



OAK VALUE CAPITAL MANAGEMENT, INC.

Portfolio Commentary – Third Quarter 2007

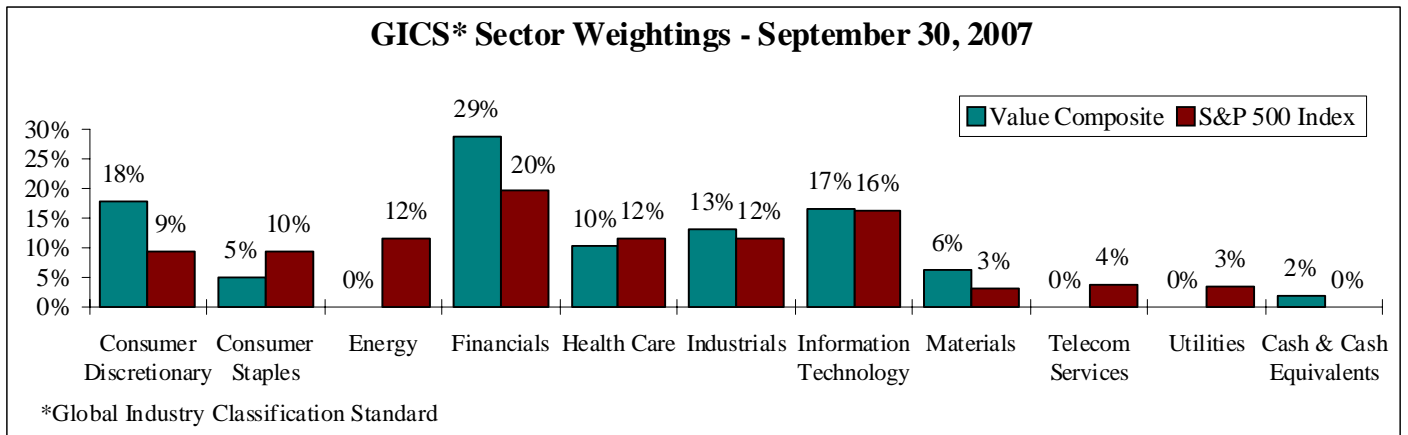
“Stocks Have Prices, Businesses Have Values”

-Jason Zweig

Last quarter we dedicated a significant portion of our commentary to the notion of risk and the emotion of “fear.” In a short period of time, Mr. Market has become increasingly focused on this fear. The discipline that defines us requires that we be fearful when others are greedy and greedy when others are fearful. For long-term, disciplined investors interested in owning high quality companies and willing to purchase such at attractive valuations, opportunities abound.

Market volatility increased dramatically during the third quarter. On balance, we remain confident in the manner in which client portfolios are positioned as we approach the end of a year in which we have thus far posted solid gains. We take our task of analyzing risk and reward seriously, and believe that our decision-making has remained disciplined and that the quality of client portfolios reflects this effort. A long-standing preference for businesses with significant non-US operations has served our clients well as a slowing domestic economy and a declining dollar have created near-term headwinds for companies focused solely on the United States. This preference is reflected in our recent actions and the current portfolio positioning.

Client portfolios generally consist of a collection of businesses that generate high returns and above average growth potential while maintaining strong balance sheets. Perhaps most important is our belief that a significant portion of these companies continue to be offered up by the market at attractive discounts to our estimation of their intrinsic values. This spread between the prices of their shares and the values of the underlying businesses further affirms the obvious, though often ignored statement that “stocks have prices, businesses have values.” We view this “spread” as opportunity.



Update on Largest Holdings...

The composition of the top five portfolio holdings at any given point in time is purely the byproduct of the collective decisions we have made about the individual businesses and the relative attractiveness of their valuations. As managers of the portfolios, we often find ourselves tempted to merely write “ditto,” or “progressing as expected” since many of the names that frequent this section are repeat players. Two of the “Top Five” were added to this list as a result of our decisions during the quarter as we moved decisively to take advantage of the opportunities afforded by a somewhat manic market.

