OAK VALUE CAPITAL MANAGEMENT, INC.

Portfolio Commentary – Fourth Quarter 2006

The broad market, as measured by the S&P 500 index advanced approximately 6.7 percent during the fourth quarter, capping off a volatile yet overall rewarding 2006 for investors. The encouragement we expressed in the most recent quarters continues as client portfolio holdings in consumer discretionary and financial related businesses compensated for the lack of energy sector exposure during the period. We view this quarterly performance as respectable, on both a relative and absolute basis.

"He that innovates and is lucky will take the market."

W. Edwards Deming

Charlie Munger once wrote, "The great lesson in microeconomics is to discriminate between when technology is going to help you and when it's going to kill you." For several years now, we have written and spoken of the changes we have and are observing as we study businesses and business models. The forces that tend to mold those business models are largely influenced by customers, suppliers, competitors and substitute products. The rate and magnitude of much of this change is often encouraged and in some cases fueled by the availability and implementation of new technology. Companies that embrace the opportunity to utilize technology to drive down unit costs, increase revenues and improve consumer experiences while earning above average returns of capital are likely to find their way onto our list of "*good businesses.*"

4Q 2006 Client Portfolio Activity Summary	
New Positions	**Eliminated Positions**
Apollo Group Capital One Fidelity National	Entercom Communications Equifax
Note: Not all positions may have been owned and/or sold in all client accounts.	

We believe the most recent additions to client portfolios are prime examples. As the largest private educational institution in the country, Apollo Group employs technology at nearly every segment of their customer and business value chain. Fidelity National Information Services demonstrates the ability to leverage its technology to obtain scale economics by providing outsourcing and processing services to financial institutions in a more cost effective manner. Capital One Financial utilizes a proprietary system that it developed for underwriting credit cards to develop a broader relationship with its customers across an ever increasing set of financial service offerings.

Each of these companies is an innovator. Each company has grown its market share in its respective businesses over the past several years while at the same time yielding attractive economic results for their shareholders.

Apollo Group is the largest private educational institution in the United States. The company was founded in 1973 "in response to a gradual shift in higher education demographics from a student population dominated by youth to one in which approximately half the students are adults and over 80 percent of whom work full-time." Apollo grew rapidly in recent years as the company's demonstrated leadership in the application of online delivery to the traditional university experience emerged. Today the company serves approximately 300,000 students in both traditional and online formats. Apollo operates over 100 campuses and over 150 learning centers in 39 states, Puerto Rico, Canada, the Netherlands and Mexico offering certificates, associates, bachelors, graduate and doctoral programs.

Though Apollo provides educational services through several subsidiary institutions, more than 90 percent of the company's revenues are derived from its flagship institution, the University of Phoenix.

The business of Apollo and the subset of the educational industry in which it operates have seen significant growth, consolidation and change in the past decade. Though consolidation and change may well continue apace, the rate of growth has moderated. We believe the company's management has identified a clear path to leverage an established and advantaged business model to a broader market opportunity in this evolved environment.

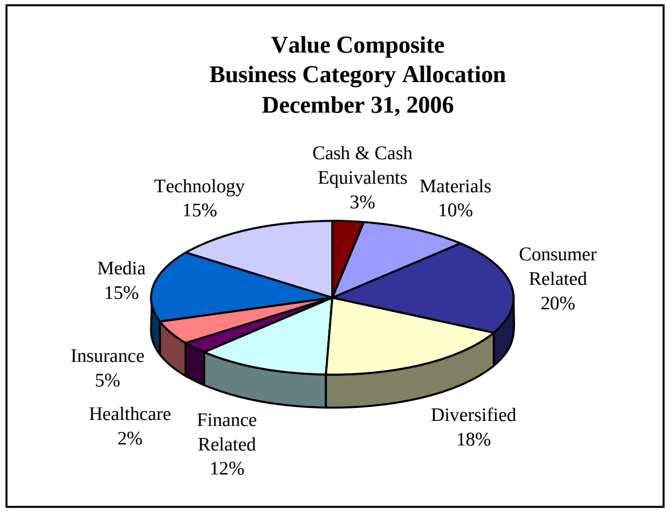
Industry demographics suggest that the demand for post-secondary education will continue to be strong, though the mix of that demand has somewhat shifted. The University of Phoenix estimates that approximately 45 percent of its students receive some form of tuition assistance from their employers. As a result, the company has carefully designed its degree programs and curriculum to provide students with an appropriate mix of general education and workplace specific skills that deliver value to employers through more productive employees.

