

REPRINTED FROM:

May 10, 1999

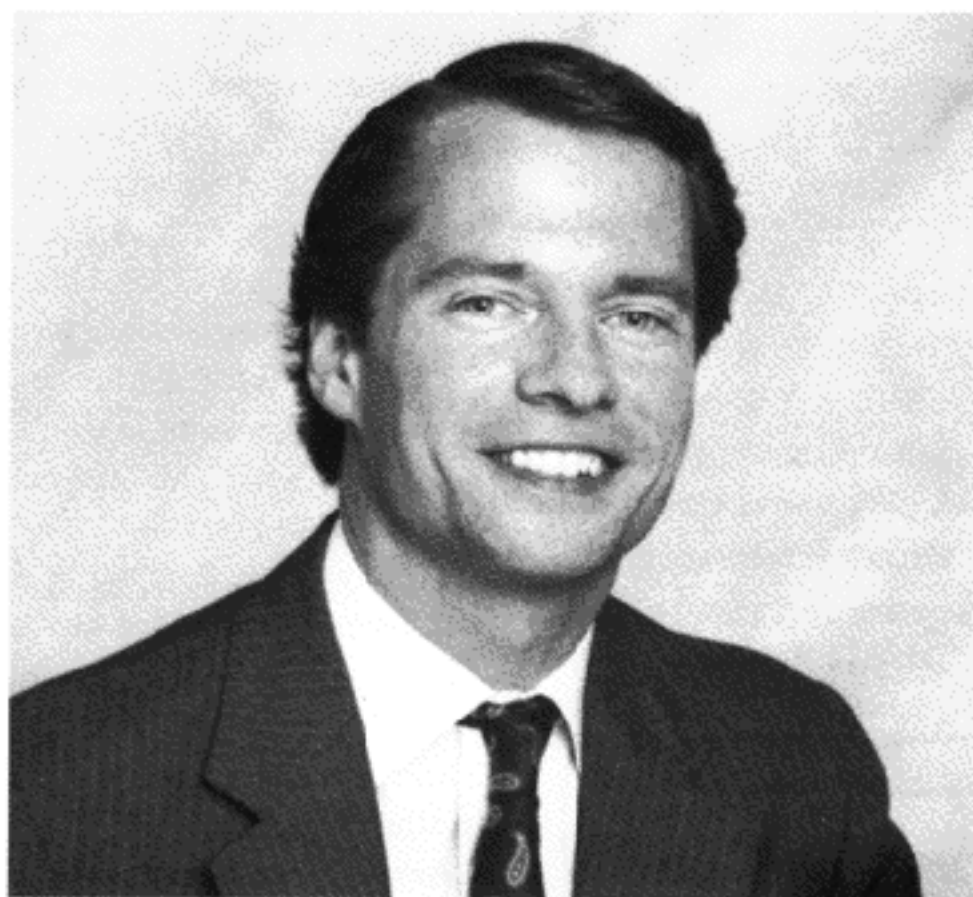
THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

MONEY MANAGER INTERVIEW

J.W. Burns & Company

JAMES C. BURNS



JAMES C. BURNS, CFA, is President and Chief Investment Officer at J.W. Burns & Company, a fee only investment counseling firm with offices in Syracuse, New York, and Savannah, Georgia. The company was founded in 1974 and currently manages over \$345 million in assets for over 300 clients nationwide. Mr. Burns is a Chartered Financial Analyst (CFA), and holds memberships in the Association for Investment Management and Research (AIMR) and the Rochester Society of Security Analysts. He has also been on the board of "Buyside" magazine. Mr. Burns has been quoted in the "Wall Street Journal", "Barron's", "Forbes-Online", and numerous other newspapers and financial publications. He has also appeared on CNBC as well as NBC Nightly News with Tom Brokaw. He is a Graduate of St. John Fisher College where he studied Communications/Journalism and Political Science.

Highlights

James C. Burns has an investment philosophy that focuses on a "triangle of value," which has three key components. First, he looks for companies that have market-dominant products. Second, he invests in companies with a high return on equity that reinvest heavily in their own businesses to generate future earnings. Third, he looks for companies that are committed to growing their earnings and revenues from overseas markets. In short, he is seeking true long-term wealth creation by remaining focused on companies that fit into his firm's philosophy. He wants companies that take long-term views, with managements that focus on increasing shareholder value.

