

J. L. BAINBRIDGE
& COMPANY, INC.

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Dear Client:

May was another good month for our investment portfolio. And while the markets will likely remain volatile as a consequence of the media's frantic search for the next grave economic problem, our opinion is the long-term trend is up. Next month's Mid-Year Report will focus on our rationale for a positive outlook.

Yesterday I attended Cardinal Health's analysts meeting in Boston in order to gain a deeper understanding of the prospects for the new Cardinal Health and the new company, CareFusion Corporation which will trade on the NYSE with the symbol CFN, and will be spun-off from Cardinal Health this summer. Regarding the remaining Cardinal Health, their business is solid but will grow at a modest high single digit over the long-term.

In many instances new entities spun-off from existing companies are not well understood by investors and thus begin trading at a low evaluation. Therefore, the primary reason for attending this meeting was to access CFN's prospects for high growth and thereby be in a position to take advantage in the event CFN trades at a bargain price. CFN's business is in the simplest term an array of technology based products that improve both the efficiency and safety of healthcare. Specifically, CFN is a \$3 billion company with industry leading positions in the following product areas:

- Medication safety and infusion systems
- Dispensing systems
- Acute-care respiratory
- Hospital acquired infection prevention
- Positive patient identification

All of these have a long history of double digit growth and have the potential to grow faster in the future due to greater emphasis by governments around the world to reduce both the cost and quality of healthcare. For example, Medicare just this past March stopped paying for costs associated with treating hospital acquired infections. Hence hospitals have more incentive than ever to dramatically reduce the occurrence of these infections. As a leader in this field, CFN has a huge opportunity. Their products not only prevent infections, but also track the source of infections which enable the implementation of effective remedies. Another area is pharmaceutical drug dispensing errors. CFN's automated dispensing system prevents these errors by verifying both the patient and drug match while also issuing an alert of any potential adverse drug interactions. Hence in our view their growth potential is high. However, the possibility for a bargain is likely due to a slight earnings decline in the past six months caused by temporary hospital budget constraints. We will be monitoring the spin-off closely.

Jerry Bainbridge, President