Suncoast Equity Management, Inc.

October 4, 2004

Dear Client,

Listed below are Suncoast Equity Management's performance results versus the Standard & Poor's 500 Index for the period ended September 30, 2004:

Time Period (Ended 9/30/04)	SEM % Return*	S&P 500 % Return	SEM - Value of $1,000,000	S&P 500 - Value of $1,000,000
Nine months - Year to date	+5.20%	+1.55%	$ 1,052,000	$ 1,015,500
One-Year	+12.08%	+13.87%	$ 1,120,800	$ 1,138,700
Three-Years	+8.67%	+4.04%	$ 1,282,700	$ 1,126,000
Five-Years	+6.60%	-1.33%	$ 1,375,700	$ 935,400
Since Inception (6 3/4 Years)	+9.54%	+3.57%	$ 1,847,400	$ 1,266,300

* Composite results of all SEM managed accounts, net of all fees.

Note: Results for the three-year, five-year and since inception period represent the annual average rates of return.

Living-breathing organisms

Two of our portfolio holdings, **Coca-Cola (KO)** and **Colgate-Palmolive (CL)** shared their near-term business problems with us just before the end of the quarter; and heavy selling pressure knocked down their stock prices in excess of 15%. Far too many investors let the action in the stock market lead their decision making process and they immediately sell along with the crowd. We have experienced stock declines similar to these before and believe that the right approach is not the "shoot first and ask questions later" approach. Rather, the intelligent approach is to fundamentally assess the business issues at hand and make a decision regarding the investment prospects, especially within the framework of the **SEM-Disciplined Investment System (DIS)**.

Both KO and CL are sound businesses experiencing common business issues. Both CL and KO will now most likely report earnings for the year 2004 that are flat to slightly down from the previous year. CL reported this quarter that worldwide unit volumes and market share are continuing to grow (positive news) and this is being supported by increased marketing spending (neutral). Also at CL, raw material costs have risen significantly and competition at this time is preventing them from passing on increased operating expenses to customers (negative). We have a watchful eye on these issues and may wait to see if CL can gain enough new operating efficiency or develop a more positive cost and pricing environment before we make a decision. KO has had numerous management issues during the last few years though we maintained a smaller holding because (1) they possess a strategic advantage with their global beverage distribution system and (2) KO had shown some signs of operating improvement through the second quarter of 2004. KO does have room to grow as it serves customers in more than 200 countries and "only" sells 1.3 billion of the approximately 50 billion beverage servings consumed daily. KO has a new leader, Neville Isdell, whom we have confidence in, but we sense that KO's problems may take longer to fix than we prefer. We may await his 120-day review, scheduled for early November, before we make a final decision.

The intelligent investor appreciates that all businesses are living-breathing organisms with hearts, lungs and especially moving parts. Likewise, every business owner knows that growth for a business is rarely linear and a two steps forward, one step backward pattern usually occurs throughout time. However, evidence of permanent erosion in business operations or franchise typically takes some time to develop. If a particular business in our portfolio continues to earn lackluster results and our judgment is that the business is taking too many steps backwards the **SEM-DIS** will demand that we sell our ownership.

One important note to also keep in mind is that despite some hiccups with our companies the SEM-DIS has only owned and will continue to focus only on businesses with a strong operating history and financial position. Two outside confirmations of this fact for our portfolio companies include (1) their above average debt ratings from a Standard & Poor's and Moody's and (2) the high safety ratings from the Value Line Investment Survey.

<u>Earnings & innovation and the ingredients that make it work.</u>

The key to growth is innovation. Innovation can come in many forms including product line extensions (KO's C2 carbonated beverage), a change in packaging (**Sherwin-Williams** twist-n-pour paint), new product developments (**Medtronic's** new defibrillation leads) or new service offerings (**Patterson's** new offering of its eMAGINE customer system for Veterinary offices). Innovations can lead to revenue growth from market expansion, share growth and new market opportunities. For example, **Anheuser-Busch's** innovation of Michelob Ultra has supported their ability to slowly increase product pricing as customers valued this new product more than the original. However, innovation without agile management and solid execution fails in the competitive world of today. Witness the recent admission by KO that the C2 product launch stumbled, not because of consumer's lack of interest but because pricing presentation during holiday periods confused the customer. At other times businesses need to dare to be different to succeed. **Harley-Davidson** is taking such a path this year by focusing the better part of this year's effort on a remodel of its entry level bike aimed towards increasing women rider-ship.

Many clients that are business owners tell us the same story as we see with our portfolio companies; mixed profit results and stop and go growth. Despite these recent bumps in our portfolio, we believe that the **SEM-DIS** will continue to work well for you (and for us-I own the same portfolio). Thank you for your confidence and I look forward to speaking with you soon.

Sincerely,

Don Jowdy

President