2004 STOCK SELECTION REPORT CARD

THE GOOD, THE BAD AND THE UGLY

2004 Stock	Grade	Date Of Initial Buy	Comments
Amgen	**C**	**3/93**	Given that in 2004 the AMEX biotechnology Index (BTK) was up 11%, the S&P 500 Index was up 10.8% (dividends reinvested); the AMEX Pharmaceutical Index (DRG) was 6%, Amgen, the largest independent biotech company, returned 3.8%, so we assign the stock a grade of C. Although we had high hopes for Amgen in 2004, issues regarding pricing controls and Medicare reimbursement issues that will take effect in 2005 provided enough uncertainty for the stock to under perform. Key senior executives indicated in December that the upcoming Medicare reimbursement changes may not as detrimental as previously anticipated. Amgen's industry leading gross margins of 87%, operating margins in mid 40's and net margins in mid 30's undoubtedly will allow the company to manage through any unpleasant or unanticipated changes in 2005 Medicare reimbursement. Company guidance indicates total product sales for 2004 are in the range of \$10.3-\$10.6 billion, a 26% increase over 2003. Aranesp, the second-generation red blood cell treatment for chemotherapy-induced anemia, increased 2004 sales by 58% to \$2.44 billion stealing market share from Johnson & Johnson's Procrit. (Johnson and Johnson enjoys a 57% share in U.S. vs. Amgen's 43% share). Amgen's Aranesp gained 3% alone in 3rd quarter 2004. Epogen, the first generation anemia treatment, grew at an estimated 7% clip to \$2.58 billion. Growth in the EPO franchise (Aranesp/Epogen) is expected to be in the 16% range in 2005. The white blood cell booster franchise (Neupogen and Neulasta) had total 2004 revenues of \$2.94 billion, a 17% increase and is expected to grow 12% in 2005. Enbrel, the treatment for fatigue, pain and swelling associated with rheumatoid arthritis, had 2004 sales at \$1.87 billion, a 44% increase, with sales expected to amount to \$2.43 billion in 2005, a 30% growth rate. It is anticipated that Enbrel will be approved for other ailments besides rheumatoid arthritis, such as psoriatic arthritis, psoriasis and ankylosing which is estimated to add \$1 billion to total Enbrel sales. Amgen has established a track record of solid financial performance, growing revenues at a 3-year CAGR of 38% and EPS at a 27% rate. They have enhanced their 2004 R&D productivity with four major regulatory approvals, initiated phase 3 trials for AMG 162

			(an osteoporosis treatment), initiated other key trials including AMG 706, panitumumab+AMG 706, and solid tumor studies for Kepivance. The Company developed five candidates and expanded clinical trials into Japan for four products. Amgen is also strategically poised for future growth with a pipeline of 14 products in late stage human testing and several more in earlier stages. On the valuation side, Amgen is trading at a 2005E, P/E, P/Sales, EV/Sales, P/B of 24x, 7x , 7x, and 3x respectively, versus the biotech peer average of 28x, 8x, 8x, and 5x. Given Amgen's financial strength, ($5 billion cash on balance sheet), impressive product sales growth, expanded manufacturing capacity, strong pipeline and Tularik acquisition in March 2004, we feel this discount is unwarranted and look for impressive gains for Amgen for 2005. The company repurchased $3 billion in stock in 2004 and has authorized the purchase of an additional $5 billion.
Berkshire Hathaway	**C**	**12/98**	Warren Buffett has been quoted as saying, "… if one must forecast, forecast often." So it goes with our forecast at this time last year in which we predicted that Berkshire Hathaway would be one of our best performing stocks during 2004. Wrong! Berkshire Hathaway is one of our largest holdings. We remain convinced that "Wall Street" is unappreciative of not only the stellar growth this company exhibits (independent of Buffett's more than well known investment prowess) but also its uniqueness as an investment vehicle attributed to Buffett's investing prowess. (See more of our thoughts on Berkshire in the first quarter 2004 *Wedgewood View*.) Not only do shareholders own one of Corporate America's greatest cash flow generating machines in Berkshire's ever growing conglomeration of operating businesses, but we also get Buffett's own masterful investing hand which seems to regularly throw off multibillion investment coups – junk bonds: 2002 and foreign currencies: 2004. Make no mistake about it, Berkshire is a growth company. Operating earnings are the driver of this stock. Operating earnings are clicking along at an annual rate of $120 per share (B shares). Berkshire's "look through earnings" from its $45 billion common stock portfolio amounts to about $27 per share. The last two items to value are the capital gains that Buffett seems to generate every year, as well as the potential impact when and if Buffett ever redeploys the in cash he is currently sitting on. We will pass on the $40 billion question and make the observation that Buffett seems to book roughly, $30 per share in capital gains every year or so. Put it all together and Berkshire's earning power is about $175 to $180 per share – or just 17X earnings. We believe we are quite conservative in our normalized operating earning assumption and the $40 billion in cash is akin to a financial elephant gun sitting in Buffett's lap. The stock is cheap. Here we go again – we