Companies include: American Int'l Group (AIG); Microsoft (MSFT); Lucent (LU); Medtronic (MDT); Bristol-Myers Squibb (BMY); Tootsie Roll (TR); William Wrigley Jr. Co. (WWY).

"There are times when a merger strengthens a company's leadership position, and that gets our attention. This was the case with the American International Group buyout of SunAmerica last summer. We believe it is a good strategic fit and will have a major positive impact on the growth of American International Group over the next few years."

SECTOR — GENERAL INVESTING

(GAS500)(6656)TWST: The Dow Jones Industrial Average has just closed above 10,000. What does that mean from your perspective as an investment counselor?

Mr. Burns: I believe it is a reflection of the fundamental strength of the U.S. economy and the combination of factors which have come together in the last few years to create a robust environment for equity investors. In the United States we have had low inflation, stable to lower interest rates, and a strong flow of capital into stocks. Another big factor is that America is leading the world in a technological revolution that is allowing businesses, especially the stocks in our portfolio, to be far more productive and competitive. As investment counselors, we have kept our clients' portfolios focused on outstanding businesses that are committed to creating value for their shareholders. So I believe the Dow hitting 10,000 is a milestone, but the key factor for our clients has been remaining fully invested in many of the great companies that have been leading this market.

TWST: Will you tell us about your firm's equity investment style?

Mr. Burns: Our investment style is straightforward — invest in the world's best businesses for long-term wealth creation, companies with great leaders in management, who execute superbly within their industry. This is how we have achieved our outstanding long-term track record. I would also like to share with you what we do not do in our investment approach. We are not market timers. Nor are we sector weighters or traders of stock certificates. We research and study every aspect of our investments in such a way that we consider ourselves partners with the management of the companies we buy. So we don't do a lot of stock trading. This has benefitted our clients tremendously, both in terms of strong performance and low costs.

TWST: What are the characteristics you value most in the businesses that you want to own?

Mr. Burns: Our investment philosophy centers around a discipline that we refer to as the "triangle of value." The J.W. Burns & Company "triangle of value" has three key components. First we look for companies that have market-dominant products — in other words, companies that we can thoroughly understand and that have a leadership niche within their markets. Second, we invest in companies with a high return on equity, companies that reinvest heavily in their own businesses to generate future earnings growth. Lastly, we look for companies that are committed to growing their earnings and revenues from overseas markets. We believe international and emerging markets are important growth regions, but we don't want to take on the many risks from investing directly in lesser developed economies and stock markets. These can include such issues as currency risk, political risk, significant accounting differences, etc. We believe we can participate fully by investing in great American companies that are committed to developing their businesses in these markets.

TWST: Are there any industries or sectors in which you might avoid investment at certain times?

Mr. Burns: I don't think I would ever rule out investing in any particular industry. I believe one of the secrets of successful investing is to remain open-minded yet focused at the same time. Our portfolio is focused on a few key growth areas in the economy — technology,

healthcare, financial services and consumer goods. We tend to avoid highly cyclical areas where there is inconsistency of earnings and market growth. However, I would never rule out going into a particular industry if I felt there was an appropriate investment opportunity.

TWST: Does the idea of acquisition, in the company either being acquired or doing the acquiring, play any part at all in your decision process?

Mr. Burns: No, not really. I've been doing this for some time and I believe that making a decision based on the possibility of a company being acquired is very difficult and rarely works. It doesn't fit into our investment approach. When making a decision, I'm looking at the company's fundamentals as they relate to the J.W. Burns & Company "triangle of value." So we don't make our investment decisions based on that criterion.

However, there are times when a merger strengthens a company's leadership position, and that gets our attention. This was the case with the **American International Group (AIG)** buyout of SunAmerica last summer. We believe it is a good strategic fit and will have a major positive impact on the growth of **American International Group** over the next few years.

