

January 11, 2008

Dear Limited Partner,

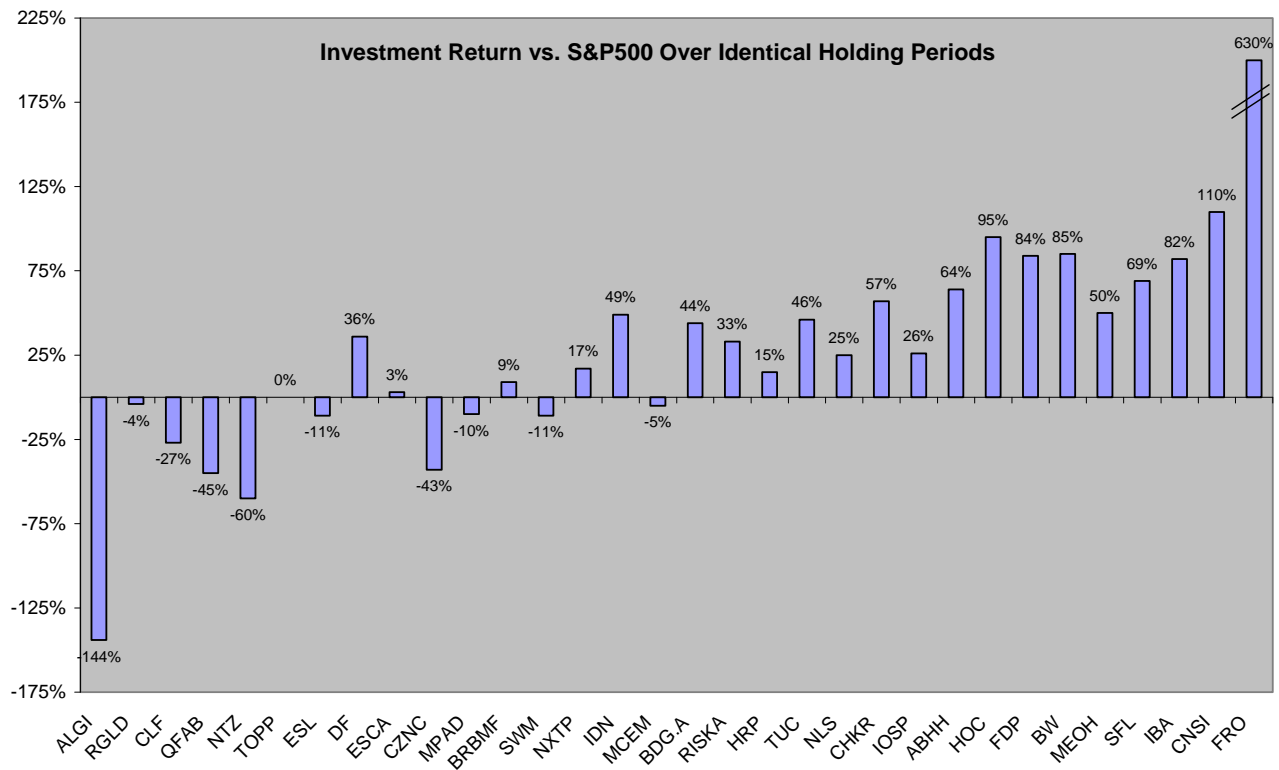
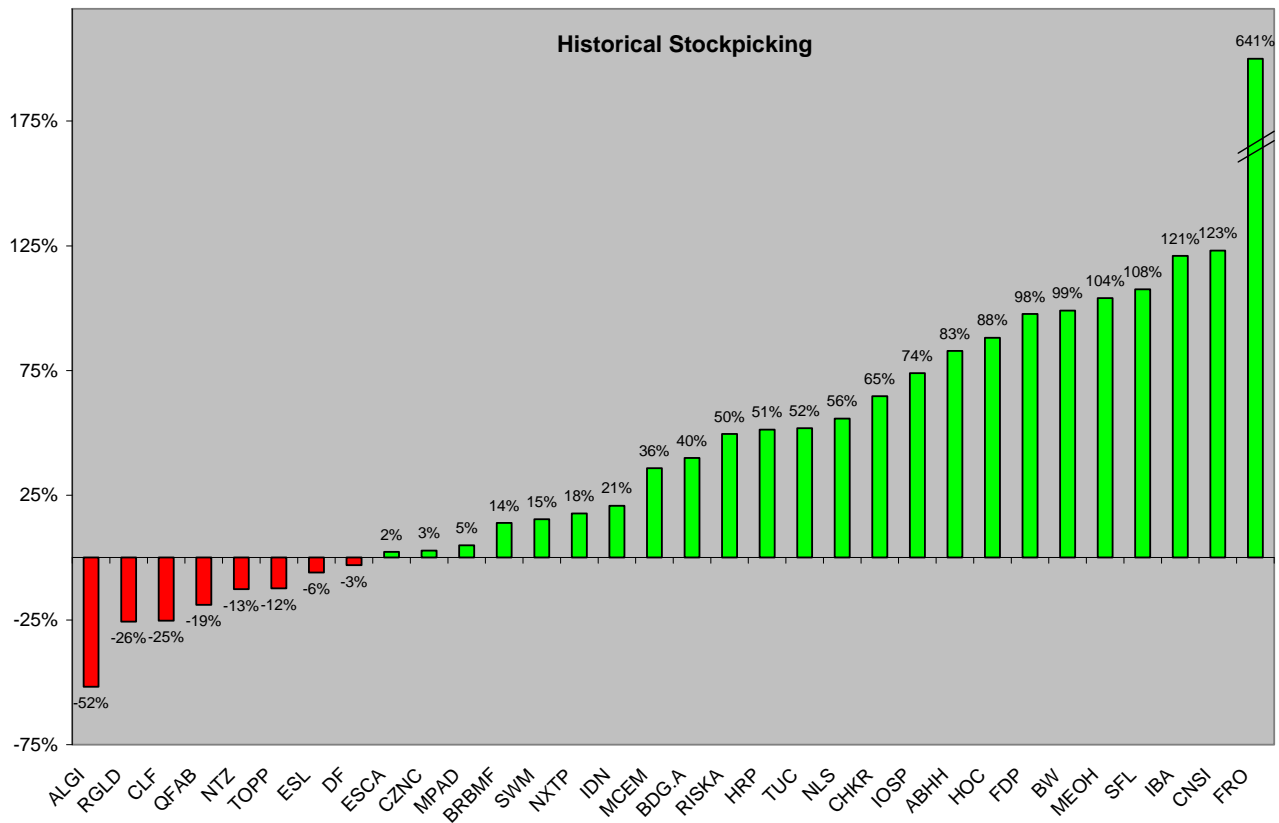
We are pleased to report that the fourth quarter of 2007 was a good one for your Partnership, capping off a successful year – our sixth straight year of positive returns and of beating or matching the benchmark S&P500. The Partnership’s per unit value gained 9.1% for the quarter, bringing the full year performance to 34.4% on a gross basis and 26.6% net of all fees and expenses. As always, aggregate results (both gross and net of fees) are shown below, while your personal results may vary based on the timing of your individual cash contributions. Our accountants are currently auditing the fund and we will mail out individual account statements along with tax forms when this process is complete.

