GROWTH EQUITY PORTFOLIO REVIEW

Second Quarter 2010

PERFORMANCE COMMENTARY

Though U.S. markets enjoyed a buoyant first quarter, gains generated then were given back and then some in the second quarter. As measured by the Standard & Poor's (S&P) 500 Index, U.S. stocks were down 11.4% in the second quarter, and thus for the year are down 6.7%. The reversal in tone from the more positive first quarter can generally be laid to the fear emanating from Europe concerning the health of Greece, Spain, Portugal and other fiscally challenged European nations, as well as concern over the sustainability of economic growth in the U.S. Other averages retreated, including measures of U.S. small stocks and microcap stocks, such as the Russell 2000 Small Cap Index and Russell Microcap Index, falling 9.9% and 8.9% respectively for the quarter. It is interesting to note that although broader averages representing U.S. stocks are down approximately 7% for the year-to-date, the Russell 2000 Small Cap Index is down about 2% for the year and the Russell Microcap Index is about flat for the year, indicating the first quarter's *very* strong performance in small capitalization stocks.

	Periods Ending June 30, 2010					
	Quarter	Year-to-date	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite – NET	**-8.8%**	**-2.0%**	**18.1%**	**-6.0%**	**2.2%**	**0.3%**
Russell 3000 Growth Index	-11.6%	-7.3%	14.0%	-7.0%	0.4%	-4.9%

Composite performance is reported **NET** of fees and expenses. Please refer to the disclosures at the end of this report.

The Growth Equity Strategy, though enjoying positive relative performance versus its benchmark for the quarter, was still down during the period. Cash levels for established accounts remain in the 5% range.

The strong market pullback at the tail-end of June made for a very short list of positive contributors for the quarter. **Ladish (LDSH)** and **Aruba Networks (ARUN)**, cited as major contributors last quarter, were standouts once again this period, up 12% and 4% respectively. And our mid-June liquidation of **VeriSign (VRSN)**, described below, locked in that holding's 11% gain for the quarter. But the real stand-out for the quarter was **Universal Display (PANL)**, a long-term Growth Equity strategy holding, that generated a 50% share price increase for the three months ending June. Deserving of more than a one sentence summation, a more complete description of the company and its achievements follows in the next section of this review.

Overall weakness in the broader market hurt both small and large capitalization names in the portfolio. The second quarter's biggest hit was **Monsanto (MON),** off approximately 35%. The market continued to react strongly to the financial impact of pricing pressures from generic alternatives to the company's off-patent herbicide, Roundup, driving the stock's price down into the mid $40's by quarter end. While disappointed in our overconfidence in management's ability to work through the herbicide division's financial challenges, we continue to believe in the strength of the company's seed business. Our adjusted valuation target, now in the high $60's, leaves room for improvement. In fact, in the two weeks since quarter-end, the stock has seen a strong rebound into the mid $50's.

A HOLDING WORTH MENTIONING

After a quarter such as this last one, in which plenty of stocks suffered strong price drops, it is worth mentioning a Growth Equity company that turned in a significantly positive result. **Universal Display**

(PANL), a long-term Growth Equity strategy holding, generated a 50% share price increase for the quarter. Much of this rise was fueled by an announcement in early May by a major producer of OLED displays that confirmed the growing importance of this technology platform.

Briefly, Universal Display was formed about fifteen years ago to acquire the rights and further develop the technology surrounding organic displays, specifically, organic light emitting diodes, or OLEDs. Organic display technology began years ago in the labs at Eastman Kodak, where it was found that via certain technology, electric current sent through organic material would cause the material to light up. Universal Display acquired more advanced intellectual property surrounding this technology during the mid-1990's and since then has further refined the manufacturing process to mass produce OLEDs for modern displays, including those for smartphones.

OLED technology has not been easy to develop, but one of Universal Display's partners, Samsung SDI, has been refining the mass production of OLED displays and selling them to numerous smartphone manufacturers. In May, Samsung SDI announced at an industry conference that it was building a very large manufacturing facility in South Korea that will essentially triple Samsung SDI's capacity by mid- to late-2011. This was great news for Universal Display, which not only will receive royalties on Samsung SDI's production, but will also sell important chemicals to Samsung SDI to be used in the making of the displays. It has been a long wait by Universal Display for such news, and the stock reacted appropriately. Looking ahead, we see further meaningful upside to Universal Display's stock price in the next few years, and believe the stock should continue as a Growth Equity holding.