The University of Phoenix is the largest online educational institution in the country and has developed an extensive knowledge of the key success factors of educating adult students. The benefits of this scale and experience should continue to yield high returns in this fast-growing segment of the marketplace. The company also believes that its demonstrated success in integrating the online educational experience with the traditional classroom setting will provide further growth opportunities both domestically and abroad. As the governments around the world embrace alternative and more effective methods of education as a means to encourage economic growth, Apollo intends to further leverage its scale in online infrastructure and accelerate its enrollment growth.

The investment in Apollo is based on the fundamental belief that the company has established itself as a leader in an industry that has high barriers to entry, solid growth potential and demonstrated pricing power. The company has developed a business model that leverages its size and scale in almost every aspect of operation from marketing to faculty support. The economic outcome of this business model is one of high margins, high returns on capital and high cash flow generation. Such characteristics are classic of our definition of a "good business." Our analysis suggests that Apollo's recent share price provides us with a more than adequate margin of safety.

Fidelity National Information Services (FIS) is a leading provider of data processing, automation software, payment processing, risk management and other products and services for commercial customers in the financial services, mortgage lending, and real estate industries. FIS began its existence as a part of Fidelity National Financial (FNF), a Jacksonville, Fla. based provider of title insurance, personal lines insurance and escrow services. In 2001, FNF merged its data services subsidiaries into Vista Information Solutions (VISTA) as a part of its acquisition of that company and renamed that entity Fidelity National Information Services. The company has since grown dramatically through a combination of organic growth and acquisitions, culminating with its merger into the publicly traded Certegy in February 2006. Today, FIS has annual revenues in excess of $4 billion and has leading market shares in many of its business segments. The company has more than 60,000 customers in more than 60 countries and more than 19,000 employees worldwide.

On behalf of our clients, we were Certegy shareholders prior to the merger with FIS. Subsequent to the announcement of the merger of Certegy with FIS, and the receipt of a substantial one-time dividend, we sold our clients positions in Certegy shares. While we believed the potential benefits of the merger were significant, we believed it prudent to harvest the fruits of that long term successful investment. Though we sold the shares, our team continued to follow the company and its progress. The management group, led by the former senior Certegy team, has executed the integration masterfully and has positioned the company to take advantage of the strengths of the combined entities. In our view, FIS is uniquely positioned to leverage a distinctive value proposition for its domestic and international customers.



Our attraction to the high margins, high returns on capital and excellent growth prospects of the payments processing business is well established. The core of FIS's business model is to offer integrated payment processing solutions to financial institutions. The financial services industry continues to consolidate, and smaller financial institutions are forced to be cost-competitive and to offer competitive channel solutions such as e-banking and card loyalty programs if they want to survive. Moreover, slower growth on the top line has led to greater focus on cost management and outsourcing of certain back office systems among larger institutions.

The recent return to the shares of this company reflects our belief that the market concerns regarding potential exposure to the mortgage origination business are grossly overstated. While FIS derives less than five percent of its revenues from mortgage origination-related businesses, the company is often cited as being "exposed" to the volatility of this business. On the other hand, the company does have a greater exposure to the mortgage servicing business, which is more influenced by the number of mortgages in existence and less by the number of new mortgages originated. In our opinion, the company has the opportunity to cross-sell its now broader product offering to a larger customer base while it deepens its penetration of the market. Continued management execution, improved opportunities for growth and a particularly compelling valuation have once again afforded our clients the opportunity to be owners of this high quality business.

During the quarter, we also initiated positions in shares of **Capital One Financial**, the 11th largest bank in the US and the fourth largest credit card company. Capital One, which was spun out of Signet Bank in 1995, remains a powerful force in the credit card industry but has also become a well-diversified financial services provider. The company still derives about half its operating profits from the credit card business, but management has diversified into other segments such as traditional banking, auto lending, and small business lending. In our view, Capital One is a best-in-class operator in a good business. Few businesses are as attractive over the long term as the credit card business - when times are good, it's easy to make money, and when times get tough, the higher rates that good customers pay (and the accompanying higher spreads) helps subsidize the exposure to bad customers.

In our view, the diversification into other businesses highlights two key investment attributes of Capital One. The first is that management is committed to being a fixture of the banking landscape for years to come and is allocating capital wisely for the future to ensure the company's longevity. We value such forward thinking. The second is that this diversification is itself an opportunity for Capital One to apply its legendary information-based strategy to newer frontiers such as traditional banking and auto lending. In our opinion, Capital One should be able to apply many of the technological advantages that it used to build a superior credit card business to the other businesses it has entered. We think the company's credit decision-making skills and its strong consumer brand will make for a powerful overall banking competitor for many years.