	<u>4th Qtr. '07</u>	<u>2007</u>	<u>Since Inception (6/3/02–12/31/07)</u>	
			<u>Net</u>	<u>Gross</u>
VN Capital Fund I LP	+ 9.1%	+ 34.4%	+ 203.8%	+265.3%
S&P 500	- 3.8%	+ 3.5%		+ 52.3%
Dow Jones Industrial Average	- 4.5%	+ 6.4%		+ 48.1%
NASDAQ Composite	- 1.8%	+ 9.8%		+ 70.1%
Russell 2000	- 4.9%	- 2.8%		+ 68.7%

The solid fourth quarter was the result of fine performance across the board among core portfolio holdings, as only our newer and smaller holdings turned in a negative return. For the year as a whole, however, two holdings drove the returns in 2007 – Fresh Del Monte and American Bank Note Holographics. As we’ve mentioned in previous letters, we made the decision to “double down” on Fresh Del Monte last December and it paid off this year. Also, we made the correct call that American Bank Note Holographics’ 2006 woes were blown way out of proportion. The rest of the portfolio was a mixed bag of the mediocre to the good, but nothing thankfully was a disaster, which is of course our top priority in our overall approach to investing – do not make the big dumb mistake.

In terms of activity during the quarter we were both aggressive and defensive. We continued to buy actively, using our cash to take advantage of big swings in the market brought on by lingering fears of the subprime fallout. We added incrementally to core holdings like Industrias Bachoco and kept building up newer positions like Escalade and Wabash National. Meanwhile, we showed excellent results in October and made the decision, given the tenuous market environment, to hedge more aggressively using options to lock in some gains and eliminate a percentage of loss exposure.

Below we have included two charts to let you see where we have made money and where we have stumbled. The first is a chart we print each December that shows the performance of every investment we’ve made for the Partnership. It is our lifetime stat sheet so to speak. We think it is a good way for you to view how we are making you money and a general barometer of our stock-picking, which is the essence of what you have hired us to do. Just like last year, although even more so, the chart shows that we are achieving a key goal of limiting both the number and impact of our mistakes. “Aha, but...” would interject the skeptic, “...the market has been up broadly during that time, so how good have you really been?” Good question and we’re glad you asked. The second chart shows the excess (or subpar) return of each investment relative to the S&P500 (the prized, mystical “alpha” of finance jargon) over identical holding periods. Here the general pattern remains intact, indicating that we are successful at choosing investments that beat the market rather than track the market. Fortunately for us, the unsightly leftmost bar is American Locker which accounts for less than 1% of assets.



2008 Outlook

The trendy book of 2007 in financial circles was a book entitled *The Black Swan* by Nassim Nicholas Taleb, which derives its name from the discovery of black swans in Australia, shattering the previously understood 'certainty' that swans could only be white. This is not just an ornithological matter. The Black Swan is a symbol of unpredictable occurrences that have a major impact on the world or our understanding of it. Even if not a perfect analogy for this year in financial markets, things were certainly Black Swanish. Going into 2007 the conventional wisdom was that while it may not be perfectly smooth sailing, particularly in the real estate market, the economic conditions were benign and securitization and syndication of mortgages mitigated risk by dispersing it to those best able to handle it. The reality, we learned, was that what was supposed to dampen risk, actually magnified it. In July a rash of subprime mortgage defaults triggered a series of US credit market seizures throughout the remainder of the year. Saddled with massive losses, major multi-billion dollar hedge funds blew up, the consumer finance industry evaporated, the entire financial guaranty insurance industry teetered on insolvency, and large swaths of Wall Street had to be bailed out by the Chinese, Middle Eastern oil sheiks, and the Singaporean government. Needless to say, things are not looking so good as we head into the new year.

Amid all the doom and gloom, investors have become quite leery of stocks and where there is still an appetite it is for safe, big, mothership stocks. Small stocks are anathema to the times and thus, on sale. Whereas six months ago we struggled to find investments for our cash, now we have more potential opportunities than we are able to exploit. So, while we make no predictions and have no idea what returns will be like in 2008, we are seeing a lot of good businesses going cheap, and if you have a long term view, that is always a pretty sight.

We are glad to have achieved another good year in partnership with you. As always, if you have any questions regarding the Partnership in particular or general matters, we encourage you to give us a call at any time. We are grateful for your confidence and thank you for your continued support.

