

CLIENT BROCHURE

PENOBSCOT INVESTMENT MANAGEMENT CO., INC. Form ADV Part 2

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This brochure provides information about the qualifications and business practices of Penobscot Investment Management Co., Inc. If you have any questions about the contents of this brochure, please contact Douglas E. Hart, Principal, at (617) 227-3111 and/or doughart@pimboston.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Penobscot Investment Management Co., Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Penobscot Investment Management, Co., Inc. is registered with the Securities and Exchange Commission; however that registration does not imply a certain level of skill or training.



**PENOBSCOT
INVESTMENT
MANAGEMENT CO., INC.**

This annual update of the Penobscot Investment Management, Co., Inc. Form ADV Part 2 Brochure filed in March 2012 contains no material changes to report from the previous annual update filed in March 2011.

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Item 4 – Advisory Business

Penobscot Investment Management Co., Inc. (“Penobscot”) provides investment management and trustee services to individuals, families, retirement plans and nonprofit organizations. The firm was formed in 1988 by Eugene H. Clapp and Douglas E. Hart. Penobscot is registered with the Securities and Exchange Commission as required by the Investment Advisors Act of 1940.

The securities in which we invest are typically issued by leading companies with substantial financial strength. Some of the characteristics of these companies are a history of steady revenue, earnings and dividend growth. Other measures of importance are low multiples of security price to book value and return earnings. In addition, we seek companies with modest debt levels as well as those with above average profit margins and return on equity. Our goal for our clients, based on individual needs, is long-term capital appreciation and income growth in broadly diversified portfolios.

Portfolios are managed with careful consideration to each client’s current financial requirements and future expectations. The financial objectives of present and potential clients are carefully reviewed so that we may be continually responsive to the requirements of each client. At Penobscot, we allow our clients to restrict investment in certain securities or types of securities. Penobscot does not participate in a wrap fee program.

Account Type	U.S. Dollar Amount	Total Number of Accounts
Discretionary	259,296,392	379
Non-Discretionary	13,642,970	10
Total	272,939,362	389

Item 5 – Fees and Compensation

Penobscot’s fees are based on the market value of the assets under management. These fees are charged quarterly in arrears and calculated on the market value of the assets at the close of the calendar quarter as follows:

Annual Management Fee	Assets Under Management
1.25%	\$0 - \$500,000.00
1.00%	\$500,000.01 - \$999,999.99
0.80%	\$1,000,000.00 and above

i – Negotiability of Fees

In certain circumstances, Penobscot's fees may be negotiable. Additionally, Penobscot may charge different clients receiving the same services different fees based upon the length of client relationships, asset levels and historic Penobscot fee schedules, among other reasons.

ii – Client Fees

Clients may elect for fees to be deducted from their accounts or for Penobscot to bill clients directly. Clients who elect for their assets to be held with Penobscot's preferred custodian, Charles Schwab & Co., Inc. (see "*Item 12 – Brokerage Practices*" for a detailed discussion of Penobscot's preferred custodian and brokerage practices), usually opt for fees to be deducted from their accounts.

Penobscot does not require clients to pay the fees in advance nor does Penobscot accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

All fees paid to Penobscot for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and exchange traded funds ("ETFs") to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee for mutual funds. A client could invest in a mutual fund or ETF directly, without the services of Penobscot. In that case, the client would not receive the services provided by Penobscot, which are designed, among other things, to assist the client in determining which mutual fund or ETFs are most appropriate to each client's financial condition and objectives. Additionally, clients have the option to purchase investment products that Penobscot recommends through other brokers or agents that are not affiliated with Penobscot. If an investment product is purchased through a broker other than Charles Schwab & Co., Inc. (see "*Item 12 – Brokerage Practices*" for a detailed discussion of Penobscot's preferred custodian and brokerage practices), Penobscot's preferred custodian, the client may incur an additional fee. Clients will also incur transaction fees when securities are bought and sold by the executing broker/dealer. Accordingly, the client should review both the fees charged by funds and ETFs and the fees charged by Penobscot to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Item 6 – Performance-Based Fees and Side-By-Side Management

Penobscot does not charge performance-based fees. Performance-based fees are capital gains on or capital appreciation of the assets of a client's account. Penobscot also does not manage client accounts through the use of hedge funds or other pooled investment vehicles, and does not engage in side-by-side management of client accounts.

