



W E D G E W O O D P A R T N E R S , I N C .

**Wedgewood Partners, Inc.
2007 Annual Stock Report Card**

<u>Holdings: 12/31/2007</u>	<u>Weighting</u>
Amgen	3.0%
Apple, Inc.	7.0%
Berkshire Hathaway CL B	10.1%
Cognizant Technology Solutions	3.7%
EMC	3.6%
Ecolab	2.8%
Express Scripts	5.1%
Goldman Sachs	4.1%
Google	6.3%
Legg Mason	3.9%
Medtronic	5.6%
PepsiCo	2.6%
Procter and Gamble	3.4%
Qualcomm	6.0%
Varian Medical Systems	5.3%
WellPoint	6.9%
Western Union	3.4%
Whole Foods Market	4.4%
Wm Wrigley Jr.	2.2%
Yahoo!	4.0%

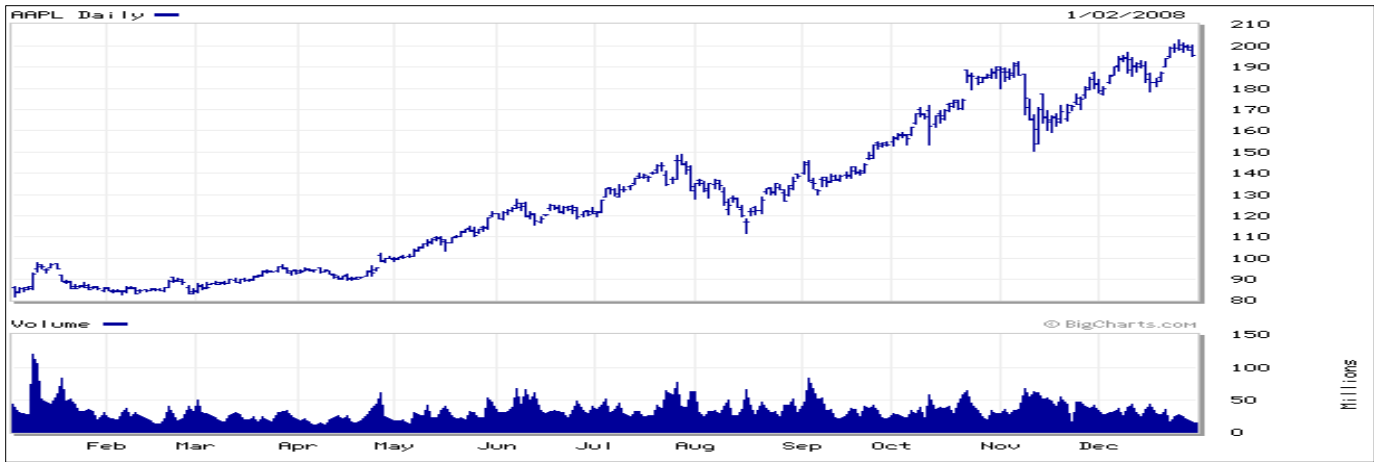
AMGEN



Double, double, toil and trouble. The Centers for Medicare and Medicaid Services (CMS) hath wrought trouble. In large doses no less to Amgen's \$6.6 billion EPO franchise consisting of Aranesp and Epogen. Amgen's share price declined a whopping 32% in 2007. Is the market overreacting or are we just plain dimwitted? Maybe a little of both. Stands to reason that when the government starts imposing restrictions on Medicare and Medicaid reimbursement to a company's biggest blockbusters, something has to give. Amgen's management has stated upfront that there is not scientific evidence supporting the CMS restrictions of denying coverage for Erythropoiesis Stimulating Agents (Aranesp and Epogen) when hemoglobin levels exceed 10 grams/deciliter. In contrast, the European Agency for the Evaluation of Medicinal Products stipulates an upper level of 12 grams per deciliter. In addition, the American Society of Hematology and the American Society of Clinical Oncology revised their evidenced-based clinical practice guidelines to reflect a target range of 10g/dl to 12 g/dl, following a rigorous and evidence-based review by cancer experts. Private payers such as United Healthcare and WellPoint do not follow the same guidelines as those recommended by the CMS thereby creating a two tiered insurance system where those individuals not dependent on government subsidies for health insurance receive better care from their doctors. Those under Medicare will be more dependent on blood transfusions in their

most dire hours. The scientific community has come to the aid of the damsel in distress with over 100 different hospitals and cancer care facilities voicing concern. To offset the resultant decline in revenues, Amgen has taken action. They are providing more scientific evidence to the CMS, appealing to the President of the United States, cutting research and development, cutting jobs, and buying back shares at these depressed prices. Management reported that overall EPO sales had declined 16% year over year on their latest earnings conference call. Why are we still holding the stock? While Amgen has faced headwinds this year, roadblocks are seemingly becoming less significant. Amgen prevailed in their patent infringement suit brought against Roche in September 2007 thereby eliminating a potential competitor in the U.S. to the EPO franchise. Medicare chose not to combine Neupogen/Neulasta with Aranesp in ASP calculations. Great news regarding the efficacy and safety of Demosumabab versus Merck's Fosamax was recently released. Amgen proved to be swift and decisive in their efforts to restructure and still fund and advance their pipeline. They delivered 2007 EPS of \$4.29 which was very close to the low end of their original EPS guidance that they gave last year at about this time, in spite of the unexpected and large hit to their operating income. The stock is exceedingly cheap, with more assets in their pipeline than they can develop themselves; we are hanging on to this one.

APPLE INCORPORATED



Our best performer for the year was Apple, Inc. Up a whopping 133.5%. What does Apple have that others want? Customer Lifetime Value. Short term swings in the stock offer great opportunity to those fearless souls willing to bet against Benjamin Graham's Mr. Market. Apple's got it...Cadillac wants it. From Principle's of Marketing, "Customer equity is the combined discounted customer lifetime values of all of the company's current and potential customers. The more loyal the firm's profitable customers, the higher the firm's customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Sales and market share reflect the past, customer equity suggests the future." (1) In the 1970's and 1980's, Cadillac had 50% of the luxury car market. The average age of their customers was 60. (Today it is 59.) Not much lifetime value left! How many more Cadillac's would their average customer be buying in the future when the life expectancy of their average customer in the 70's was only 12 short years? Due to increased competition from the likes BMW, Lexus and Mercedes-Benz, who intentionally marketed to a younger demographic, Cadillac's market share currently stands at only 15% and the all important customer lifetime value is just a fraction of BMW's. Customer lifetime value explains the use of the "Breakthrough" marketing campaign Cadillac utilized in the early 2000's to appeal to the gargantuan baby boomer generation. Who would have associated the heavy

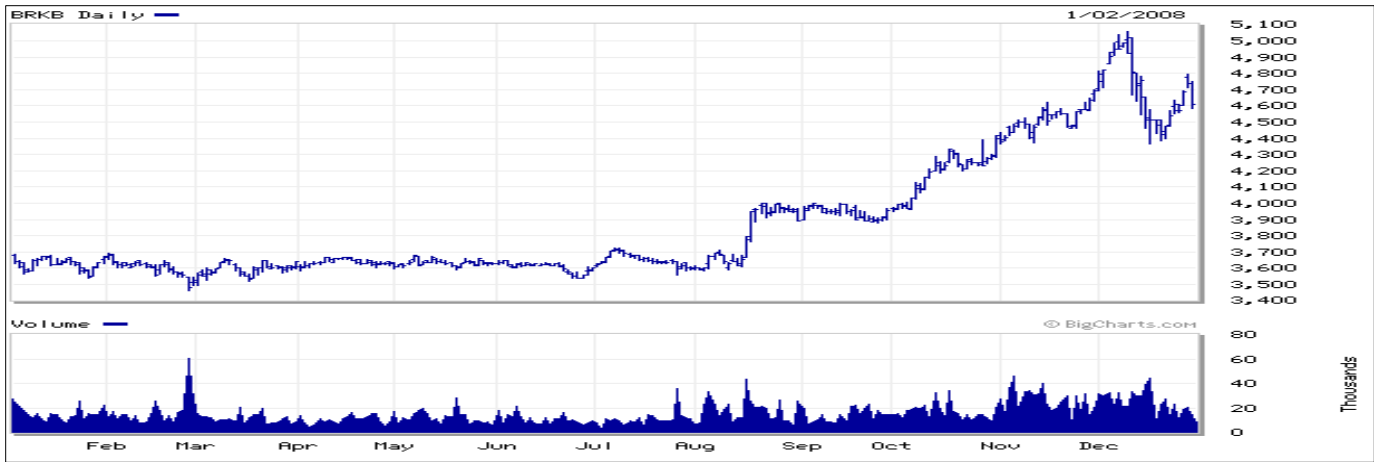
metal band Led Zeppelin with Cadillac back in 1977? Demographics can help further explain our love for the Apple business model and their fabulous brand. There are 78 million Baby Boomers born between 1946 and 1964, Generation X is comprised of 42 million individuals born between 1965 and 1976, Generation Y consists of 72 million people born between 1977 and 1994, and the Millennial generation is comprised of another twenty five million born after 1994. In total, 79% of the U.S. population. Or another way to look at it; 50% of U.S. population is under the age of 44. Obviously, these individuals are highly reliant on technology, use computers, have a cell phone, and like music and movies. Can it be possible that one company can possibly fill the needs of these tech savvy individuals? Can it be possible that one company can make technology seem so harmless that even aging baby boomers can operate the product? You bet. Apple market share will continue to expand and their revenues grow as they capitalize on the fact that Apple's customer lifetime value is so tremendous and their customer equity is off the charts. Although Steve Jobs is eight months older than Bill Gates (both were born in 1955), cognizant of the importance of building customer lifetime value, Apple Mac advertisements portray Mac (Steve Jobs) as hip, young and cool, while PC (Bill Gates) is somewhat lethargic, older and stodgy. Apple is the leader in the MP3 market possessing over 85% market share. Apple

APPLE INCORPORATED (CON'T)

just launched the iPhone on June 29th in the U.S. and they are selling 4M handsets per quarter at \$600. Already, they possess 19.5% of the U.S. smartphone market. The iPod is invading the PDA market selling at \$500 and has proved to be tremendously popular. Apple is expanding their market share in laptops, desktops and will become a prominent player in movie downloads just as they are with music downloads. Apple's sales per square foot lead all other retailers, even Tiffany's at \$2800 per square foot. Apple just opened its third store in Manhattan and currently has 204 stores. Best buy is doubling the number of their stores offering Apple products. Leopard, Apple's latest and greatest operating system software sold over 5 million copies since its release on October 27th, 2007. It is estimated that over 19% of the Mac OS X install base is already using Leopard. Apple's latest quarter produced 35% revenue growth to \$9.6 billion. The "halo" effect is alive and well. The revenue growth was driven by record Mac, iPod and iPhone sales and strong demand for recent software releases. Domestic business grew revenues 27% and international business grew 46% year over year. Operating margin was 22.1%, an increase and net income was \$1.58 billion, up 57% over the prior December quarters results. Cash generation for the quarter was over \$3 billion or approximately two times net income. Mac represents 47% of quarterly revenue and Apple shipped 2.32 million Mac's exceeding the previous December quarter shipments by over 700,000, representing 44% year over year growth. These results were more than 2.5 times the overall market rate of growth. Music products and services accounted for 50% of total revenue during the quarter and Apple sold over 22.1 million iPods. Apple launched the iPhone in the U.K., Germany and France during the quarter as well. They plan an Asian launch in 2008. Total deferred revenue from iPhone and Apple TV was \$1.44 billion at the end of the December quarter, compared to \$636 million at the end of the September quarter! Apple retail stores posted 53% revenue growth year over year generating \$1.7 billion.

Apple had over 38.4 million visitors to their stores in the quarter, with average revenue per store of \$8.5 million. As we have said before, over 50% of the customers buying Mac's in their stores are new to Mac! During the first two weeks of January, Apple introduced the MacBook Air, new software for the iPhone and wireless internet device, the iPod Touch and new iTunes movie rentals. After the early January sell off, Apple is exceedingly cheap. Accounting for the \$18 per share of cash, the stock is trading at 20x 2009 consensus earnings per share estimates of \$6.60. Can it be that Mr. Market is over compensating for a slowing economic environment and slowing iPod shuffle sales? We think so. We added to our positions as we believe all in all, 2008 can be even a bigger year for Apple.

BERKSHIRE HATHAWAY CL B



J.P. Morgan was his era's de facto "lender of last resort." As the Panic of 2007 continues to unfold, Warren Buffett has emerged as his era's "investor of first resort." The two share two key attributes: access to large amounts of capital and their word as their bond. Morgan had considerable influence and sway over other's capital like no other. Buffett has considerable access to capital like no other as well – his wallet. Of course, by his "wallet" we mean Berkshire Hathaway's capital. In the pantheon of capitalism there has never been a "wallet" quite as large and unique as Berkshire's. More on this in a bit...

We have owned shares in Berkshire since 1998. (Where were we before that? Yes, we are slow learners.) It has routinely been one of our largest portfolio holdings. As you are aware, Berkshire has been our largest holding (currently 11% of our portfolio) for a few years now. We believe 2008 will finally be the year that Wall Street grasps the fact that not only will Buffett live up to his deserved reputation as one of the greatest investors ever, but that he will secure the accolade as one of the greatest CEOs ever. We know, quite the heady claim we are advocating. Buffett's stellar reputation as an investor is without question or debate, but one the greatest CEOs *ever*? Yep! Please allow us to explain. Perpetual motion machines are anomalous in nature. Buffett and Berkshire's "wallet" are anomalies. Buffett has said repeatedly,

ad nauseam really, to shareholders over the years not to fret too much when he is no longer at the helm of Berkshire. He can say this with confidence because he knows that not only that Berkshire has plenty of managerial talent to run Berkshire (more on this topic another day), but also, more importantly, that Buffett has built Berkshire to last. And to last for a long, long time. Specifically, Buffett has built Berkshire to be a *perpetual motion cash flow machine*. Buffett has three sources of capital to invest: cash, the insurance float of Berkshire's best-of-breed insurance companies and the cash flow generated by the business operations of Berkshire's conglomeration of owned businesses.