P. Donnell Noone
Managing Member

James T. Vanasek
Managing Member

PORTFOLIO SUMMARY

	<i>Owned Since</i>	<i>Qtr. Return</i>	<i>2007 Return</i>	<i>Total Return</i>
Am. Bank Note Holographics	Jun-06	18.2%	115.7%	82.8%
Fresh Del Monte	Feb-06	16.8%	125.2%	97.6%
Schweitzer-Mauduit	Aug-05	12.3%	2.4%	15.1%
Methanex	Sep-03	10.5%	3.7%	104.7%
Wabash National	Dec-07	7.6%	7.6%	7.6%
Ship Finance Int'l	Jun-04	7.7%	26.1%	107.7%
Industrias Bachoco	Apr-04	5.5%	11.7%	121.2%
Escalade Corp.	Aug-07	-7.8%	6.3%	2.2%
Big Rock Brewery Inc. Trust	Dec-06	-14.3%	41.5%	13.9%
American Locker	Feb-05	-27.2%	-13.8%	-51.8%

SUMMARY OF CHANGES TO PORTFOLIO

Additions to Holdings

Wabash National Corporation

The Partnership purchased 163,209 shares of Wabash National Corporation, a leading manufacturer of trailers for semi trucks and other transportation equipment. The logic behind this investment is that North America is a big place and lots of stuff gets moved around from here to there in hundreds of thousands of these boxes on wheels. Furthermore, the boxes take a lot of wear and tear, so they need replacing every five to ten years. If you could design a high quality box, make it cheaply, and sell them at a fair price, you'd sell a lot of them, over and over to the same people. That's a pretty good business, and that is Wabash National. The industry, however, is extremely cyclical as truck companies load up on shiny new equipment in boom times and cut off all unnecessary capital expenditures when the economy slows. Thus, you want to purchase a stock like Wabash during those rare opportunities when investors, driven by fear, shun stocks in companies that are so directly correlated to the economy and will sell you shares at an irrationally low price. Now is such a time - fear of recession is rampant, gas prices are high, industry production is down - and shares of Wabash are selling as if the US economy is already in or headed for recession even though they are still making money. We don't know what will happen to the economy over the near term, but we do know that over the long run demand for truck trailers will grow, with the best manufacturers selling lots of trailers. Furthermore, the next few years will see regulatory changes that should increase the allowable size of trailers, which will unleash heavy replacement demand as trucking companies outfit their fleets with trailers that can carry more cargo per load. The Partnership's investment in Wabash National represents 2.5% of its overall assets.

Escalade Incorporated

The Partnership purchased an additional 136,431 shares of Escalade Incorporated, a manufacturer of sporting goods, gaming equipment and office equipment, for a total of 311,623 shares. The company's major product lines include billiard and ping-pong tables, archery equipment, darts and dartboards, "jungle gyms", paper shredders and letter openers. As we stated last quarter, the current mix of business lines is the result of an unfocused acquisition binge over many years, but obscured by the mess are some nice businesses worth owning. Our investment thesis rests on new management's willingness to cull the unpromising businesses or, at the very least, not allow them to starve the promising businesses of capital. With this in mind we traveled to Indiana in December to meet with management to take their pulse in this regard, and we are reasonably confident at this early stage that the new CEO's plans include a more productive allocation of the company's capital than past practice. The Partnership's investment in Escalade represents 5.7% of its overall assets.

Big Rock Brewery Income Trust

The Partnership purchased 35,800 additional shares of Big Rock Brewery Income Trust bringing total holdings to 188,500 shares. The trust owns all the shares of Big Rock Brewery Ltd., a small brewer and marketer of premium beers based in Calgary, Alberta. In past quarters, we've noted that our buying activity of Big Rock shares continued to be modest due to the rapid rise of the Canadian currency versus the US dollar,

which has contributed a large percentage of the share price performance. In the fourth quarter, the share price slid close to 20%, but the Canadian dollar corrected against the US dollar only 9%, giving us a chance to buy more without sacrificing too much of the boost that the Canadian dollar gives us of late when we cash dividend checks from the trust. The Partnership's investment in Big Rock Brewery Income Trust represents 5.8% of its overall assets.

American Bank Note Holographics, Inc.

