BRIDGES
INVESTMENT MANAGEMENT, INC.

Market Comments

The stock market had its best quarter since 2003 as investors began to focus on signs that the economy may be bottoming and the government's stimulus efforts may begin to have positive effects on the financial crisis and the economic recession. Corporate earnings in the first quarter, while very weak, were not as bad in the aggregate as expected relative to lowered analysts' estimates, which in combination with very low equity valuations led to a sharp rise in stock prices during the second quarter.

Our positive thesis on stocks during the early part of 2009 remains largely intact. That positive thesis rests on four primary legs: 1) equity valuations are low both absolutely and relative to long term norms; 2) long term equity returns are well below historical levels and likely to revert toward historical averages; 3) there is significant liquidity that over time will seek higher returns than currently afforded by cash; and 4) investor sentiment remains pessimistic despite strong second quarter equity returns.

However, in the short run, the strong upward move in stock prices in the second quarter raises short term equity market risks. We believe that investors will now require tangible evidence that 1) the economy has in fact bottomed, and 2) corporate earnings have bottomed and are beginning to improve. We expect continued equity market volatility, and the second half of the year may see investors become more focused on seeing actual improvement in company operating performance as opposed to being willing to buy equities in the hope that profitability will improve over time. Other risk factors in the second half of 2009 include the uncertainty surrounding the effectiveness of the government's stimulus efforts, the rapid pace of significant legislation, particularly regarding health care, the potential for higher taxes, and the collateral damage of higher inflation and a weaker dollar stemming from efforts to stimulate the economy.

Despite the risks outlined above, we believe that the market will have a positive bias during the second half of 2009 as investors begin to discount an eventual stabilization and recovery in the economy, and a consequent improvement in corporate earnings. We believe that the S&P 500 could trade as high as 1,050-1,100 by year end.

The portfolio's equities remain attractively valued from a long term perspective, although the sharp rally in the second quarter alleviated much of the severe undervaluation that existed in early March. Our companies in the aggregate now trade at around 15-16x estimated 2009 earnings, but it is important to note that 2009 earnings will likely be well below "normalized" levels of profitability compared to our expectation of solid corporate profit recovery on balance over the next several years. Valuations for our stocks are about 13-14x estimated 2010 earnings, which in our view is a very modest valuation level for companies with strong balance sheets, leading competitive positions, relatively high levels of profitability, solid growth prospects, and good free cash flow generation capabilities.

We believe that higher quality stocks will continue to lead the equity market until such time as investor concerns regarding the timing and duration of the current recession diminish and investors' appetites for risk becomes much greater. We doubt that will happen until sometime in 2010, at the earliest. While the fire sale prices of early March for the best companies no longer exist, high quality companies are still very attractively valued for investors able to take a long view, and the combination of those companies being able to show solid business value growth over the next several years while receiving a higher valuation in the market due to their ability to generate business value growth should allow for much better equity returns than have been experienced over the past decade.

We expect the stock market to be challenging during the second half of 2009, but we will continue to focus on owning companies with strong balance sheets, good business franchises, high free cash flow generation capabilities, above average growth rates, and attractive valuation metrics.

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