We want to delve into Berkshire's operating businesses in a bit detail since this is where we believe many on Wall Street have underestimated Buffett's CEO prowess. If we can offer two take-aways on Berkshire Hathaway, it is this: first, Berkshire Hathaway is a true *growth* company – arguably one of the best given its current size. Berkshire's pre-tax EBIT (operating income) growth, over many years, has been nothing short of stellar. Through 2007, 5, 10, 15 and 20-year pre-tax operating earnings have compounded at 19%, 24%, 30% and 15%, respectively. Secondly, Berkshire Hathaway's three sources of cash generation: operating income, investment gains and insurance float growth generate a lot of cash... no, *a ton of cash!* Cash generated by

BERKSHIRE HATHAWAY CL B (CON'T)

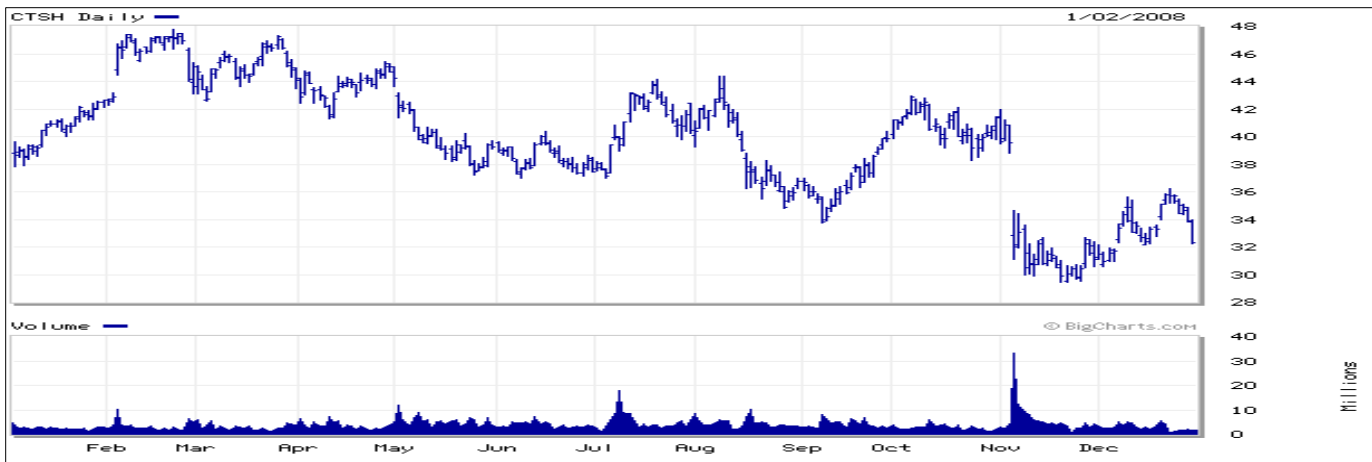
these three sources by in 2007 amounted to a cool \$22 billion – a 75% increase over 2006.

He has also built Berkshire to unduly thrive when economic conditions become dire. We do know that the CEO's of Countrywide Financial, and from both municipal bond insurers MBIA and AMBAC have sought out Buffett for capital. We of course don't know how many such phone calls Buffett has received over the past few months from despondent, balance sheet-impaired executives. The only hint that Buffett offers was when he was recently quoted as saying that "...my phone number is well-known."

The biggest news thus far for Berkshire in 2008 has been the announcement that Berkshire will enter the municipal bond insurance business. In fact, not only did the municipal bond commissioner from New York call Buffett's top insurance executive asking for Berkshire to enter the business, but just this week, the CEO of the National Association of Insurance Commissioners offered to help speed the application approval process, if in turn, Buffett would agree to simultaneously apply to all states. Sensing a multi-billion opportunity, Buffett of course said yes. Thus Berkshire Assurance was born. Due to Berkshire's extraordinary financial muscle and might (re: a *true* AAA rating), Berkshire Assurance will likely be able to keep a larger portion of the insurance premium spread, while still offering municipalities a lower cost of borrowing versus the traditional monoline municipal bond insurers (MBIA and Ambac Financial). Given that the monoline's currently insure over \$2.4 trillion, this could be a huge opportunity for Berkshire. From a shareholder's perspective, it is critical to understand that in past periods of economic and stock market turmoil, Buffett's wont to invest considerable sums of cash in both stocks and owned-businesses typically moved the earnings power of Berkshire considerably. Economic and stock market volatility are the order of the day, but opportunities abound for Mr. Buffett. Last, but certainly

not least, our largest holding is the Fort Knox of capitalism with over \$100 billion in firepower. To paraphrase one of his competitors - you are in good hands with Buffett...

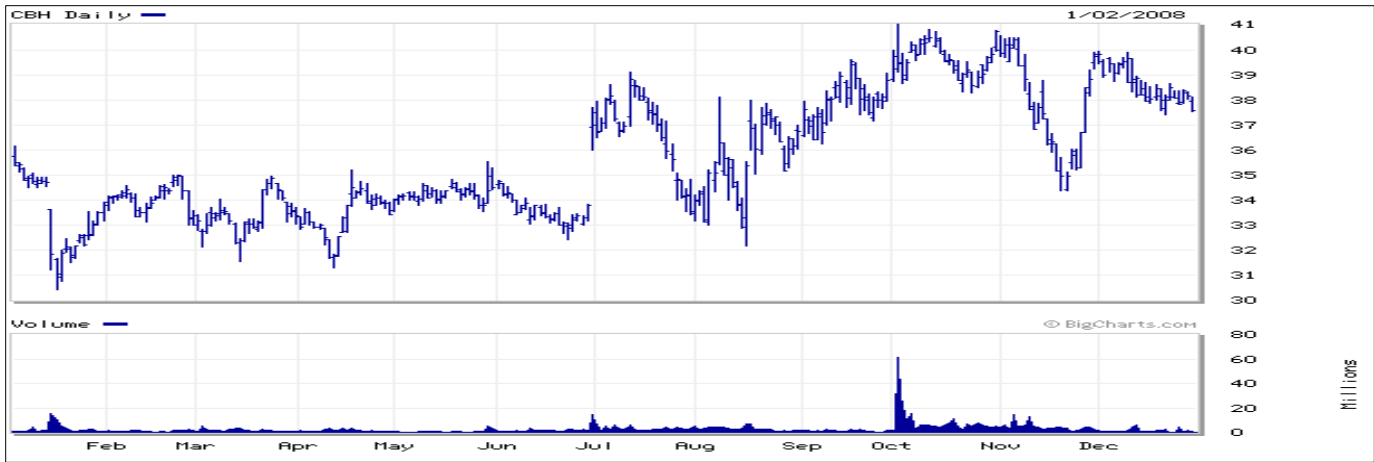
COGNIZANT TECHNOLOGY SOLUTIONS



One of the strongest secular themes in technology is the outsourcing of information technology services to India. Business models that utilize a global approach in the tapping of talent worldwide to provide solutions to business IT needs are quite lucrative. Utilizing an “offshore-onshore” business model, U.S. based Cognizant Technology Solutions (CTSH) is a leading global provider of information technology and business process outsourcing. Relative to existing U.S. IT companies, tremendous competitive and cost advantages can be attained by leveraging India’s talented, abundant and relatively inexpensive cache of IT professionals. Cognizant is highly regarded in the IT services industry with a reputation for going to extraordinary lengths to solve problems and in fact has never had a termination for project failure or for non-performance. While the early days of outsourcing were about performing functional tasks more cost-effectively and productively, Cognizant has differentiated itself by partnering with their clients. Utilizing a 4th generation offshore outsourcing model, Cognizant offers an in-depth local consulting presence where their onsite teams (25% of their 55,000 employees) are experts hired from the industries in which they support. Today, Cognizant provides software development and maintenance services to over 450 clients in the financial, healthcare, and manufacturing/retail/logistics industries. The beauty of the Cognizant Business model lies in its ability to produce high levels of profitability. Cognizant has produced

returns on capital in excess of 22% over the last 5 years. Management has grown revenues from \$2 million in 1994 to over \$2 billion this year. Over the last five years, Cognizant has grown revenues by an average of 58.1% per annum, earnings per share has averaged 45% growth over this same period of time. Cognizant has been named to the 2007 Fortune 100 Fastest-Growth Companies list for the fifth year in a row. Fortunately, for us the stock was down @ 20% in late 2007 giving us an attractive entry point. Cognizant is currently trading at only a 22x forward multiple, a significant discount to its five-year historical average of 37x forward earnings. Cognizant is committed to long-term growth. They invest deeply in personnel, training, infrastructure, making nip and tuck acquisitions in new service areas, increasing their resources in China and Europe and hiring more MBA’s than competitors. The company is diversifying from its dependence on the U.S. which produces 83% of their revenues. In fact, European revenues jumped 90% year over year in the latest quarter and currently accounts for 17% of Cognizant’s revenues. In terms of service verticals, financials, (Cognizant’s primary revenue source) grew 49% over the last year, healthcare was up 49% and retail/manufacturing/logistics grew an impressive 56%. Given the secular move to the “onsite/offshore” model, businesses worldwide are adopting and accepting the move toward globalization as they cannot afford not to.

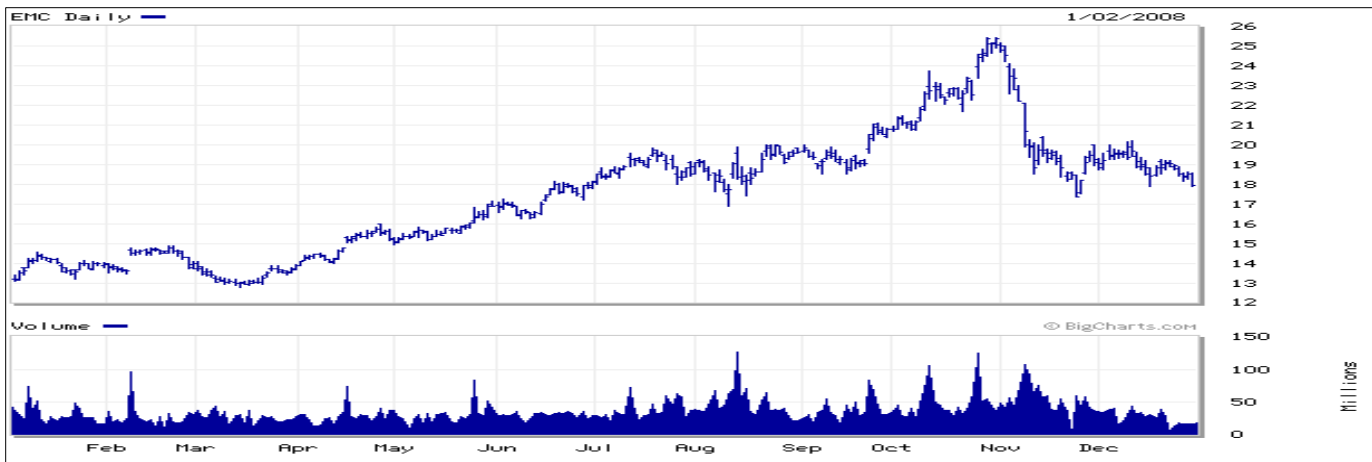
COMMERCE BANCORP N.J.



Commerce Bancorp, Inc. dubbed “America’s Most Convenient Bank” can now theoretically be dubbed “America’s Most Convenient Bank Owned by our Friendly Neighbors to the North.” Aided by a healthy stock price, a weak U.S dollar, management miscues on the part of Commerce, Canada’s Toronto Dominion Bank bought Commerce Bancorp in the third quarter of 2007. The deal is valued at \$8.5 billion in a 75% stock and 25% cash transaction which is the equivalent of \$42 per Commerce share, 23x fiscal 2008 EPS estimates of \$1.83, and 2.9x book value. The deal is expected to be consummated in March or April of 2008. TD will acquire nearly 460 Commerce locations and close to 700 automated teller machines throughout New Jersey, New York, Connecticut, Pennsylvania, Delaware, Washington DC, Virginia, Maryland and Southeast Florida. Each Commerce branch has an average of \$100 million in deposits. Commerce has \$48 billion in assets, 2.4 million customers and more than 15,000 employees. The addition of Commerce Bank would give TD Bank Financial Group more than 2,000 branches in North America and approximately one-quarter of a trillion dollars in deposits, making it the first bank with critical mass in both the Canadian and US markets. TD Bank Financial Group will become the seventh largest bank in North America as measured by branch locations. We have appreciated the extent to which Commerce has been able to grow their assets, loans and deposits over the last five years which in turn

has produced revenue, net income and earnings per share growth of 23%, 21% and 12% respectively. Both banks emphasize superior customer service, but the perks at Toronto Dominions do not come free as with Commerce Bancorp. Canadian Banks are used to charging high fees, whereas Commerce has built their deposit base through many free services such as free ATM transactions, free coin counting, free online banking, free online bill pay, free personal checking, and free visa check card. Per the Commerce 2006 annual report, “What other bank handed out 21 million pens, nearly 12 million red lollipops and more than 2 million dog bones? Where else can customers win prizes for wearing red on Fridays? For more than 30 years, Commerce has been built one simple model: the value of a bank is in its core deposit base and we can grow these deposits at exceptional, predictable high rates by providing world-class service.” We do not believe that the two companies’ significantly different cultures can co-exist without changing the Commerce business model that we have come to love. We exited the shares soon after the announcement of the sale.

