

Gardner Lewis celebrated its 20th year in business in April, during which the investment team has managed to successfully navigate through a multitude of challenging market cycles and learn several lessons along the way.

One of these lessons is that, following turbulent periods in the equity markets, investors often have a tendency to rush to what they believe will be areas of safety, such as fixed income, while others abandon active investing. In many cases, however, we think these rash decisions have proven quite harmful and ill-timed. In fact, in our firm's history, some of our best results have come in the wake of challenging market environments, during which some investors appeared to have given up belief that fundamental stock picking still has merit. Each instance, including Iraq's invasion of Kuwait in 1990, the bond market meltdown in 1994, the early 2000s tech bubble implosion, and the financial meltdown of 2007-2008, involved an environment seemingly driven by macro viewpoints and widespread fear. And following each, our process, which is focused on identifying differentiated companies whose stocks are poised for significant growth, produced significant reward for our clients.

We are reminded of this, yet again, as we look back over the past year on a stock market that evolved from one that was gripped by fear and confusion to one that began to recognize not only positive elements developing in the economy, but also the strength of businesses that had overcome the recessionary storm and were thriving in their respective markets. So, while some investors have demonstrated a tendency to want more exposure to what has become, in our opinion, a very overheated bond market, we would head in a very different direction. We think the best opportunity is in the equity market, but even for those whose equity allocation is full, we think there are better alternatives to fixed income which can provide higher returns with low volatility and low correlation without the credit and interest rate risks associated with bonds.

The largest contributions to the portfolio's returns came from our Consumer Discretionary and Health Care positions. Industrial and Material holdings also posted solid gains, while Utilities and Telecommunications were the only areas with slight losses. While our sector positioning was helpful, our stock selection, once again, was a significant driver of our outperformance and leads us to believe that investors are beginning to shift their collective focus from macroeconomics to a view that more greatly appreciates company-specific results.

The holdings that contributed most to portfolio returns during the quarter were Bank of America, Boeing, Apple Computer, and Express Scripts. Bank of America rallied during the quarter as credit performance in its consumer division improved and management expressed optimism about opportunities as a result of its strong stable of businesses. Boeing posted a significant gain on better-than-expected earnings results and guidance that reflects strong growth of deliveries for the 747-8 and 787 Dreamliner. Apple touched record highs as the quarter closed and just ahead of the launch of their latest innovative device, the iPad. Express Scripts continued to appreciate as the company guided to 2010 earnings that were significantly above the Street estimates, and investors appeared to gain confidence that the incremental earnings accretion from the NextRX acquisition will be substantial.

The positions that negatively impacted the portfolio most during the quarter were Google, CME Group, Qualcomm, and Equinix. Google posted its strongest growth rate in several quarters, but headlines surrounding a potential exit from China took center stage in the quarter. We continue to believe that Google is well-positioned to capitalize on the explosive growth of internet-enabled devices and services in 2010 and beyond. We sold our CME Group position as we believe the company faces increased concerns regarding regulatory uncertainty and pressure on futures contract rates. Qualcomm's conservative guidance initially spooked investors, but the stock has since begun to recover after the company twice raised that guidance based on improving chipset and licensing revenues. Equinix posted solid results and a positive view of 2010, but investors seemed to focus on delays in its closing of the Switch & Data acquisition.

Given our high confidence in Equinix's ability to continue to grow share in the capacity-constrained data center market, we added to the position in the quarter.

Our outlook for the economy has not changed significantly over the past three months. We have many concerns, including the jobless rate, which still hovers near 10% and could take considerable time to show meaningful improvement, the increasing federal deficit, and the prospect of significant tax increases in the coming years. At the same time, however, several domestic and global economic indicators are showing incremental but broad improvement, and corporate profitability certainly appears to be getting stronger. Even more important to us than the backdrop of an improving macro environment is the fact that our daily interactions in and around the companies in which we are invested indicate that their businesses are experiencing levels of demand that they have not seen in some time.

As we begin our 21st year in service to our clients, we look forward to continuing our active, high contact research process on their behalf.

1Q 2010 Contributors			1Q 2010 Detractors		
Security	Average Weight	Contribution	Security	Average Weight	Contribution
Bank of America Corp.	3.88	0.74	Google, Inc. Cl-A	2.89	(0.25)
Boeing Co.	1.52	0.53	CME Group, Inc.	0.68	(0.24)
Express Scripts	2.41	0.43	Qualcomm, Inc.	2.33	(0.23)
Apple Computer, Inc.	3.71	0.42	Equinix, Inc.	2.86	(0.21)
Anandarko Petroleum Corp.	2.19	0.37	Microsoft, Inc.	0.55	(0.11)

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