Suncoast Equity Management, Inc.

July 2, 2010

Dear Client:

The equity market gave back its first quarter gains and went negative as sovereign debt concerns outweighed good earnings reports and an economy on the mend. Year to date, **SEM** accounts at -7.1% were similar to the -6.7% for the S&P 500. Our companies continue to excel as they leverage their strong balance sheets to take advantage of strategic opportunities as well as showing underlying earnings growth.

Cash (and Financial Strength) has its Advantages

As you know, our first priority is to seek companies that boast strong structural, competitive and financial advantages. All of our companies have meaningful cash on hand and excess free cash flow to further enhance their position and increase intrinsic value for shareholders. We mentioned last quarter how only the strong and not the weak are in a position to take advantage of the economic downturn. This process continues for our companies with more examples this quarter. **Harris Corporation** (HRS), which we have owned for a year and one-half, delivers secure, reliable communications. The company serves mostly government safety and defense and its global market share in this business doubled to 38% from five years ago. HRS will acquire a complementary company, CapRock, for $525 million and whose core communication products serve the oil/gas industry. During the past five years, CEO Peter Shaper built CapRock into the first true global service provider, enabling Exxon, Halliburton, and others to have one provider that could meet their needs be it in Asia, South America or Africa. Given HRS and CapRock's previous working relationship, the merger should be smooth and meaningfully add to HRS earnings in fiscal year 2012 (which begins July 2011).

Financial strength also allows our companies to expand into new geographic markets. **Abbott Laboratories** (ABT) recent agreement to acquire Piramal Healthcare's pharmaceutical business will propel it to the No. 1 player in India. At a cost of $3.7 billion, to be paid over four years, the price-tag is less than the $4.2 billion in free cash flow ABT generates in just one year. The Indian pharmaceutical market is among the fastest growing globally and at three times the growth rate of developed markets. ABT is gaining substantial infrastructure and critical mass with one of the largest formulation plants and the largest sales force in India of 6,000. To give you a sense for the long term opportunity in emerging health markets, currently the U.S. and Western Europe account for about 66% of global health-care spending, though they represent less than 15% of the world's population. One forecast expects developed and emerging market healthcare spending to reach similar levels by the year 2020. ABT stock is cheap sporting an earnings yield of 8.8% (the inverse of its price to earnings ratio of 11.3x) and a dividend yield of 3.5% (only slightly below the U.S. Treasury 30-year yield).

Growth Options

Organic growth is a favorable path to increasing intrinsic value for shareholders. Organic growth is the result of a product or service in great demand that is supported by productive investments in research and development, marketing, capital expenditures and working capital investments such as inventory. Two years ago, just as the economy began to erode, we identified that **Google's** (GOOG) franchise should continue to prosper right through the decline. Indeed it has as its bottom-line grew double-digits during the recession. The company convinced advertisers that they could generate more sales by increasing their search ad spending on GOOG, rather than decreasing it. We took advantage of the stock market decline in the fall of 2008 and early 2009 to establish a core position in GOOG. Each day 268 million people use GOOG to search for something and it is one of the most important pieces of real estate on the internet. GOOG's core advantages and its current share price continue to be attractive.

Portfolio Activity

Portfolio changes have been minimal so far this year. We initiated a position in **Visa** and raised our weighting in **Check Point Software** (CHKP) during the quarter. CHKP provides security software to corporate networks. The shift in emphasis to the internet from the desktop is very positive for CHKP. With a growing preference to rent software "in the cloud" and with the explosion of social networks via LinkedIn and Facebook, corporations are in greater need to secure the data coming in and the data that is not supposed to leave. We sold **Baxter Int'l** when the company announced a loss in market share in its key plasma business and other related issues. This change in their business reduced the clarity and our ability to assess near-term margin of safety. We lost approximately 9% from our original purchases.

Inflation or Deflation?...Transporter 3 has the Answer
Corporate balance sheets are mostly in good shape. On the contrary, sovereign nations such as Greece, Spain and the U.S. national and state and local debt levels are another matter. The pending issue of significant debt for governments is a major factor driving near-term market volatility and the great tug of war between those who believe inflation will result and those who believe deflation will occur. We will not handicap either of the two outcomes. We defer to George Bernard Shaw's observation "if all the economists were laid end to end, they'd never reach a conclusion". We do feel the deleveraging process will take time and will negatively affect the US recovery and other developed global economies that are likewise infected with debt. Policy decision will play an important role here and we have time to make good decisions.