Item 7 – Types of Clients

We provide investment management and trustee services to individuals, families, retirement plans, and nonprofit organizations. We do not have requirements such as a minimum size for opening or maintaining an account.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

First and foremost, when formulating investment advice, we seek to understand our clients' unique needs and to meet their investment objectives. We meet those objectives by allocating their assets appropriately across asset classes (stocks, bonds, and cash). The securities in which we invest are typically issued by leading companies with substantial financial strength.

At the core of our investment strategy is an ongoing review of dividend-paying companies with a demonstrated commitment to growing their dividends at an above-average rate. We are primarily diversified equity investors; however, during periods when we believe equities are over-valued, we will place more emphasis on cash and fixed income securities. We avoid buying securities on margin, engage in short selling or option trading unless otherwise requested by the client.

Investment in all securities involves risk. The value of stocks and bonds and the income derived may fall as well as rise and investors may not recoup the original amount invested. An investment may also be affected by any changes in regulation, tax laws, international, political and economic developments, and government, economic or monetary policies.

Item 9 – Disciplinary Information

No employees of Penobscot have ever been subject to legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Item 10 – Other Financial Industry Activities and Affiliations

As of the close of our 2011 fiscal year, none of the investment personnel at Penobscot were registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. None of the management persons at Penobscot were registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Penobscot investment managers do not maintain relationships or arrangements that are material to our advisory business or to any of our clients with: broker-dealer, municipal securities dealer, or government securities dealer or broker; investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund); futures commission merchant, commodity pool operator, or commodity trading advisor; banking or thrift institution; accountant or accounting firm; insurance company or agency; pension consultant; real estate broker or dealer; sponsor or syndicator of limited partnerships. Penobscot does, however, have an agreement with the trust department in one law firm to manage accounts. This relationship does not create a conflict of interest with Penobscot clients. Additionally, while Penobscot does not maintain relationships with other investment advisors or financial planners, one of the investment managers currently serves as a secondary advisor to a portfolio of accounts outside of his work with Penobscot. This relationship originated prior to the manager joining Penobscot, is not material to Penobscot clients, and are advised separately and in such a way as to avoid any actual or potential conflicts of interest with Penobscot clients.

As a firm, we do not recommend or select other investment advisors for our clients, or receive compensation directly or indirectly from other advisors that would create a material conflict of interest, and we do not maintain other business relationships with advisors that would create a material conflict of interest for our clients.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Penobscot has adopted a formal Code of Ethics, which establishes rules of conduct for all employees of Penobscot and is designed to, among other things; govern personal securities trading activities in the accounts of employees. The Code is based upon the principle that Penobscot and its employees owe a fiduciary duty to Penobscot’s clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

The Code is designed to ensure that the high ethical standards long maintained by Penobscot continue to be applied. The purpose of the Code is to preclude activities which may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. The excellent name and reputation of our firm continues to be a direct reflection of the conduct of each employee.

i – Avoidance of Conflicts of Interest

We do not recommend to clients, or buy or sell for client accounts, securities in which Penobscot personnel or related persons have a material financial interest. The interests of client accounts will be at all times be placed first. Because employees are required to obtain preclearance, employee trades are made after any trades made on behalf of a client. This prevents employees from putting their own interest ahead of the interest of a client.

All personal securities are conducted in such a manner as to avoid any actual or potential conflict of interest, or any abuse of an individual's position of trust and responsibility. Investment personnel are prohibited from taking inappropriate advantage of their positions. Preclearance is required for all personal investment activities executed in any supervised persons personal accounts. Exceptions to the preclearance requirement are: U.S. Government Obligations, and other Fixed Income, Bank Certificate of Deposits, Money Market Fund Shares, Direct Re-investment Programs, and Unaffiliated Open-end Mutual Funds.