PORTFOLIO ACTIVITY

Unlike our previous letter, in which there were no major new purchases or sales to announce, this current communication has several portfolio changes to report. First, we sold the portfolio's position in **VeriSign (VRSN)**. VeriSign is a mature technology company based in California that over the years had built itself up through acquisition, only to strip down more recently to two basic but we believed strong businesses: domain name registration (tracking what entity owns what .com or .net name), and web transaction security certificates (which secure transactions between consumers and web sites). Our belief at the time of initiating purchase, in mid-2009, was that these two businesses would provide a growing but stable cash flow. The fact that VeriSign's business was not too cyclical compared to other growing technology companies gave us confidence that it would be a good fit for Growth Equity portfolios.

From our initial purchase price of about $20 per share, VeriSign's stock price rose to the high 20's. Then during this past May, VeriSign's management announced that it was selling one of the two businesses, the security certificate business, to Symantec. The price was a good one, enough to move VeriSign's stock to new price heights. The challenge for us was that this development departed from management's stated goal to slowly build upon the two businesses with both new services and small acquisitions. Furthermore, when we researched the reasons why management did the deal, the answers were evasive. We now wonder if VeriSign is either going to go private or sell the one remaining business to another entity. Given our expectations for the current remaining business and a stock price in the upper 20's, we decided to sell and move on.

A new name introduced to Growth Equity portfolios this past quarter is **Express Scripts (ESRX)**. Behind this purchase is our interest in the rising use of generic therapeutics in healthcare around the world. A group of companies that have benefited from this trend and will continue to do so are pharmacy benefit managers, or PBM's. Though these companies provide a growing list of services to large purchasers of healthcare

services, their prime offerings revolve around drug procurement and distribution services. This business has been around for years and will likely continue its attractive growth given the increasing use of generics.

Our attraction to Express Scripts stems from its acquisition of NextRX from WellPoint in 2009. NextRx was WellPoint's PBM business, and its integration into Express Scripts will allow the company to enjoy greater efficiencies of scale in both operating and purchasing metrics. Equally important, the deal will allow Express Scripts to offer its services to non-PBM clients of WellPoint's, allowing for more revenue growth.

CASH, CASH EVERYWHERE

Mentioned in the business press repeatedly, and frankly, we've talked about it enough ourselves, has been the balance sheet health of larger companies, especially those in the U.S. Most recently, Barron's highlighted the fact that larger U.S. companies, unlike U.S. consumers or the U.S. government, are "lean, financially sturdy and richer in cash than they have been for decades." The article goes on to quote a study done by Credit Suisse saying that cash holdings by S&P 500 companies, measured as a percentage of corporate assets, are at or near record levels. Looking at individual companies from the bottom-up as we do here at Princeton Capital, we can only concur. Strong, flexible balance sheets are important criteria for potential Core Equity portfolios candidates, and we award a premium valuation to companies able to maintain such a healthy state, though this is not always recognized by the market at times. Barron's goes on to comment that perhaps the spending of this cash, either in merger and acquisition activity or increased capital spending, will lead to higher growth.

We agree with such optimism but as always, offer a caution: big cash balances do not assure wise spending of said cash. No one enjoys arriving at work in the morning to see a portfolio holding down 15% in pre-market trading on the news that company management just purchased a second company for a very high price—too high a price as it would usually turn out—after several years of telling investors that they promise (promise!) to maintain investing restraint. We do our best to make sure we invest in companies whose managements have shown a consistent track record of wise asset management. Frankly, we feel this is an area on which our analytical brethren do not focus, instead concentrating on sales trends and margins. Obviously, these are important factors, but all it takes is one large, or a series of small, ill-conceived investments to render the economics of the business or businesses unattractive.

Our point is that strong balance sheets are a prerequisite for safety and long-term growth. But the cash balance and the company's ability to generate cash are not the only ingredients. It also requires a management team that knows how to deploy cash intelligently. The search for such managements and the right situations in which they can operate, keeps us busy here at Princeton Capital.

DISCLOSURES: The Growth Equity Composite is comprised of discretionary equity accounts managed for growth. Accounts are included in the composite at the beginning of each account's first full calendar month under management. Results are calculated internally using the Advent investment management software and information provided by outside custodial firms. Performance figures are net of fees and commissions. Client returns may be reduced by other expenses incurred in the management of a client's portfolio. The composite calculation has been weighted for the size of each individual account. Composite and index performance reflects the inclusion of dividends, interest and other earnings, if any. All performance figures for periods one year and greater are annualized. Valuations and returns are computed and stated in U.S. Dollars. Performance results for individual accounts may vary due to the timing of investments, fees, size of positions and other reasons. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. Further information regarding policies for calculating and reporting returns is available upon request. Composite information displayed according to the Global Investment Performance Standards (GIPS) is available upon request.