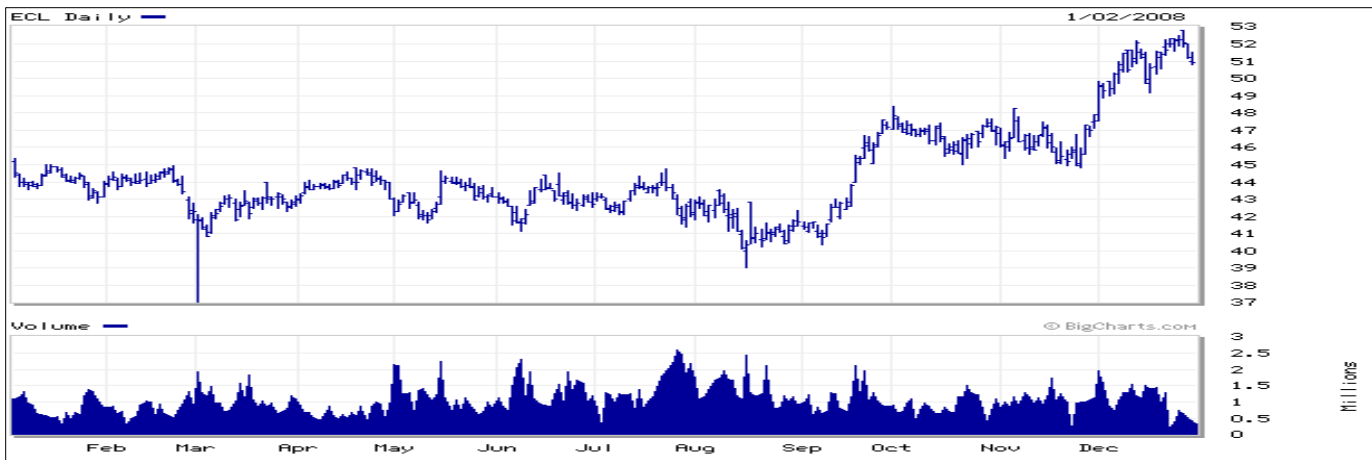
EMC CORPORATION



The need for IT storage is going from 161 billion gigabytes (gb) at the end of 2006 to a projected year 2010 figure of almost 1 trillion gb, according to a recent IDC Corp study. To put that into perspective, the computer that this is being typed on contains about 100gb of storage. That amount of storage would average out to about 10 billion of these computers. Now, we know that there are a fraction of that number of personal computers out there (likely in the hundreds of millions) so that begs to wonder who is picking up the rest of the information storage tab? To answer that question: it is the many enterprises whose businesses rely on massive server and storage farms to enhance the productivity of their operations. According to IDC, 85% of all information is managed by organizations. EMC is the pioneer in this forum. Broadly speaking, EMC is in the business of helping organizations maximize the ability to extract value from information. Given that technology, in general, is constantly evolving, companies are also constantly searching for new, risk averse methods for maximizing the effectiveness of their technology spend. For almost 30 years (centuries, in tech time!) EMC has honed and capitalized on this fundamental need for information storage. So why EMC now? As stated, the need for storage is on the precipice of a six-fold increase. You might think, “uh-oh, we’ve heard this before.” The fear of a potential storage glut is perfectly natural, but unfounded, and the result of the psychological framing effect, courtesy of

the first decade of the technology boom (1996-2006). What is different now is the emergence of new Web 2.0 technology (everything web-based... wiki’s, blogs, Software as a Service, semantic search, etc.). Web 2.0 and the likes are what everyone was waiting for in 2000. In 2000, the infrastructure was there, but the technology to utilize it wasn’t. In addition to storage technology, EMC also has a controlling (86%) stake in the leading virtualization software company, VMware. VMware currently holds less than 10% market share in the virtualization market that, IDC estimates, will grow at a 30% per annum clip through at least 2011. Briefly, virtualization is a software layer that allows for the non-disruptive pooling of IT resources (storage, OS, CPU’s). In layman’s terms, it is software that multiplies the utilization rates of IT infrastructure. Enterprises can wring more out of their IT investments without adding new risks. We believe the magnitude of impact that virtualization will have on computing is on par with the introduction of the GUI OS (Windows) and the server. The valuation for EMC’s total business is especially compelling. We see EMC to be worth, on a sum of the parts basis, at least \$30 per share. Recent market volatility has allowed us to be especially opportunistic with the initial purchase of EMC.

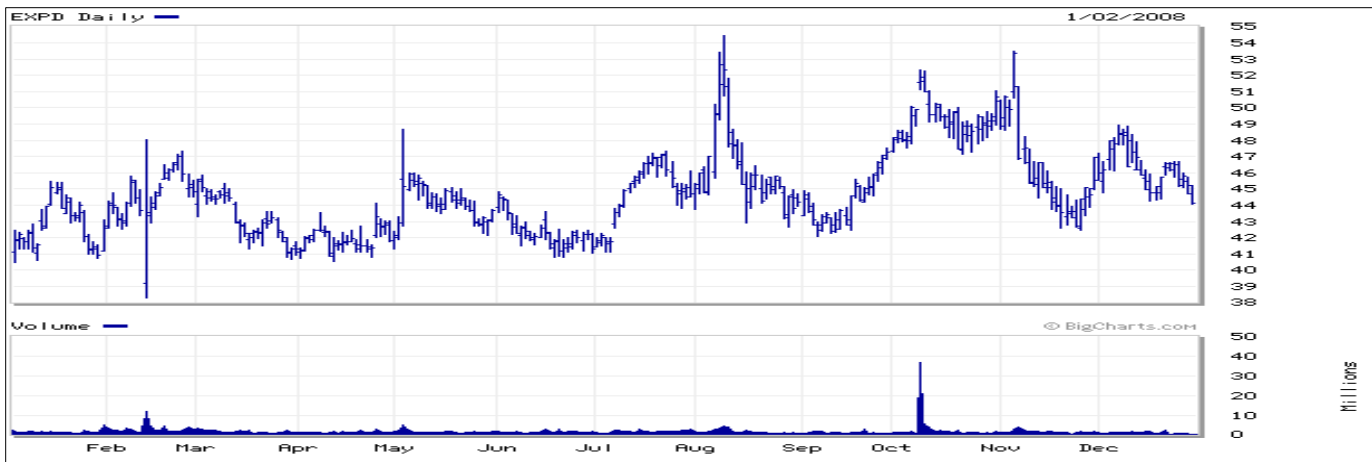
ECOLAB



Ecolab (ECL), the institutional cleaning and sanitizing platform based in St. Paul, Minn., offers premium products and services for the hospitality, foodservice, healthcare and industrial markets. This entails providing customers with cleaning and sanitizing products and programs, as well as pest elimination, maintenance and repair services to various sub-sectors of the food, beverage, medical and industrial markets. Ecolab's product offerings are critical for service-based clients because often, these clients must maintain high standards for product quality so as to (at the minimum) maintain compliance with any number of the numerous regulatory bodies that oversee them. Summarily, ECL's services are the ways and means for clients to deliver cleaner, safer, healthier products and environments for their respective employees and customers. The business strategy put forth by ECL's management for over a decade is fairly straightforward and it is entitled "Circle the Customer – Circle the Globe." Basically, the Ecolab sales and service associates (numbering around 20,000+) are at the hub of the Ecolab engine. ECL SAS associates try to establish long-term relationships with customers by convincing them to install some sort of heavy-duty emplacement that is at the hub of the customer's sanitation effort (warewashers – machines that clean dishware, glassware and utensils – would be a good example.) The Ecolab sales force then extends this relationship by playing the role of safety and sanitation consultant, planning, implementing

and cross selling other products to the client. Ecolab service associates are hired away from the industries that they serve, so their knowledge provides a value-added edge versus competition. And speaking of competition, Ecolab doesn't have any - at least not directly - or in the United States. Johnson Diversity (JD) recently exited the US institutional realm, in favor of a distribution-type business model, given that their margins were rapidly eroding because of share-loss which was directly attributable to Ecolab's encroachment in the space. JD was the last direct US competitor of Ecolab's. Scale is the primary reason for ECL's dominance in their industry. Much of their competition consists of fragmented local or regional also-ran cleaning services that typically have a fraction of the offerings, breadth of knowledge, experience, service and sheer man-power that ECL maintains. ECL has grown at an average clip of 16% over the past 5 years and 13% over the last 10. There is roughly a \$46 billion annual market need for the types of products and services offered by ECL, and that is a number that has steadily grown for the past half decade or so. The necessity of services offered by Ecolab along with its consistent double-digit growth has allowed the stock to command a P/E well in excess of the S&P 500 in good and bad economic times. The steady, mid-teens growth that ECL is capable of executing in any environment will become dearer to investors. In other words, we think Ecolab will do a fine job.

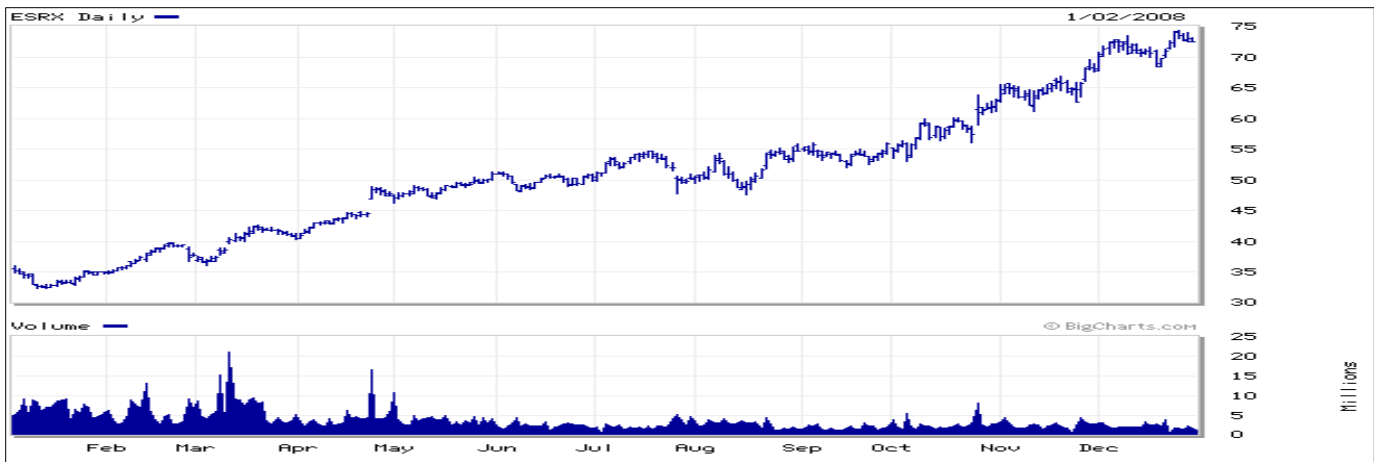
EXPEDITORS INTERNATIONAL



Just as many countries have benefited from world trade and the globalization of manufacturing and service activities, so has Expeditors International and Expeditors' shareholders (\$1000 invested in Expeditors' 1984 initial public offering has compounded 28% annually growing to over \$233,000). Expeditors International was added to our portfolio of high-quality growth companies in January 2007 and the stock produced an 11% return for the year earning the company an A-. Expeditors International is in the business of global transportation logistics management, a fragmented and very competitive industry, including international freight forwarding and consolidation, for both air and freight. The company also acts as a customs broker in all domestic offices and in most of its international offices. Since they do not move the goods themselves, nor do they own the shipping or air assets, they are able to pass on fuel surcharges to their customers thereby insulating themselves from fuel price spikes. As they are in fact a middleman and consolidator, Expeditors buys cargo space in mass, combines shipments from groups of customers into pallets and containers, efficiently utilizing the cargo space and then they are able to earn a spread (yield) when they sell this space to their customers. Through this efficiency, Expeditors allows shippers to receive a lower rate and scale than they could realize on their own and carriers are exposed to a diversified stream of shippers and cargo thereby filling excess capacity. If circumstances

warrant and a route does not produce sufficient tonnage, Expeditors will act as a forwarder - simply sending the cargo to airlines and ocean carriers. Due to their scalability, Expeditors has been able to garner yields hovering in the 21% to 23% range - producing nearly three times the operating margins of their competitors. Brokering air freight and ocean freight produced 47% and 35% of their \$4.5 billion in 2007 revenues, respectively. Global net revenue generation is derived as follows: 41% United States, 28% Far East, 17% Europe, 5% Mexico/Canada 4% Middle East, 3% Australia, 2% Latin America. Industry revenue breakdown is as follows: 38% of revenues are from retail, 25% from technology, 38% from automobile and 16% from other. Recently, Expeditors has expanded their presence in the oil and gas space as well. Expeditors is able to do well even in slowing economic environments as fixed costs are negligible and spreads can be maintained due to their purchasing leverage. Having just joined the Lufthansa Cargo Global Partnership Programme, we look for a greater contribution from inter- and intra-Europe. Expeditors has grown revenues and earnings by double digits every year since 1991 - compounding revenues at 24% and producing returns on invested capital in excess of 24% over the last ten years. Expeditors has grown organically and currently operates on six continents in 60 countries with 238 locations and 10,000 employees.