During the company's adolescence, when it was just growing into the burgeoning space that was the US credit card marketplace, the company used its core competency - technology to accurately price consumer credit and go to market effectively - to take advantage of a favorable credit environment and grow into the fourth largest credit card company in the US behind Citibank, Bank of America, and JP Morgan. We believe the company's core competency remains critically valuable still - perhaps more valuable than ever given a softening credit environment—yet, in our opinion, the company's shares are priced as if it were nothing more than a static pool of credit card receivables. With the recent acquisitions in the banking industry, the company has diversified its funding sources as well as its revenue base. As importantly, Capital One has moved to solidify its relationship with its customers by focusing on a strategy of providing nationally competitive products through a local market. We believe the net impact of these acquisitions and their integration with the Capital One operations will be a more diversified and predictable business which should provide investors with above average and more predictable growth.

A Couple of Portfolio Departures…

The long-term investment in shares of **Equifax** has spanned several years. During this period, the company has spun off its payment processing business (Certegy), expanded its product offerings which are all designed to leverage its core franchise, and transitioned to a new management team. While we continue to look favorably on this company and its fundamentals, we believe the recent advance in its share price was due to speculation that the company was a potential target for a private equity acquisition. Though we have no ability to predict the eventual outcome of such a transaction, we sold Equifax shares. The decision was one solely of valuation. This is a high quality company and one which we would welcome the opportunity to hold again in the future – when we believe the price is right.

We also sold portfolio holdings of **Entercom Communications** during the quarter. Though the shares advanced during the quarter to recover a portion of the prior declines, the underlying business was not progressing consistent with our investment thesis. We had expected radio advertising to be more resilient. Original investments in Entercom assumed relatively modest growth rates without dependence upon acquisitions or balance sheet leverage. While we believe the company can handle the increased leverage it has assumed in the subsequent acquisitions, the organic growth we anticipated did not materialize. In this case, we have concluded that other investments provide more attractive risk/reward opportunities.

Value Composite Top Ten Holdings As of December 31, 2006		
Company	**Primary Business**	**S&P Sector**
Aflac	Supplemental Heath & Life Insurance	Financials
Berkshire Hathaway	Insurance, Reinsurance & Capital Allocation	Financials
Cadbury Schweppes	Int'l Confectionery & Beverages Manufacturer / Licensor	Consumer Staples
E.W. Scripps	Entertainment & Information/Media	Consumer Discretionary
Fidelity National	Financial Transaction Processing	Information Technology
Praxair	Industrial Use Atmospheric and Process Gases	Materials
Time Warner	Entertainment & Information / Media	Consumer Discretionary
Tyco International	Healthcare, Electronics, Fire/Security	Industrials
United Technologies	Diversified Manufacturing and Service	Industrials
Willis Group Holdings	Commercial Insurance Brokerage Services	Financials

Update on Largest Holdings…

As has become our custom in this quarterly communication, we provide the comments below as a brief update on the largest overall holdings in client portfolios. Though individual accounts will vary based upon specific client circumstances, the companies we highlight here typically comprise the largest holdings, in terms of position size, in accounts at the end of the quarter. Though this commentary is focused more on recent developments in these companies, we would point out that each has demonstrated a willingness to embrace innovation and change not dissimilar to that embraced by the quarter's new holdings.

Aflac – Shares of Aflac lagged both the broader market and aggregate client portfolios during the quarter (remaining essentially unchanged for the quarter) as concerns over increasing competition in Japan continued to give investors reason for pause. In our opinion, Aflac remains the low-cost provider in Japan and is well positioned to continue to sell low premium medical and indemnity policies in this market. Meanwhile, improving margins (as a result of lower benefit ratios) and increasing investment returns should reward Aflac shareholders with continued growth in earnings and cash flows. Our long-term experience with the company gives us confidence that Aflac will thrive when the market improves. This experience also suggests that Aflac's recent valuation will reward investors for their patience.

