000 charitable rollover treatment from your IRA to a “qualified” charity for only the 2006 and 2007 tax years. However, because a qualified charitable distribution from an IRA is excluded from income, it does not qualify for a charitable income tax deduction; otherwise, there would be a double benefit of income exclusion and a charitable contribution deduction. The real savings for the charitably inclined is being able to skip the step that makes you pay ordinary income tax on the distribution from the IRA before making the gift to charity.

### Domestic Equity Markets

(Returns)	Q3 2006	LTM
Dow Jones	4.7%	10.5%
NASDAQ	4.0%	5.0%
S&P 500	5.2%	8.7%
Russell 2000	0.1%	8.7%

### International and Emerging Equity Markets

(Returns)	Q3 2006	LTM
EAFE	3.4%	16.5%
Europe	5.1%	19.1%
Pacific ex Japan	3.0%	8.9%
Japan	(1.2%)	12.0%
BRIC (Brazil, Russia, India, China)	4.2%	26.8%

### Hedge Funds

(Returns)	Q3 2006	LTM
CSFB Tremont Hedge Fund Index	1.3%	9.4%
MSCI Hedge Fund Composite Index	0.5%	8.3%

### Interest Rates

	9/30/2006	6/30/2006	9/30/2005
Federal Funds	5.25%	5.25%	3.75%
30 Year Treasury	4.76%	5.19%	4.57%
10 Year Treasury	4.63%	5.14%	4.32%
LIBOR - 6 Month	5.37%	5.59%	4.23%

Source: Bloomberg.

### Key Economic Indicators

Unemployment Rate		4.6%
Capacity Utilization		81.9%
	<u>S&amp;P Earnings Growth<sup>(1)</sup></u>	<u>GDP Outlook<sup>(1)</sup></u>
Q1 06	<b>15.5%</b>	<b>5.6%</b>
Q2 06	<b>16.7%</b>	<b>2.6%</b>
Q3 06	15.3%	1.6% <sup>(2)</sup>
Q4 06	9.0%	2.5%
2005	<b>13.7%</b>	<b>3.2%</b>
2006	11.7%	3.3%

(1) Statistics represent average of analyst estimates as of the end of Q3 2006 and are derived from various sources. Figures subject to change. Actual figures are in **Bold** and estimates are *italicized*.

(2) Advance estimate by Bureau of Economic Analysts.

### Initial Public Offerings

Totals	Q3 2006	Q2 2006	Q3 2005
Number of Deals	34	50	70
Aggregate Volume (\$MM)	\$5,983	\$17,186	\$9,898
Q3 Notable Deals:	Date	Amt (\$MM) <sup>(1)</sup>	Return <sup>(2)</sup>
Bare Escentuals	9/29/2006	\$352	23.4%
CommVault	9/22/2006	\$161	24.1%
Shutterfly	9/29/2006	\$87	3.7%
Riverbed Technology	9/21/2006	\$86	100.0%

(1) Excludes underwriter over allotment.

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

### Venture Capital

Totals	Q3 2006	Q2 2006	Q3 2005
Number of Deals	797	907	771
Aggregate Volume (\$MM)	\$6,243	\$6,775	\$5,635
Q3 Notable Deals:	Date	Amt (\$MM)	Industry
Altra	8/2/2006	\$120	Energy
Demand Media	9/29/2006	\$100	Info Tech
Adam Aircraft	8/23/2006	\$93	Transportation

Source: PwC MoneyTree and The VC Deal.

### High Yield New Issuances

Totals	Q3 2006	Q2 2006	Q3 2005
Number of Deals	55	96	82
Aggregate Volume (\$MM)	\$25,867	\$37,872	\$23,383

### Mergers & Acquisitions

Totals	Q3 2006	Q2 2006	Q3 2005
Number of Deals	2,632	2,637	2,857
Aggregate Volume (\$MM)	\$231,748	\$334,444	\$213,462
Q3 Notable Deals:	Ann. Date	Amt (\$MM)	
HCA, acquired by <i>Investor Group</i>	7/24/2006	\$21,200	
Freescale Semiconductor, acq. by <i>Firestone</i>	9/15/2006	\$17,700	
Mercury Interactive, acq. by <i>HP</i>	7/25/2006	\$4,510	
Symbol Technologies, acq. by <i>Motorola</i>	9/19/2006	\$3,800	

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