1-Year Daily Chart of American International Group

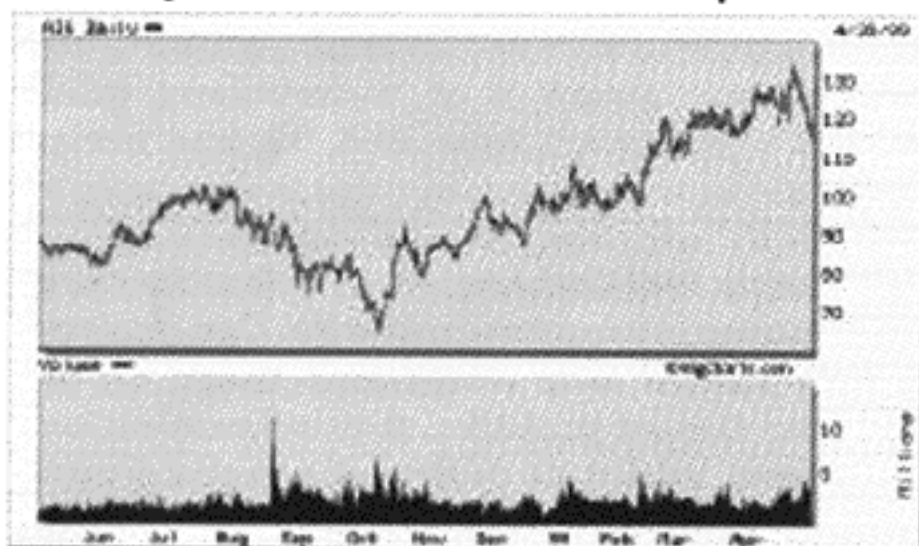


Chart provided by www.BigCharts.com

TWST: Elaborate on why you bought AIG and the way it illustrates your investment philosophy.

Mr. Burns: I believe **American International Group** is a compelling story looking out over the next three to five years. **AIG's** Chief Executive Officer, Maurice Greenberg, is highly respected within the insurance industry as one who is committed to increasing shareholder value. **AIG** is the dominant player in the property and casualty insurance industry. This gets back to the core of our philosophy, which is investing in companies with a strong leadership position. In addition, **American International Group** is quite innovative in terms of introducing new products that have high profit margins. Some recent examples are sexual harassment insurance and child abduction insurance. Not glamorous products nor the kind of insurance that anyone would want to have to deal with, but nonetheless they have healthy profit margins and we expect demand to be strong.

AIG is also a company with a significant international presence. Almost 40% of their revenues come from Asia. They've been doing business in Thailand alone for over 60 years. One of their trademarks is to hire local people in foreign markets. This gives them a distinct advantage over other companies during times of economic instability because they are able to purchase high-quality assets at bargain prices. The acquisition of Bangkok Investment Public Company is a good example. These acquisitions will ultimately strengthen **AIG's** market position in Asia as emerging economies start to recover and strengthen.

As I mentioned, one of the big reasons I like **AIG** is the recently completed merger with SunAmerica. SunAmerica was one of the best performing stocks on the New York Stock Exchange throughout the 1990s. SunAmerica is led by CEO Eli Broad, who also has a superb record of increasing shareholder value and really driving his business for growth. SunAmerica has a very strong domestic-based variable annuity business, an area where **AIG** had no representation.

We believe the combination of SunAmerica's very successful variable annuity business with **AIG's** product innovation and vast international distribution network will create an insurance powerhouse. **AIG** will be able to sell Sun's variable annuity products in many of these underpenetrated international markets where demand is strong. I believe that **American International Group** is a core financial holding for investors and an interesting way to participate in the growth of international markets.

"Microsoft has all the characteristics we look for in a company. It has a dominant market position in the software industry, has consistently achieved a high average return on equity over the last 10 years, and has increasing growth from foreign markets. It is simply a superb company with a truly powerful balance sheet."

TWST: What is the largest holding in your portfolio currently?

Mr. Burns: Our largest holding is **Microsoft (MSFT)**. To give you an idea how long we have owned **Microsoft**, we have a cost basis for some clients of near \$8 a share. We still continue to buy **Microsoft** with new money. **Microsoft** has all the characteristics we look for in a company. It has a dominant market position in the software industry, has consistently achieved a high average return on equity over the last 10 years, and has increasing growth from foreign markets. It is simply a superb company with a truly powerful balance sheet. **Microsoft** has \$19 billion in cash on the balance sheet right now. The upgrade to Windows 2000 should add another \$1 billion in free cash flow each quarter going out through the year 2001. You're talking about a company with just a phenomenal financial position.