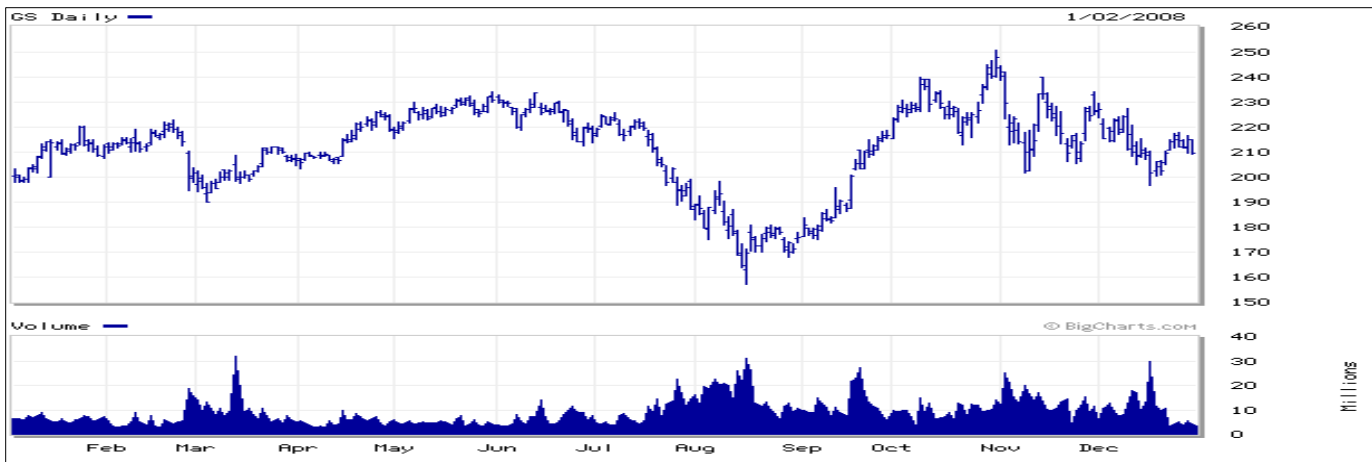
EXPRESS SCRIPTS



Express Scripts (ESRX) was added to portfolios during the second quarter of 2007. Express Scripts is in a class of insurers known as the “pharmacy benefits managers” or PBMs. PBMs operate by leveraging the collective buying power of their enrollees in order to negotiate cheaper prices with drug manufacturers, effectively reducing the overall drug spend for the enrollees. Currently, there are two independent PBMs: Medco Health Solutions and Express Scripts. Express Scripts is different from its peers in that Express Scripts has a laser-like focus on generating member’s savings through the increased utilization of generics. Given that there is an unprecedented number of prescription drugs (\$65 billion) that will be losing patent protection during the next five years, Express Scripts is and has been ahead of the curve in terms of taking advantage of and passing along available savings, evidenced in their industry-leading generic utilization rate which is over 60%. The economics of Express Scripts business, typically, renders top line growth in the single digits, as it is in a very mature industry and loaded with plenty of competition. However, Express Scripts distances itself further down the P&L through its margin expansion. Express Scripts is estimated to compound earnings per share 20% during the next few years. They achieve these economies because the more generics clients utilize, the more money Express Scripts makes. In effect, Express Scripts and their client’s intentions are perfectly aligned. However, key work Express

Scripts must do is to convince their members to move to generics. They have a successful history of doing just this, and it is to their clients satisfaction as ESRX has a +90% client retention rate. In addition, 2007 was a year that saw a record amount of renewals (i.e. risk of losing clients), yet they ended retaining more than 90%. 2008, is a relatively benign year for renewals with less than 15% of business up for grabs. In order to achieve this satisfaction, Express Scripts creates an in-depth formulary, via an independent panel of pharmacists and doctors, that research and test the effectiveness of various drugs from numerous drug classes, and eventually whittle the choices down to the covered universe of drugs. This formulary is the “playbook” that they present to clients and it shows the effectiveness of generics versus labeled drugs. It also includes different therapies and steps that clients can take as possible alternatives before they resign themselves to the most expensive labeled drugs. Express Scripts charges slightly more for generics, yet the client’s overall drug costs fall as they migrate towards cheaper drugs using the formulary. As a result of their operations, Express Scripts generates tons of cash flow (\$1bn in 2008). The stock has appreciated quite a bit during the past year; however, we still see potential for more upside, given its 20% growth prospects in the current, recessionary environment and believe the company’s long-term prospects are very much intact.

GOLDMAN SACHS



Our investment thesis on GS is straightforward: The strong get stronger. We have watched GS over the years rather closely. We have no doubt been impressed with their growth, market share, diversity of business lines and head-start opportunities in emerging markets in absolute terms and relative to their competitors. Furthermore, as we have made our way through the manager due-diligence process at Goldman Sachs, they have routinely asked us why we never have owned the stock. Our answer to this query has always been that Goldman Sachs (and other investment banks are (for lack of better words) “trust me stocks.” Given that proprietary trading revenues routinely amount to 50-55% of revenues – and since GS provides limited data on such, it is next to impossible to analyze and forecast half of the firm’s revenue streams. Fast forward to early November... As you are of course familiar with our long-held firm views on the real and financial impacts on the still developing housing/mortgage implosion, we have steadfastly avoided consumer discretion and financial stocks. The purged stocks in these categories include Home Depot and Countrywide. (An aside: we never bought into the rumors of a CFC/BA buyout +\$40 on CFC and our view that that rapidly changing business model of CFC turned into a toxic brew of garbage was spot on.) Yet, as this crisis has unfolded we are of the strong view that a few leading firms would not only navigate troubled waters but would emerge even stronger.

GS certainly fits this description. As heads literally roll at their competitors and such firms are forced to retrench, GS has thus far managed the mortgage fallout quite well. They have been prescient and early in marked their mortgage-related portfolio down over the past three quarters of this calendar year. We have also gained confidence in their ability, apparently unlike many, if not most of their competitors, in having the systems and procedures and verification to mark and value their assets properly. The following are excerpts from their latest earnings conference call and an industry presentation at Merrill on November 13: *CFO Vinjar: As you all know, recent conditions in the leverage loan market have made it difficult to execute many non-investment grade funding transactions including many that Goldman Sachs is committed to finance. As an investment bank, we use fair value accounting and therefore losses our lending commitments and funded loans are included in each quarter's results. I want to be very clear about this point. Whether a commitment is funded or not is irrelevant to its impact on our P&L. We mark all commitments and funded loan to say market and our marks reflect current market conditions, not a view of what a credit could be worth in the market dislocation were to end. Our aggregate loss is not a portfolio level reserve. Each credit is individually marked based on where we believe we can exit the commitment and current market conditions using as much external*

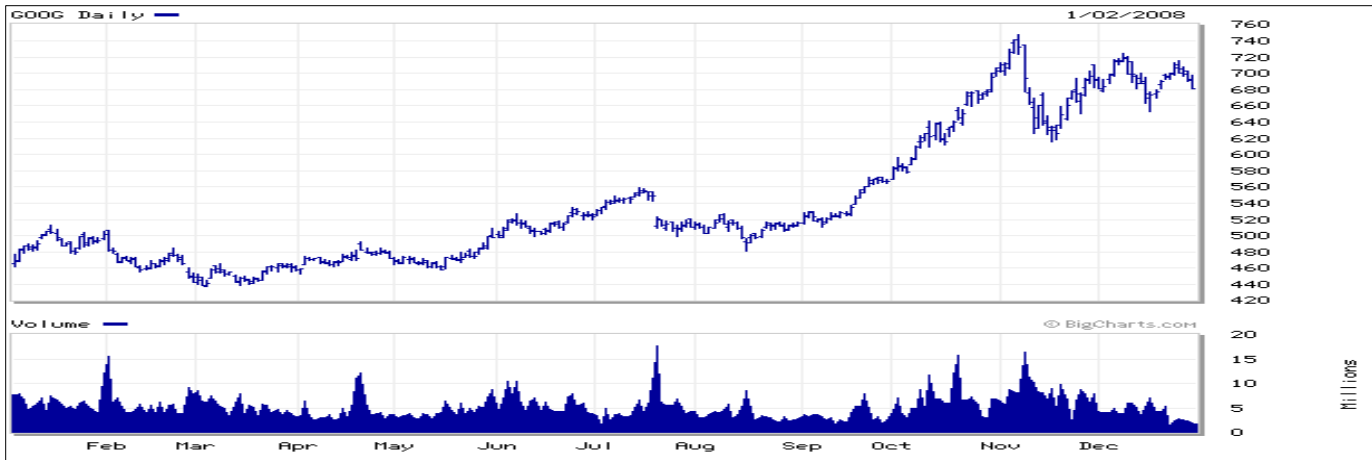
GOLDMAN SACHS (CON'T)

information as possible including broker quotes, external pricing services, derivative indices and actual market trades in these and similar positions. Let me also address mortgages specifically. The mortgage sector continues to be challenged and there was a broad decline in the value of mortgage inventory during the quarter. As a result, we took significant markdowns on our long inventory positions during the quarter as we had in the previous two quarters. However, our risk bias in that market was to be short and that net short position was profitable. I also want to address the issue of marking mortgage inventory to market. There has been much speculation and commentary that is impossible to mark many mortgage positions to market. We do not agree with that. Not only is it possible, it is absolutely essential for market participants to understand the value of what they hold so they can manage the associated risks. While it is certainly more challenging to value many of these positions because of the current lack of liquidity, there is in fact a significant amount of evidence available. Let me explain our process. Our traders mark their position to market, and then our controller who is independent of the trading function verify these value valuations using market transactions in the same or similar securities. Prices of actively traded indices, prices received from independent pricing services, fundamental analysis and information gained from collateral movements with counter parties. If there is a question on price transparency, we may require our trader to execute trades to substantiate their valuations. We also back test marks against actual trades to ensure that our marks are accurate. It is also important to understand that these marks are not determined in a vacuum. We review our marks and all related evidence with our auditors on a regular basis. As you would expect, difficult markets receive even greater attention from regulators and throughout the quarter as part of our ongoing dialog we discussed our exposures and our marks with the SEC, our primary regulator. Question: A number of your peers have been talking about developments in the

mortgage-backed securities markets since the end of August. Specifically assets backed CDOs and I was wondering if you could enlighten us on your exposures there and any profits or losses you may have had since the end of August. Blankfein: As we said at the end of the third quarter, we continue to be net short in these markets. Through the end of the third quarter, we said at that time that we continued to be bearish on the sector. In fact, these spreads in these markets have continued to widen out. Given that point of view, we continue to be net short in these markets. Asked if the hedges are still working, we continue to be truly net short in these markets. Question: Let me follow that up with the elephant in the room kind of question because there was a lot of buzz last week that Goldman was set to announce a significant charge or hit for exposures to MBS type securities. Are you thinking that you will or planning to take a significant write down? Blankfein: No.

Goldman could not be more clear on their Level 3 assets. Goldman's culture of risk management and their process on marking assets to market and Goldman's current write downs within Level 3 assets. We continue to believe that GS is being rational and conservative in their marks. Goldman's proprietary trading desk track record of positive revenues in 18 of the last 22 years speaks volumes as well. To sum up: This world class franchise should only get stronger at their competitors expense. We "trust" management. They have demonstrated the ability to out-earn their competitors in up markets and down markets (in some quarters earning +30% ROE, or double that of their so-called "peers"). We expect fiscal year-end book to be approximately \$110. Their 5-year Price to Book has ranged from 1.6X to 3.0X. Valuing this franchise at a deserved 2.75X on book of \$110 derives a value of \$300. We initiated half positions at \$220. We are of course adding to our positions on any further share weakness.

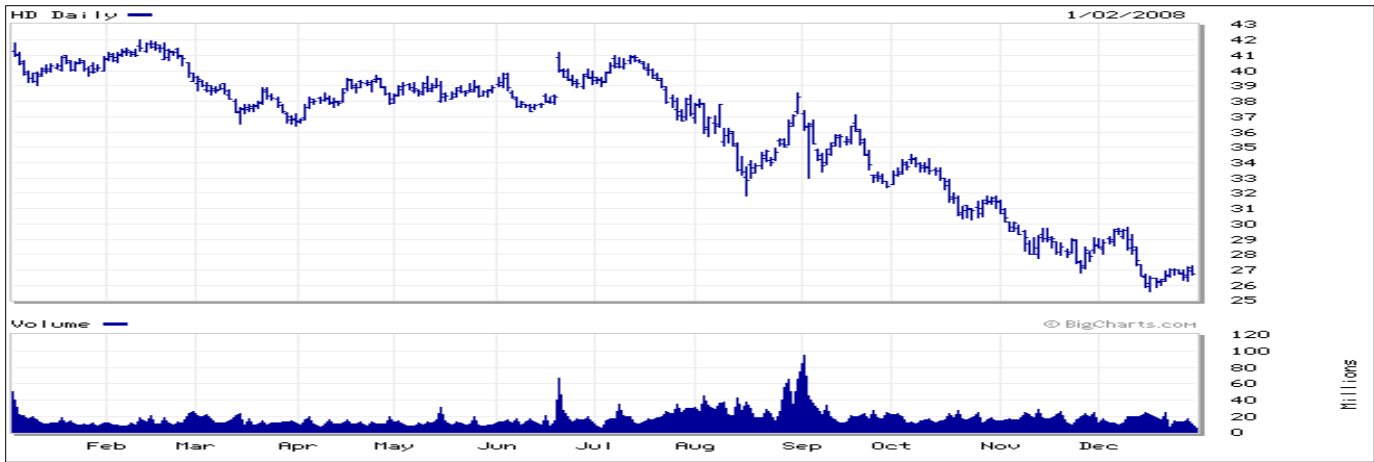
GOOGLE



We missed Google once...pure and simple. But the lack of any significant appreciation in the stock price over the period from the third quarter of 2005 through the second quarter of 2007 and the resultant margin compression presented a compelling risk/reward picture. This opportunity was overwhelming based on our projections of future top and bottom line growth as Google grows their extensive competitive advantages. We would be remiss if we did not once again take the opportunity to step back and gape in awe at a company that didn't exist 8 years ago which is now generating \$15-plus billion in annual revenues and \$4 billion in profit, all from organic growth. While 95% of the revenues of "must own" Google are generated from search, they maintain 75% of paid search revenues worldwide—23% of global online advertising. Google's three competitive advantages are produced by their ability to continue to garner gains in share searches, higher growth in overseas markets and superior search monetization. Google currently produces \$0.12 per U.S. search which is double that of Yahoo. Although, Google had a 44.3% share of searches, it is their ability to derive superior monetization which allowed Google to garner over 60% of search revenues. We believe Google will continue to increase their percentage of searches and revenues as Google is changing the face of search via continued technological improvements in their search capabilities. Reports indicate Google's recent enhancements to their search algorithm makes

search more easily queried and granular causing major negative implications for both Yahoo! and Microsoft. (semantic web- a game changer!!!!). This will improve advertisers ROI as this granular information will better target customers and improve click through rates. Forty-eight percent of Google's revenues are generated overseas and it is estimated that Google currently possesses a 77% share of overseas search. Google has been able to build overseas operations from scratch making future gains possible. Possessing between 500k-750k advertisers currently, a huge opportunity exists internationally as there are over 65 million small/medium businesses worldwide. Beyond traditional online paid search, additional revenue generation opportunities exist in non-dominant and under-monetized areas such as video (ex.: YouTube), display advertising (DoubleClick), Google Premier APPS, Gmail, Google Checkout, video, mobile, offline advertising., and "Android." Android is a fully integrated mobile "software stack" consisting of an operating system, middleware, a user-friendly interface and applications. Thirty-four companies have formed the Open Handset Alliance and these wireless operators and handset manufacturers will be able to customize Android thereby producing significant freedom and flexibility to design products. We are confident that Google will be able to sustain their competitive advantages over the next five years even if Microsoft is allowed to buy Yahoo.