Item 12 – Brokerage Practices

i – The Custodian and Brokers Penobscot Uses

Penobscot does not maintain custody of the assets that we manage, although we may be deemed to have custody of client assets if clients give us authority to withdraw assets from client accounts (see *Item 15 – Custody* below). Client assets are maintained in an account at a "qualified custodian", generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. ("Schwab"), as a registered broker-dealer, member SIPC, as the qualified custodian. Penobscot is independently owned and not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that our clients use Schwab as custodian, our clients decide whether to do so and open their accounts with Schwab by entering into an agreement directly with Schwab and facilitated by Penobscot. Please note that not all advisors require their clients to use a particular broker-dealer or other custodian selected by the advisor. Even though client accounts are maintained at Schwab, Penobscot can still use other brokers to execute trades for client accounts as described below (see "*Your Brokerage and Custody Costs*").

ii – How Penobscot Selects Custodians

Penobscot seeks to use a custodian who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. Penobscot considers a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades
- Capability to facilitate transfers and payments to and from accounts
- Breadth of available investment products (stocks, bonds, mutual funds, ETFs, etc.)
- Quality of services, competitiveness of the price of those services (fees, etc.) and willingness to negotiate prices

iii – Penobscot’s Brokerage and Custody Costs

For Penobscot’s clients’ accounts that Schwab maintains, Schwab in general does not charge our clients separately for custody services but is compensated by charging our clients commissions or other fees on trades that it executes or that settle into our client’s Schwab accounts. In addition to these fees, Schwab charges our clients a flat dollar amount as a “prime broker” or “trade-away” fee for each fixed or income bond trade that Penobscot has executed with a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a client’s Schwab account. These fees are paid to the executing broker-dealer. Because of this, in order to minimize trading costs, Penobscot has Schwab execute most of the trades for our client accounts. Penobscot has determined that having Schwab execute the majority of the trades is consistent with our duty to seek “best execution” of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How Penobscot Selects Brokers/Custodians*”).

iv – Products and Services Available to Penobscot from Schwab

Penobscot will not accept any “soft dollar” benefits from any broker-dealer in relation to bond transactions for advisory clients. Penobscot participates in Schwab Advisor Services™ (formerly called the Schwab Institutional service program). While there is no direct linkage between the investment advice given and participation in the Schwab Advisor Services™ program, Schwab provides Penobscot with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor’s clients’ assets is maintained in accounts at Schwab and is not otherwise contingent upon Penobscot committing to Schwab any specific amount of business. Schwab’s services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For Penobscot’s client accounts maintained in Schwab’s custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Schwab also makes available to

Penobscot other products and services that benefit Penobscot but may not benefit its clients' accounts. Some of these other products and services assist Penobscot in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Penobscot's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Penobscot's accounts, including accounts not maintained at Schwab. Schwab Advisor Services™ also makes available to Penobscot other services intended to help Penobscot manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing.

In addition, Schwab may make available, arrange and/or pay for these types of services rendered to Penobscot by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees for a third-party providing these services to Penobscot. While as a fiduciary, Penobscot endeavors to act in its clients' best interests, Penobscot's recommendation that clients maintain their assets in accounts at Schwab may be based, in part, on the benefit to Penobscot of the Schwab Advisor Services™ program, which may create a potential conflict of interest. To decrease the possibility of any actual or potential conflicts of interest the availability of the Schwab Advisor Services™ program might create, Penobscot does not consider, in selecting or recommending broker-dealers, whether we or persons related to us receive client referrals from a broker-dealer or third party.

v – Trade Aggregation

Penobscot will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple clients' accounts so long as transaction costs are shared equally between all accounts included in any such block. Block trading allows Penobscot to execute equity trades in a more timely, equitable manner and to reduce overall commission charges to clients. Best efforts are made to aggregate trade orders whenever possible. No personal trades will ever be included in any client blocks.

Item 13 – Review of Accounts

Portfolios are reviewed on an ongoing basis by Penobscot's portfolio managers. Portfolio reviews may be requested by clients at any time and in response to their questions about current events, market developments and personal needs. Communication with clients occurs whenever it is appropriate or necessary. Penobscot recommends meeting with clients annually, and, in some cases, more often, to review investment goals and objectives. Portfolio appraisals are sent to clients quarterly.

Appraisal reports include information such as portfolio positions, cost and market value, gains and losses, and estimated annual income.