Value Composite Top Ten Holdings As of September 30, 2007

Company	Primary Business	S&P Sector
3M	Manufacturing & Marketing Technology Products/Services	Industrials
American Express	Charge Card, Travel, Network, & Global Payments	Financials
Berkshire Hathaway	Insurance, Reinsurance & Capital Allocation	Financials
Cadbury Schweppes	Confectioneries and Non-Alcoholic Beverages	Consumer Staples
DuPont	Chemicals	Materials
E.W. Scripps	Entertainment & Information/Media	Consumer Discretionary
Fidelity National	Financial Transaction Processing	Information Technology
Johnson & Johnson	Diversified Healthcare Products	Healthcare
Oracle	Database, Middleware, & Application Software	Information Technology
United Technologies	Diversified Manufacturing and Service	Industrials

3M – Shares of this early-year addition to client portfolios continued to post solid business results during the quarter, and its share price has responded accordingly. It is this market-beating share price performance that has landed 3M in the list of top portfolio holdings. Less than nine months ago, Mr. Market seemed convinced that a change in management at a time of potential challenge in the business’ domestic markets would render this outstanding global franchise impaired for the foreseeable future. In the months since, the company has continued to demonstrate the benefits of its broad portfolio of brands and businesses across a global footprint. Like many of the other companies in client portfolios, 3M derives more than half of its revenues from outside the US, which gives it the ability to allocate its resources wherever the opportunities are most compelling. The company is focused on optimizing its supply chain, rationalizing its manufacturing facilities, and improving its working capital efficiency. Already a highly profitable business, we believe 3M will continue to demonstrate its ability to increase its return on invested capital by utilizing these additional resources to drive accelerating growth in its products to end users. As shareholders of the business, we would expect this effort to result in further growth in the company’s intrinsic value.

American Express – A year ago, the shares of American Express returned to client portfolios. At that time we explained our logic and reasoning behind the purchase and have continued to build this position over the year as the gap between share price and our estimate of intrinsic value has fluctuated. The market turmoil of the third quarter presented us with the opportunity to further increase portfolio exposure to this outstanding company. In terms of the progress of the business, this one fits in the category of “progressing as expected.” While the shares have advanced in that period, they have not kept pace with our estimation of the growth in intrinsic value.

American Express is a truly superior franchise with an advantaged business model and a management team that has demonstrated that good stewardship of great businesses can produce outstanding economics. We continue to be amazed at Mr. Market’s tendency to paint the shares of this company with the wide brush of the “headline du jour.” Meanwhile, the company’s business is better, its franchise is stronger, its returns are higher, and its scale and reach (domestically and internationally) are broader than a year ago, or for that matter over a decade ago when our clients first owned the shares.

Berkshire Hathaway – Shares of client portfolios’ largest position advanced respectably during the quarter as the “Fort Knox” of financial stability stood firm. Our long-term holding of Berkshire has been based upon the one-two punch of its advantaged business model and the seemingly perpetual discount assigned by the market as reflected in its share price. Though the share price advanced during the quarter and perhaps closed a portion of the valuation gap we believe existed, the closing of the gap may well be less than the proportional change in share price. We acknowledge that this position may seem counterintuitive, at least at first glance.

In the end, we believe that the long-term value of Berkshire Hathaway will be most significantly determined by the company's continued ability to source capital at attractive rates and to invest that capital at attractive returns. As is the case with all of the companies we own on clients' behalf, we have analyzed this business with the reality that the future is not known with certainty. Our historically conservative valuation work on Berkshire has long incorporated the assumption that cash would build at a rate that would challenge management's ability to deploy it. However, while we certainly have no specific information on the matter, we believe the odds favor the likelihood that Berkshire has used the recent market volatility and dislocation to put a portion of this money to work at attractive and noticeably higher returns than the company has been earning on cash.

DuPont – In a similar situation to that of American Express, we initiated portfolio positions in DuPont about sixteen months ago and continued to increase our exposure throughout that period. This one also fits into the category of “progressing as expected.” Though the shares had advanced since our original purchases, they were modestly weaker during the quarter as concerns over the company's near-term exposure to the US housing and automotive markets overshadowed its long-term prospects. The notion of planting seeds for future harvest at DuPont is not limited to its agricultural business. Company-wide, this management team has operated with a laser-like focus on improving its return on invested capital by reducing costs, divesting underperforming businesses and investing those savings in higher value-added growth opportunities in attractive end markets across the globe. DuPont derives nearly 60 percent of its revenues from outside the US and provides a broad offering of products to a diverse cross-section of the global economy. As just one example, we believe the shift to genetically engineered seeds for agricultural products should continue to provide significant opportunities for DuPont. In our opinion, this is a classic example of the short-term share price underperforming the long-term business economics. We viewed this widening of the valuation gap as an opportunity to further increase client portfolio allocations to DuPont.

E. W. Scripps –This particular holding has become increasingly irksome for us as the market appears to have placed far more focus on the company's challenges than its successes and opportunities. We continue to enjoy the robust financial results generated by the cable television network group (namely Home and Garden Television and the Food Network), and believe the affiliated television stations are poised to post improving results in the season ahead. We note that these segments now represent approximately 85 percent of the company operating profits.