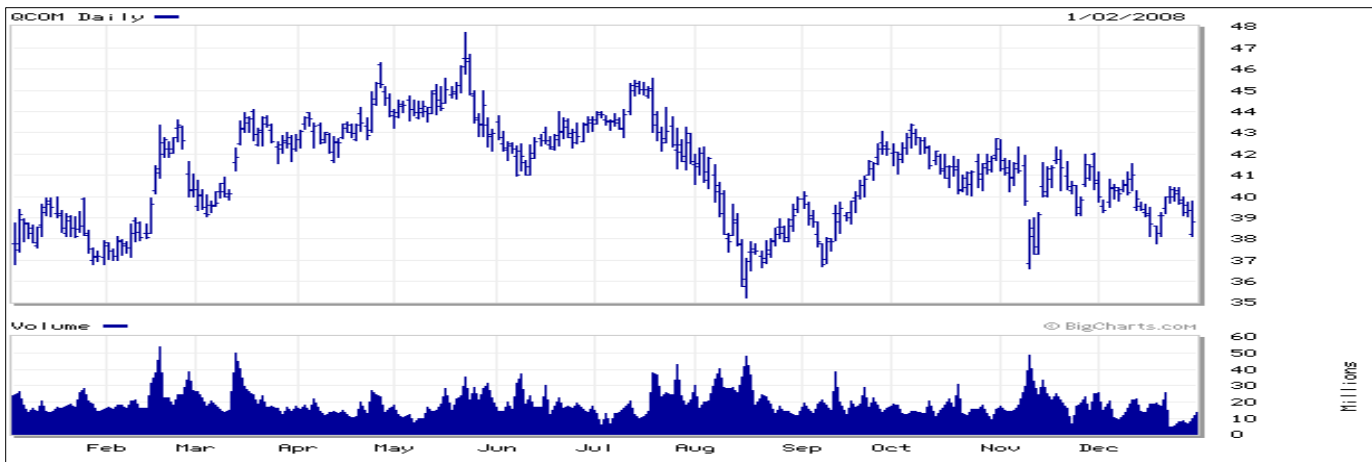
HOME DEPOT



(This specific piece is reproduced from the 2006 report card as it was actually written around the time that we exited Home Depot (HD) in early 2007...it is interesting to note that the shares have since been cut in half as much of the following came to pass) We had owned HD for some time (May of 95) -- no doubt the company has had an extraordinary track record, compounding at 20% growth over the past 10 years (96-06). Any type of sustained, double digit, teens growth rate is difficult, at best, (please see Wedgewood's 2Q 2005 client letter, available on our website), but 20% growth over an entire decade is, again, a rarity. To put that type of growth in perspective, Home Depot is the only current Dow component that can boast 20% growth during that period (Microsoft comes in second with 18% CAGR). Given the fundamental underpinnings of equity markets, as a company grows (especially at that clip), so grows its stock price -- and of course, visa-versa. During 2006, it became more evident that HD was facing unprecedented (given HD's history and their current market presence) macroeconomic headwinds that represented a serious threat to their double-digit growth tenure. -- As a disclaimer, rarely do we consider ourselves top-down, macro-oriented, but given the contraction in housing we believe a long-term contraction in the DIY market is imminent. Our thesis for the health of the housing market and its potential effects is detailed in our 1stQ 07.

Commentary.— Saturation of target markets dramatically increased due to the rapidly shrinking housing-induced subsidy that all DIY retailers enjoyed during the past 5 years. HD recognized this and opened their fewest stores (86) in half a decade, bringing their total worldwide store count to around 2100. Compounding that, the 2006 fiscal year presented HD with negative company-specific events such as: management's speculation into the selling Home Depot Supply. Our thesis for HD's future growth has relied on this business, which thrives by catering to the professional/contractor market. Given HD's starting point in this market, was near zero, we think the selling-off of the HD supply business unit represents a passed over opportunity, and signals that management is hardly on the same page as its shareholders, let alone its own game plan (in early 2006, they targeted HD Supply to be 20% of revenues by 2010). In addition, the six-sigma style of management (instilled by ex-CEO Bob Nardelli), we believe, has detracted from HD's consumer appeal, given the rise of Lowes and their consumer-oriented store model. Lack of shareholder oriented behavior, management's turmoil and departure from stated long-term game plans, as well as the looming macro-storm, led us to part ways with HD in early 2007.

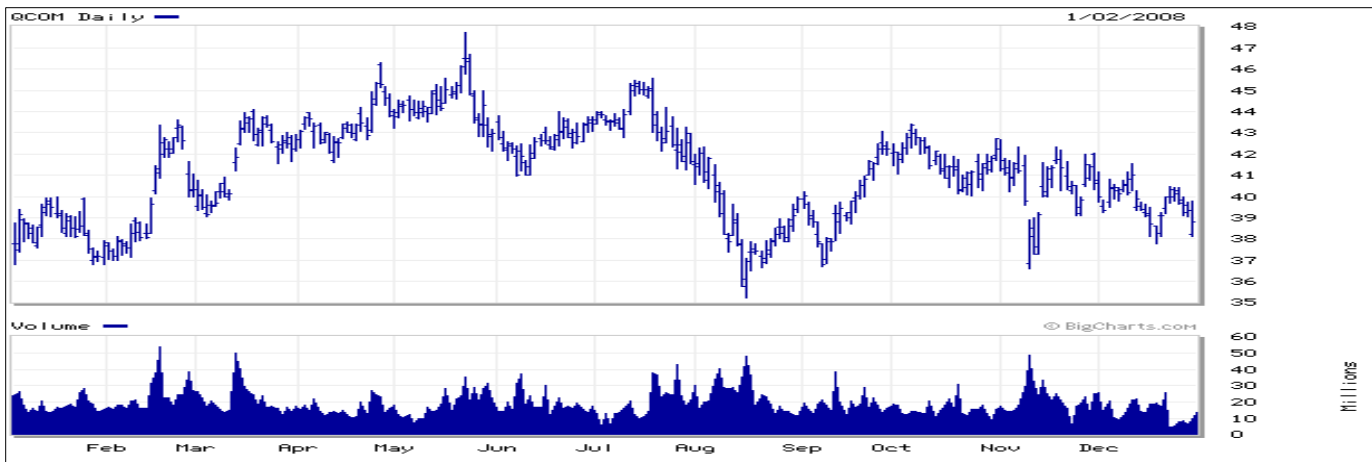
LEGG MASON



Legg Mason's (LM) stock performance of -22% versus the Russell 1000 Growth Index's +12% during 2007 leads us to forlornly grade LM with an "F" for the year. However, as we constantly remind ourselves, share price is not always indicative of the long-term, fundamental opportunities available to an underlying business. In general, the reasons for this departure are not few. But specifically, the recent relative underperformance of Bill Miller's high-profile Value Trust has garnered quite a bit of attention, as investors have equated the Fund's performance with the performance of the entire company. However, we think it is a gross miscalculation for investors to assume this, given that the Value Trust represents less than 2% of Legg Mason's total AUM. Compounding the negative sentiment for Legg Mason shares was the very real problem of a roughly \$10bn exposure to SIV-based assets. The SIV assets are owned by a liquidity fund managed via a Legg Mason subsidiary. However, Legg's management was quick to defend the SIV investment as being one of high-quality and pointed out that the primary risk was the investment's lack of liquidity (which currently seems to be the case for quite a few fixed-income asset subclasses). At the turn of the New Year, LM announced it had entered into a swap contract with Barclay's that effectively neutralized the majority of the liquidity risk associated with the Company's SIV exposure and has backstopped the LM subsidiary's liquidity fund with additional capital. In

order to further reassure investors, Legg Mason issued a private placement and the proceeds were used to buy back two million shares as well as provide funding for opportunistic investments during this period of heightened volatility. Legg Mason currently trades at all-time lows, in terms of valuation. Conventional wisdom dictates that a conservative valuation for an asset manager is 2% of total assets under management. Using Legg's 12/31/07 AUM of \$1.0 trillion (stated in a January '08 8-k filing) would render Legg's market cap to be worth around \$20 billion, or, double its current capitalization. We think the company's valuation is being unduly discounted given Legg Mason's robust stable of the most talented and renowned equity, fixed and alternative investment managers in the industry. In addition, Permal, Legg's fund-of-funds manager, has doubled its assets under management since they were purchased at the tail-end of 2005. Another, similarly discounted, fact is Legg is positioned as the largest separate account manager in the industry. Coupled with a newly renegotiated distribution deal with Citigroup that now allows Legg to market to any fee-based broker, Legg should be able to flex its industry leading position as a WRAP manager and continue its AUM expansion. We think Legg's diversified asset base (~50% fixed/alternative, 35% equity, 15% liquidity) should prove to be a buffer from the cyclical shift of favoritism that various asset classes inevitably endure.

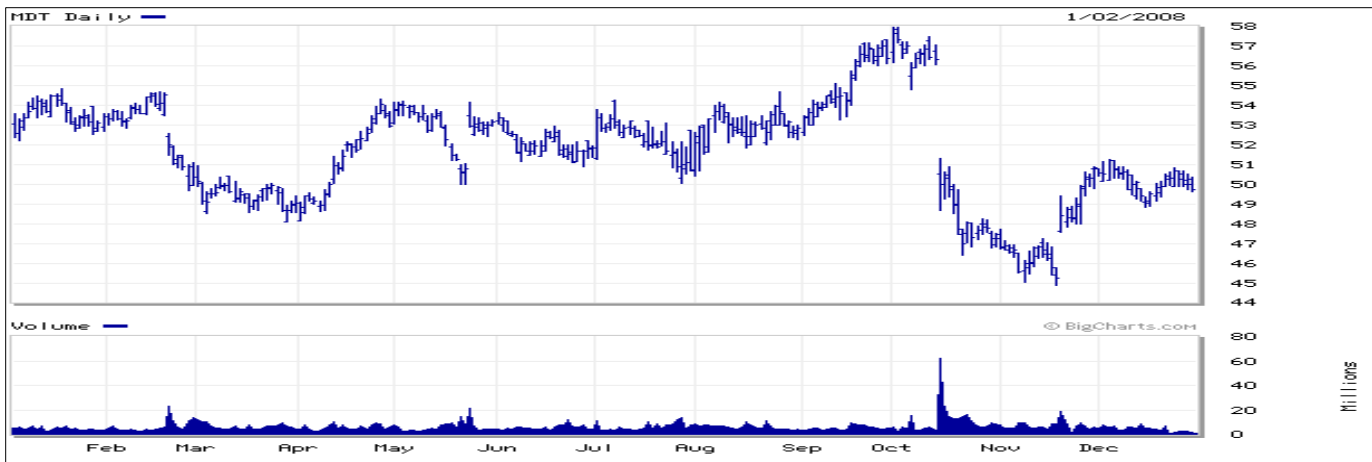
LINEAR TECHNOLOGY



Many companies that are publicly listed often rely on the public markets as a source of capital, with the reasons for wanting this access as myriad as the number of listed companies. That said; just because a company is listed does not necessarily mean it actually needs access to public capital. Linear Technology (LLTC) falls into to this category. As a designer and manufacturer of highly-customized, high-margin linear circuits, LLTC has long been able to sustain itself using the cash generated from operations. In fact, every quarter during its public lifetime (over 20 years), Linear has managed to remain operating cash-flow positive, a truly remarkable for any type of business. This cash flow generation has been the product of Linear's obsessive focus on maintaining discipline with their margins. Gross margins for LLTC have been a perfect portrait of consistency, steadily maintaining above the 70%+ levels. And for good reason, as Linear begins to run into the likes of Intel when it starts searching for lower margin, albeit higher-volume business. But therein lies the problem: if LLTC decides to take on lower-margin business, they risk falling from the relatively uncrowded, high-end chip exosphere to the stormy, commoditized layer of the semiconductor troposphere. As a result, management is perfectly content with their ability to maintain single-digit top-line growth, as it certainly does more than pays the bills. Wall Street has certainly reacted in-kind by dooming the stock to a steady flat-line for the past

few years. As a result, management took matters into their own hands and took 1/3 of the company private via a bond offering and stock buyback (kind of ironic that the only time LLTC accesses the public market is to try and go private). So the Company is certainly not in dire-straits, however, it is definitely lacking the proper motivation to maintain a double-digit level of growth. Given this, coupled with the recent surge in market volatility, we decided to eliminate LLTC as the lowest man on the totem pole, in favor of higher, cheaper growth prospects in Goldman Sachs and Cognizant Technology Solutions.

