J.L. BAINBRIDGE
& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

2000 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2000, J.L. Bainbridge & Company, Inc. achieved a 2.8% rate of return on all money under management. In conjunction with 1994, 1995, 1996, 1997, 1998 and 1999 returns of 10.2%, 38.4%, 20.3%, 23.2%, 30.2% and 5.6% respectively, a January 1, 1994 investment of $100,000 has grown to a June 30, 2000 value of $318,772 which equates to an increase of 219% over the past six and one half years. The annually compounded return over the past six and one half years is 19.8%. These results assume reinvestment of dividends and are after transaction costs and J.L. Bainbridge & Company's management fee.

INVESTMENT REVIEW

While we still find it difficult to believe, the fact is we experienced a bear market from July, 1999 through Mid-March, 2000. During this period our portfolio declined 23%. What makes this bear market so unusual is that it was caused by neither an over heated economy and accompanying high inflation and high interest rates nor an external event such as the 1991 Gulf War. This bear market was caused by the biggest speculative binge in history as investors went crazy bidding up the prices of biotechnology, internet and technology stocks. The effect was money was literally siphoned from virtually all other stocks as illustrated by the statistic that more than 60% of all stocks listed on the New York Stock Exchange declined more than 50%.

Since mid-March this situation reversed and as a consequence, our portfolio recovered, but for the twelve months from July, 1999 through June, 2000 we are well below 15%. This naturally leads to the question: What does the future hold? The answer is twofold. First periods where one's investments are out of favor is normal. Secondly long term results are driven by earnings and dividend growth. Hence, if one's investments produce strong earnings and dividend growth, periods of lower returns are followed by periods of high returns. Exactly six years ago we were also enduring a period of slow growth, and our 1994 mid-year report concluded: "We stand on the threshold of many years of superior results." During the ensuing five years, our results were 26.7% compounded annually. Because the combination of a quality portfolio of fast growing companies that are bargain priced is the same situation today as we faced six years ago, we are again standing on the threshold of superior returns.

INVESTMENT STRATEGY

Although periods where high quality growth companies are out of favor is normal, that does not mean the resultant periods of low appreciation are easy to cope with. Some clients have asked the question: Why don't you anticipate these periods and adjust accordingly? Identifying periods of slow growth is simply not possible, just as identifying periods of high growth is not possible. Therefore attempting to do so increases risk and jeopardizes future results. Risk is inherently increased when undervalued high quality investments are replaced with either low quality investments or high priced quality investments that are currently in vogue. Such low quality or high priced investments could drop precipitously and not recover, which would cause a permanent loss of clients' funds. Hence this is an approach we would not take.

On the other hand, we could switch money from high quality investments to a money market fund when anticipating a period of low return. While this approach does not add risk, it does jeopardize future results because it requires the accurate prediction of when to go to cash and when to go back to stocks. For example, assume that at the end of 1997 after three and one half years of an annually compounded return of

27.3%, we concluded a slow period was at hand and converted our portfolio to money market. As a consequence the return for 1998 would have been about 5% rather than the 30% achieved in 1998. Since our return for 1999 and the first half of 2000 was approximately the same as money market, whether we reinvested or not, our compounded return over the past two and one half years would have been 5% and our ability to achieve 15% for the five years 1998 through 2002 would be in deep jeopardy.

The bottom line to investment success is based on a sound long term investment program and the patience to stay the course. Patience is also the key to staying with an investment in a company when its stock price fails to quickly reflect its growth potential. A good example is Harcourt General which was initially purchased in August, 1998. This investment remained flat for the ensuing twenty months despite earnings growth of 36% in 1999 and a highly successful migration of its publications to the Internet. In June management decided to sell the company for the benefit of shareholders, and the stock jumped 38% with the expectation the final sale price will be another 20% or more higher.

The basis of our program is to find great growth companies, such as Harcourt General, that are selling at a bargain price. But great growth companies sell at an attractive price for a reason which usually means the company is undiscovered, misunderstood or out of favor. In each case, although the reason is invalid, many months can pass before there is a change. While Harcourt General is a good example of an undiscovered company, McGraw-Hill is a good example of a misunderstood company. Ten years ago bond ratings were their biggest business and this business was adversely affected by rising interest rates. Today their ratings business is globally based and revenue is based on annual recurring fees rather than on individual bond issues. Hence while rising interest rates do cause a steep decline in the number of new bonds issued, McGraw-Hill's earnings are not affected. This, plus strong growth in financial services and publishing, will produce an 18%-20% increase in earnings this year. Nevertheless from this January through April their stock fell 29% because of investor fears that higher interest rates would depress earnings. After the release of strong first quarter earnings, their stock rebounded sharply but remains bargain priced.

Walmart is a recent example of a growth company out of favor. The consensus view is that an economic slowdown will reduce consumer spending and thereby hurt retailers. While this is true for most retailers, Walmart actually benefits because consumers become more price conscious and increase their spending at discount stores. But for today's impatient investors, all retailers are to be avoided. This caused Walmart's stock to decline 26% over the past five months, which presented an opportunity to purchase this dominant retailer at a very attractive price. We bought aggressively and are waiting patiently for a similar opportunity to add Home Depot to our clients' accounts.

CONCLUSION

As indicated earlier, six years ago marked the end of a period of results well below our 15% objective, and this period was followed by five years of 26.7% annually compounded growth. This is exactly where we stand today on the threshold of many years of superior returns that will more than make up for the past twelve months. Our confidence is based on the fact the companies selected for investment are on average growing 16% annually. In addition, while this growth is more than double the average rate of growth for all the companies in the S&P 500 index, our portfolio is currently being valued by the stock market at a lower level than the S&P 500. Consequently the opportunity for superior results is at hand based on the fast earnings growth coupled with the strong likelihood the evaluation of these companies will at least catch up with the market average. The only requirement to achieving these results is patience.

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