TWST: Microsoft has been in the news quite a bit lately on a couple of fronts, with the ongoing Justice Department trial as well as concerns that LINUX will pose a threat to their market-dominant position. How do you view these threats to Microsoft?

Mr. Burns: I'll address those separately. First of all, we have never believed that the Justice Department investigation would materially affect Microsoft. As the trial progresses, we believe that any judgment against them will be minor relative to Microsoft's market position, if in fact one is even handed down. We also believe that the America Online/Netscape merger diffused the Justice Department's case significantly.

With regard to LINUX, Microsoft will always encounter competitive threats from new technologies. When you are the leader, people are always going to be gunning for you. Right now, LINUX is available for free, so the only people who are making money are those that offer support and serv-

ice. LINUX is also difficult to use and has not gained wide acceptance at this point. We will continue to monitor its progress as we do any competitive threat to the companies we own. What's important to us is that Microsoft itself is able to adapt to changes in the marketplace. They have a superb management team in place with a demonstrated ability to adapt and deliver results, and we see no reason to believe that won't continue.

TWST: What are some other technology stocks you own?

Mr. Burns: Another company that we own, which we consider to be a core technology holding is Lucent (LU). We have had Lucent in our portfolio since the spin-off from AT&T (T). We simply feel that Lucent is a clear leader in the telecommunications industry. Our decision to hold Lucent over AT&T was based on the fact that Lucent provides telecommunications equipment, which we believe is a major growth market, whereas AT&T is more focused on services. In addition, Lucent retained Bell Labs, which we believe is the premier research and development facility in the world. Lucent also is a company that has a long track record of developing new products and successfully bringing them to market.

One of the areas that currently excites us is their work with dense wave division multiplexing (DWDM). This technology greatly increases the capacity of existing fiber optic lines by making the transmission of multiple signals down a single line possible. With the burgeoning growth of the Internet, the demand for data transmission has increased exponentially. DWDM offers companies a cost-effective means of increasing bandwidth without incurring the high cost of laying new fiber optic line.