In the movie *Transporter 3* the villain says to the girl he holds hostage for ransom "Haven't you heard, this is the new world. There are no global economies just efficiency and profit and loss". We're not quite there but if we boil all the macro issues down to inflation or deflation, we are prepared. Our portfolio which consists of businesses with competitive advantages will do well in either environment because they can innovate, raise prices and gain further advantages of scale. The outcome will vary for other investment classes. Businesses in which competition is keen, real estate and natural resources will fair satisfactory in an inflationary environment and poorly if we deflate. Fixed income will lose in an inflationary environment and do well if we experience deflation.

John Wooden…Timeless Wisdom and Inspiration
The world bid farewell last month to legendary basketball coach John Wooden at age 99. He blazed a trail with unmatched ten NCAA national championships in a twelve-year period at UCLA. He authored several books between 1997-2009 that emphasized his building blocks for winning at life and at basketball. His motto on success was knowing you gave your best effort, not necessarily putting more points on the scoreboard than your opponent in a given night. Coach Wooden proclaimed the path to success in any endeavor requires *faith* and *patience* (just **Google** John Wooden *Pyramid of Success*). To gain *faith* and *confidence* in your investment decision making process, you need to understand the process of your advisor(s) and not just look at the scoreboard.

SEM plays an important role in the long term success of preserving and growing your capital. We hope you attain further *faith* and *confidence* that you have made a good decision selecting us as we describe how we engage in several of Coach Wooden's seven point creed. Among them we are *true to ourselves* and *make each day our masterpiece* by executing a time-tested discipline to create a portfolio for you in which we personally own the same stocks. We build this portfolio as a *shelter against a rainy day* by investing only in companies that have very strong balance sheets and operational history. We *drink deeply from good books* by following those before us, including Ben Graham, Phil Fisher and Warren Buffett, who have been successful. **SEM's** mission is to *help others* preserve and build their wealth through the ownership of common stocks. We are *thankful* for our clients who have entrusted us with their hard-earned capital and understand this is not a one game or a one season journey.

Regarding the scoreboard, we don't dismiss its usefulness for analysis and often there is a connection between good results and a sound discipline. To this end our scoreboard is fine, though we are always striving for better absolute and relative results. We have done well over the long term on a relative basis versus the market averages and our peers. Our most recent ranking from **Morningstar** is five-star (out of five) for ten years and four stars since inception. Our institutional ranking since inception for equity management in the two categories we are most often associated are top 4% and 5% for large capitalization core and large growth, respectively. We're delighted to send copies of these reports on request or you can view them on our website.

Thanks for your continued support.

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**
First Half 2010	-7.1%	-6.7%	$929,400	$933,100
One- Year	+12.0%	+14.3%	$ 1,120,000	$ 1,143,400
Three-Year	-5.1%	-9.8%	$ 853,800	$ 733,000
Five-Years	-0.3%	-0.8%	$ 983,300	$ 959,900
Ten- Years	+1.1%	-1.6%	$ 1,117,000	$ 850,600
Inception (12 ½ Years)	+5.3%	+2.2%	$ 1,898,400	$ 1,317,300

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

SEM Composite Account
vs. the Standard & Poor's 500

Year	**SEM***	**S&P 500**	**Relative Results**
1998	26.2%	28.6%	-2.4%
1999	24.1%	21.0%	3.1%
2000	4.5%	-9.1%	13.6%
2001	0.3%	-11.9%	12.2%
2002	-11.0%	-22.1%	11.1%
2003	20.1%	28.6%	-8.5%
2004	12.5%	11.0%	1.5%
2005	-0.5%	4.9%	-5.4%
2006	8.2%	15.8%	-7.6%
2007	10.1%	5.5%	4.6%
2008	-30.1%	-37.0%	6.9%
2009	24.8%	26.4%	-1.6 %
First Half 2010	-7.1%	-6.7%	-0.4%
Since Inception (Overall Gain)	89.8%	31.7%	58.1%
Average Annual Gain	5.3%	2.2%	3.1%

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

Highlight denotes years of meaningful underperformance.