Suncoast Equity Management, Inc.

October 5, 2011

Dear Client:

The equity market gave up gains achieved in the first half as confidence in our government leaders nosedived, concerns grew over a European financial crisis, and signs of sputtering economic growth in both developed and some emerging nations came into view. Taking a longer view, the frustration at home is a positive sign for better times ahead and we believe there is a strong probability that Europe's financial crisis will be contained and not a repeat of global events brought on by the U.S. financial storm in 2008. We remain upbeat about the common stocks in our portfolio due to the financial strength, copious amounts of cash on our companies' balance sheets and also because of attractive valuation levels. Financial strength should outweigh near-term economic weakness as our companies continue to investment in worthy capital projects or return excess cash to us in the form of dividend payments or share buybacks.

Cash is King

We believe a key to long term investment success is the ownership of a small collection of companies, that over time, exhibit excellent business characteristics. One of the best characteristics to measure is the cash a business generates year in and year out. In spite of today's slow economic recovery, our companies' cash is piling up and debt balances are shrinking to negligible levels, creating terrific financial strength. Over half of the companies in our portfolio have net cash positions and a few boast significant excess cash as a percentage of the market value of the company. Here are the top eight, which represent 47% of our portfolio:

Company	Net Cash as % Market Value	Cash ($ Billion)	Market Value of Company ($ Billion)	Cash Per Share
Checkpoint Software	24.6%	$2.7	$11.0	$12.96
Apple	21.6%	$76.2	$352.6	$82.40
Google	21.0%	$34.9	$166.3	$108.08
Microsoft	19.6%	$40.9	$208.5	$4.88
Franklin Resources	13.8%	$2.9	$21.1	$13.15
Qualcomm	13.1%	$10.7	$81.7	$6.37
Accenture	12.4%	$4.6	$37.0	$6.55
Nike	10.1%	$4.1	$40.6	$8.64

One company omitted from the above table but that deserves a special shout-out is **Berkshire Hathaway** (BRK). BRK, with a market capitalization of $172 billion and cash of approximately $35 billion, recently called on its cash hoard to potentially do something Warren has never done in my memory. In the final week of the quarter, BRK's board authorized the buyback of Class A and B shares at price up to a 10% premium to the firm's current book value per share; this implies a purchase price range of roughly $109,000 and $73, respectively. Keep in mind that Warren would only repurchase his stock at a significant discount, implying that fair value is meaningfully higher than his proposed purchase price. We would peg fair value around $135,000 and $90, respectively, which will rise over time as the operating earnings and future investments by the company further boost book value.

In the words of Mel Brooks "It is good to be the king." We believe that cash is king, and the accumulation creates significant advantages for our companies and importantly increases the margin of safety in our portfolio.

Valuation Yardsticks

We use several valuation yardsticks to measure the attractiveness of equities against each other and the value relative to other investments such as fixed income securities. One basic formula is to calculate the number of years it would take to buy the entire company based on the upcoming year's free cash flow. The less number of years it takes, the more attractive the valuation. Another ratio that shares the same message is the cash flow yield to total enterprise value of the business (free cash flow, add back the dividend, divided into the market value of the company plus net debt or less excess cash). For this ratio, the higher the yield the better and we often compare this to the same return we could earn if we owned that same company's bond. The table below highlights both these important ratios for the top nine as well as our portfolio average.

Company	**Years to Buyback**	**Free Cash Flow to Enterprise Value**
Microsoft	6.2	16.1%
General Dynamic	8.7	11.5%
Franklin Resources	8.8	11.4%
Hill-Rom	9.1	11.0%
Harris Corp	10.3	9.7%
Gilead	10.4	9.6%
McKesson	10.6	9.4%
Abbott Labs	10.7	9.3%
Accenture	10.9	9.2%
SEM Portfolio Avg.	12.2	8.2%
AA Corp Bond	29.9	3.3%
10 Year U.S. Treasury	52.1	1.9%

The above table highlights that at the current level of cash generation for our companies as a whole, it takes only 12 years to buy it all back, generating a yield on every one dollar that we invest of 8.2%. And this further assumes that the cash our businesses generate will never grow, which will be unlikely over the next decade. Comparatively, if we invested in highly rated corporate bonds or a U.S. ten year Treasury, the yield would only be 3.3% and 1.9%, and it takes 30 and 52 years respectively to double our investment. Common stocks easily trump fixed investments for long term returns.

We actively measure and compare the above figures among the companies we own and against others that meet our high quality business characteristics. The key is to own the highest quality businesses that are also offered at attractive free cash flow yield and buyback ratios.

Company Developments

In this letter we addressed the two most important investment characteristics that we require (1) companies that generate good to great business results with one indication being the accumulation of cash and (2) that we are careful what we pay by using valuation yardsticks discussed above. Now we shift over to a brief company update or two that emphasizes the qualitative side and stresses how we look for clues that our businesses remain best of breed.

Google's recent unveiling of its digital wallet, whereby consumers can wave their Android based phones over a electronic reader to pay for product, further strengthened credit card companies such as MasterCard and **Visa's** (V) business advantages. How? When you swipe your phone over the device it will charge your stored credit card, and not what some had feared to be a new payment system developed by GOOG.

