Great Companies, Inc.

Quarterly Review 4th Quarter 2007

Sooner or Later

Calendar year 2007 was simultaneously an excellent year for us and an average one. Frankly, we did not receive the price performance that we feel our portfolios clearly deserved. However, with only a few exceptions, we believe the businesses we hold validated their great company status. Profits grew strongly, stock prices did not. Any serious student of stock market history knows that the market from time to time grossly mis-prices stocks. We believe last year was such a year for our Great Companies, Inc. portfolios.

We would like to elaborate on some of the reasons why we think this occurred. We make no excuses, because we believe that we skillfully managed your portfolios according to our time-tested and soundly-based investing philosophy. Our goal is to invest in great, above-average growing businesses at prices (valuations) that make economic sense. We feel that we deserve an A+ for that effort. In fact, we are confident that your portfolios, as currently positioned, are among the best we have ever built.

The facts to support this bold statement are straightforward. Including financials, the earnings growth of our portfolio companies last year averaged 16.1% while their stock prices only returned 4.4%. Excluding financials, our profits grew at a very strong 22.6%, while stock prices only returned 11.8%. Although this is better price performance, it still does not recognize the terrific growth our companies gave us.

Obviously, from the above facts, financials fared poorly last year. We were heavily invested in financials because valuations were at historically low levels. However, the subprime mortgage crisis reared its ugly head and the market panicked. The prices of some of the most prominent and powerful financial companies like Citigroup, American International Group and Ambac were pummeled. This took already very inexpensive stocks down to insane bargains in our judgment. Therefore, we aggressively added money to those that we could. This lowered our cost basis and gave us more shares to rally with, when they recover, than we originally held when they fell. We anticipate a huge future payback from this strategy. Ambac will be discussed in greater detail later in this newsletter.

Calendar year 2007 was also a year of above-normal volatility. As should be expected, high volatility is mostly irrational. Consequently both extreme overvaluations and extreme undervaluations were created. Therefore, you may have noticed that we were more actively buying and selling than normal. From our very beginnings we have held sacred the strong belief that we must be fiduciaries for the long-term benefit of you, our valued clients. Unfortunately, this occasionally means enduring some short-term pain in order to achieve long-term gain.

Activity is costly and can therefore be detrimental over the short run. Since no one can ever know the perfect top or bottom, the selling of a company that becomes overvalued can be done too soon. Conversely, investing in great companies that were previously overpriced and falling into value can be done too soon as well. Therefore, the overpriced stocks we are selling, for a short time, can continue to rise and the out of favor stocks we are buying can continue to fall. Although short-term performance is poor as a result, the long-run potential profits and safety are worth it.

Last year's volatility brought an additional benefit that we are most enthusiastic about. In the past we were often frustrated by two dilemmas that volatile stock prices created for us. First, if we bought a cheap stock and it ran to the upside, our sell discipline was prematurely triggered. On the other hand, if we bought and the price fell further, we struggled to find the money to buy more at the lower bargain price. Our process was to own 25 stocks with 4% of your money invested in each one. Therefore, it made little sense to rebalance a tenth of a percent here or a few tenths there.

Our strategy going forward is to increase our number of holdings to 35. This additional diversification in

itself will mitigate some of the effects of volatility, if it continues. The best part though is that we will allocate a full 4% to our 15 best and most attractively valued positions and 2% into the other twenty. However, these twenty will still represent above-average long-term opportunities. Consequently, we will be able to pare back a 4% position that goes up too fast, thus becoming less attractively valued and reallocate into a more attractive position that perhaps fell irrationally. We are confident that the advantages to this refinement are numerous and quite beneficial. We are far into the process of accomplishing this and appreciate your patience. The rewards should be worth it.

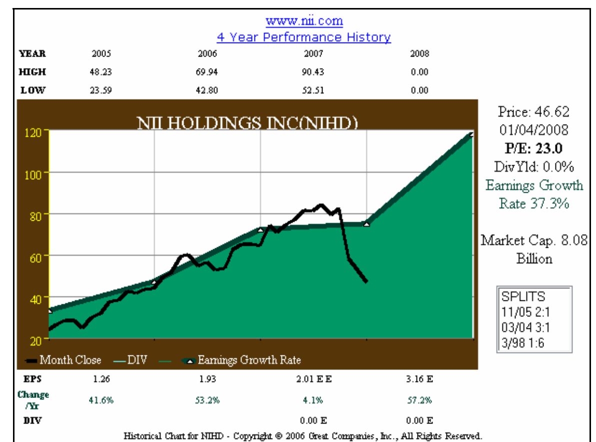
Here are a few final thoughts on volatility. The real and greatest risk to volatility is to react to it. If the price of a great company falls because the market panics, it will surely recover. The loss is unrealized, unless you sell. With truly great companies, the more profitable and safe behavior is to buy more. We have successfully done this numerous times in the past.

