



# Great Companies, Inc.

## Quarterly Review 2nd Quarter 2007

### More than a Clever Name

The second quarter of 2007 was even stronger than our first quarter. Although stock markets are always unpredictable, it's fun to have a strong lead at halftime. There is still a lot of year left to play out, but we believe we have a strong and winning portfolio team to take us home to victory. The great companies we own are industry leaders with long histories of above-average business results and shareholder returns.

At Great Companies, Inc. we adhere to an investment philosophy that is long-term oriented and based on sound principles of economics, business and accounting. Our common sense strategy holds that if a business grows its earnings at above-average rates, its shareholders will enjoy above-average returns over time. Of course, it's imperative that you pay a sensible price to buy those strong earnings. Overpaying for great results will inevitably lead to lower returns and higher risk. Ultimately you make your money on the buy side.

The primary point we are making is that Great Companies, Inc. is much **more than a clever name**. Great Companies, Inc. is a powerful metaphor regarding the rare and important traits a company must possess to be included in our portfolios. We are investing on your behalf in proven great companies. Does it make sense to invest in mediocre stocks when you can own the best companies in America at a discount? We think not, and therefore, work very hard to only invest in what we believe to

be the best, and we exercise strong discipline and patience to only pay a reasonable price.

One of the great benefits of our strategy is that it allows us to be stock market agnostic. When you compare the long-term performance of any of our great companies to a market index, you quickly discover that there is no correlation. Since we do not own average businesses, we do not expect average results. Therefore, we can focus on the prospects of the specific great businesses we own which is orders of magnitude easier to ascertain than estimating the prospects of an erratic market. In truth, you cannot possibly know what you need to know about a complex basket of hundreds or thousands of companies. On the other hand, you can know a great deal about a select few. Therefore, from our perspective, the stock market has very little impact on what we do, at least in the longer run. This is because our great companies differentiate themselves by generating a much larger stream of earnings than the average company.

Modern investing behavior on the other hand seems obsessed with what the so-called stock market is doing or is going to do. To be fair, the daily ups and downs of the market will have an effect on short-term performance. However, over time it is earnings power that really matters.

Consequently, we have little or no opinion about what the stock market may or may not do in the short run. Additionally, we have little or no opinion about what the short-term price movement of any of your individual companies may do. Frankly, we don't

consider either of those as knowable events. We do, however, have very strong opinions regarding the long-term business prospects of each of your companies. As a point of fact, it is easier and more reliable to understand and forecast business prospects than it is to speculate on markets. In the final analysis, it's the business prospects that matter the most.

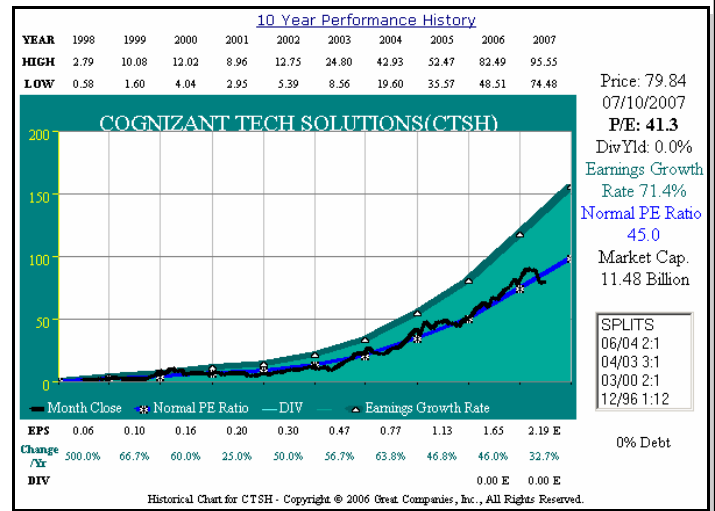
Another fallacy regarding obsessing with the U.S. stock market is the international opportunities of our multinational companies. One of the important traits we seek is a global presence. This global focus diversifies the firm's market risks while providing growth opportunities throughout the world. When looked at from this perspective, the multinational growth prospects of our portfolio of great companies is very impressive.