			expect the stock to be on our best performers in 2005.
Comcast	**A**	**3/04**	We initially began adding Comcast to our portfolio's in March (after their failed Disney takeover attempt) when the stock was trading at \$27-\$28. The stock has risen approximately 20% (versus a rise the S&P 500 of 9% during the same period) since our initial purchases. Comcast is the largest cable company in the U.S. serving more than 21 million subscribers with a national footprint in 22 of the nation's top 25 TV markets - including New York, Chicago and Los Angeles. Although Comcast faces tremendous competition in a mature cable/satellite TV market, it has been able to utilize its unprecedented scale to offer differentiated services that have built tremendous customer loyalty. Comcast has increased its ARPU from \$42 to \$75 (11% CAGR) between 1998 and 2004 by offering its triple play: video, data, telephony. Video: In addition to basic cable offerings, Comcast offers Video On Demand (VOD): 4000 hours of programming choices, most at no extra charge, *and 58,000,000* hits in October alone, averaging 23 per user. High Definition TV (HDTV): local and cable, 5-7% growth per month as more customers buy high definition TV's. Digital Video Recorders (DVR's): TiVo like device with a converter to receive high definition broadcasts cheaper than satellite. Data: Comcast is the nation's largest provider of broadband internet services with 7 million customers and is adding nearly 550,000 new subscribers per quarter. It has also increased its average downstream speed to three megabytes a second - at least double the speed of the typical DSL line and faster speeds are coming next year. Telephony: Voice Over Internet Protocol (VOIP): Internet based telephony - \$130 billion dollar local telephony market which Comcast wants to hold a 20% market share. Expected nationwide rollout by 4Q05. Financially, the company is stronger than ever having completed 98% of its 2-way cable network which gives more power and choices to consumers and creates a stream of growth opportunities for the company. Capital expenditures have declined 35% between 2002 and 2004; from 5.2 billion to 3.4 billion and they are expected to decline again in 2005 thus enabling free cash flow to grow at approximately *twice* the rate of operating cash flow. Free cash flow is expected to come in at \$7.4 billion in 2005, 50% more than in 2004. Comcast has reduced their debt obligations 35% over the last two years from \$35 billion to \$22 billion, while still buying back \$1.1 billion in stock this year. Given that Comcast has completed it's reconstruction, is adding broadband customers at a rate of 550,000 per quarter, has added VOD content (example: Sony/MGM additions of 7500 movies, 45,000 television episodes) and will complete their rollout of VOIP late in 2005, we feel it is poised to utilize it's competitive advantages to prevent the satellite companies and the RBOC's from making any

