J.L. BAINBRIDGE
& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

1998 ANNUAL REPORT

INVESTMENT RESULTS

For 1998, J. L. Bainbridge & Company, Inc. achieved a 30.4% rate of return on all money managed. In conjunction with 1994, 1995, 1996 and 1997 returns of 10.2%, 38.4%, 20.3%, and 23.2% respectively, a January 1, 1994 investment of $100,000 has grown to a December 31, 1998 value of $295,241 which equates to an increase of 195% over the past five years. The annually compounded return over the past five years is 24.2%. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

Despite our opinion that future returns for the overall market will likely be in the single digits, the market remained strong and our 1998 results exceeded our 15% objective by a wide margin. However there are signs that the market's pace is slowing. Standard and Poor's 500 index, which is dominated by a small number of large companies whose stocks continue to defy gravity, increased 26.7% last year. But the New York Stock Exchange composite index of all companies listed on the exchange increased only 16.6% and the Dow Jones Industrial average increased only 16.1%. Hence we continue to expect returns to slow dramatically over the next several years and our returns to meet but not exceed 15% annually.

Because future returns will become more difficult to achieve, the value of a highly disciplined investment program focused on minimizing risk and obtaining consistent returns will be more and more apparent as other more speculative programs fall by the wayside. Therefore this report will expound on the key aspects of our strategy to achieve 15% annually in a market that is likely to do much less.

INVESTMENT STRATEGY

Although the market is at a very high level, the good news is the wide disparity in the evaluation of individual stocks. As a consequence, good value exists if one has the knowledge to identify great companies and the courage to invest in these companies when they are either out of favor or misunderstood. While the potential rewards from this independent approach are substantial, a large dose of patience is required because these stocks can remain dormant for a period of a year or more as we have experienced with Marriott. This is a normal situation which has nothing to do with Marriott's future growth potential. Hence the current price represents a true bargain in an otherwise high market, and as a result Marriott is likely to be one of our best performing investments in 1999. For example, Walgreens, our best performing investment over the past three years, was flat the preceding two years due to analysts' unwarranted concern that managed care programs would depress profit margins. During this period of low earnings expectation, Walgreens' better than expected earnings growth was virtually ignored until 1996 when opinions suddenly changed and the stock has increased more than four fold over the past three years.

The large variation in the evaluation of companies had an impact on our results in that most of our return in 1998 was due to substantial gains in Avon, Black & Decker, McGraw-Hill and Walgreens offset by lackluster results for Allied Signal, Burlington Northern and Marriott. This variation was not due to good versus poor earnings growth as all of these companies continue to report strong growth. As a result we expect last year's laggards will be next years leaders.

The other good news is the buying opportunities provided by today's volatility. Thus even companies selling at high prices become available to those with patience. Again Walgreens is a good example as the panic selling in the spring and autumn of last year provided outstanding opportunities to buy this great company at attractive prices. Another key to success is to stay with a sound program during bad times. During July through early October, 1998 a bear market raged and dire predictions were the hype of the media. Not only did we stay with our program for the benefit of existing clients, we aggressively invested new money, and new clients profited handsomely. The strong demand for investments arising from the enormous buildup of retirement assets for the next generation coupled with the durability and leadership position of the American economy and today's low inflation environment, very much limits the risk of a sustained decline in stock prices. Therefore we will continue to greet market declines as buying opportunities.

Another aspect of our strategy is to sell holdings when the price becomes over valued. Charles Schwab is an outstanding company with a bright future, but at more than seventy times earnings the price itself represents high risk. We sold Schwab in all non-taxable accounts and in those taxable accounts where the capital gain was long term. The remaining will be sold in 1999 as they become long term gains. Minimizing taxes for clients is an integral part of our investment program.

In addition to finding good value in an over priced market, buying aggressively whenever panic selling takes over the market and selling holdings when they become over valued, special situations offer another opportunity to achieve growth in a low risk conservative manner. Host Marriott's conversion to a real estate investment trust (REIT) presented a special situation. Host Marriott owns a prestigious portfolio of more than one hundred Four Season, Hyatt, Marriott, Ritz-Carlton and Swissotel properties in major urban, airport and resort locations where the supply of hotel rooms is tight and opportunities to build new hotels is both limited and expensive. As a result Host Marriott's earnings are growing rapidly.

