Suncoast Equity Management, Inc.

January 8, 2007

Dear Client:

The year 2006 garnered satisfying absolute results, yet disappointing relative results. Since inception, our portfolio has generated an excess return of 27% versus the S&P 500, which underscores a very meaningful benefit from selecting a manager and a strategy that provides value above the Index over the long run.

Listed below are **Suncoast Equity Management's** (SEM) performance results versus the Standard & Poor's 500 Index for various periods ended December 31, 2006:

Time Period (Ended 12/31/06)	**SEM % Return***	**S&P 500 % Return**	**SEM - Value of $1,000,000**	**S&P 500 - Value of $1,000,000**
One-Year (2006)	+8.20%	+15.77%	$ 1,082,000	$ 1,157,700
Three-Years	+6.59%	+10.43%	$ 1,211,300	$ 1,347,000
Five-Years	+5.31%	+6.16%	$ 1,295,300	$ 1,348,800
Seven- Years	+4.47%	+1.10%	$ 1,358,200	$ 1,079,500
Nine-Years (Since Inception)	+8.74%	+5.93%	$ 2,127,100	$ 1,679,970

* Composite results of all SEM managed accounts, net of all fees.
Note: Results for the three, five, seven and nine year periods represent the annual average rates of return.

Investing is a long journey in which we will experience many starts, stops, bumps, changes of scenery; and ultimately annual variability of investment returns in relation to the index. The markets in 2006, as in 2005, were once again led by sectors, including energy and materials that have not traditionally met our strict SEM-DIS criteria. We live in a culture of "what's working now" and not a culture that lives by "what has always worked." Please focus on the latter as there is no need to be overly concerned that SEM opted not to participate in the hot asset classes of 2005/2006.

Looking ahead, we have identified several supporting factors we believe will lead to long term outperformance for the SEM portfolio including:

1. 2007 earnings growth outlook for SEM vs. the S&P 500
2. Relative value of SEM vs. the S&P 500
3. Relative value of SEM vs. fixed rate investments

2007 earnings growth outlook

Standard & Poor's (S&P) reported on December 12th that it expects earnings growth for the S&P 500 to slow considerably to +4% in 2007. Earnings growth for our portfolio should be much higher at +12.5% in 2007. During the last two years, rising energy prices led to very high earnings growth for that industry and for the index. The energy sector is an important component of the S&P 500 and its earnings growth may be plateauing, notwithstanding a global shock or major weather related event. SEM's non-participation in the energy sector is the major contributor to our underperformance, as energy sector stock prices advanced +29%/+22% in 2005/2006.

Our portfolio's long term earnings growth pattern is steady versus the shocking variations experienced by certain market sectors, such as energy. Below we highlight the prospects of a few key holdings that represent the earnings pattern we desire.

Berkshire Hathaway (BRK) - Most SEM clients know that this company is led by Warren Buffett, without question one of the best investors of the past century and possibly of all time. BRK reported excellent results for its property and casualty insurance (think Geico, the green gecko) and its large reinsurance operation in 2006. Despite the appreciation of BRK's stock in 2006, we believe there is a meaningful gap between our estimated value for the company and its current stock price, especially as BRK experiences continued success from investing premium income in a portfolio of non-insurance related businesses that grow BRK's operating income.

Harley Davidson (HDI) - Its recent business success, and corresponding rise in share price, has much to do with investor's recent acknowledgement of market expansion insights that date back to our original purchase over six years ago. HDI has meaningful growth opportunities abroad in areas such as Europe, Latin American and especially parts of Asia including the People's Republic of China. This will take a decade or more to develop and business results will be volatile and lumpy along the way. However, if the expected brand strength and the methodical and well-disciplined management of the company continue, we look forward to being share owners for the next six years and beyond.

Illinois Tool Works (ITW) - Organic growth for this diversified supplier of components, fasteners and equipment is slowing and could go negative in 2007 as the economy slows. The weakness is mostly coming from ITW's auto and construction industry customers. Yet, this fairly new holding for us highlights an opportunity we always look for - a well-managed business with high returns on capital that takes advantage of its financial strength by purchasing competitors or related companies at discounts during soft economic periods. ITW will have a record year in acquisitions in 2006 and despite slow to negative organic growth, we expect ITW to improve earnings in the 7%- 10% range. ITW is also engaged, for the first time in its history, in a steady program of returning excess cash to shareholders via a share repurchase program.