			significant inroads into their markets. Comcast is becoming the dominant player with their video, data, and telephony triple play. The Company is also looking to add wireless capabilities to increase their arsenal of bundled services. It's the satellite companies and the RBOC's that should fear Comcast taking their market share, not the other way around. We believe the stock is still cheap and expect the stock to be among our better performers in 2005. Comcast likes to stress it is not just the bundling that matters, but the differentiation of the services in each of the product groups that makes them a superior choice for consumers.
Commerce Bancshares	**A**	**8/04**	We swapped out of our Marsh & McLennan position to fund our late summer purchase on Commerce Bancshares. (We held MMC just six months. We had a small loss in this investment, but did avoid the Spitzer blow-up. We will give ourselves a gentleman's C on our MMC investment.) The stock has appreciated nicely since our initial investment. Please see the third quarter *Wedgewood View.* for our recent thoughts on Commerce Bancshares.
Countrywide Financial	**A+**	**8/03**	Countrywide Financial had a stellar 2004. For the full year the stock outperformed the stock market by four-fold. We discuss the Company in more detail in our fourth quarter issue of the *Wedgewood View.*
First Data	**C**	**4/03**	We acquired the shares of First Data Corporation in February 2004 when it acquired Concord EFS, a leading independent processor of financial transactions and a company we owned since August 2002. The acquisition is estimated to provide $205 million in total synergies to the Company. First Data Corporation, with 2004 revenues of $10.5 billion, provides the following four services: Payment Services - providing domestic and international money transfer and bill pay services through its crown jewel, Western Union (38% of firm wide revenues). The Western Union money transfer business achieved full year revenue growth of 14% through its network of 220,000 locations in 195 countries. 2004 annual profit margin of 33% was achieved. Amazingly, seven times a second, every second of the year, customers use Western Union to handle their money transfer needs. Merchants Services - provides credit and debit card transaction processing services and it delivered year over year transaction growth of 13%, (including the Concord volume) by adding nine new bank relationships, expanding the sales force by 18% and generating 458,000 new merchants in 2004 (36% of firm wide revenues). Their Card Issuing service provides domestic and international card processing for issued Visa and MasterCard credit cards, debit cards, fuel cards and

			smart cards (22% of firm wide revenues). Revenue grew 14% in this segment in 2004 by converting 11 new clients totaling 58 million accounts. The Company's Emerging Payment service provides electronic tax processing services to governmental agencies. Why did we decide to keep First Data you may ask considering the stock has not done anything since May 2003? We like the company due to its dominant market share position which will benefit from shifting preferences for electronic payments and a stronger worldwide economy. FDC is expanding aggressively worldwide in growing areas such as China and India. Organic growth is estimated at 10% for the foreseeable future and the company will undoubtedly, as it has in the past, make strategic acquisitions (such as Concord EFS) where it is able to gain market share, create synergies, and provide growth. Capital expenditures are expected to increase markedly in 2005 from \$432 million to \$500-\$600 million primarily where the company recognizes the greatest prospects for high returns - in the payment and merchant services. As a result, pretax ROIC, which has been declining the last 2 years and has been a key contributor to lackluster stock performance (2003: 28.4%, 2004: 24.4%), is expected to increase from 22.4% in 2005 to 25.4% in 2006. Hopefully, this increase will be recognized by investors and reward the stock. Free cash flow has been growing nicely over the last 3 years and is estimated at 20% of revenues (\$2.1 billion). Long-term sustainable free cash flow growth, estimated to grow in low to mid teens, is a combination of above average revenue growth and ongoing operating margin expansion. Recent share buybacks amounted to 88.2 million shares at a cost of \$3.7 billion and an average cost of \$42.41. We feel the stock will perform well in 2005 and garner above market returns. The stock is trading at 16.5x 2005 earnings per share estimates of \$2.40, below the market multiple and the average multiple of 20.8X for other business services companies. Given the company's high growth prospects and above mentioned strengths, we feel multiple expansion will result and reward patient shareholders.
Gentex	**D**	**12/97**	We had muted expectations for the stock in 2004. The stock weathered the bear market years of 2000-2003 exceptionally well. The stock was up 40% in 2003. We had little doubt that the Company would once again reign supreme as the profitability champ in the auto parts industry. With free cash flow at 21% of revenues and +50% returns on capital, Gentex is among the profitability champ of *all* of Corporate America. The Company continues to feverishly focus on R&D. 20% of employees are dedicated to R&D. 6% of net sales are spent on R&D. 60 million cars are produced worldwide every year. The Company expects auto-dimming mirrors to ultimately reach