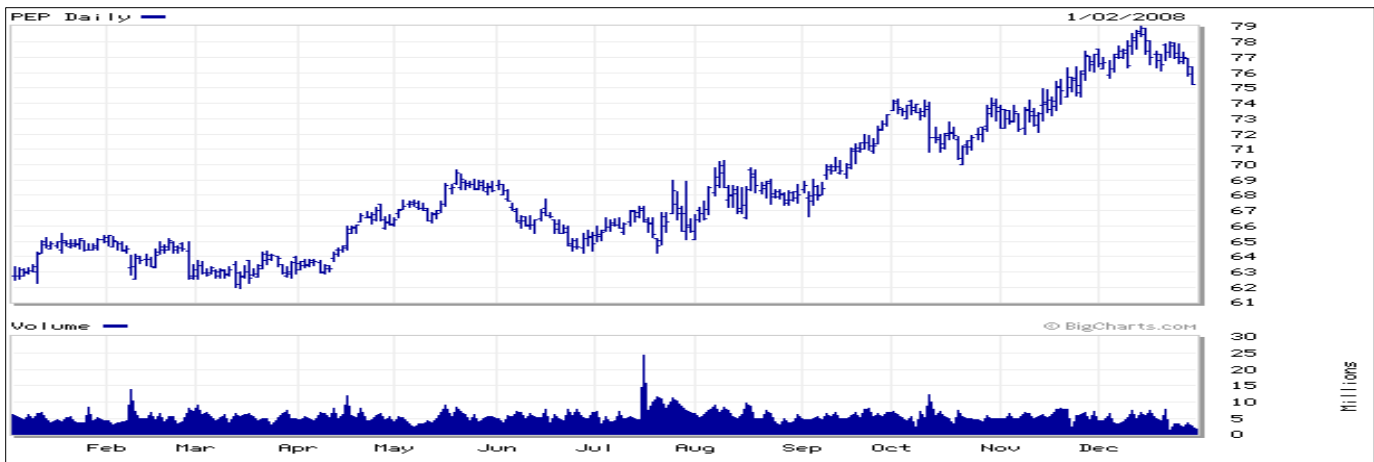
MEDTRONIC



Having seemingly been on the way to recovery after industry-wide Implantable Cardio Defibrillators (ICD) product defects slowed ICD growth from a high of 23% annually in 2005 to negative growth one year later, the ICD market received another black eye on Monday October 15th, 2007. Medtronic, the industry leader, announced that they would suspend worldwide distribution of their Sprint Fidelis family of defibrillation leads due to the small probability of fractures in particular locations on the lead. The stock promptly sold off 13% from a close of \$56.33 on October 12th to an intraday low of \$48.69. The stock closed October 15th, the day of the announcement at \$50, down over 11% for the day. Prior to the announcement Medtronic, was up 5.2% for the year having gained some momentum from the anticipated approval of their drug-eluting stent, Endeavor. The stock closed December 31, 2007, down 6% for the year earning the stock an F. As of October 4, 2007, approximately 268,000 Sprint Fidelis leads had been implanted worldwide. Based on available information, five patient deaths occurred in which a Sprint Fidelis lead fracture may have been a possible or likely contributing factor. Medtronic confirmed 665 chronic fractures in returned leads. Fractures could result in the inability to deliver defibrillation therapy, increased impedance, over sensing, increased interval counts, multiple inappropriate shocks, and/or loss of pacing output. Medtronic reported that patients with a Spring Fidelis lead are more likely

to experience complications from removal than from a problem with a Sprint Fidelis lead. Although the announcement was indeed a setback for Medtronic, it is of a transitory nature, a hiccup that we feel will be overcome in the next 12-18 months. The announcement will hurt overall ICD market growth, not just Medtronic. Management guided to a fiscal second quarter loss of \$150-\$250MM due to the recall, but actual losses came in at only \$130mm. Our fundamental view for holding the name has not changed. Medtronic is not a one trick pony. Medtronic's strength lies in the fact that they operate in a number of different markets, most of which are highly underpenetrated. Medtronic holds leading market share positions in the \$24 billion worldwide cardiology device market, the \$7 billion market for spinal products, the \$1.8 billion market for neuromodulation devices, the \$720 million market for insulin pumps, and the \$660 million market for ear, nose and throat surgical devices. Double digit growth in spinal, diabetes, and neuromodulation will maintain overall product sales growth at above 13%. Historically Medtronic has traded a 30% premium to its large-cap med tech peers, but the company is currently trading at a 5% discount. We look for the stock's current multiple of 16x 2008 earnings per share estimates to expand with the impending 2008 U.S. launch of Endeavor, the 2008 launch of three new artificial discs, new markets for Infuse, and an up tick in ICD growth.

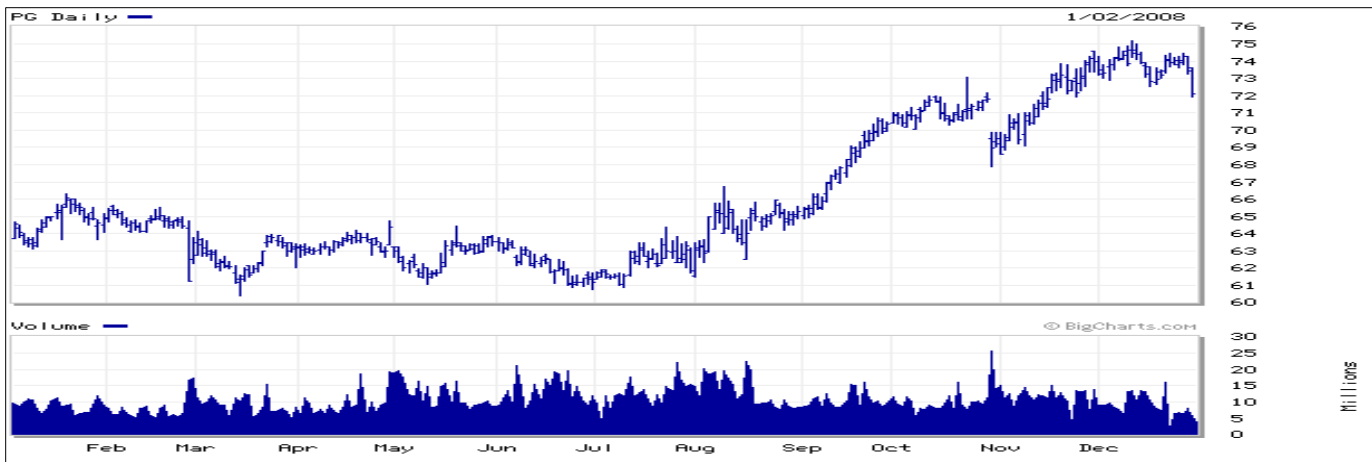
PEPSICO



As one of the leading global snack and beverage companies, PepsiCo's (PEP) core competency is their ability to procure and foster a portfolio of brands with the intention of growing via their massive, 200-plus country, 85 year-old distribution channel. Some of PEP's non-eponymous brands include: Fritos, Quaker, Mountain Dew, Gatorade, Lipton, Aquafina, Flat Earth and Ruffles, to name a few. Through the success of these brand names and their global reach, Pepsi has managed to post double digit operating profit for the past three years and high teens earnings per share growth over the same period. Given PEP is inherently focused on soft-good consumables, a relatively steady and economically insensitive industry, any sort of above-average growth is valued at a multiple to that of a traditional growth business model. Pepsi's drivers for growth are inherently consistent. Not unlike an IT or biotech company, innovation is one of PEP's primary drivers with about a fifth to a quarter of total growth courtesy of newly introduced products. Recent examples include health-conscious efforts such as Flat Earth Chips and Naked Juice (which recently made headlines as it is now distributed to 7,000 Starbucks locations). Another driver (which overlaps with the previous driver) and is actually the primary "engine" of growth, as explicitly stated by PEP management, is the Company's international segment. International promises to grow at double the rate of North America. This growth is the product of Pepsi's years of investment before

the fact and the implementation of a deliberate strategy to create scale. In addition to this, the Company continues to hone the tastes of these relatively new markets and this enables PEP to parlay its international investment into compounding, double-digit growth. As far as inflation is concerned, Pepsi has long held that the current structural inflation is here to stay for at least two or three more years. Management is well aware of this and is thoroughly committed to combating inflationary pressures by wringing out more productivity, strategically hedging input costs and last, but not least, raising prices. After all this is said, Pepsi is still often overlooked (as are many names in the Wedgewood portfolio) during periods of high/hyper economic growth. However, as evidenced in our outlook piece, we believe that we are exiting one of the most prolonged expansion periods since WWII. As a result, we think growth will be much more difficult to come by and, therefore, that much more dear to investors. We think PepsiCo is the perfect fit for this thesis.

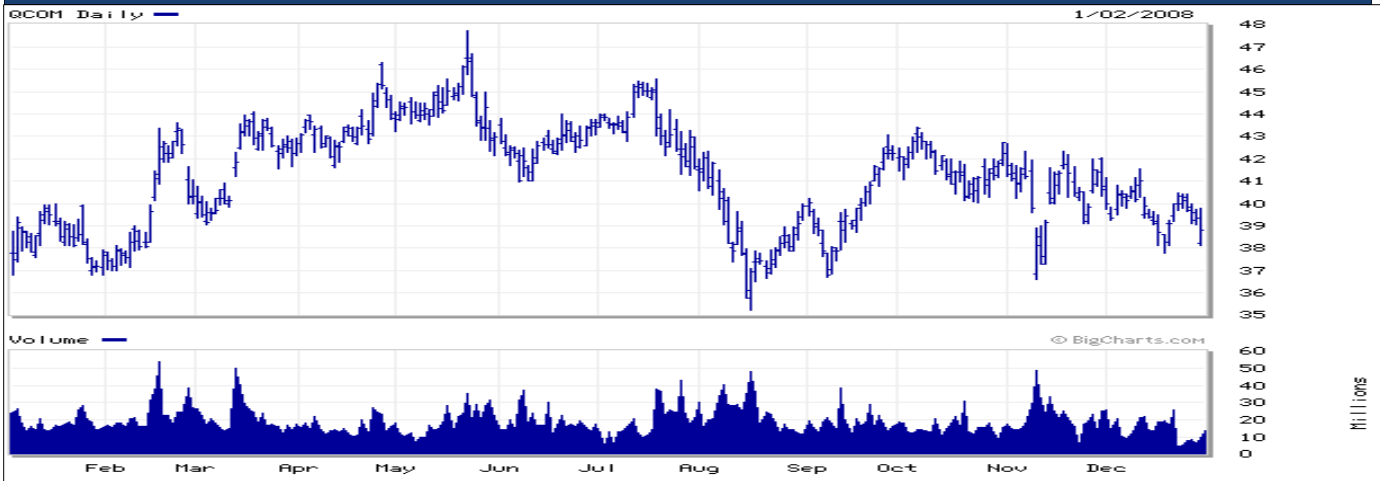
PROCTER AND GAMBLE



Procter and Gamble's (PG) "compulsively methodical, famously process-driven" (WSJ, Nov 12, 2007) focus has consistently served its shareholders well. 2007 was certainly no exception. PG's 17% gain for the year gives it a rare back-to-back "A" grade, after following up nicely from 2006's 13% performance. The past year saw the Company's formidable line of billion-dollar brands add another to the list (Gain detergent), which now totals an astounding 23 brands. The Company also continued its annual march towards 14-15% earnings per share growth and reiterated that investors will continue to see these results for the next few years. Of course, with total annual revenues approaching \$80 billion, that rate of growth is nothing to sneeze at. In addition, as one of the world's greatest consumer companies (if not the greatest), PG generated 20% free cash flow growth (~\$11bn) on top of a capital structure that carries very little debt (0.35 debt/equity ratio). As a result of this, PG put in place a three-year share buyback program designed to return between \$25bn and \$30bn back to shareholders. As summed up by the Company's CEO, A.G. Lafley, PG is a company designed to grow for the short term, medium term and long term; consistently, reliably and sustainability. PG plans on sticking to its guns of maintaining a balanced product portfolio, loaded with fast-growing, strong cash-generating business lines. In order to foster the success of their brands, PG has long stuck to its five core strengths of consumer understanding,

branding, innovation, go-to-market capability and scale. Innovation alone has been responsible for six percentage points of organic growth since the beginning of the decade. In the realm of consumer understanding, PG has invested almost \$1 billion since 2000, canvassing over 4 million customers through focus groups and the like. PG continues to push its brand names through their massive distribution channel that spans over 180 countries. However, around 70% of PG's revenues are derived from the US, making way for significant potential growth in overseas market share. We think this high-quality investment will continue to reward investors in the face of an imminent slowdown facing the US economy. The growth forecasted by PG will be difficult to come by in the coming years and, as a result, we think it will be that much more dear to investors.

QUALCOMM



It is estimated that the United States currently has over one million lawyers. Good thing. Qualcomm is embroiled in 20 legal battles across the world. It is not irresponsible to say that Qualcomm needs all the help they can get as companies such as Broadcom and Nokia are attacking the very essence of the Qualcomm business model. While possessing only 1% of the WCDMA chipset market (Qualcomm has over 30%), Broadcom has claimed Qualcomm does not compete on a fair and reasonable basis thereby limiting Broadcom's power in the marketplace. They have accused Qualcomm of exploiting their influence on the wireless standardization bodies, bundling chip sales with discounts on handsets and negotiating pass-through rights with other chip manufacturers: that in effect allow Qualcomm's customers to get Qualcomm patents for free. The outcome of the various Broadcom vs. Qualcomm cases will have a great impact on Qualcomm's future. With seven Broadcom vs. Qualcomm cases either in the appeal process or on-going without specified decision dates, Qualcomm's stock price will continue to be held hostage. In the Nokia vs. Qualcomm case, we take this opportunity to poke fun at the law profession. What's the difference between a good lawyer and a bad lawyer? A bad lawyer can let a case drag out for several years. A good lawyer can make it last even longer. Nokia must have a bevy of good lawyers. Paying Qualcomm a 4%-5% royalty rate for use of Qualcomm intellectual property rights allowed Qualcomm to bank a

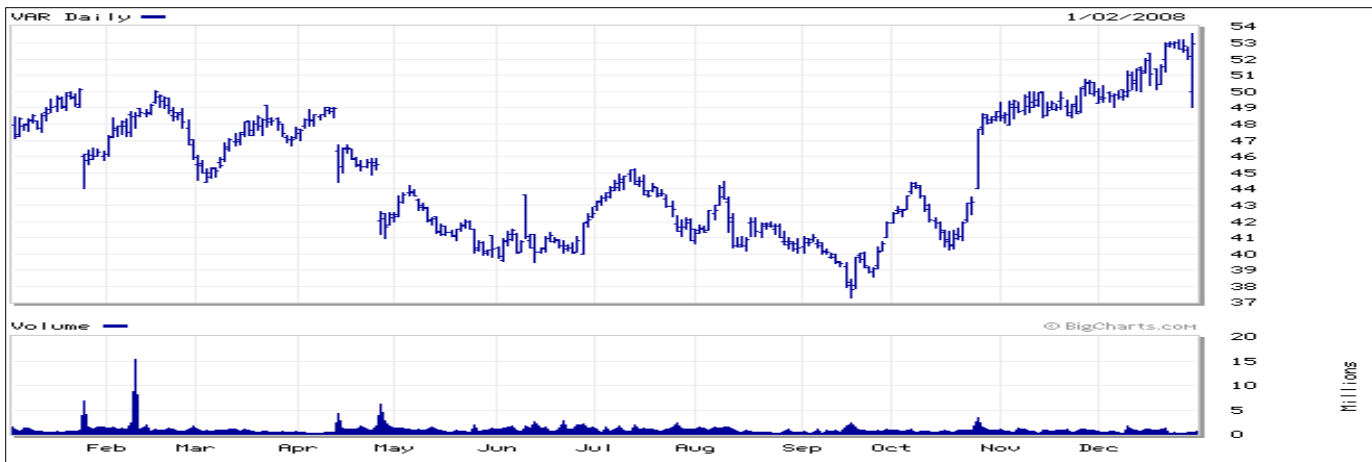
cool \$400 million from Nokia in 2006. But as the contract between the two companies expired in April 2007, Nokia unilaterally decided that they were paying too much for the rights to Qualcomm's WCDMA patents since Nokia possessed 30% of the patents used in WCDMA while Qualcomm only possessed 6%. But citations on those patents are what matters-not the total number. Each Qualcomm patent enjoy many more citations. Nokia paid Qualcomm a reduced royalty of \$20 million in 2007 which Qualcomm promptly returned. The companies are currently in arbitration to decide the appropriate royalty rate and a resolution is not expected to be announced till late 2008. Since Nokia has nothing to lose and since they are not paying for the patents, but still using them, they are not seeking a quick resolution. Is it too late to change professions? As these legal battles rage on, Qualcomm is getting down to business. 2007 was a record year for Qualcomm. Fiscal 2007 produced the following results: revenues were up 18%, pro forma diluted earnings per share was up 23%, operating cash flow was 43% of revenues, return of capital to stockholders amounted to \$2.34 billion in dividend payments and stock repurchases. Cash and equivalents amount to over \$12 billion and return on capital exceeded 20%. The stock is exceedingly cheap, trading at only 16 times 2009 consensus earnings estimates of \$2.43 per share. New chipsets, Gobi and Snapdragon will become available in 2008.