1-Year Daily Chart of Lucent

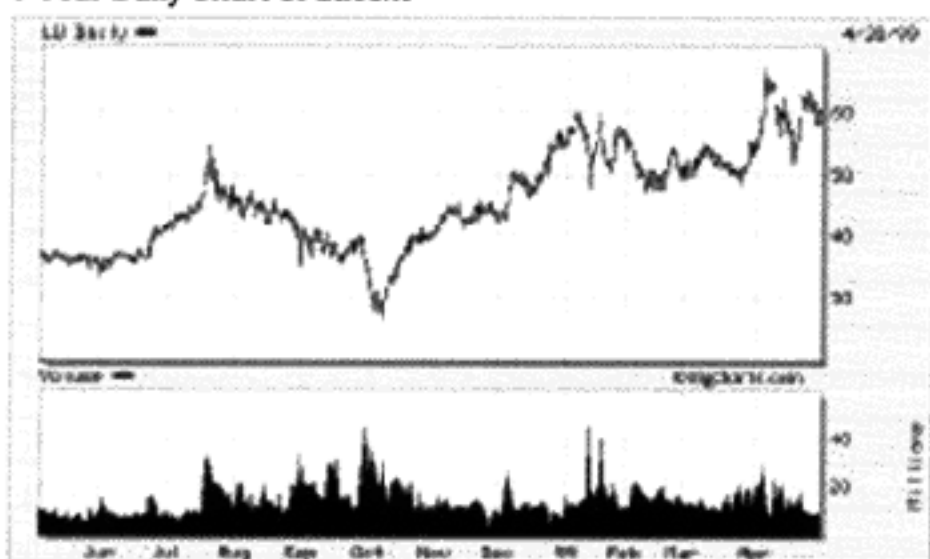


Chart provided by www.BigCharts.com

1-Year Daily Chart of Medtronic

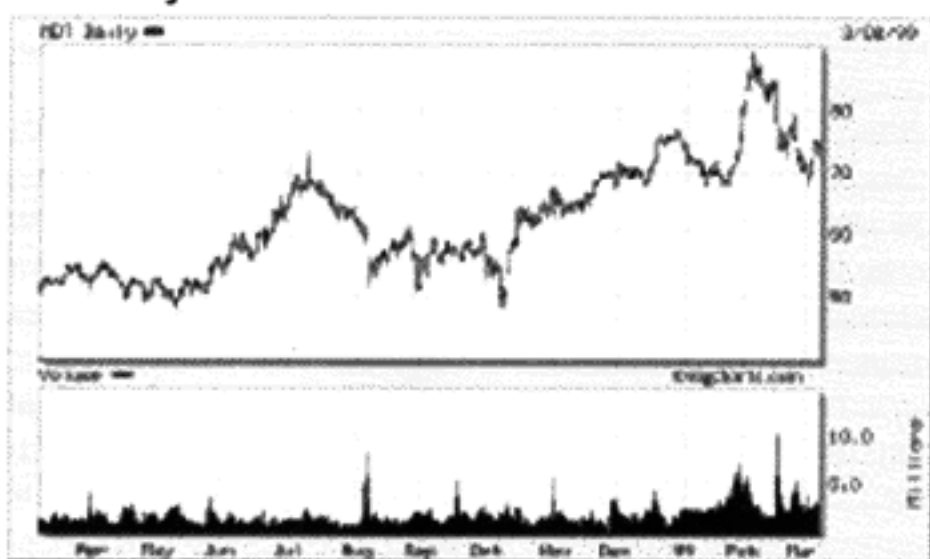


Chart provided by www.BigCharts.com

"We simply feel that Lucent is a clear leader in the telecommunications industry. Our decision to hold Lucent over AT&T was based on the fact that Lucent provides telecommunications equipment, which we believe is a major growth market, whereas AT&T is more focused on services. In addition, Lucent retained Bell Labs, which we believe is the premier research and development facility in the world."

Domestic business continues to be strong for Lucent, as they just recently announced a \$1 billion contract with AT&T. However, we believe the greatest growth potential is international. To give you an idea of the market potential, over one million people in China each year get phone service for the first time. On a global basis, over half the world's population has never made or received a telephone call. Lucent stands to benefit tremendously as emerging markets expand their telecommunications infrastructures. Right now Lucent derives about 25% of its revenue from international markets. This percentage should expand significantly, as we believe international markets are going to offer dramatic growth over the next five years.

TWST: When do you decide to sell a stock? What triggers your sell discipline?

Mr. Burns: We again go back to our investment discipline of being long-term holders of great businesses. We don't look at price targets to sell a stock. Rather we focus on the underlying fundamentals of the company. That being said, we will sell a stock for one of three reasons. One is if we see a prolonged slowdown in the earnings. Last year we sold **Kellogg (K)** out of our clients' portfolios because its results were continually coming in below our earnings expectations. The second reason we would sell a stock would be if one of the fundamental reasons we took a position in the company changes. Finally, if we find a better investment opportunity, we will pare back or sell a position. Our move into **Lucent** from **AT&T**, as I discussed, would be a good example of what we believed to be a better opportunity for our clients.

"The most recent change we made was selling St. Jude Medical and moving into Medtronic. St. Jude looked to expand into the fast-growing cardiac rhythm management (CRM) business. It is a highly competitive market and St. Jude was consistently having trouble meeting earnings expectations. Management seemed to lack the vigor and drive necessary to capture a share in this very big and growing market. So we sold St. Jude and bought Medtronic."

TWST: Can you give our readers an example of the last position you sold and why?

Mr. Burns: The most recent change we made was selling **St. Jude Medical (STJ)** and moving into **Medtronic (MDT)**. We purchased **St. Jude Medical** years ago based on the strength of its heart valve business, where **St. Jude Medical** is the unquestioned leader. If you need a heart valve replaced, you want a **St. Jude** valve. It was a very lucrative and growing market until recently. However, with the advances in medicine, particularly here in the United States, fewer people began to require heart valve replacements and market growth began to slow. Consequently, **St. Jude** looked to expand into the fast-growing cardiac rhythm management (CRM) business. It is a highly competitive market and **St. Jude** was consistently having trouble meeting earnings expectations. Management seemed to lack the vigor and drive necessary to capture a share in this very big and growing market. So we sold **St. Jude** and bought **Medtronic**. **Medtronic's** high is about \$89, and we began