On the other hand, the results of Scripps' other businesses have been somewhat disappointing recently. The transition of the newspaper industry's business model has been more challenging than even our rather gloomy predictions of recent years. (Investors will recall that we exited several portfolio holdings in recent years that were exposed to the newspaper industry.) While Scripps' newspapers are generally in attractive markets with demographics favorable to print media, the slowdown in the real estate market in areas such as Florida has been significant. A key (though not the only) component of our definition of good management is their demonstrated ability to allocate capital on behalf of shareholders. Scripps' management has long enjoyed a reputation for being able to redeploy capital away from the newspaper business for the benefit of shareholders. The reality is that their more recent track record in attempting to grow via acquisitions of online businesses (to be fair, no easy task) has been less than stellar.

Our analysis continues to suggest that there is significant value in the specialty cable networks and that the current share price represents a meaningful discount to the company's intrinsic value. We believe that Scripps is facing some important decisions about how the company is capitalized and where capital ought to be allocated. Management's interests are aligned with shareholders, and logic would dictate that management and the board will take the clear and decisive actions required to realize value for shareholders.

Recent Purchases

AMBAC – AMBAC provides bond insurance credit enhancement to bond issuers and investors by guaranteeing the scheduled principal and interest of an obligation in the event of a default. AMBAC insures municipal, structured finance and international finance issues through traditional guarantee contracts as well as credit default swap instruments. We owned shares of AMBAC for client portfolios for several years and sold the position in the fall of 2005 due to our concerns that easy credit market conditions, at least in the short-term were degrading the Company's ability to compete for business at prices that met the company's underwriting standards. Arguably, we were early in our identification of these issues. We continued to follow the company and its progress over the past two years as our expectation was that sooner or later, the "punchbowl" would be taken away from the party and rationality would return to the pricing of risk in the credit markets. As it turns out, even the folks at AMBAC took a late evening pass at the "bowl" just before the party ended. Fortunately, their partaking appears to have been measured.

3Q 2007 Value Composite Portfolio Activity Summary	
New Positions	Eliminated Positions
Ambac Financial Harley-Davidson Moody's Office Depot	Constellation Brands IMS Health Praxair
Note: Not all positions may have been purchased, owned, and/or sold in all client accounts.	

We returned, in moderation, to the shares of AMBAC during the quarter as the credit markets were reminded that risk does have a price. Our analysis of AMBAC's exposure to the fallout in the subprime mortgage market suggests that, at current valuations, investors are more than adequately compensated for the losses the company is likely to experience. Unlike other financial institutions that must access capital markets frequently to fund growth or must meet margin calls on derivative contracts, AMBAC is not obligated to post capital to cover mark-to-market fluctuations in the value of its exposures. AMBAC will only be required to pay claims on its insured contracts in the event of default and on the same schedule as the underlying securities' principal and interest payments. This feature prevents AMBAC from having to make several large payments at once in case of a number of defaults and lessens the pressure to raise capital in a time of distress. We note that AMBAC retains considerable reserve capital to protect its position as an AAA-rated insurer.

The current market environment is far from settled and AMBAC's ultimate exposure is not yet determinable. Consequently, we have attempted to be conservative in our analysis and prudent in client portfolio allocations of capital. We believe the pricing of risk in the financial guarantee market will be more rational in the future than it has been in the recent past. Such should bode well for AMBAC's ability to deploy its resources to the benefit of its shareholders.

Harley-Davidson - Finally, we came back to Harley-Davidson during the quarter. In summary, our thesis in this investment is essentially the same as when we purchased the shares a year and a half ago. Our sale of that position earlier this year at a near-40-percent premium to the recent stock price was based on the belief that the valuation gap had closed and that future investor returns were likely to be muted from that point in time. Though we did not expect to have the opportunity to return to this investment so soon, we welcome the occasion.

Harley-Davidson has extraordinary returns on invested capital, reflecting the company's' disciplined financial acumen, moderate capital requirements, and its strong brand. Additionally the company generates gross margins approaching 40 percent and a 24 percent operating margin (excluding its finance income), a testimony to the strength of the core business. These high returns and high margins are themselves deterrents to potentially dilutive mergers or acquisitions on the part of Harley because so few businesses would be accretive and historically, the company has delivered exceptional growth through organic measures.

The Harley-Davidson brand has evolved over time to become as much of a lifestyle brand as motorcycle brand, and the company has done a good job cultivating and protecting this image. While competing against large competitors, Harley's strong brand mitigates the competitive advantages of Japanese manufacturers; despite the availability of motorcycles that are less expensive and/or more performance-oriented, Harley-Davidson remains an "aspirational" brand. The company is far and away the largest US-based manufacturer of motorcycles, which gives it both a scale advantage and a unique position in the marketplace.

