

VALLEY FORGE PRIVATE EQUITY, INC.

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Dear Friends of Valley Forge:

The purpose of this letter is to provide you with an update on the 4th quarter activity within the five Valley Forge Funds.

AUDAX MEZZANINE FUND I, L.P. – VALLEY FORGE FUNDS I & II

Audax Mezzanine provides the Valley Forge Funds with a steady stream of income from consistent interest payments on the various debt arrangements within the portfolio. Audax has now invested 91% of the capital committed by Valley Forge Fund I and II. Here are some highlights of Audax's investment activity in the 4th quarter:

- **Medical Consultants, Inc.-Audax**, acquired Advanced Data Processing, Inc. and Intermedix Inc. as add-on investments through Medical Consultants, Inc. on October 31 and November 21 respectively.
- **Dynisco, LLC**- On November 30, Dynisco was sold to a strategic buyer. Therefore, Dynisco has returned a 33% gross IRR and 1.5x gross return on initial investment.
- **TruckPro, Inc**- In November, Audax received the release of escrowed proceeds from the July sale of TruckPro, Inc. TruckPro has returned a 31% gross IRR and 1.6x gross return on initial investment

AUDAX MEZZANINE FUND II, L.P. – VALLEY FORGE FUND V

Audax Mezzanine II is structured with the same objectives and principles as *Audax Mezzanine I*. Audax has made two initial investments since the inception of Valley Forge Fund V:

- **The Hilsinger Company** was acquired on December 21, in connection with PNC Equity Partners, which comprises of roughly \$20 million in senior notes and \$7 million in preferred and common stock. Hilsinger designs and provides consumer optical accessories, optical tools and related eye care products to United States and United Kingdom
- **Source Refrigeration & HVAC, Inc.** was acquired on December 22, with Arsenal Capital Partners, which consists of approximately \$19 million in senior notes and \$2.8 million in preferred and common stock. Source is the leading independent provider of commercial refrigeration services in North America.

CASTLE HARLAN PARTNERS IV, LP – VALLEY FORGE FUNDS I & II

Valley Forge Fund I also invested in *Castle Harlan Partners'* fourth private equity fund. Castle Harlan Partners IV (CHPIV) is a fund focusing on global mid-market companies with extremely high growth potential. CHPIV has invested approximately 56% of capital committed by Valley Forge Fund I and II.

- **Horizon Lines, Inc-** In November, CHPIV liquidated its remaining interest in Horizon Lines, Inc. Over the investment lifespan of this investment, Horizon has returned 3.2x on initial investment and a gross IRR of 116%.
- **United Malt Holdings LP-** The world's largest producer of malted barley, was acquired by Castle Harlan in mid September.

INCYTE CAPITAL, LLC – VALLEY FORGE FUNDS I, III, IV & V

Valley Forge Fund investments with *Incyte Capital* are made on a “co-invest” (direct) basis with Incyte. Incyte is a proven, value-oriented private equity and debt-restructuring firm.

Paging Networks of Canada, Inc – This investment was made in December 2002. PageNet has distributed approximately 190% return of capital to Valley Forge Fund I investors through December 2006. This represents an approximate 18% annualized rate of return since inception.

Greenlight Partners, BF Partners and Webster Capital LP have not reported any significant activity for the 4th quarter.

If you have any questions, please feel free to contact your Valley Forge representative.

Best regards,

Manish Upadhyay
Private Equity Fund Administrator