The information to industrial age transformation continues at an unabated pace. GOOG recently announced it has converted an old paper mill on the Baltic Sea coast of Finland into a massive data center. Further signaling global growth, the company chose this location to benefit from a cold climate and low electricity prices. Did you know that globally data centers account for some 1.5% of total electricity use? This is sure to increase with internet traffic expected to rise fourfold over the next five years, according to Cisco Systems.

Product advantage improvements are an item we look for and **Abbott Labs** (ABT) is at work to further strengthen Humira, which treats forms of arthritis and the skin condition of psoriasis. Humira is important to ABT, representing 20% of sales and nearly double that as a percentage of operating profit. ABT is working three avenues to improve the product (1) a thinner needle for pen devices and prefilled syringes to increase comfort, (2) a formula for injections once-a-month versus every other week regimen and (3) widening the approved use by testing the treatment for gastrointestinal disorder colitis. Competition is looming as Pfizer has filed with the FDA for an oral pill alternative and they will release safety data in early November. Notwithstanding, patient compliance is an important component and taking a pill twice a day may be a bit more burdensome than ABT's injection twice a month.

Acquisitions can be positive, especially if it takes a successful company such as **W.W. Grainger** (GWW) into new markets in a meaningful way. Taking advantage of the depressed environment in Europe, GWW purchased the Fabory Group for $350 mm, giving them a new footprint in the $200 billion European maintenance, repair and operating supplies market.

A Change is Gonna Come

"It's been a long, a long time coming…But I know a change is gonna come, oh yes it will" - Sam Cooke

The impatience investors have with our leaders became evident in the wild market volatility during the quarter. The S&P 500 general equity index touched negative double digit levels three times before recovering to nearly breakeven, only to finish the quarter in high single digit negative territory. The fast and frantic swings during the quarter were not only on a daily basis but often within the same hour-to-hour or even minute-to-minute. If you were a living-breathing soul you could not avoid being swept in by the news reports. At home we have a divided government. The debt ceiling charade, the seemingly dead on arrival jobs proposal program by President Obama and now his call for a new minimum tax rate for individuals making more than $1 million a year took center stage. This raucous quarter was best described by market commentator Barton Biggs as "tortured by volatility."

We believe that the most overlooked aspect, and silver lining, is that the intense brawl in Washington is the grinding wheel of change. The longer it takes to reach agreements, the greater the build-up in a divided government, the more likely *"change is gonna come, oh yes it will,"* especially as we get closer to November 2012. Last November's elections initiated that effort. Meanwhile, we do see some progress stateside. In March of this year, New York State, led by Governor Andrew Cuomo, closed a 2012 budget plan with less spending than the prior year. In Wisconsin governor Scott Walker confronted unsustainable costs with cutbacks and structural reforms. Financial restructurings are also taking shape. Jefferson County Alabama, after three years of negotiations with J.P. Morgan Chase and other banks that hold $3.14 billion of debt, is close to avoiding what would be the largest municipal bankruptcy in U.S. history.

Closing thoughts

Most investors are engrossed in the political and economic landscape and the resultant volatility. Meanwhile, investors spend considerably less attention understanding what they own. While you don't want to be unaware of what is happening day-to-day, you should not let it guide your investment decisions. Market volatility's output is fear. Fear is instant and intense and it can lead to bad decisions as emotions succumb to the worst thing that investors do during volatile swings; they throw logic to the wind.

The positive returns we will earn over the long run do not require near term economic forecasts or depend on the seemingly immediate need of improvements in our political leadership. Successful investing engages, as we do at SEM, an investment discipline grounded in a solid understanding of accounting and fundamental analysis, as well as emotional patience. We know what we own and we stead fully implement our time-tested and proven discipline of uncovering worthy businesses that have great financial strength, generate excess cash, and profits that significantly exceed the costs of capital required to run the business. What we own at SEM for your portfolio are companies that sell products and services worldwide and benefit from various geographies including developing economies. These economies are growing at twice the rate of developed economies and are about to surpass developed economies in total gross domestic product (GDP). Please call anytime and thanks for your confidence.

Sincerely,

Donald R. Jowdy, President

Suncoast Equity Management, Inc.

Performance results versus the Standard & Poor's 500 Index

Time Period	**SEM % Return***	**S&P 500 % Return**	**SEM - Value of $1,000,000**	**S&P 500 - Value of $1,000,000**
Year to date (9/30/11)	-4.39%	-8.68%	$ 956,100	$ 913,200
Three-Year	+1.18%	+1.18%	$ 1,035,900	$ 1,035,900
Five-Years	+0.72%	-1.22%	$ 1,036,300	$ 940,400
Ten- Years	+3.78%	+2.79%	$ 1,448,700	$ 1,316,800
Inception (13 ¾ Years)	+5.50%	+2.90%	$ 2,086,500	$ 1,480,900

* Composite results of all SEM managed accounts, net of all fees.
Note: Performance results for the three, five, ten and since inception year periods represent the annual average rates of return.