A prime example of what we are discussing is found in our newest holding, and this quarter's feature great company, Cognizant Technology Solutions Corp. As you can see from the following graph, Cognizant has grown earnings from a mere six cents a share in 1998 to one dollar sixty-five cents last year, and is forecast to earn two dollars and nineteen cents a share this fiscal year. That represents a compounded growth rate of over 70%. Believe it or not, an investment in Cognizant over that time frame is worth more than fifty-nine times what an equal investment in the S&P 500 would be worth. Clearly, the stock market had nothing to do with the returns that Cognizant's shareholders earned, and everything to do with how Cognizant performed as a business.

The following *Great Companies, Inc. Fundamental Analyzer™* 10 year historical graph illustrates the powerful historical

## Great Companies, Inc.

earnings growth that Cognizant has achieved over the past 10 years.



As discussed, the exceptional operating record created exceptional shareholder returns, as evidenced by the following performance report.

**COGNIZANT TECH SOLUTIONS(CTSH)**  
**10 YEAR PERFORMANCE RESULTS**

Amount Invested: \$ 100,000	Shares: 100,000	Closing Value: \$7,984,000.00
Split-adjusted Price(06/30/1998): 1.00		Closing Price(07/10/2007): 79.84
Total Cash Dividends:	\$ 0.00	S&P 500
Closing Cash Value:	\$7,984,000.00	\$134,694.56
Closing Annualized ROR:	62.4%	3.4%
Total Value:	\$7,984,000.00	
Total Annualized ROR:	62.4%	

Performance History for CTSH - Copyright © 2006, Great Companies, Inc. - All Rights Reserved

The following "Thesis for Growth" and "Outlook: Growth by the Numbers" on Cognizant Technology Solutions Corp. show why we are so excited about this high quality holding.

## THESIS FOR GROWTH

### Outstanding Businesses

Cognizant Technology Solutions Corp. provides information technology services in North America, Europe, and Asia. The company's core services include technology strategy consulting, complex systems and software development and maintenance, data warehousing, business intelligence, and business process outsourcing. Cognizant serves clients in several industries including financial services, healthcare, retail and technology/telecommunications.

Through the delivery of high quality, cost effective, full life-cycle technology solutions in partnership with its clients, the company has achieved an extraordinary and consistent revenue and earnings growth history since its founding in 1994. Cognizant is well positioned in the rapidly expanding outsourcing industry as corporations seek to reduce costs by allowing providers such as Cognizant to source their increasingly complex technology needs. Through its global resources, industry intelligence and systems expertise, Cognizant has built strong client relationships by making their businesses stronger. The company also brings a unique advantage by combining the best of both offshore development with a local consulting presence that integrates business strategy with execution. While the early days of outsourcing were about performing functional tasks more cost-effectively and productively, the future is about partnering on a global scale to meet strategic goals and win market share.

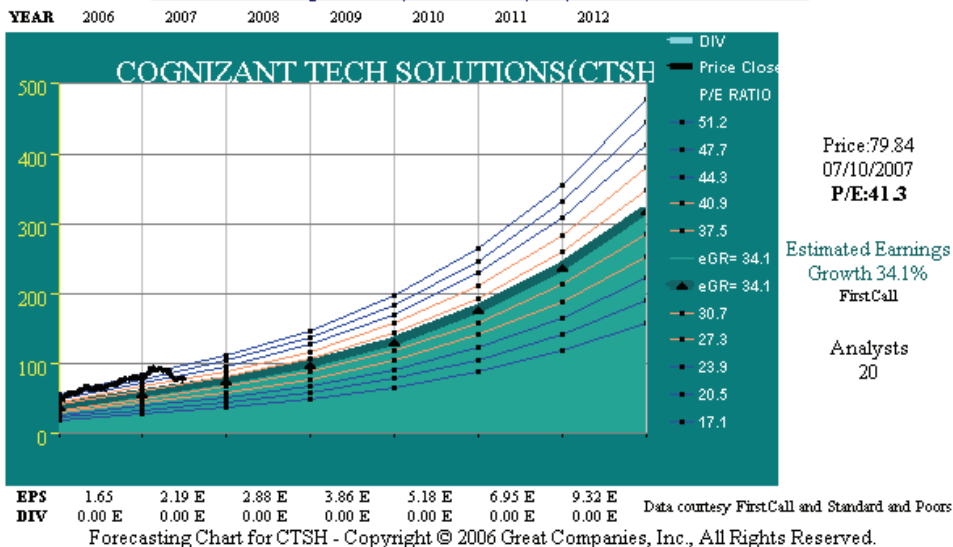
**Cognizant maintains an impressive execution track record, capitalizing on its position in the financial services industry, still the heart of the offshore movement.**