Harley has shown some signs of sensitivity to a general consumer slowdown. This is no surprise to us, as we believe the management is running the business for the long-term, reducing production over the near-term in order to protect the brand from the fate of other American manufacturers who are wholly dependent on financing to sell vehicles. We also note that international markets are performing extraordinarily well and that overseas shipments should be aided by the weaker dollar. The real value of Harley-Davidson is in the brand. Fads don't have 105th birthdays, and after all, there aren't many brands that people are willing to tattoo onto their bodies. We continue to believe that Harley-Davidson is a good business with good management. The recent decline in the share price has once again made it available to our client portfolios at an attractive price.

Moody's - Moody's is a leading global provider of credit ratings and analysis on debt issued in domestic and international markets covering about 100 sovereign nations, 12,000 corporate issuers, 29,000 public finance issuers and more than 96,000 structured finance obligations. The company is also a publisher of market-leading credit opinion, deal research and commentary, reaching more than 9,300 customer accounts and more than 29,000 users. In addition, the company is a provider of quantitative credit risk assessment and management products intended to assist customers around the world in managing portfolios of credit-sensitive assets.

Moody's has almost 40% market share and operates in a virtual duopoly alongside Standard & Poor's in the financial ratings marketplace. We believe high barriers to entry and the necessity of a global presence protect the existing market players from the threat of serious new entrants, creating a situation where companies such as Moody's can enjoy growth and sustained pricing power. Moreover, from a bottom-up perspective, the nature of global finance is such that issuers are essentially required by the markets, if not by their own financial covenants, to have credit ratings by at least two providers of opinion. The product and market knowledge that has accrued to Moody's over time has fostered the entry into related businesses such as published research, and quantitative credit risk assessment tools. The company has consistently grown EPS more than 20 percent a year and while generating operating margins of more than 50%. It is an exceptional business.

Moody's was a huge beneficiary of the credit boom, no doubt, as credit derivatives and structured finance products proliferated like mushrooms, earning Moody's a fee for each new issuance. The benign credit environment we saw these last several years was a bonanza for the company. Those days are at least temporarily over, but we still see a bright future for the company, as it will continue to play a critical role in financial innovation, globalization, and disintermediation going forward.

In our opinion, the price at which we were able to purchase Moody's shares reflected Mr. Market's belief that the company was responsible for throwing the "subprime party," spiking the punch and inviting all comers to join in. While Moody's was definitely at the party, we believe that the attempt to blame the company for the fact that the party got "out of hand" is unwarranted. Our investment in Moody's shares is based on the thesis that this is an outstanding business that has demonstrated its ability to not only provide a very valuable service to financial markets across the globe, but to do so with very attractive economic results. This is yet another case where we believe our investors are being more than appropriately compensated for the risks they assume and that the opportunities for above average investor returns are compelling over the long-term.

Office Depot - Office Depot is a leading global provider of office products and services, with annual sales of \$15 billion. The company has more than 1,100 stores, sells directly and through affiliates in 42 countries, employing a multi-channel distribution strategy of selling through stores, catalog, Internet and contract. The multi-channel approach allows the company to serve business customers of any size, from small office to Fortune 500 accounts. Slightly more than half the company's sales are transacted over the Internet (\$4.5b in 2006) or via telephone or mail order. The office products market represents \$323b as of 2005 and pure-play office supply stores such as Office Depot currently only have about 10% market share, providing the company with a substantial runway, in our view.

We believe that Office Depot's multi-channel capability to serve business customers of all sizes confers upon the company a defensible competitive advantage. In short, we are particularly attracted to Office Depot's position within the office products superstore industry. We believe the company has a good management team that focuses on the appropriate business metrics. In our opinion, office superstores are unique in their ability to address the needs of business customers of all sizes. There are three large US retailers focused on this strategy, but we note that the industry is essentially an oligopoly where rational behavior seems likely to prevail over time. Our view is that Office Depot (in the #2 market position) is poised for a very attractive opportunity for profitable growth.

Recent management changes have resulted in an increased level of discipline and focus to the company's return on invested capital. We believe that management is striking the right balance between high growth and attractive economic returns via its strategy of achieving greater geographic density in existing markets and leveraging its fixed costs over a broader base. Additionally, the company should have the opportunity to increase its profit margins through expanding its private label business. Finally, the growing international operations should continue to increase in terms of its relevance and contribution to the company.