			50% of all autos. At just $100 in mirror content per vehicle, the potential market is $2.5 billion. The Company's auto-dimming headlights have just hit the market on the Cadillac STS. We are not surprised that this engineering triumph is receiving rave reviews. The ramp of this product will be slower than a typical new mirror program. Auto-dimming headlights are more deeply ingrained in the electrical system of an automobile and thus lead times to product introduction are greater. The key to remember is that such proprietary products will increase the Company's electro-optic content per auto. The Company has compounded revenue growth since 1987. We expect industry leading growth for this remarkable company to continue in the years ahead. After a short fall and respite in 2004, the stock is attractive for purchase once again.
Home Depot	**A**	**5/95**	Home Depot gets back-to-back A's. 2004 will go down in the books as an attestation to the gains CEO Bob Nardelli's exigent operational overhaul has begun to reap for Home Depot. Contrary to the expansion binging, Wal-Mart wannabe of the latter decade, they are now fixated on improving customer service (with a $600 million provision for employee training and development) and store modernizations (with a $3.7 billion capital spending blueprint) while modestly growing at a rate of 160-175 stores per year. The game plan has worked thus far, with another record setting year for average tickets-per transaction of over $55 (7% higher than their record in '03) which trickled (or rather, gushed) down to a 20% increase in profitability and a 23% return on deployed capital. In addition, they continued their generous stock buybacks, returning over $6 billion to shareholders with another $1 billion on the way, bringing their three year buyback total to $9 billion.
IMS Health	**C**	**2/04**	IMS Health, a new addition to our portfolios in 2004, is the global leader in providing data and information solutions to pharmaceutical and healthcare companies in over 100 countries. With double digit revenue growth, Returns on invested capital consistently greater than 30%, free cash flow amounting to *90%* of net income and minimal debt, it is easy to see why we like this business. With 50 years of industry experience and an unparalleled global data center holding *400 terabytes* of current and historical data, IMS is able to analyze this vast information and provide solutions to their customers. IMS collects information from 29,000 data suppliers throughout the world from 250,000 sources. This information is used to provide sales force effectiveness, portfolio optimization, and brand and launch management and consulting services. By recognizing the changing needs of their clients in a challenging pharmaceutical environment, IMS has adapted from being solely a data supplier to a solutions provider. The

			data/information side of the business yields about a $2 billion dollar opportunity whereas analytics, consulting, launch, brand, consumer health, managed care, and sales force effectiveness is a $4 to $5 billion opportunity. Increased regulation, price controls, competition from generics, and a reduction in new chemical entities entering the market have increased the need for productivity improvements within the industry. Fortunate that their product "information" is not threatened by substitutes given the huge barriers to entry and it does not go out of style; IMS has been able to become a stronger business by recognizing the changing landscape and the resulting huge growth opportunity. Emerging marketplace opportunities include Japan, China, consumer health, biotech and the government. IMS is currently valued at 17x 2005 projected earnings estimates of $1.30, which is more inline with a data provisioning company and the pharmaceutical industry as a whole. IMS closed the year where we bought it in February so we assign the company a C. We feel that given the type of information and services the company provides, it should be valued as a marketing intelligence and services provider and deserves a multiple more in line with this type of company. Marketing intelligence companies trade in the range of 17-27X 2005 earnings. We feel IMS is currently trading at a 25% discount to these companies even though their goals have them performing in the top 25% of those companies in terms of revenue growth, EPS growth, cash flow and margins. The company purchased over 11 million shares in 2004 and announced on December 15th, 2004, an authorization for repurchase of 10 million additional shares in the future. We believe the downtrodden pharmaceutical market (down 11% in 2004) will make a comeback this year and IMS Health will be a primary beneficiary.
Intel	**F**	**5/01**	2004 was a year Intel felt the earth move under its feet. Shaken by competition, strategic miscalculations, technical glitches and weak demand, Intel turned in a poor stock performance this year. To quote Andy Grove, (a founder and now Chairman), characterized Intel's position this year "as strong within our industry, but stressed by a hunger for growth in an environment in which growth is harder to come by." A cogent statement addressing why we are no longer holders of these shares. We have held these shares since 1995. Intel has both short and long term issues to address. The shorter term issues will affect their all important gross margin (which has a high correlation to stock performance) over the next 4-6 quarters. Longer term issues, such as a maturing PC market, lackluster demand in the communications market, and technological issues, will not bode well for the semiconductor industry as a whole. For 2004, Intel reported $32.2 billion in sales, 13.5% higher than in 2003 and net income was up 33% to $7.5 billion. Gross profit YOY revenue rose $857 million,