buying it in the mid-\$70s. **Medtronic** is an elite company in the cardiology industry and arguably the dominant company in the entire medical device industry. The few companies in the cardiac rhythm management industry enjoy extremely high barriers to entry, based on the enormous patent protection and high technological expertise necessary to compete. **Medtronic** has begun to gain share in the implantable cardiac defibrillator (ICD) market with the launch of the Gem DR, its first dual chamber device. **Medtronic** has also made a number of recent acquisitions to broaden their product pipeline and significantly increase its competitive position. They acquired Arterial Vascular Engineering to strengthen their position in the high-growth stent industry. **Medtronic** also purchased Sofamor Danek, which is the leading company in the neuro-stimulation market. We believe these factors position the company for consistent 15-20% growth for the foreseeable future.

1-Year Daily Chart of Bristol-Myers Squibb



Chart provided by www.BigCharts.com

1-Year Daily Chart of Tootsie Roll

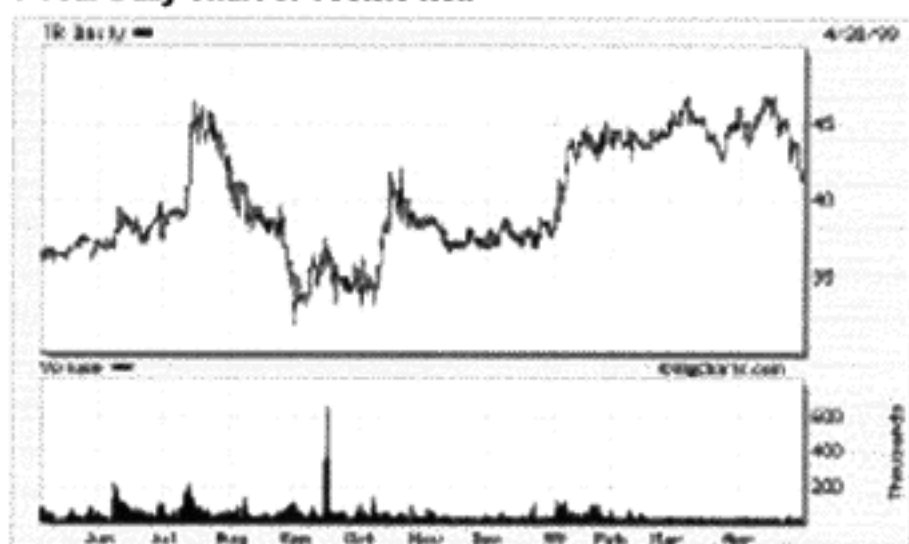


Chart provided by www.BigCharts.com

TWST: What other healthcare stocks do you like?

Mr. Burns: We hold a significant position in pharmaceuticals. In fact, our largest pharmaceutical holding is **Bristol-Myers Squibb** (BMY). I believe it remains an outstanding buy today, as it's been lagging a few of the other pharmaceutical names. We originally invested in Squibb back in 1985 because of a new drug coming to market called Capoten, short for "cap on tension," a second-generation ACE inhibitor.

This gets right back to our product orientation. The story of how Capoten was developed is very interesting. There was a snake in Brazil nicknamed "Two Step Johnny." They called him "Two Step Johnny" because this type of snake fatally bit a number of victims during the early 1970s. The victims would literally take two steps backwards and drop dead. The autopsies revealed that these people died from a complete and total collapse in blood pressure. Squibb was the only pharmaceutical firm that sent a research team down to Brazil. They were able to take the venom from the snake and synthesize it into this drug, Capoten, to treat hypertension. On the basis of this one product, Capoten, Squibb went from being a second-tier pharmaceutical firm to an industry leader. Capoten became only the fourth blockbuster drug in history at the time. A blockbuster drug is defined as having \$1 billion or more of sales.

"We've continued to buy Bristol-Myers Squibb because we think it's got a number of exciting new drugs in its pipeline. Between now and the end of the year 2000, seven new drugs have the potential to add \$2 billion in revenue. The most promising is omapatrilat, for blood pressure maintenance, which could reach \$1 billion in sales."

