

BACON & COMPANY
27175 MEADOWS ROAD
CARMEL, CALIFORNIA 93923
(831) 626-0505 (800) 627-1992

R. LAWRENCE BACON
PRESIDENT

Bacon & Company is an independent investment advisory firm that specializes in managing portfolios invested in the U.S. capital markets for individuals, family trusts, and related personal retirement plans. In the following paragraphs, we hope to offer insight to our conservative investment approach for managing equity, fixed income and balanced accounts while providing some additional information about the firm.

On risk and return

The history of our capital markets has shown that investors who take on added risk can expect to be rewarded over time with higher returns. The extent to which higher returns are sought, however, has to be matched with each investor's ability to bear risk. Our investment programs start by incorporating this aspect into the objective for each account.

Market risk is managed for clients by deciding on how much to invest in three asset classes, namely stocks, bonds and money market obligations. At a second level, risk also is controlled by our policy of limiting investments to high quality securities, combined into diversified portfolios.

On asset allocation

The decision on how funds are allocated between the various asset classes bears more weight in determining investment results than the selection of individual securities. We employ a methodology for this decision that sets off expectations about risk and return factors in the capital markets against our assessment of the client's risk-taking ability. This approach to the asset allocation decision acts over time to reduce risk and enhance return.

On common stocks

In examining many accounts over the years, I have observed that the greatest accumulation of wealth has been earned by investment portfolios which sustained their commitment to common stocks. These portfolios maintained

exposure to equities through market cycles, invested in growing and profitable companies for the long term, and exhibited low rates of turnover in the holdings.

Bacon & Company's list of stocks emphasizes quality growth companies. These are selected on the basis of low debt and strong capital positions, superior profit margins, and high returns on equity capital. These companies also show consistently above average rates of revenue and earnings growth and regular increases in dividend payments to the shareholders. This list is monitored and modified for fundamental changes in each company's business prospects and for the valuation level of each security's price.

On fixed income investments

Although generating higher current income, fixed income securities can be expected to produce lower returns, at correspondingly lower levels of risk, than common stocks. We invest in bonds, notes and money market obligations to meet our client's income and liquidity requirements, to temper price volatility in the portfolio, and to protect capital value. Limited by policy to using issues that carry the highest ratings for creditworthiness, we structure portfolios with short and intermediate-term maturities and choose tax-exempt or taxable securities to produce the most effective return after tax for each client.

On family tradition

For over a century, four generations of the Bacon family have been part of San Francisco's investment community. Martin Bacon was the first, arriving in California from England to trade in the gold country. His 1865 journal records shipments of gold dust from Chinese Camp by stage to Stockton and San Francisco. By the 1870's he had moved to the City where his partnership held a seat on the San Francisco Stock and Exchange Board.

On pride of ownership

It is a source of personal inspiration that Bacon & Company represents the revival of a family enterprise. In 1926 my grandfather started an investment firm with this name in San Francisco, and my father joined the company after graduating from college in 1935. As an established regional broker, the company was acquired by a national firm in the 1950's. I still have the bronze building plaque that marked the firm's location on Montgomery Street.

On fees

Compensation for the firm's investment advisory services is based on the market value of the assets under management, giving us incentive to meet the investment needs of our clients first and foremost by protecting and growing their wealth.

The firm is not affiliated with any broker or dealer of securities and does not receive commissions or other compensation from securities transactions or the sale of any financial products.

On regulatory scrutiny

Bacon & Company is registered as investment advisor and subject to examination by the U.S. Securities and Exchange Commission, Washington, D.C. Registration information for the firm is available from the SEC at www.adviserinfo.sec.gov.

SEC Form ADV, Part II, provides supplemental information about the firm. A copy is attached.

On Proxy Materials

As investors in common stocks, the firm's clients receive annual reports from companies, notices of annual meetings, and proxy statements. Clients are responsible for voting their shareholder proxy materials.

R. Lawrence Bacon, President of Bacon & Company, had 30 years of financial experience with several major banking institutions before reviving the name of his family's investment firm and starting the investment advisory company in 1992.

After graduating from the Harvard Business School, Mr. Bacon worked for the Export-Import Bank of the United States for 6 years in Washington, D.C. Beginning in 1962, he served as project loan officer and economic analyst for Latin America and as special assistant for the bank's defense export loan program.

Starting in 1968, he worked for Wells Fargo Bank at its head office in San Francisco for 18 years. He served initially in the international area and managed a portfolio of equity investments in Asia, Europe, Latin America and the Middle East for the bank itself. He subsequently joined Wells Fargo Investment Advisors and managed portfolios invested in U.S. securities for personal, pension, foundation and corporate clients of Wells Fargo.

In 1986 he joined The Chase Manhattan Trust Company of California, part of Chase's Private Bank, as a member of its Board of Directors and Senior Vice President. He also served as President of the Chase Investment Management Company of California, the Trust Company's investment division, and as Managing Director of the San Francisco office.

Mr. Bacon is a member of the CFA Society of San Francisco and the CFA Institute, Charlottesville, Virginia.

He currently serves as Chairman of the Board of Directors of the Nonprofits' Insurance Alliance of California and related member-owned companies with headquarters in Santa Cruz that insure risks for charitable organizations in California, 24 other states and the District of Columbia. Community activities also include membership in the Foundation for the University of California San Francisco, after serving on the medical school's Investment Committee and as Chairman of its Trust Sub-Committee from 1991 to 2003.

Mr. Bacon earned his B.A. from Stanford University in 1960 and M.B.A. from the Harvard Business School in 1962. He also graduated from Phillips Academy Andover in Massachusetts and Town School in San Francisco.

Larry and his wife, Sharon, are native San Franciscans and now live in the Carmel Valley.