			but the cost of producing those sales increased by $1.04 billion, which in effect meant that for every dollar of new sales in 2004, Intel spent $1.21. Increased competition from Advanced Micro Devices (AMD) has forced new investment and spending on the part of Intel. Who is to say 2005 will be any better? In a major shift of corporate strategy (marketing strategy), spurred by Advanced Micro Device's industry leading technology Intel has abandoned it's pursuit of Moore's Law and 4 Ghz capabilities and adopted dual-core technology. AMD, once a laggard, was the first to combine conventional 32-bit technology with the capability to run new generation 64-bit software with its Opteron chip.
Legg Mason	**A+**	**9/02**	Legg Mason continues to exceed our very high expectations. The stock has responded in kind as it has been among our very best performers over the past two years. Please see our fourth quarter client letter for our current thoughts on this outstanding company.
Linear Technology	**D**	**5/96**	After an outstanding performance for the stock during 2003 we expected the stock to under perform during 2004. Our expectations were in fact met. The <u>stock</u> fell for the full year, however, the <u>business</u>, again as expected, flourished. (This begs the obvious question: If we were so clairvoyant to foresee the under performance in the stock, why didn't we sell it and buy it back cheaper?) Well, first off, the timing of such "clairvoyance" is more a matter of luck than intellect. Furthermore, it has been our experience that when an investor finds a terrific business like Linear Technology, one should rarely sells - with the exception of extreme over valuation. As mentioned, the Company's business over the past twelve months has been outstanding – revenues: +40% and earnings per share: +48%. We have written extensively about the awesome cash flow generation of this Company. Current profitability continues to boggle the mind – gross margins: 78%, net margin: +41% and non-cash return on equity: 236% (not a typo!). Linear Technology has been cash flow positive <u>every</u> quarter since it's founding nearly 20 years ago. Few companies can boast such an accomplishment. Fewer still technology companies can make this claim. The long-term story of Linear Technology is powerful in its simplicity. As the world continues to become more digitized and portable, the need and development for high performance analog circuitry will remain robust for many years to come.
MBNA	**B+**	**6/00**	After a terrific 2003 MBNA's stock posted another market beating return in 2004. More important still, the Company is in the midst of a transition to focus even more on shareholder returns. One might say that MBNA is the