Conversion to a REIT has the advantage of avoiding corporate income taxes on earnings if at least 95% of earnings are paid as dividends to stockholders. Furthermore in order to qualify for conversion to a REIT, all accrued earnings to date have to be paid to shareholders, and since REITs are not allowed to operate hotels, a separate company, Crestline Capital, had to be formed to lease and operate the properties. After careful analysis of both the Host Marriott REIT conversion and the Crestline Capital prospectuses and two telephone conversations with their Chief Financial Officer, we concluded this represented a unique opportunity. As a portion of the payment of accrued earnings a special dividend of one dollar per share will be paid January 22, 1999. This dividend can be received in cash or be used to purchase additional Host Marriott REIT shares at $11.50 per share. WE RECOMMEND THAT CLIENTS CHOOSE THE PURCHASE OF ADDITIONAL SHARES.

The other portion of accrued earnings will be $13 of the value of the Crestline Capital shares issued on December 29, 1998. The distribution of one share per each ten shares of Host Marriott equates to $1.30 per share plus the $1.00 dividend adds up to $2.30 per share of Host Marriott. Add to this the expected premium for the Crestline Capital shares to reflect their excellent growth potential, and the total distribution has a value of more than 20%. The final positive aspect of the conversion is Host Marriott's announcement that quarterly dividends of 21 cents per REIT share will begin in early 1999.

Putting this all together, the special dividend and Crestline Capital spin-off amount to at least a 20% premium above the price of Host Marriott together with the 84 cent annual dividend on the REIT shares in 1999, presented an unique opportunity to earn a significant incremental return. Accordingly we decided to convert Marriott shares to Host Marriott shares whenever the market prices lined-up so two shares of Host Marriott were purchased for each share of Marriott sold. Best of all, no future appreciation potential was given up because Marriott, Host Marriott REIT and Crestline Capital are all undervalued, in the same business and have the same potential to grow earnings in the high teens over the next five years.

The only negative aspect of this strategy is the tax liability of the $2.30 per share of accrued earnings paid as a taxable dividend to Host Marriott shareholders. To avoid this tax liability, we decided to execute this strategy in only non-taxable accounts such as IRA, Keogh, and Pension accounts.

CONCLUSION

Ever mindful of both the difficult challenge ahead to achieve 15% compounded annually over the next five years and the necessity to achieve this objective in order to fulfill our overall goal of "enhancing clients' lives" we will adhere to our highly disciplined program. And we will supplement this program with a never ending search for special situations, such as the Host Marriott conversion, to safely earn a large incremental return without sacrificing future appreciation potential.

Our confidence in meeting a 15% objective continues to be based on the high quality and consistent growth characteristics of the companies carefully selected for investment and the current price versus our analysis of full value. As indicated earlier, most of 1998's return came from a small number of holdings. Therefore most of the companies owned actually have more appreciation potential today than a year ago, and the total portfolio has the potential to appreciate 41% over the next twelve months which remains more than double our objective.

In accordance with SEC regulation, a current copy of our SEC registration form ADV Part II is available upon request free of charge. In addition, we have developed a plan to test and remedy year 2000 compliance problems by mid-1999.

ENHANCING CLIENTS' LIVES

At J.L. Bainbridge & Company, Inc. our business is dedicated to "enhancing clients' lives" by providing long term professional money management service totally focused on helping clients finance their children's education, build and preserve the resources for an enhanced retirement and achieve a meaningful higher standard of living.

The foundation of J.L. Bainbridge & Company, Inc.'s business philosophy is based on the full understanding that our future and success is completely dependent on client satisfaction and delivering to clients a consistent long term investment service of the highest level of quality, competence and integrity.

Our commitment to "enhancing clients' lives" is a guiding light that governs our professional daily activities and demands every decision and action be assessed as to exposure to investment risk as well as the long term benefit to clients.

J.L. BAINBRIDGE

& COMPANY, INC.

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