SLM CORPORATION



SLM shares were under pressure, early in the year, after Congress proposed the College Cost Reduction Act that aimed to cut government subsidies to the private student loan industry in the form of lower interest rates and a reduction in the % of federally guaranteed loans. Despite this, SLM was forging a portfolio that consisted of less FFELP funded loans and more private funded loans. We parted ways with SLM in April of last year following the announcement that the Company was the target of a buyout by a finance-centric consortium consisting of, namely, JC Flowers (private equity), JPMorgan and Bank of America.

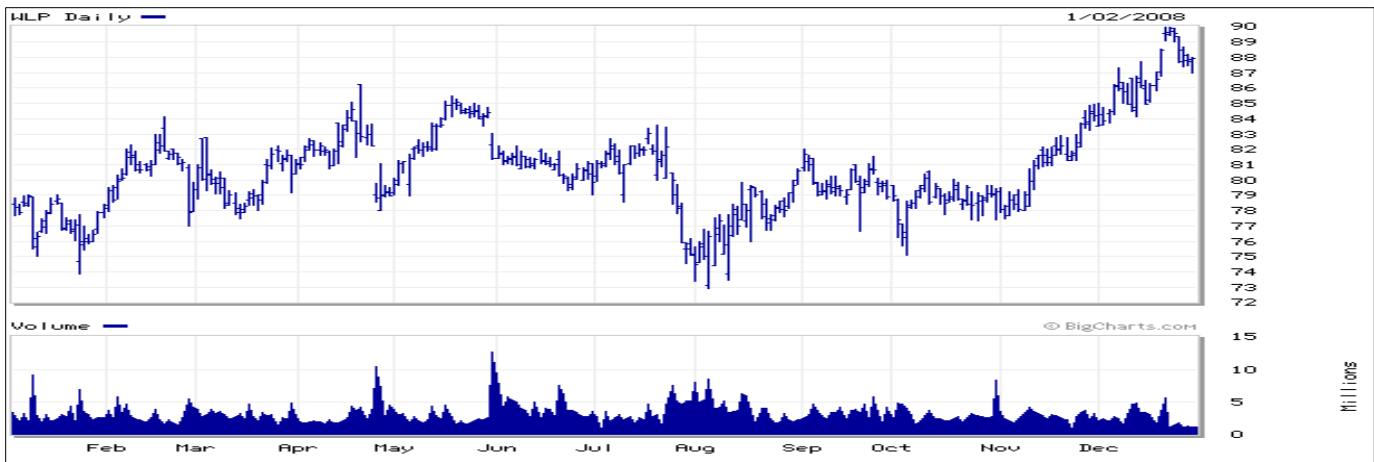
VARIAN MEDICAL SYSTEMS



Varian Medical Systems proved to be the “little company that could” as the stock rallied in the last quarter of the year. After posting a negative 20% return through September, the stock sprinted 37% to end the year up 9.6% earning a grade of C. Varian’s revenues fall under three categories: Oncology systems, X-Ray Products and Other. Over 85% of Varian’s revenues are derived from Oncology as Varian designs and markets hardware and software for cancer radiation therapy. Their technologies specialize in radiation treatments that focus radiation directly on the tumor alleviating damage to surrounding tissue all the while accounting for tumor movement during treatments. The incidence of diagnosed cancer cases is expected to increase 23% by 2010 and 50% by 2020. In the U.S. alone, over 1.4 million people were diagnosed with cancer in 2006. Radiation therapy is utilized in over 60% of all cancer cases. Varian will benefit from the increased incidences of cancer as they deliver not only best-in-class capabilities that provide for patient comfort, but also the best economics and greatest ease of use to cancer clinics, hospitals, and health care agencies. Slow oncology order growth in the first half of the year gave way to uninspiring earnings per share misses. The company attributed these results to slowing North American order growth (higher interest rates and merger related activities within the industry), as well as longer customer buying patterns due to larger unit orders and longer backlog times. The company was also

plagued throughout 2007 by threats of competition cutting into its order growth. TomoTherapy (Hi-Art system), and Accuray (CyberKnife) went public in the first half of the year. Combined these two companies only produce only 20% of the annual revenues of Varian. Varian has over 6000 installed intensity modulated radiotherapy (IMRT) machines and has been able to maintain its 70% market share in the U.S. Varian’s Image Guided Radiotherapy (IGRT) technology has seen increased acceptance as the government plans to reduce IMRT reimbursements by 20% over the next five years. This reductions is prompting hospitals and treatment centers to upgrade to IGRT to prevent their revenues from slipping. Of Varian’s IMRT machines, 450 have been IGRT equipped meaning that 5500 still need upgrades. Varian’s order backlog swelled to over \$1.8 billion in 2007. The company recognizes revenue once their equipment is installed. Installation times have been reduced to five weeks from an average of ten weeks. New product introductions, easy year-over-year comparisons and momentum in international order growth recently allowed Varian to increase 2008 guidance for revenue growth from 11% to 14%. Varian’s X-ray products segment is accelerating as the company posted 13% sales growth and Security and Inspection products orders increased 105% with revenues up 70% during fiscal 2007. Varian ended fiscal 2007 with \$263 million in cash and \$90 million in total debt.

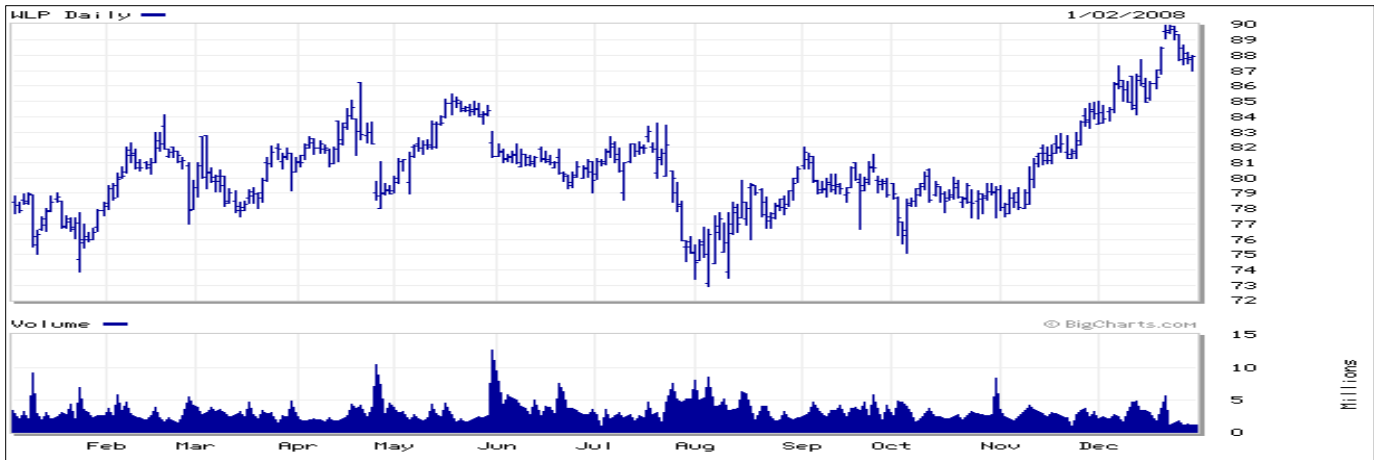
WELLPOINT



WellPoint, Inc. (WLP) was added to the portfolio at the tail-end of 2006. WellPoint's relative and historically cheap valuation and solid 15% forecasted growth allowed us to add to clients' positions throughout the year. WellPoint receives a "C" grade for putting up an 11.5% return during the year, slightly below that of the Russell 1000 Growth, which returned 11.8%. WellPoint's core business revolves around serving health benefits to its roughly 35 million members. Out of all health-care service providers, WellPoint is the largest in terms of commercial membership. This is by virtue of their ubiquitous "Blue" Brands (Blue Cross and Blue Shield Associations) that spans its membership across 14 states, including California and New York. The Blue brands have high visibility with customers and is a major differentiating point versus WellPoint's competition, evidenced by the fact that one in three Americans is a Blue card member (Deutsch Bank, Nov 20 2007 survey). The Blue's, combined with WellPoint's direct channel, have a cumulative reach to 95% of hospitals and 85% of all physicians, which in turn, generates a significant amount of scale in terms of data aggregation (critical to the underwriting process). WellPoint's actuarial process is very disciplined, evidenced by one of the industries lowest (and consistently so) medical loss ratios that typically clocks in at the low 80's. Along with actuarial analysis, part of the underwriting process, obviously, is pricing. WellPoint has the ability to raise prices within 30-60

days notice for almost a third of all of its members. This translates into a significantly large advantage, in terms of operational flexibility. All told we can expect the Company to generate an eye-popping \$4.2 billion in operating cash flow, of which, \$3.9 to \$4 billion will be free cash flow. This enormous cash flow generation has led WellPoint to embark on an aggressive share buyback campaign that effectively would render the company private in around 7 years. Of course, we look for WellPoint to find acquisition targets along the way as the industry inevitably continues its streak of consolidation, from the top 10 providers controlling 35% of the market in 1996, to almost 60% currently controlled by the top 10 providers today. But WellPoint has a storied history of integrating companies (notably, Wellchoice in 2005) and has the capital structure to make that happen (0.27 debt/equity ratio). Given WellPoint's industry leading balance sheet, operating leverage, brand awareness and commercial market penetration, we continue to estimate that WellPoint should be able to compound growth in the 15% range for the next few years. Trading at a roughly 9% free cash flow yield (10 year treasuries yield about 3.5%) we will continue to add shares opportunistically.

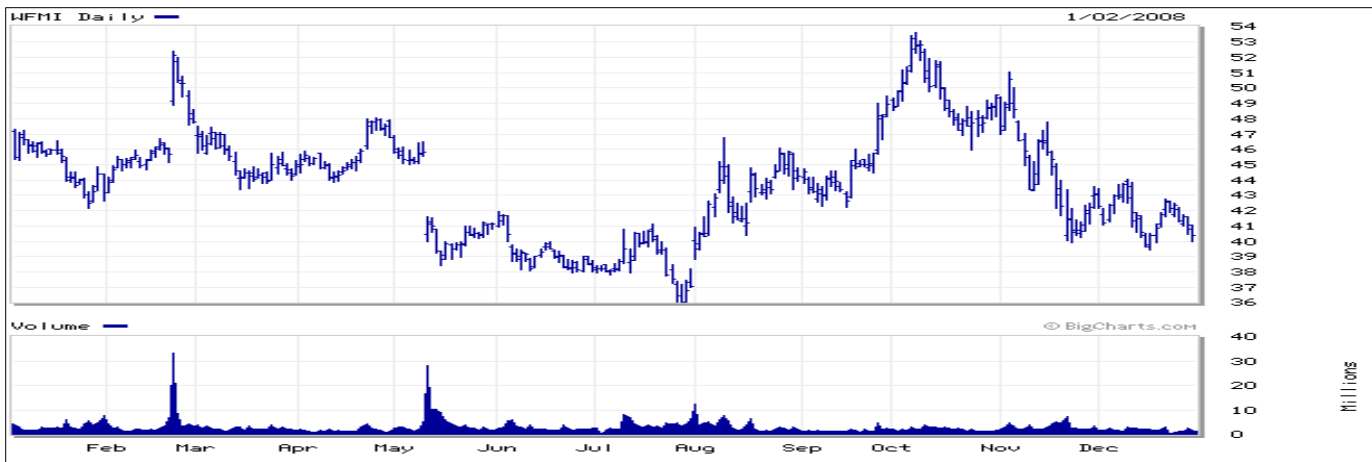
WESTERN UNION



Western Union (WU) exited its first full year as an independent company with a respectable grade of “C” after it underperformed the Russell 1000 Growth Index by 350 basis points. Despite the stock’s performance, the Western Union business model continued to forge ahead in the face of difficult industry-specific headwinds. Early in the year, shares were plagued by a drop-off in volume for the Mexican corridor. Much of this was due to the dramatic slowdown in labor demand resultant from the housing bubble bursting. However, Western Union lowered prices and throughout the rest of 2007, volume mostly recovered. Western Union is now in the process of re-raising prices at a measured rate. We applaud management’s awareness in this forum and believe their aggressive action will certainly benefit shareholders over the long-run. Despite this, Western Union continued to expand its massive global network from 290,000 agent locations at the end of 2006 to over 320,000 agent locations through Western Union’s fiscal 3Q 2007. As we have said before, each new agent multiplies the effectiveness of the entire Western Union franchise via the network effect. To put Western Union’s competitive advantage into perspective, the next closest competitor, MoneyGram International, has one-third the agent locations (110k agents). In addition, Western Union made several strategic deals with third parties, including: signing on as the provider for cash payment services on Google’s AdSense network; as well as exclusive money

Transferring rights with Deutsche Postbank and China Everbright Bank. Western Union also expanded its mobile money transfer initiatives by teaming up with the GSM Association, which is a trade group that represents over 700 GSM mobile phone operators. Given the lack of convenient, online money transfer access inherent to the unbanked, mobile transfer technology could prove to be a very lucrative business. Although there are several players vying for this business, we think Western Union has the upper-hand, given their sprawling agent network and compliance emplacements. In summary, by leveraging their trusted and highly visible brand name, along with its massive network, Western Union managed to drive foreign business growth in the high-teens during 2007. In addition, Western Union’s inherently asset-light business model managed to generate over \$1.1 billion in free-cash flow. This has Western Union trading at a 7.3% free cash flow yield; over two times the yield available on a 10-year treasury investment. We will continue to add to our positions as we see opportunities present themselves.