			victim of their own considerable success. After 22 years in business (14 as a public company), managed assets have climbed to nearly $150 billion. The law of large numbers has begun to take its toll on the Company's growth rate. In addition, competing generational lows on home equity interest rates have dampened growth rates still more. Managed loans grew a measly 3% during 2004. In an environment whereby single digit loan growth is the best one can expect, the Company has a few key levers at their disposal to still generate double-digit earnings growth. The first lever is to operate the business even more efficiently. The Company has done just that as return on managed assets has steadily increased from 1.41% to 1.83% over the past five years. The second lever is to return excess capital to shareholders via dividend increases and stock buybacks. Since 1998 the Company's capital ratios have doubled (Tangible common equity ratio: 8.20%). The Company expects to buyback $2 billion worth of common stock over the next two years. The company's unique affinity marketing of credit cards is still an outstanding business model. The Company currently has more than 5,000 endorsing organizations in five countries – including 1,400 professional organizations, 350 financial institutions (with more than 15,000 branches), 900 colleges and universities and 600 sports related organizations. Relative to industry averages, affinity card holders have leading credit histories (33% better), larger balances (+48%) and higher card usage (+25%). The National Education Association is a textbook (pun intended) example of the power of affinity marketing. Since becoming an endorsing organization member in 1983, 2.7 million teachers (one-third of all teachers) carry MBNA credit cards. In addition to $2.7 billion in credit card loans, this group also has $675 million in other MBNA consumer loans and $4.1 billion in CD deposits. The Company expects to generate earnings growth of 12% per annum over the next few years. If successful, the stock is cheap.
Microsoft	**B+**	**6/00**	While Microsoft shares gained 9% in 2004, pretty much in line with the NASDAQ (8.6%) and technology overall (9.3%), we applaud the company's unprecedented decision to return cash to investors. On July 20th, 2004, MSFT announced it would double its quarterly dividend to .08 a share, that it would buy up to $30 billion of its stock over the next 4 years and paid a special dividend of $3 per share payable on December 2, 2004. We therefore award the company a B+. In regard to the share buyback, Microsoft will be buying $7.5 billion in the next 5 months which will support the stock price. The overall $75 billion payout will not affect Microsoft's commitment to R&D, which totaled $7.8 billion in fiscal 2004, 21.12% of total fiscal 2004 revenues of $36.8 billion, which were up 14% YOY. The company filed for over 3000 patents alone in 2004. With Bill Gates resigning as CEO in 2003 and

			taking on the full time position of Chief Software Architect (CSA), where he can spend all of his time on technology and the teams designing future Microsoft products, Microsoft has an undoubtedly unique advantage. Summer of 2005, Microsoft will ship the next versions of Visual Studio and SQL, and SQL will include enhanced business intelligence capabilities. Windows X64 is ready to capture the benefits in computing power, a new edition of Office (which included Microsoft Office, small business accounting) targeted at small business management will also launch. Microsoft is refreshing it Microsoft Business Solutions product line as well. MSN search (with technology which will allow the user to search across a range of PC software to find files, e-mails and documents) will launch in the first half of 2005 and the company is working hard on the next generation of Xbox (driven by better than expected Halo 2 sales-$300 million since release on November 9, 2004. More Xbox consoles were sold during the holiday season in the United States than any of their competitors' consoles. Given that there are currently 600 million personal computers in use around the world, with the number expected to grow to 1 billion by 2010, the company is focusing its strategic growth initiatives on its new operating system and on developing advanced technologies that will help prevent internet attacks. The new operating system Longhorn is expected to be rolled out late 2006 and will have improved search and security capabilities. It is estimated that 67% of consumer's PC's are infected with spyware and in a continuing effort to improve computer security (Trustworthy Computing vision); the company is developing advanced technologies that will help prevent internet attacks. In December 2004, they purchased anti-spyware leader GIANT. All seven business segments grew, with Client growing 11%, Server and Tools 19%, Information Worker growing 17% and Business Solutions 18%. These four segments make up 95% of revenues. The stock is priced at $26.18 and is trading at 20.4x's 2005 estimated earnings of $1.28 (one of the smallest premiums to the market in the last 5 years and near a 5 year trough on a relative basis). It is estimated that the Client, Server and Information Worker alone are worth $25.68 per shares on a sum of the parts valuation, so investors are not paying much of a premium for the cash and equivalents of $4.26 a share or the Xbox, MSN, Mobile or Business application businesses. 2005 should be a profitable year across all business segments with firm wide earnings growing at 10% buoyed by better than expected IT and corporate spending, corporate profits and worldwide GDP growth.
Nextel	**A+**	**3/96**	From Dead Company Walking in 2002 to Belle Of The Ball 2004, days are never dull at Nextel. The stock soared +45% for the full year in 2004. The Company's considerable naysayers are eating cellular crow when

