

J.L. BAINBRIDGE

& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

1999 ANNUAL REPORT

INVESTMENT RESULTS

For 1999, J. L. Bainbridge & Company, Inc. achieved a 5.6% rate of return on all money managed. In conjunction with 1994, 1995 1996, 1997, and 1998 returns of 10.2%, 38.4%, 20.3%, 23.2, and 29.9% respectively, a January 1 1994 investment of \$100,000 has grown to a December 31, 1999 value of \$310,075 which equates to an increase of 210% over the past six years. The annually compounded return over the past six years is 20.8%. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

While our results last year were disappointing, we are fully confident and undaunted in achieving long term results of at least 15% far into the future. In addition taken from a long term prospective, 1999's results are not significant. This is true whether looking at either the past 6 years or looking ahead to the next six years. In fact a slow year is usually followed by a strong year which is our expectation for the year 2000. Because the companies in our investment portfolio are in most cases

experiencing accelerated growth, the potential return for both 2000 and the next five years is the highest we have seen since 1994.

The key to excellent long term results is staying with a sound investment strategy that has withstood the test of time, on the other hand, attempts to follow the crowd not only carry high risk but end in failure. Be assured we will continue to invest in only high quality established companies with a long history of consistent growth. Our total focus is to minimize risk and achieve long term results of at least 15% compounded annually.

INVESTMENT STRATEGY

In 1999 the investment environment was turned upside down as great traditional growth companies were ignored while startup companies with little or no earnings in the high technology and internet sectors soared. As has been our policy for years, we do not invest directly in high technology and speculative start up companies such as today's internet companies because of the high risk of permanently losing clients hard earned money saved for their retirement or educating their

children. While the current speculative wave is far greater and therefore will have a much greater fall, speculation run wild is not new as we have observed with past binges in color television, nursing homes, oil exploration, personal computers, recreation vehicles and semi-conductors. They all ended with ugly declines.

The fact that we stay away from these high risk areas does not mean we fail to see the benefits of technological advances and the positive impact the internet will have on the world wide economy and standard of living. We deliberately seek out companies that are astute users of technology and the internet. Walgreen's is a good example. While the new on-line drug stores receive all the hype, Walgreen's has been filling prescriptions on the internet since January 1998, and their recently enhanced site includes an exclusive link to the Mayo Clinic, the most respected health information source in the USA. Internet purchases are conveniently delivered by mail or picked up at any of their over 3000 stores. Their site also offers a password secure history of all purchased medications, whether purchased via the internet, mail or store.

Another area of using the latest technology is the development of a proprietary inventory management system that track sales in all stores via satellite and automatically place orders to both their warehouses and suppliers to quickly restock the stores. This system improves utilization of store shelf space and warehouse facilities and has saved the company over \$700 million in inventory. This money, plus cash flow provide the wherewithal to open over 400 stores annually with no debt. Despite completing it's 25th year of record earnings in 1999 with a 22.2% increase, the best since the early 1980's the stock has been flat. In answering the question why, Walgreen's' 1999 annual report best answers this question by stating, "Historically stock prices follow company performance. If you chart 25 years at Walgreen's, you will find a steady earnings curve but a more jagged

upward path for the stock price. The average annual return on our stock during that period has been more than 30%". What the stock will return over the next decade is unknown, but considering all aspects of their business are accelerating with current growth at 13% for same store sales, 20% for total sales and 22% for net income versus 8%, 13% and 14% respectively five years ago, future returns will likely compare very favorably with past results.

Harcourt General and McGraw-Hill are two more examples. Both of these companies digitized their vast array of publications years ago which makes the migration to the internet relatively easy and inexpensive. But more importantly their material has copy right protection and therefore cannot be duplicated by others and offered at a lower price. Harcourt General is a leading text book publisher but has also developed training material for others and now offers web based training for IBM, Microsoft, Oracle, and Arthur Anderson. In addition a fully accredited high school curriculum will be up and running on the internet within six months with accredited college courses following in another year. Propelled by increasing enrollments, demand for better education and the growth of web based training and medical and scientific journals, net income for 1999 increased 37%. We project earnings will grow at 20% annually, and the stock has the potential to more than double over the next year.

Likewise McGraw-Hill is benefiting from the implementation of 73 e-commerce web sites offering products from their proprietary publications and data bases. Higher education course material is being offered to universities utilizing secure extranet sites within McGraw-Hill's internet facilities which allow professors to customize the material, input assignments and post grades. The university and each student pay a user fee and profits expand because the cost of distributing material over the internet is extremely low. Another example is Business

Week online. Over 400,000 paying users represent a new revenue stream in that 70% were not purchasing the print version. The bottom line is that McGraw -Hill's earnings growth has increased from 13% four years ago to 18% today with the likelihood future earnings will grow even faster.

The preceding examples illustrate our strategy of reaping benefits of technology and the internet without the risk. In the same vein, eight years ago we began to invest in premier American companies with huge international businesses to take advantage of emerging market growth opportunities without the risk of currency fluctuations, unregulated foreign stock markets and political corruption. During this period foreign stock markets were booming and many investors considered our indirect approach too conservative and "not with the times". However in due course this strategy protected clients from huge losses associated with the collapse of Asia and Russia two years ago. It is easy to forget, but during the panic many investors lost more than half their money in less than a day and will never recover the loss. We continue to deploy are indirect international strategy because the growth opportunity in emerging markets is a long term phenomenon which we will gain from for many years.

We also believe without question that technology and the internet offer exceptional long term opportunity, but due to excess speculation and unrealistic expectations built into the price of high technology and internet companies, these areas represent high risk. Therefore our strategy is to side step this risk by investing in companies smart enough to use technology and the internet to lower costs and expand markets. These companies reap the rewards but are not subject to the rapid product obsolescence that is commonplace in the fast paced world of technology. As with emerging markets, this is a long term strategy because advances in science and research are occurring

faster than ever and this trend will be in force and provide unparalleled advances throughout our lives.

CONCLUSION

While the last year has been frustrating, it has not subdued our confidence that our disciplined program will continue to produce strong long term results with minimal risk. Our investments are aligned with the following highly favorable long term trends:

The aging of the population, (pharmaceutical and retail drug companies).

The globalization of the world economy based on free market capitalism, (American publishing and consumer products companies operating in hundreds of countries around the world).

The technological revolution, (Companies with proprietary technology in avionics, education and retail distribution and companies with legally protected internet based products and services).

These trends will drive great growth companies profits and thereby their stock prices for decades, and our strategy is to participate fully in this growth while avoiding the inherent risk.

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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