Office Depot's margins have declined this year, as a result of revenue pressure from the company's exposure to housing sensitive markets, and cost pressure from the company's continued investments in infrastructure, new stores, and personnel. In our opinion, the combination of some very attractive long-term economic prospects and a particularly compelling valuation more than compensate for these short-term challenges. Though we were early in our initial purchases for client portfolios, the market environment of the quarter did give us additional opportunities to allocate capital to this position. At this writing, the shares of Office Depot have recovered significantly from the lows experienced during the quarter.

Recent Sales

Constellation Brands – The Constellation Brands that we recently sold is a much different company than the company we originally purchased in client accounts more than five years ago. Though the company's growth plan has benefited shareholders during this period, we have found ourselves challenged by the evolved landscape in which it operates. Several large acquisitions in recent years have left the company with an increasingly leveraged balance sheet. The expected benefits of this series of transactions – improved pricing and margins – have not been fully realized. In our opinion, the combination of increased competitive, operational and financial risks no longer justified this allocation of capital in client portfolios. Over time, the portfolios we manage were well served by the Constellation investment and we will continue to monitor the company's progress.

IMS Health - IMS has successfully navigated an increasingly challenging environment in the years since our original purchases as its customers (pharmaceutical companies) have faced headwinds on multiple fronts. The company's management has leveraged its core data business by developing a very successful consulting operation to provide greater value to these customers. Though the acquisitions that have fueled this business extension have provided complementary growth opportunities for the company, these businesses are much less profitable than its core operations. We recently sold the last remnants of this long-term holding as the

valuation afforded the shares more appropriately reflected these evolved prospects. We believe the risk/reward prospects of other healthcare related companies are more attractive at this time.

Praxair – We sold portfolio positions in the shares of Praxair during the quarter as the gap closed between our estimation of intrinsic value and the company’s value in the market. Our investment thesis in this holding played out as expected as the company’s broad exposure to industrial production across the globe fueled its growth. The company also benefited from rising oil prices. In our opinion, the current valuation assigned by the market to the future prospects of the company assumes that this rate of growth will continue for the foreseeable future without interruption. Our margin of safety contracted, and we believe other investment opportunities are more attractive.

In Closing...

The portfolios we manage on behalf of clients have generally posted solid results in recent prior quarters as our focus on good businesses with sustainable advantages has been rewarded. While we have been pleased with this performance, we are ever mindful of the key building blocks for above average results. Fundamentally, we believe that investor returns are a function of both the underlying economics of a business over time and the changes in the market’s perception of a business over time. When short-term share prices outpace long-term business economics, the gap between the share price and the business value closes. There is a price at which even great businesses provide more modest future returns to investors. Conversely, when short-term share prices underperform long-term business economics, valuations gaps tend to widen. As volatility returned with a vengeance during the third quarter, we witnessed both phenomena with increasing frequency and severity.

“Competition for capital” continues to be a driving force in our ongoing efforts to ensure that we have allocated client funds to the most attractive risk/reward opportunities. We remain committed to the task of making good investment decisions on behalf of our clients. In our opinion, the decisions we made during the quarter are the very important seeds of future investment harvest.

We thank you for the confidence you have placed in the Oak Value team.

Oak Value Capital Management, Inc. Investment Committee,

David R. Carr, Jr. Larry D. Coats, Jr. Christy L. Phillips

IMPORTANT INFORMATION

This commentary seeks to describe Oak Value Capital Management Inc.'s ("Oak Value" or "we") current views of the market and to highlight selected activity across client accounts. Any discussion of specific securities is intended to help clients understand Oak Value's investment management style, and should not be regarded as a recommendation of any security. Where shown or quoted, recent company returns (for example calendar quarter or trailing twelve months) are stock price changes only, and reflect neither dividends nor any fees associated with an investment account managed by Oak Value.

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performance of various indices are generally available. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957, although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall U.S. equity market; in fact, over 70% of all U.S. Equity is tracked by the S&P 500. The index selects its companies based upon their market size, liquidity, and sector. Most of the companies in the index are mid cap or large cap corporations. The S&P 500 Index referenced include the reinvestment of dividends.

Reference to “GICS Sectors” refers to the Global Industry Classification Standard. Descriptions or graphics related to “GICS Sector Weightings” are presented to illustrate the business and portfolio management operations of Oak Value or examples of representative groupings and securities in which the Adviser may invest and are not to be considered recommendations by the Adviser. Categories and groupings in graphs detailing sectors are sourced from Standard & Poor’s and Morgan Stanley Capital International “MSCI.”

A full disclosure presentation for the Value Composite is available upon request by contacting a member of the Marketing Department at Oak Value at (800) 680-4199 or info@oakvalue.com.

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