Berkshire Hathaway - Shares of Berkshire Hathaway gained a market-beating 15 percent during the quarter, bringing the yearly advance to nearly 25 percent as substantially increased earnings and book value were appreciated by investors. Berkshire posted a strong third quarter earnings report as the lack of property claims from a quiet hurricane season brought a large portion of premiums to the bottom line. While we believe the share price advance is overdue, we remain less focused on the short term results of a single quarter or year, particularly in the catastrophe reinsurance business. Lest readers be surprised, it is reasonable to expect that Berkshire will likely post solid results again for the final quarter of the year. Those major hurricanes that did not occur in the third quarter spared the fourth quarter as well. It is clear that one of the competitive advantages that we have trumpeted for several years has contributed to these results as Berkshire obviously continued to write additional policies after Katrina and has been duly rewarded. Berkshire also struck what might be viewed as a landmark transaction during the quarter to assume the remaining asbestos litigation risks of Equitas – the Lloyds operation through which these risks have been managed. In this type of transaction, Berkshire's position as the insurer of last resort likely yielded a very attractive opportunity. We are encouraged by the recent business developments as well as the share price advance of Berkshire Hathaway. In our opinion, the business developments serve only to reinforce our long term appreciation for Berkshire's advantaged business model and the share price advance, while welcome, leaves a still substantial discount to a reasonable estimate of the company's intrinsic value.

E. W. Scripps - While shares of E. W. Scripps advanced modestly during the quarter, their performance lagged both the broad market as well as Scripps' industry peers. We believe Scripps' excellent capital allocation decisions over the last decade should once again yield results. Those capital allocations to cable networks and online media have translated into a company much less dependent on traditional media for its profits. The online business of Shopzilla continues to produce growing operating profit while deepening its position in the US and expanding into foreign markets. We also expect USwitch to migrate its business model from the UK to other markets. The fact that Scripps continues to be viewed as a traditional media company by many analysts and investors has left its shareholders with a seemingly-perpetual discount to intrinsic value. We continue to believe that Scripps' management has and will continue to demonstrate an ability to navigate the changing media landscape in a way that creates shareholder value. In the case of Scripps, we are reminded of the advice of a wise man who once suggested that we keep our eye on the playing field instead of the scoreboard.

Praxair - Shares of industrial gases producer Praxair were essentially unchanged during the quarter, lagging the broader market's advance. Praxair shares suffered a late December pullback as concerns over short term volumes reported for the month of November overshadowed an impressive trend of solid growth in both earnings and profits posted otherwise throughout the year. In our opinion, the more than six percent retreat in the shares during the final ten trading days of the year was unwarranted. As investors interested in more than a ten day or one month timeframe as reflected in the fact that Praxair is one of the largest holdings in client portfolios, we believe the long term fundamentals of this fine company remain solidly intact.

Time Warner - Shares of Time Warner advanced nearly 20 percent during the quarter as the long awaited acquisition of Adelphia cable assets was completed. Time Warner's demonstrated ability to sell the triple play of video, data and voice should allow the company to leverage the Adelphia subscribers to significantly improved economics. Additionally, the combination of the Time Warner and Adelphia cable operations in the Los Angeles market should allow the company to operate more efficiently and market more effectively in that historically fragmented marketplace. The conversion of AOL from a dial up service provider to a free service offered over broadband continues to yield growth in advertising revenues consistent with this evolved business model. As Time Warner operations continue to perform, the effects of the massive share repurchase should serve to magnify the benefits to its shareholders. We welcome this outcome as the investment has indeed required patience.

In Closing…

As the season encourages both reflection and anticipation, we are pleased with the progress we have reported in terms of our team, our process and client portfolios. Our search for *"good businesses with good management at attractive prices"* has been increasingly productive as discipline, diligence and determination have been rewarded. Approximately one third of the holdings in client accounts were added within the past twelve months. These companies join a collection of high quality businesses which reflect attractive economic and growth characteristics.

Our task remains that of making good investment decisions. The willingness to search for "value" in less traditional or perhaps more "innovative" places requires more than information and knowledge **–** it requires understanding and judgment.

We thank you for your continued interest and the confidence you have placed in our team.

Oak Value Capital Management, Inc. Investment Committee,

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

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We attempt to address only generally how our client accounts have fared, since clients also receive account statements showing their specific account performance, holdings and transactions. Information concerning the performance of client accounts and our recommendations over the last year is available on request. Past performance is no indication of future performance. You should not assume that future recommendations will be as profitable or will equal the performance of past recommendations. Statements referring to future actions or events, such as the future financial performance or ongoing business strategies of the companies in which we invest on behalf of Oak Value's clients, are based on the current expectations and projections about future events provided by various sources, including company management. These statements are not guarantees of future performance, and actual events may differ materially from those discussed herein. References to securities purchased or held are only as of the date of this commentary. Although we focus on long-term investments, holdings are subject to change.

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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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