The Partnership purchased 27,239 additional shares of American Bank Note Holographics Inc. during the quarter bringing our position to 1,266,196 shares. ABNH is a leading provider of security and anti-counterfeiting holograms, principally for the payment card industry. In December, the company announced that they would be acquired by JDS Uniphase at \$6.15 per share, quite a bit above our \$3 cost basis. Sometime in the first quarter of 2008, we will receive cash and JDSU stock. We have no interest in holding JDSU stock, but we may keep a small amount for a few months in order to merit long term capital gains status if we can reasonably hedge away our exposure to loss by holding these shares. The Partnership's investment in American Bank Note Holographics represents 15.1% of its overall assets.

Schweitzer-Mauduit International

The Partnership owns 195,000 shares of Schweitzer-Mauduit International after purchasing 1,000 shares in the quarter. Last year we expressed regret that we failed to take advantage of a sharp decline in Schweitzer-Mauduit's stock to "double down" on our investment. We were afforded a second chance this year when Schweitzer's share price swooned again. Three major catalysts remain pending for this investment to achieve its full potential. First, the company has to successfully renegotiate its disastrous supply agreement with Phillip Morris USA. Second, Schweitzer needs to fully leverage its quasi monopoly in "fire-safe cigarette" paper, which is increasingly being mandated by legislation. (As of the beginning of this year, cigarettes sold in Illinois and Massachusetts must be fire-safe and New Jersey's law takes effect in June). Thirdly, and most importantly, the company needs to pass the management reins to a younger, more dynamic generation of managers and jettison ossified 1980s style corporate management. The Partnership's holdings of Schweitzer-Mauduit represent 10.2% of its total assets.

Industrias Bachoco, S.A.

The Partnership purchased 21,449 additional shares and now owns 200,699 shares of Industrias Bachoco, Mexico's largest poultry producer. Bachoco had another uneventful quarter. The company remains debt free, has tons of cash and continues to churn out respectable levels of cash earnings while building its operations to become one of the premiere food companies in Mexico. Also, we are interested to see the company pursue its plans to export chicken into the US market or possibly buy a US poultry producer. The Partnership's investment in Bachoco represents 12.9% of its overall assets.

Ship Finance International Ltd.

The Partnership owns 199,825 shares of Ship Finance International. Ship Finance shares had a decent quarter to cap off a very good year. As a finance company, Ship Finance is affected by liquidity and global credit trends, which remain uncertain, but the underlying floating metal that the company owns is doing well. Oil tanker spot rates have had a respectable bull run of late and the outlook for the company's exploration assets, such as drilling rigs and seismic ships, is still excellent. Our holdings of Ship Finance represent 11.8% of the Partnership's assets.

Methanex Corporation

The Partnership holds 221,400 shares of Methanex Corporation, the world's largest methanol producer. Methanol contract and spot prices cratered mid-year by almost 50%, which coincided supply disruptions to its Chile plants. For the rest of the year, both the commodity price and Methanex's stock have been crawling their way back, and we actually find ourselves in a very tight supply situation. Methanol prices spiked again in December and 2007 closed with prices 38% higher than they started the year. It is anybody's guess whether methanol prices will remain high in 2008 or how quickly Methanex will overcome its gas supply problems, but the fundamental long term supply/demand imbalance for methanol and Methanex remains strong as we have

outlined previously. Methanex shares ran up aggressively in October so we took the opportunity to hedge our short term exposure to loss through the use of options. Shareholdings in Methanex constitute 12.3% of the Partnership's assets.

Summary of Portfolio – No Change in Holdings

Fresh Del Monte Produce Inc.

The Partnership owns 278,200 shares of Fresh Del Monte Produce. Fresh Del Monte has been our best performing investment holding this year. Fresh Del Monte's financial outlook is improving as banana prices continue to rise in nearly all markets. Given the performance of Fresh Del Monte over the year and that it represents a large percentage of the Partnership's assets, our investment in Fresh Del Monte was significantly hedged via options in the fourth quarter. The Partnership's investment in Fresh Del Monte represents 18.8% of its overall assets.

American Locker Group

The Partnership continues to own 121,508 shares of American Locker Group, which represents 1.0% of total Partnership assets. After a long slog, much longer than we anticipated, the aggressive management changes that we have consistently advocated are largely complete. As we start 2008, American Locker has truly abandoned its dysfunctional past and can look forward with optimism.