

J. L. BAINBRIDGE

& C O M P A N Y, I N C.

March 1, 2010

Dear Client:

As the market has recovered a good portion of the decline of 2008 and early 2009, a number of clients have expressed an interest in an allocation of their investment portfolio that includes income holdings. Accordingly we are introducing two new investment programs that include from 25% to 40% income holdings. While some clients may want a larger allocation to income, our recommendation is to hold a majority of the portfolio in equities because they remain at low evaluations and over the long-term provide returns far superior to income investments. This is particularly true for companies that pay good dividends, are financially strong and operate globally which are the companies that dominate our equity portfolio.

Since clients' objectives and financial needs vary, enclosed is a form to be returned to our office indicating your particular preference including a space for comments and an area to check in the event you wish to be contacted to discuss our program or your objectives in more detail. We understand some clients will want to remain 100% in equities because they are either building retirement assets or have sufficient income investments outside our program. By offering three models, our goal is to have a program that meets various client needs and is adaptable as client's objectives change. Regarding our plan to transition to income holdings, we expect to add income as opportunities to sell equities arise with a goal to finish by the end of this year. Accordingly, we have designated price points where in our view particular stocks will have reached full value and will be sold. Our reasoning for this go slow approach versus immediately selling equities is the current prices are reasonable, earnings are growing and interest rates are very low.

An important aspect of income investing is there can be considerable risk. This risk is twofold, on one hand rising interest rates cause longer term bonds to decline and on the other hand there is the risk of default. Consequently, our strategy for income is first and foremost invest the majority of funds in investment grade bonds and FDIC insured bank instruments and because interest rates are very low today hold only short-term items. Today investment grade bonds with a maturity of from one to three years yield less than 2%. In order to achieve a higher return, the alternative is long-term bonds or less than investment grade bonds which would expose the portfolio to the risks cited above. With interest rates expected to rise over the next couple of years, the short-term bonds will come due and then can be reinvested into bonds at a higher rate. In addition, a few special situations exist that pay a higher return. Examples are Boardwalk Pipeline LP which pays a dividend of 6.8% and Florida Power & Light Group Unit that is an income unit yielding 8.1% and is comprised of a note and an equity option. Considering details of these investments and our income philosophy are difficult to cover in a letter, we look forward to discussing the program with you.

Jerry Bainbridge, President