In recent newsletters we have been featuring one of our great companies in order to provide you insight into the opportunity and quality of the businesses you own. We will deviate this quarter in order to illustrate the enormous unrealized potential of your portfolios. In this letter we will briefly discuss four of last year's worst performing companies based on stock price. Ironically three of these companies generated some of the strongest earnings growth of the entire portfolio which clearly illustrates how irrational the market can be.

NII Holdings was one of our worst performers last year as its price fell precipitously after the following earnings announcement. "NII Holdings' third quarter profit rises 24% on higher subscriber numbers and a 39% jump in revenues." Somehow, analysts and so-called investors called this bad news. We are currently preparing to aggressively add to this position. Our view of this great company plus the following Great Companies, Inc. Fundamental Analyzer™ graph and track record corroborate our confidence.

NII Holdings

NII Holdings, formerly known as Nextel International, is a U.S. based Latin American digital mobile telecommunications service provider, mainly targeting business clients and high-end users. It serves major cities in Mexico, Brazil, Argentina, Peru and Chile. Given the high expense of installing wiring for land-line service, wireless communication has experienced tremendous growth in Latin America as demand rapidly increases for phone service in these developing economies. NII's "push-to-talk" mobile service is unmatched by its competition, and this competitive advantage positions the company in a high quality niche. Despite revenue more than doubling over the last three years and earnings growth averaging in excess of 35%, which is forecast to continue this pace for the next three to five years, the stock has declined over the last few months on fears of increased pricing competition in Mexico and a decline in U.S. push-to-talk technology. We believe these perceptions are misplaced as the Mexican market is growing rapidly enough for all players, and the decline in U.S. push-to-talk is the result of mismanagement of U.S. Nextel after being acquired by Sprint. The U.S. Nextel business has no relationship to NII Holdings. Trading at a P/E of only 23, the upside is compelling.



NII HOLDINGS INC(NIHD)
4 YEAR PERFORMANCE RESULTS

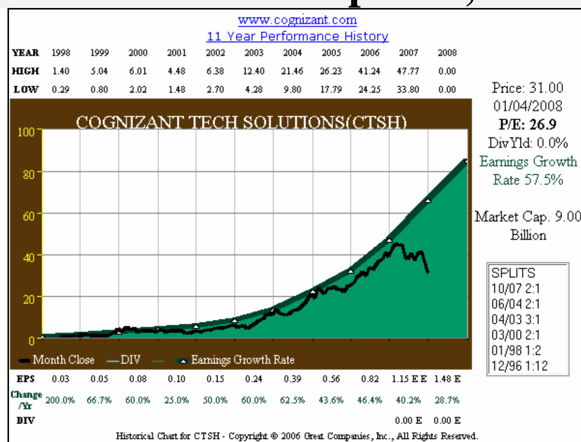
Amount Invested: $ 100,000 Shares: 4,214 **Closing Value: $196,456.68**
Split-adjusted Price(12/31/2004): 23.73 Closing Price(01/04/2008): 46.62

		S&P 500
Total Cash Dividends:	$ 0.00	
Closing Cash Value:	**$196,456.68**	**$117,165.29**
Closing Annualized ROR:	**25.1%**	**5.4%**
Total Value:	**$196,456.68**	
Total Annualized ROR:	**25.1%**	

Company No. 2 is Cognizant Technologies. This great company saw its shares get pummeled because of earnings growth of 55% on revenue growth of 48%. My only comment was: “I wish every company I ever invested in had numbers that bad.” This represents a classic case of fear overriding reason, as elaborated below. In actuality, even if Cognizant’s growth did slow to what was feared, which it has not, this adjusted growth still justified a higher price than it was trading at before it fell. This is what we mean by exploiting the folly of others by thinking the investment through to its logical conclusion.

Cognizant

Cognizant Technology Solutions provides information technology services in North America, Europe and Asia. 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. 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. With both revenue and earnings growth in excess of 50% since 1998, the price of the stock has declined in the fourth quarter as investors are concerned that nearly half the company’s revenues come from financial companies who are currently under stress from the credit crunch. There is, however, no evidence that business is weakening as the company continues its aggressive hiring pace in the fourth quarter of 2007. In fact, as financial companies look for further ways to cut costs, Cognizant offers an excellent avenue since it can more efficiently take over many functions these companies are currently performing themselves. Trading at a discount to its intrinsic value, Cognizant offers the potential for significant price appreciation as the current credit situation improves.