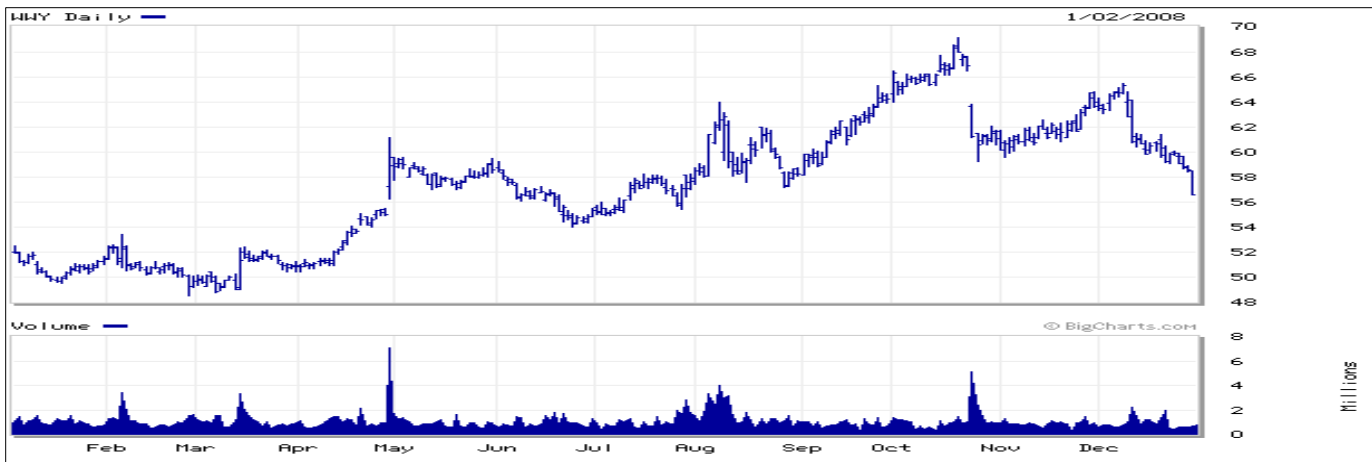
WHOLE FOODS MARKET



Suoladnacs. Gnigamad. Gnitailimuh. Who needs soap operas? Whole Foods Market's CEO, John Mackey, will undoubtedly go down in history as an innovator and a game changer as he has surely had a hand in the way (wealthy) America eats---perhaps not too much unlike an enterprising Ray Croc. On the flip (flippant?) side, John Mackey's business character has surely been brought into question as he has posted nearly 1400 messages over eight years on Yahoo! message boards utilizing the pseudonym Rahodeb (anagram of his wife's name Deborah). For what purpose one may ask? What else, but to lambaste Wild Oats (a competitor), to act as head cheerleader for his own company, and to even go as far as to defend his hairstyle to critical unknowing individuals. Obviously, when Mr. Mackey's identity was revealed, the posts provided quite a bit of fodder not only for Wall Street, but for the FTC as well. Looking to block the proposed \$565 million merger between Wild Oats and Whole Foods Markets, the FTC examined not only each and every Mackey posting, but millions of additional WFMI documents. The FTC believed the merger would hurt competition resulting in higher prices for the consumer. But alas, Whole Foods prevailed and the merger was completed in August 2007 thereby alleviating concerns not only from loyal shareholders, but suoixna, albeit deiduts investment managers as well. The stock responded in kind rising 10%. For the year, Whole Foods ended down 11.7%. How much bang for the buck

did Whole Foods get for their purchase of Wild Oats? Given Whole Foods troubled history of trying to locate and secure attractive locations, the Wild Oats stores allow Whole Foods to gain new stores in their eleven operating regions as well as gaining immediate entry into 15 new markets and five new states. Whole Foods announced that they expected to recognize significant synergies through G&A cost reductions, greater purchasing power and increased utilization of their facilities. We look for Whole Foods same store sales to return to a more Street-approved pace given anemic 2007 quarterly comparisons and with the addition of Wild Oats stores. Currently, WFMI sales per square foot of \$926 continue to dwarf conventional supermarkets as well as the \$453 produced at a typical Wild Oats store. But, as Wild Oats stores are renovated to Whole Foods stores, we expect the disparity in this metric to converge, thereby enhancing overall company year-over-year sales per square foot comparisons. (Multiple expansion perhaps?) In addition, the company expects to open 20-25 new stores in 2008. New stores generally become profitable during their first year of operation. As the stores mature, return on invested capital increases dramatically. Stores over 11 years old have ROIC of 84%, stores 8-11 years old have ROIC of 69%, stores 5-8 years old realize ROIC of 44%, between 2-5 years old have ROIC on average of 25% and less than two years old, 4%.

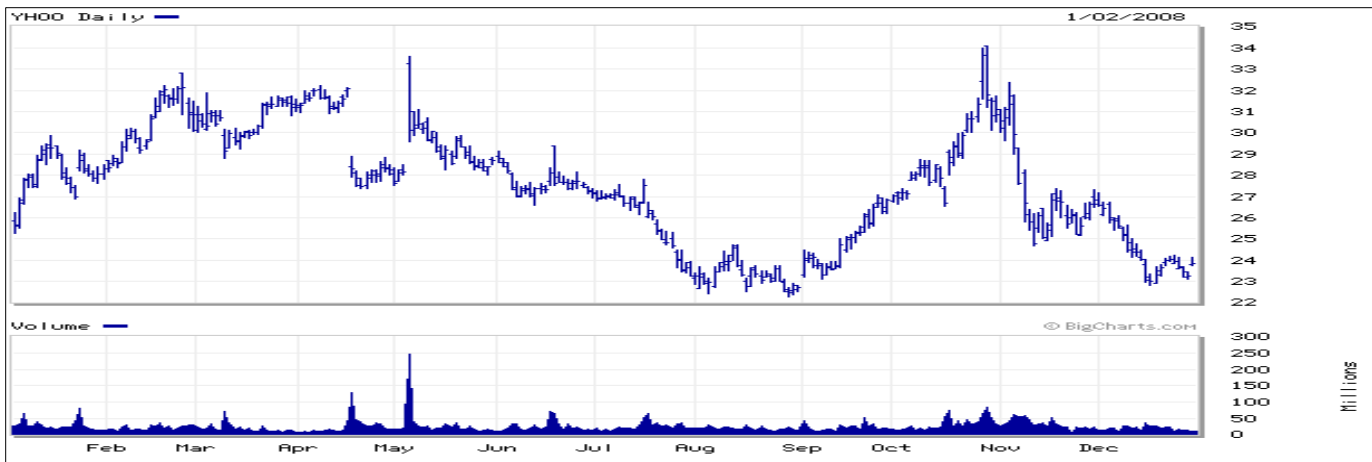
WM. WRIGLEY JR.



Wm. Wrigley (WWY) bounced back nicely in 2007 from our initial investment early in 2006. We give the shares an “A” for outperforming the Russell 1000 Growth Index by over 400 basis points during the last year. In fact, WWY shares are up almost 30% over the last 5 quarters. Towards the end of 2007, we pared back positions in portfolios that had WWY at an overweighting. Wrigley is the leading gum-confectionary company with a global reach that spans over 180 countries. Through their consistent brand upkeep and innovation, Wrigley was able to grow sales and earnings at a double-digit clip while operating profits grew in the high-teens last year. Despite the iconic American imagery put forth by the Wrigley name, WWY actually derived almost 70% of its total revenue from overseas sales. This was of particular benefit to shareholders as foreign revenue dollars translated very favorably during 2007’s drubbing of the dollar. Foreign consumption of confectionary products is a fraction of the U.S.’ current rate, however, we see Wrigley as the primary catalyst for changing this trend. In addition, Wrigley’s brand allowed it quite a bit of pricing leverage as almost a third of total sales growth came from price increases. This has been critical during a period of rising input costs. Volume growth stayed positive in the face of the price increases, adding to total growth. The limited psychological budget take of confectionary products should allow Wrigley to continue its double-digit growth, unabated, as the world descends into a

U.S.-led recession. In addition, the company has a very strong capital position and can easily lever up the balance sheet to become opportunistic in case of any extraordinary market dislocations. A recent acquisitive example includes Wrigley’s early 2007 purchase of the high-end Russian chocolatier, A. Korkunov. We do not believe Wrigley’s intentions for chocolate are the same as chewing gum as mass-market chocolate has had a very tough time for the past few years (take a look at Hershey’s chart). However, the only evidence of growth in the chocolate segment has come out of the high-end market, where branding and product differentiation are key. We applaud Wrigley’s management for taking the high-road in terms of getting into competing business lines and look forward to the benefits of this prescient acquisition. Given a variety of valuation methods, we believe shares still have upside potential and look forward to another year of above market-average growth rates.

YAHOO!



Yahoo (YHOO) disappointed shareholders yet once again as the stock returned -8.90% for the year earning it an F. Thou shalt not covet your neighbor's market share. Google is Yahoo's Achilles heel and it hurts. Let us once again revisit the past. August 19th, 2004 Google's first day of trading on the Nasdaq...Yahoo! closed that day at \$28.11. It closed on the last day of trading this year at \$23.26, producing a return of -17% over that time period. Ouch. In examining the rationale for owning Yahoo throughout 2007, it is imperative to examine the initial thesis on the company; dissecting the source and growth of the company's revenue drivers, the risk/reward, as well as the growth of the Internet software and services industry overall. A compelling risk/reward picture is presented by Yahoo! as they are the leader in display ads which make up more than half their revenues. These banner and video ads, coming off a small base, are expected to produce growth rates in excess 50% over the next five years. In light of Yahoo's new search initiative, Project Panama, video possibilities, increased online ad spend, strategic partnerships and alliances, increased R&D, management changes, an increased focus on their profitable businesses and talent acquisition, the possibility of M&A activity and an attractive relative valuation, underdog Yahoo! broadens and enhances our exposure to the tremendous opportunities offered in the fast-growing Internet services and software industry. While paid search revenues have

grown by 104% over the last five years, branded advertising has languished growing only 13% over the same time period. Growth in branded advertising will accelerate producing opportunities for Yahoo as video online consumption increases as well as innovative opportunities presented by mobile, IP-TV as well as video game advertising. Yet, Yahoo gets no respect. No respect even though \$14 of its \$21 stock price could be unlocked through divestiture of its \$8.3 billion claim on Yahoo! Japan, Yahoo's 10% stake of Alibaba.com worth about \$1.7, Yahoo's illiquid stake in Alibaba Group in which Yahoo owns a 40% stake, and their ownership in Korea's G-market. Shareholders have demanded a change in management with the summer ouster of Terry Semel as CEO replacing him with founder, Jerry Yang. Yang's sole announcement since replacing Semel has been the decision to layoff 5-10% of the Yahoo workforce. Street gossip also points to removal of Yang with long time Yahooian and current President, Susan Decker. The company is in turmoil and it couldn't happen at a worse time as the U.S. is held in the midst of a pending recession with advertising budgets shrinking daily. Yahoo's site has more than 130 million unique page views per month and more than 3 billion page views per day, yet the company's business model is bleeding as users are free to travel the internet beyond the confines Yahoo cyberspace. Having missed the forest for the trees, we exited Yahoo in January 2008.

DISCLOSURES

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Year End	Total Firm Assets (millions)	Composite Assets		Annual Performance Results			
		U.S. Dollars (millions)	Number of Accounts	Composite Net	S&P 500	Russell 1000 Growth	Composite Dispersion
2006	620	334	571	(2.77%)	15.80%	9.08%	1.2%
2005	451	252	320	5.84%	4.91%	5.26%	1.3%
2004	298	176	190	9.61%	10.87%	6.30%	2.5%
2003	226	123	134	42.25%	28.68%	29.75%	5.8%
2002	154	93	130	(20.42%)	(22.10%)	(27.89%)	2.6%
2001	202	117	129	(7.72%)	(11.88%)	(20.42%)	2.5%
2000	217	129	112	(10.31%)	(9.11%)	(22.42%)	5.1%
1999	200	120	78	56.99%	21.04%	33.16%	10.0%
1998	100	50	51	49.60%	28.58%	38.71%	6.4%
1997	58	21	32	21.10%	33.36%	30.49%	5.6%
1996	44	11	23	23.57%	22.96%	23.12%	5.0%
1995	33	3	9	42.59%	37.58%	37.19%	4.9%
1994	24	<1	Five or fewer	3.78%	1.32%	2.66%	N.A.
1993	20	<1	Five or fewer	(6.21%)	10.08%	2.90%	N.A.
1992	16	<1	Five or fewer				

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Equity Composite contains fully discretionary taxable and non-taxable growth equity accounts. For comparison purposes, the composite is measured against the S&P 500 and Russell 1000 Growth indices. The minimum account size for this composite is \$65 thousand.

Wedgewood Partners, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Wedgewood Partners, Inc. is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Some accounts in the composite may pay an all-inclusive wrap fee based on a percentage of assets under management; these accounts are reduced by all actual fees and transaction costs incurred. Other than brokerage commissions, this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Wrap accounts represent approximately 18% of the composite's assets as of December 31, 2006. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding policies for calculating and reporting returns is available upon request.

DISCLOSURES

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The management fee schedule is as follows: 1.50% under \$1 million; 1.25% for \$1 million to \$2.5 million; 1.00% for \$2.5 to \$5 million; and 0.75% over \$5 million. Actual investment advisory fees incurred by clients may vary.

Carve-outs are included in this composite and performance reflects total segment plus cash returns using an actual pro rata allocation. Prior to May 1, 2004, performance reflected total segment plus cash returns using a beginning of period allocation and a fixed total of 5% cash. As of December 31, 2006, 3% of composite assets are comprised of carve-out segments.

The Equity Composite was created in 2002. Wedgewood Partners, Inc.'s compliance with the GIPS standards has been verified for the period October 1, 1992 through June 30, 2007 by Ashland Partners & Company LLP. A copy of the verification report is available upon request.