Nike (NKE) - We discussed NKE in our first quarter 2006 letter but wanted to highlight a recent corporate action that underscores our original investment rationale. Along side its high-end key core brand, we have witnessed NKE during the last two years flex its strength by selectively acquiring or developing brands to place in retail channels that the Nike brand is not offered. One example is the Starter brand acquired by NKE and now sold in Wal-Mart. In November, we witnessed another great example of this when NKE and Payless Shoesource (PSS) announced that they will create a brand of footwear to be named "Tailwind" to be sold in 4,600+ PSS stores.

PepsiCo (PEP) - Its share price increased only 5.9% in 2006, far less than the S&P 500. PEP's third quarter earnings report revealed that it could not meet the growing demand for its alternative beverage business (Gatorade) and it also faced higher commodity costs in parts of its business (orange juice). These are temporary business issues, not long term negatives. In November, CNBC's lead TV personality, Jim Cramer, put his whammy dust on PEP claiming that its snack businesses is on a "cliff walk" because of health concerns and trans fats. This near market charlatan didn't realize that trans fats had been removed from PEP products nearly two years ago and that it offers a plethora of healthy snack choices including products offered at such popular food markets such as Whole Foods. PEP is being offered today at a very slight premium to the average S&P company yet it continues to be a premium growth business with low risk.

Relative value of SEM vs. the S&P 500

We have spoken about this throughout 2006 and the same condition remains. Our portfolio represents an excellent value as compared to the market average. The SEM-DIS successfully dictates that we own above average businesses; conversely, the S&P 500 index is made up of a mix of below average, average and above average businesses. Due to this difference, historically, our portfolio has been valued at a 20%-25% premium. Today, our portfolio's valuation is nearly on par with the general market, as SEM is at a 17.2x price to earnings ratio (or an earnings yield of 5.8%) and the S&P 500's price to earnings ratio at 17.1x (an earnings yield of 5.9%). We expect this discrepancy to reconcile in our favor in the not too distant future.

Our low tolerance for risk and desire to avoid significant long term underperformers can penalize our returns in the short run. General Motors is a key example. This company is not for us as its legacy cost structure and uncompetitive products in a tough business prevent it from qualifying as a low risk, above average quality business. However with its stock price up 50% in 2006, GM has been a short term performer and an important contributor to index performance, especially the Dow Jones Industrial Average and many investment and mutual fund portfolios. We don't mind lagging the averages if we are momentarily outperformed by low quality businesses.

Relative value of SEM vs. fixed rate investments

Our above stated earnings yield of 5.8% also needs to compete against that which we can earn in fixed investments. With long term AAA corporate rates at 5.4% and 10-year treasury rates at 4.6%, our portfolio is attractively priced, especially since our "coupons" or earnings can grow over time while it is fixed for these other investments.

We thank you for your continued support. We encourage you to call or email us with your questions. The better you understand our process, the more likely you will be with us for the long term.

In 2006, our investment returns moved you forward in helping you reach financial and life goals. We look forward to continuing this progress in 2007 and beyond. We wish you a happy, prosperous and safe New Year!

Sincerely,

Donald R. Jowdy
President

Suncoast Equity Management, Inc.

Comparison of the Investment Return of SEM Composite Accounts (from inception) vs. the Standard & Poor's 500			
			Relative
Year	**SEM***	**S&P 500**	**Results**
1998	26.19%	28.57%	-2.38%
1999	24.10%	21.03%	3.07%
2000	4.50%	-9.15%	13.65%
2001	0.35%	-11.91%	12.26%
2002	-10.98%	-22.15%	11.17%
2003	20.12%	28.62%	-8.50%
2004	12.52%	10.96%	1.56%
2005	-0.51%	4.86%	-5.37%
2006	8.20%	15.77%	-7.57%
Overall Gain 1998-2006	112.71%	67.97%	
Average Annual Gain	8.74%	5.93%	2.81%

*Suncoast Equity Management's (SEM) performance is Net of All Fees.

Highlight denotes years of meaningful underperformance.

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