COGNIZANT TECH SOLUTIONS(CTSH)
11 YEAR PERFORMANCE RESULTS

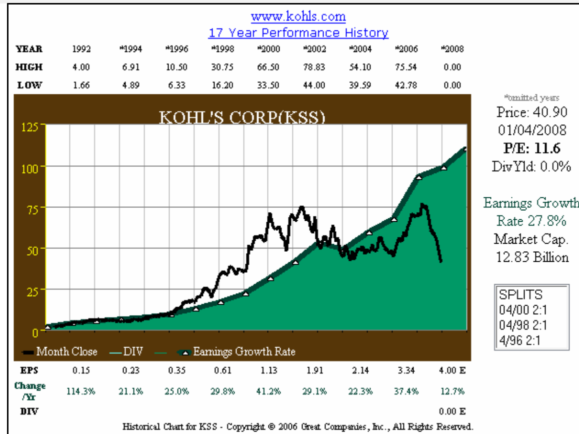
Amount Invested: $ 100,000 Shares: 200,000 **Closing Value: $6,200,000.00**
Split-adjusted Price(06/30/1998): 0.50 Closing Price(01/04/2008): 31.00

		S&P 500
Total Cash Dividends:	$ 0.00	
Closing Cash Value:	**$6,200,000.00**	**$124,223.44**
Closing Annualized ROR:	**54.3%**	**2.3%**
Total Value:	**$6,200,000.00**	
Total Annualized ROR:	**54.3%**	

Our third poor performer is Kohl’s, which had an excellent year but the stock market fretted about retail sales.

Kohl’s

Kohl’s is a specialty department store chain with a family-focused, value-oriented offering of national brand merchandize. Kohl’s is one of retail’s most powerful growth stories, as the company continues to successfully supplement its classic styles with more contemporary brand name merchandise, thereby significantly increasing the demographic it serves to the 25 to 34 age group that spends over $40 billion on merchandise similar to what Kohl’s offers. The company also has significant U.S. geographic expansion opportunities and plans to nearly double its total store base over the next five years. The stock declined in the fourth quarter of 2007 as investors reduced holdings in most retailers on concerns about potential weakness in consumer spending. Since recessions are not predictable, and consumer stocks often decline on fears that do not turn into reality, we do not attempt to time entry and exist points. One thing we can be confident of is that Kohl’s, at its current depressed price, offers outsized return potential.



KOHL'S CORP(KSS)
17 YEAR PERFORMANCE RESULTS

Amount Invested: $ 100,000 Shares: 51,282 **Closing Value: $2,097,433.80**
Split-adjusted Price(05/29/1992): 1.95 Closing Price(01/04/2008): 40.90

		S&P 500
Total Cash Dividends:	$ 0.00	
Closing Cash Value:	$2,097,433.80	$340,202.83
Closing Annualized ROR:	21.5%	8.2%
Total Value:	$2,097,433.80	
Total Annualized ROR:	21.5%	

The fourth and final poor performer we need to discuss is Ambac. In almost forty years in this business, I have never experienced or seen such a dramatic fearful reaction. In 2007 Ambac saw its stock price fall from over ninety dollars per share to the mid-twenties on a fear that they might lose their AAA rating status. This has yet to occur.

This price reaction instigated our team to conduct a thorough, in-depth analysis on this 37-year-old high quality business. To be candid, there is a high level of risk with this company that does not apply to the previous three. Although primarily a municipal bond insurer, Ambac has also provided financial guarantees to the structured, asset-backed, and unfortunately, mortgage-backed securities sectors. As a result, they do have a large subprime debt exposure. However, the following summarizes our rationale to aggressively add all that our discipline would allow to this position:

1. We believe very strongly in the experienced management team of this company that have used their skills in risk management to protect their portfolio to a very reasonable extent.
2. Currently trading in the mid-twenties Ambac has a book value of over sixty dollars and an adjusted book value (current equity plus the present value of future returns on in-force insurance contracts) of almost one hundred dollars per share.
3. It is trading at the lowest PE ratio (3.1) and lowest price to sales it ever has.
4. We felt our portfolios are adequately diversified and therefore, protected enough to take this compelling risk.

In fact, this may well be a once in a lifetime opportunity that we felt obligated to exploit. Just as a side note, Warren Buffett recently announced that he was starting a competing new company; a good endorsement to the attractiveness of this business.

Periods of market uncertainty, volatility, and concern are made for the great companies that are in your portfolio. Investors want to own companies that are proven, global market leaders that are increasing their earnings at double-digit rates, rather than highly cyclical unproven companies whose earnings might vanish overnight.

In conclusion, we remain very enthusiastic regarding the future returns of your Great Companies, Inc. managed portfolios. Our businesses are terrific and **sooner or later** the market must realize that fact because…..

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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