We've continued to buy **Bristol-Myers Squibb** because we think it's got a number of exciting new drugs in its pipeline. Between now and the end of the year 2000, seven new drugs have the potential to add \$2 billion in revenue. The most promising is Omapatrilat, for blood pressure maintenance, which could reach \$1 billion in sales. Other drugs include Tequin, a broad-based antibiotic, and Lubucavir for the treatment of hepatitis. While **Bristol-Myers Squibb** doesn't have the hype of some of the other pharmaceutical firms, I think on a valuation basis it's very attractive. It's only selling at a small premium to the S&P500, somewhat unusual for a first-class pharmaceutical firm with numerous new drugs in its pipeline.

TWST: What is the smallest company in terms of market capitalization in your portfolio?

Mr. Burns: That would be **Tootsie Roll** (TR). It simply has all of the characteristics we look for in a growth stock. First of all, it manufactures a very simple product and has a well-defined market niche. It is a product that we believe is going to provide consistent and above-average earnings

growth. Over the years **Tootsie Roll** has increased earnings on average in the mid-teens. More recently we have seen increases in the low-20% range. One of the reasons for this increase is that **Tootsie Roll's** management is continually improving their operational efficiency. It's run by the Gordon family, which has a real commitment to increasing shareholder value. The company has a solid balance sheet with no debt, and **Tootsie Roll** distributes an annual 3% stock dividend to shareholders.

An area of big growth potential for **Tootsie Roll** is the international markets. **Tootsie Roll's** products are largely a U.S. phenomenon. However, our experience and research indicates that foreign populations like to buy American products, and specifically inexpensive American products like **Tootsie Roll**. This further strengthens our belief that the company will be able to consistently increase earnings looking out over a three- to five-year period.

It always amazes me that Wall Street tends to overlook a company like **Tootsie Roll**. I don't know of a single major brokerage firm that follows the stock. **Tootsie Roll** only trades about 29,000 shares a day. It's a household name, but not many people even know it is publicly traded. We have held **Tootsie Roll** in our clients' portfolios for over 10 years now and it has simply been an outstanding performer for us.

"Tootsie Roll manufactures a very simple product and has a well-defined market niche. It is a product that we believe is going to provide consistent and above-average earnings growth. Over the years Tootsie Roll has increased earnings on average in the mid-teens. More recently we have seen increases in the low-20% range."

Just as an aside, we own another company in our portfolio which is very similar to **Tootsie Roll**. That company is **William Wrigley, Jr. Co.** (WVY). **Wrigley** is a business that epitomizes our investment approach of identifying companies that have a product with a real niche in a growing market, including a significant growth trend in international markets. I think **Wrigley** has the potential to become similar to **Coca-Cola** (KO) over a long period of time. A fact worth noting is they have kept their gum priced at \$0.25 a pack for over 10 years now. They put that \$0.25 price right on the wrapper so grocery store chains can't raise the price of **Wrigley's** gum to \$0.30 and make \$0.05 off the great **Wrigley** brand name. If you look at a chart of **Wrigley** and its performance relative to the market, you will see a stock that has absolutely been stellar.

TWST: Jim, I wanted to ask you this earlier, but please tell us a bit about your firm itself.

Mr. Burns: J. W. Burns & Company was founded in 1974 by my father, John W. Burns. We manage investment portfolios for pension

and profit sharing plans, corporate accounts, individuals and endowment funds. Our assets under management are approximately \$345 million. We now have clients in 26 states and two foreign countries, and we have been experiencing very good growth, primarily because of our solid long-term performance results. In fact, J.W. Burns & Company has consistently been ranked as one of the top performing money managers nationwide according to both "Money Manager Review" and the prestigious "Nelson's Publications." We have also consistently ranked in "Money Manager Review's" list of top investment counselors nationwide for our risk-adjusted returns; in other words, excellent returns with moderate volatility.

saying, "Maybe we ought to have more technology stocks," or be looking at all these different ideas. I have to remind them — and I have to remind myself, quite frankly — that we have probably made our clients more money by turning down the hundreds and even thousands of investment ideas that are out there and remaining focused on companies that fit into our philosophy. We want companies that take long-term views of their businesses, with managements that focus on increasing shareholder value. As I've mentioned, we also want to see consistent earnings growth, a high return on equity, and a vigorous commitment from management to increasing international exposure. That's the challenge, and it is a challenge. We had a great year again last year, and clearly that is keeping in line with our long-term results, but you have to avoid getting caught up in short-term trends or only the stocks that are hot right now.