			Sprint and Nextel announced a merger on December 15. We will have more to say on this combination as 2005 progresses, but here is a snapshot of the combined company directly from the merger press release: *Sprint and Nextel currently have a combined total equity value of approximately $70 billion and serve more than 35 million wireless subscribers on their networks and 5 million additional subscribers through affiliates and partners. The two companies, along with their affiliates and partners, operate networks that directly cover nearly 262 million people, more of the U.S. population than any other carrier. The new company will have a balanced mix of consumer, business and government customers, as well as a strong spectrum position. Sprint Nextel will be well positioned in the fastest-growing areas of the telecommunications industry, including mobile data and push-to-talk services, where Sprint and Nextel are innovators in technology. With Sprint's global Internet network, the new company will be positioned to provide differentiated communications solutions through integrated applications for business and government and new broadband wireless services for consumers. Sprint Nextel is expected to have the highest average revenue per user (ARPU) in the wireless industry and to be positioned to lead the industry in sustainable revenue growth. Total pro forma revenues for the four quarters ended September 30 for Sprint Nextel were approximately $40 billion, which includes approximately $6 billion in revenues generated by the local telecommunications business.*
Paychex	**D**	**4/01**	After terrific gains in 2003 we expected the stock to lumber along in 2004. It did in fact lumber along – a bit too much. We expect the headwinds that have held back earnings growth (and the stock) to begin to abate. Among these include tepid employment growth and new business formations, plus still low short term interest rates. Paychex's business remains a jewel. We expect core growth rates to remain above 10% for many years to come. Like so many of the businesses in our portfolio Paychex is a cash-generating machine. We expect the stock to regain its form in 2004.
Pfizer	**F**	**2/00**	Pfizer, a stock we have owned since February 2000 came under pressure in 2004, along with other pharmaceuticals and closed the year at $26.89, down 22.3% for the year. Performance wise, we assign Pfizer an F for 2004. Headline grabbers included Medicare reimbursement issues, price controls, across the border sales of pharmaceuticals, Lipitor and Celebrex patent challenges, along with the September 30 voluntary withdrawal by Merck of its Cox-2 inhibitor, Vioxx. The news that Vioxx could possibly contribute to heart attacks and strokes for those using the drug for over 18 months boosted Pfizer's 4th

quarter sales of Celebrex. The stock was jolted, when on December 17th the National Cancer Institute's APC study demonstrated 2.5 and 3.4 times increased risk of cardiovascular major events for 400mg and 800mg of Celebrex per day, respectively, compared to the placebo, in patients treated for an average of 33 months. In January 2005, continued holding of Pfizer came under debate. Going forward, major concerns affecting the performance of Pfizer include future top and bottom-line growth, Lipitor market share performance, patent challenges, the pipeline, Celebrex sales and aggressive accounting issues which may have masked past true growth. Projected compound revenue growth is estimated at 3% for Pfizer from 2003-2008. Between 2004 and 2010, the company will lose to generics U.S. exclusivity for 11 drugs representing 50% of worldwide sales. Diflucan (2004), Neurontin (2004), Zithromax (2005) Xanex XR (2006), Zoloft (2006), Ellence (2006), Norvasc (2007), Zyrtec (2007) and Rebif (2007). It is estimated that Pfizer's new product launches only modestly exceed the company's expected annual losses from patent expiration. Currently, Lipitor, (a statin for cholesterol reduction) commands 50% of the cholesterol market. It is not only Pfizer's largest selling drug, but also the world's largest selling drug with worldwide sales in 2004 of $10.9 billion. Last year, Lipitor contributed 21% of Pfizer's sales and made up 42% of EPS. Lipitor faces intense competition from Merck/Schering-Plough's Vytorin and AstraZeneca's Crestor and studies confirm both can lower LDL-C more effectively than Lipitor. Both gained market share over Lipitor in 2004. Any disparate change in Lipitor revenue will clearly and noticeably affect earnings due to the incremental 90-95% pretax margin on Lipitor sales. As if the Vioxx/Celebrex news was not enough for shareholders to bear, Ranbaxy, an Indian generics company, has challenged Lipitor patents '893 and '995 in court with odds of success slated at 50/50 at the present time. Lipitor, is currently scheduled to come off patent 2010. If Ranbaxy wins, generics could enter the market as early as 2007. A decision is expected November 2005. Pfizer's pipeline is somewhat light given the scale of the company. The highly touted next blockbuster and revenue growth drive is the Torcetrapib/Lipitor combination which is expected to launch in 2008. But it is not without controversy. Currently, in phase II trials it has shown that it raised HDL 61%, but there is widespread debate whether the mechanism for raising HDL determines whether cardio protective benefits are reached and results in a clinical reduction in morbidity and mortality. Unfortunately, the Celebrex/Bextra combination which contributed 9% to revenues and 21% to EPS, and was expected to fuel sales growth in 2004-2008, is under review with improved visibility likely after the FDA advisory panel meeting February 16-18. It is expected Bextra will be withdrawn from the market and 2005 sales of Celebrex will amount to $1.8 billion, a $2.7 billion reduction from the pre-APC trial results estimate which assumed Celebrex prescriptions