Cognizant maintains an impressive execution track record, capitalizing on its position in the financial services industry, still the heart of the offshore movement, while at the same time branching out into new verticals such as healthcare. The company continues to be the fastest growing company in the Indian offshore space. Although the company's biggest opportunity continues to be within its existing footprint given continued strong current demand, the company's highly respected management continues to build scale through focus on Europe, new focus on the rapid increase in demand for business process outsourcing, and leverage of offshore operations outside India (such as Latin America).

Cognizant management works diligently to ensure that it differentiates its services from what is offered by competitors such as increased usage of highly trained consultants "on-site" to help tailor its service to each client's specific needs. It is also constantly adding higher value services such as testing and implementing major new software platforms. Cognizant has stated that it is "constantly focusing on staying fresh in the eyes of our customers". In recognition of its tremendous innovation and success, Cognizant has been ranked by BusinessWeek magazine as #15 among its top 100 "Hot Growth Companies" as well as among the top 100 "Best Corporate Citizens" by Corporate Responsibility Office for the company's ethics and corporate governance.

## OUTLOOK: GROWTH BY THE NUMBERS

10 Year Earnings Yield (Ratio 2.8:1) 5yr.Est.Tot.Ret.: 28.7%



*Forecasting future earnings growth, bought at sound valuations, is the key to sound, and profitable performance.*

### ESTIMATED FUTURE FUNDAMENTAL VALUATIONS

The consensus of the 20 leading industry analysts reporting to FirstCall estimate Cognizant's 5 year growth rate at 34.1%. Cognizant currently has no long-term debt and is currently trading at a P/E of 41.3, which is just outside the value corridor (defined by brown lines) of a maximum P/E of 40.9. If the earnings materialize as forecast, Cognizant's True

Worth™ valuation would be \$317.81 in fiscal 2012, which would be around a 28.7% annualized rate of return.



The primary intent of this quarter's newsletter is to as clearly as possible articulate the principles and benefits of our investing strategy. We believe this to be extremely important based on the idea that knowledge is power. We consider it almost tragic that the majority of the investing public is dependant on emotionally charged reactions to short-run price volatility. Bouncing stock prices can unnerve even the most courageous investors. Unfortunately, once emotions take over, good judgment becomes impaired. Consequently, people are often their own worst enemies when it comes to making sound investment decisions. We hold that knowledge, proper perspective, and insight are the antidotes to dangerous irrational behavior.

In closing, at Great Companies, Inc., we take a business perspective on investing. We do not play markets or attempt to guess where stock prices may go in the short run. Instead we act as asset allocators that search for the very best companies at economically sound valuations for our clients to become long-term investors in. In truth, your real money managers are the officers and management of the fine companies you own. We know, beyond a shadow of a doubt, that well-run growing companies generate strong shareholder returns over time. Better companies produce better results at less risk based on the strength of their businesses.

With this newsletter, we have included a copy of our newly developed corporate brochure. We hope that it helps you understand our process more clearly, and enhances your confidence in the portfolios we manage on your behalf. We remain extremely confident regarding the long-term future of your portfolio of great companies.

And, as we hope you all agree: in the long run **Earnings Determine Market Price.** Always have, and always will.

Sincerely,



Charles C. Carnevale  
Chief Investment Officer

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*Certain statements that we make in this newsletter are forward-looking statements. These forward-looking statements are based upon management's current assumptions and beliefs in light of the information currently available to it, but involve known and unknown risks and uncertainties.*