1-Year Daily Chart of Wrigley

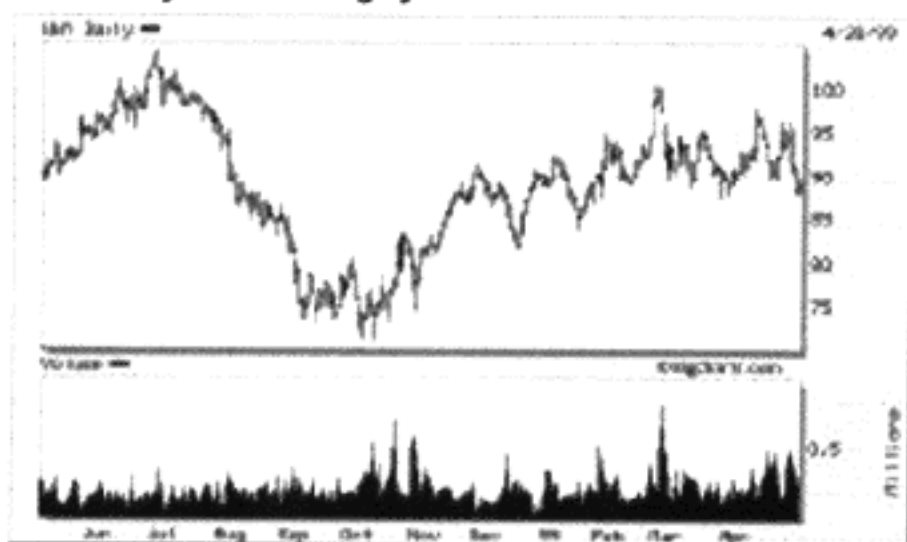


Chart provided by www.BigCharts.com

"I think Wrigley has the potential to become similar to Coca-Cola over a long period of time. A fact worth noting is they have kept their gum priced at \$0.25 a pack for over 10 years now. They put that \$0.25 price right on the wrapper so grocery store chains can't raise the price of Wrigley's gum to \$0.30 and make \$0.05 off the great Wrigley brand name."

We really have a total commitment to building our clients' wealth. We have a disciplined and time-tested investment philosophy that we believe in and which has remained consistent for 25 years now. I might add that every professional who works here invests in the same stocks as our clients. Obviously I'm biased, but I believe we've got a very strong team in place and have an extraordinarily well managed firm. In short, we strive to manage our firm in a similar fashion to the companies in which we invest.

TWST: Finally, what are your goals as a money manager, and is there a challenge to implementing those goals?

Mr. Burns: The real goal that we have is to build our clients' wealth. That's our main focus and has been since our firm's beginning in 1974. That will always remain the same and I know our clients appreciate this.

The challenge, of course, is managing expectations and keeping clients focused on the long term because, as I've said, we are truly investors. We get to know our companies inside and out and take a significant position in each of the companies in our portfolio. There will be times when our stocks can be out of favor, but over the long term, say five years, our results have consistently been stellar. We are seeking true long-term wealth creation. It is difficult sometimes, if a **Tootsie Roll** is not doing as well as, say, an **America Online (AOL)**, to keep our clients from

TWST: Because I heard about it on CNBC.

Mr. Burns: That's right. Or "I saw it on the Internet" or "I read it in 'The Wall Street Journal'" or whatever. Investors are more informed now and the patience level is a little less. But history teaches us that impatience works against successful investing. Our greatest asset is our disciplined investment philosophy and our tremendous knowledge of the companies that we own. I think we have done a pretty good job of communicating our investment style and philosophy to our clients.

So those are some of the challenges that we face. I think that thus far we have faced them quite well, and we look forward to continuing our tradition of facing them successfully for many years to come.

TWST: Thank you.

JAMES C. BURNS
J.W. Burns & Company, Inc.
Glacier Creek Office Park
6711 Towpath Road
East Syracuse, NY 13057
(800) 626-7816