Item 14 – Client Referrals and Other Compensation

Penobscot may from time to time compensate, either directly or indirectly, any person (defined as a natural person or company) for client referrals. Penobscot is aware of the special considerations under Rule 206(4)-4 of the Advisors Act. As such, appropriate disclosures shall be made, all appropriate records will be maintained by Penobscot and all applicable Federal and/or State laws will be observed. Client advisory fees are not increased in any way as a result of any referral arrangements.

Penobscot receives an economic benefit from Schwab in the form of the support products and services Schwab makes available to us and other independent investment advisors, whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see *Item 12 Brokerage Practices*). The availability to Penobscot of Schwab's products and services is not based on Penobscot giving particular investment advice, such as buying particular securities for our clients and does not create a material conflict of interest for our clients.

Penobscot has entered into an agreement with a former employee, Dwight L. Davenport in which we agree to pay him 15% of any fees paid to Penobscot by clients who were introduced by Dwight L. Davenport and who engaged Penobscot during his employment here. The term of this agreement is three years and will end with the period ending September 30, 2013. These fees are not material to Penobscot's business.

Item 15 – Custody

A qualified custodian sends quarterly and/or more frequently, account statements directly to our clients. Clients will receive account statements from the broker-dealer, bank or other qualified custodian and clients should carefully review both the statements from the custodian and those from Penobscot. Every Penobscot-issued statement contains a notation urging clients to compare the account statements they receive from the qualified custodian with those they receive from us. Penobscot is deemed to have custody of client assets if, for example, clients provide authorization for Penobscot to instruct Schwab to deduct our advisory fees directly from the client account or if clients grant us authority to move their money to another account.

Item 16 – Investment Discretion

We accept discretionary authority to manage securities accounts on behalf of clients. Clients grant discretionary authority on Penobscot's investment management agreement as well as the qualified custodian new account agreement. Clients have the option to not grant us discretionary authority and can place such limitations on their accounts following a discussion with their account manager. If clients choose to sign a non-discretionary agreement, any restrictions or limitations are determined at the time the investment management agreement is signed. These restrictions and limitations may be amended with written authorization.

Item 17 – Voting Client Securities

Rule 206(4)-6 of the Investment Advisors Act of 1940 ("Advisors Act") requires advisors to create and maintain written proxy voting policies and procedures. Penobscot has these proxy policies and procedures in place and clients may obtain a copy of Penobscot's Proxy Voting Policies and Procedures by contacting Penobscot at 617-227-3111 and/or doughart@pimboston.com. If any client requests a copy of Penobscot's proxy policies and procedures or how Penobscot voted, Penobscot will promptly provide such information to the requesting client. Clients may request, in writing, information on how proxies were voted. The following is a summary of Penobscot's proxy policies and procedures:

In voting proxies, Penobscot reviews each proxy vote from firms in which our clients have an investment. Our voting responsibility is to our clients' interests.

Conflicts of interest on proxy matters when identified will be disclosed to the client and resolved to benefit the client. When a conflict is disclosed, Penobscot will request that the client review the proxy issue and instruct in writing its voting instructions. If the client is unable to direct or is uninformed on an issue, Penobscot will suggest that an independent third party be retained at the client's expense to determine how the proxy should be voted. Penobscot will ensure that all votes are submitted in a timely manner unless Penobscot otherwise determines that voting a proxy is not in the client's best interest.

Penobscot entered into an agreement with a vendor which provides proxy information through an automated electronic interface. This service is being utilized for accounts in which Penobscot has proxy voting authority.

Certain clients have retained proxy voting authority and in such instances Penobscot has no responsibility and may not take any action regarding these clients' proxies.

If clients do not authorize Penobscot to vote client securities, clients will receive proxies and other solicitations directly from the custodian or transfer agent. Penobscot makes it known to clients that they may always contact us with any questions they may have about proxy voting.

Item 18 – Financial Information

This item is not applicable to Penobscot for the following two reasons i) Penobscot does not require or solicit prepayment of client fees, and ii) Penobscot has no financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Item 19 – Requirements for State-Registered Advisors

This item is not applicable to Penobscot because the company is registered with the Securities and Exchange Commission.