

J. L. BAINBRIDGE  
& COMPANY, INC.

June 2, 2010

Dear Clients:

Last month the stock market overreacted to a relatively minor economic event as it has done repeatedly over the past several years. This time the culprit was the financial troubles in Greece and the decline in the Euro. Can you believe it was only six months ago that the media was pounding the drums of gloom about the weakness of the dollar and the strength of the Euro and the pending malaise? Considering Greece's economy is less than two percent of the total economy of the European Union, it is doubtful their budgetary problems will lead to either the end of Europe or the demise of the current United States economic recovery. However excessive government spending both in Europe and in this country is a problem and the failure to effectively address this problem will negatively impact the economy.

On the other hand the European deficits together with our housing debacle and high unemployment could cause the United States and European economies to recover slower than has been the case in the past. Therefore, our investment strategy continues to be own high quality American companies that conduct a significant portion of their business in faster growing international markets such as Asia, Eastern Europe, Middle East, Russia and South America. This faster growth, combined with the fact these companies have reduced costs dramatically in their operations such that modest growth domestically translates into much faster profit growth, is the heart of our strategy to achieve a good return in case growth slows in the United States. A good example is 3M which reported record quarterly earnings for any three month period in their one hundred year history. Sales increased 24.7% but earnings increased a much faster 74.3%. Importantly sales in the emerging economies cited above grew 47%. This is but one example of how our strategy can protect and grow our investment portfolio value in what could be a somewhat subdued business environment. While media hype can impact stock prices in the short-term, the success of our investment program is based on the earnings growth of the companies selected for investment.

In-line with this strategy, we have begun to purchase Apple Inc. which is growing both sales and profits at a fast pace. While we have avoided high technology, in our view Apple is a product company that uses technology for a customer experience, with powerful brands. They have combined proprietary technology and design allowing them pricing leverage. For the quarter ending March 31, 2010, Apple's sales grew 49% and earnings per share increased 86% with international sales accounting for 58% of sales. Apple sold 2.94 million Macintosh computers, 10.89 million iPods and 8.75 million iPhones in the quarter which represent an increase over the year earlier quarter of +33%, -1% and +131% respectively. In addition Apple introduced the iPad which has sold over 2 million in the first two months on the market. With this new product in the lineup, Apple is poised to continue to grow earnings at a rate of at least 20% annually for several years. Financially, Apple has no debt and over \$40 billion in cash.

Jerry Bainbridge, President