			would replace Vioxx prescriptions. Last, but not least, Pfizer's murky financial reporting, use of purchase accounting vs. pooling accounting, and pro forma disclosures have left a lot to be desired on the part of investors in trying to understand Pfizer's true revenue growth rates. Although, Pfizer is currently trading at an attractive valuation, has the strongest balance sheet in the industry and a huge cash position and free cash flow estimated at $16 billion in 2005, it's growth prospects are the second lowest in the U.S. Major Pharmaceutical Group and it has been shown that the growth rate is a dominant indicator of share performance. That is why we no longer own these shares.
SLM Corp.	**A**	**3/04**	The stock has appreciated sharply since our initial purchase. Please see the third quarter 2004 *Wedgewood View.* for more complete views.
Sysco	**A**	**9/04**	Sysco is a new investment for us. (Interim grade A on the fast start on the stock: Interim grade F on us for not buying more at lay-up lower prices.) Sysco is the $30 billion behemoth of the $190 billion foodservice & hospitality industry. With about 420,000 customers, ranging from national chain restaurants to independent eateries (the bulk of their customer base), Sysco's army of 8,000 marketing associates help these businesses plan, stock and execute--all from the kitchen. Sysco has over 300,000 products including canned goods, frozen meats, fruit poultry, dairy, fresh produce, restaurant equipment, paper goods and even medical supplies. In addition, they offer their own high-quality, high-margin Sysco-brand products (45% of sales). Sysco's hallmark is their efficaciously simple playbook, which entails: top-tier customer service, efficient vendor purchases and speedy inventory and receivables turnover. On average, for every dollar spent on food in the U.S., half of that is spent dining out (in contrast to about 36 cents 30 years ago). This demographic has been a significant catalyst to Sysco's top and bottom line success as they derive over 60% of their revenue from people eating away from home. Sysco's shear size allows them to exert significant buying power (much like a Wal-Mart or Home Depot) over vendors, facilitating discounted prices relative to their small, fragmented competitors. This, along with their diverse product line, has led to an industry leading 99% customer retention rate. In addition, they have a long history of operating excellence that has turned double-digit bottom line growth, even during the most trying economic downturns (+15% in '01 & '02, +17% in '03). Sysco's recent operational undertakings include employing their $700 million of free cash to upgrade inventory and distribution controls. The impact has been significant thus far, expanding operating margins to about 5% (over two times the industry average). In addition, a brand new

distribution facility that will enable more efficient inventory management (instead of partially filled trucks, all trucks will have full loads) is scheduled to open next month and as a result, op. margins should continue to widen. Sysco has exhibited a remarkable progression of increasing shareholder wealth over the last decade. Return on equity has advanced every year since 1995, doubling from 19% to 38%. These returns have been catalyzed by revenue growth in the low double digits, with 90% of those dollars generated internally. During this same period, their economic moat has remained dauntingly wide with returns on capital (21%) coming in at triple their cost of capital.