

J.L. BAINBRIDGE & COMPANY, INC.

◆ PROFESSIONAL MONEY MANAGEMENT ◆

2001 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2001, J.L. Bainbridge & Company, Inc. achieved a 1.1% rate of return on all money under management. In conjunction with 1994, 1995, 1996, 1997, 1998, 1999 and 2000 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6% and 16.9% respectively, a January 1, 1994 investment of \$100,000 has grown to a June 30, 2001 value of \$365,849 which equates to an increase of 265% over the past seven and one half years. The annually compounded return over the past seven and one half years is 19.2%. These results assume reinvestment of dividends and are after transaction costs and J.L. Bainbridge & Company's management fee.

INVESTMENT REVIEW

Last year's mid-year report concluded that we were standing on the threshold of many years of superior results. In the past year our return of 14.9% compares very favorably with the S&P 500 and NASDAQ which declined -14.9% and -43.6% respectively. Our return of 24.7% over the past two and one half years also compares very favorably with the S&P 500 and NASDAQ returns of -0.4% and -1.4% respectively.

The first half of 2001 was another volatile period marked by an emotional decline in the first quarter followed by a modest recovery for the overall market but a full recovery for our portfolio. Today pessimism prevails with the majority of investors taking the view that the economy will not recover in the second half of this year, and the market is likely to remain in the doldrums. We could not disagree more, and believe that the power of the Federal Reserve's policy to aggressively reduce interest rates is being grossly underestimated. Falling interest rates and the pending tax cuts will stimulate both the economy and the market. In this environment our portfolio should shine

as our high quality companies report strong record earnings which will compare extremely positive versus the poor earnings that will be reported by the vast majority of companies. Accordingly we are confident our results over the next two and one half years will exceed 15% by a good margin, and we will meet our 15% annually compounded objective over the five year period 1999 through 2003.

INVESTMENT STRATEGY

Over the past several months both prospective and existing clients have asked: How did your company avoid the speculation of 1999 and early 2000 when most money management firms were drawn into the fray and consequently their clients have suffered major losses? The answer to this question is threefold:

1. Our disciplined investment program designed to minimize risk and achieve 15% annually compounded growth over each five year period.
2. Our twenty years of experience.
3. Our pledge to clients.

Our disciplined program simply does not allow placing clients' money in either companies with high priced stocks or companies with unproven businesses and/or businesses that change so rapidly their future prospects are impossible to assess. Our view of investing is straight forward. If you invest in companies that either you do not understand or you cannot develop an extreme degree of confidence in the future growth of earnings, you are gambling with clients' assets. The same is true if you purchase a great company at a sky high price. Be assured we will never gamble with your money.

Experience was another factor that kept us on track with a conservative growth approach, There is an old and true saying that experience is the greatest teacher.

In 1992 and 1993 we strayed from our program because high quality growth companies in general and pharmaceutical companies in particular were out of favor. During this period cyclical companies were in vogue, and the Clinton health care program caused a decline in health care related stocks. Hence we found ourselves with a stagnant portfolio during a time when the overall market was appreciating. In an attempt to correct this situation, we sold some of our great companies and bought lower quality cyclical companies which only exacerbated the situation. We learned our lesson well and vowed never again!! Based on this experience we never considered joining the recent speculative binge.

Our pledge to clients is the third and most important factor, and this pledge is taken very seriously because we fully understand how a loss or the failure to achieve a 15% long term compounded return can affect clients' goals, ambitions and standard of living. If we had participated in the speculation, we would have broken this pledge and put clients' future in jeopardy. Since 1987 we have sent the same welcome letter to new clients. Over the past 14 years not a single word has changed. The letter states:

In the management of your funds, we pledge to you that we will:

1. Only invest in the highest quality large American Corporations with a proven record of earnings and divided growth together with an exceptional financial condition of little or no debt and significant accumulation of excess cash.
2. Never speculate on short term market or economic conditions.
3. Continually search for ways to hedge our portfolio values to provide protection during periods of high risk associated with lofty market levels and economic uncertainties.
4. Always remain focused on achieving long term 15% annually compounded growth.

These words have not changed because the investment

philosophy and money management principles behind these words have not changed and will not change.

CONCLUSION

The third item of the above pledge related to our strategy to protect clients where there is danger of a prolonged market decline as a result of major economic problems or excessive market levels. Moving assets to cash, high yielding certificates of deposit or high interest Treasury bills are examples of this strategy. However since the highly inflationary period in the early 1980s and the lofty market levels reached in 1987, there has been no need for this action. This is more true today than at anytime in the past twenty years. Today market prices are reasonable, inflation is low, interest rates are falling and taxes are being reduced. In addition America's traditional, globally integrated, growth companies continue to produce mid-teens earnings growth independent of the present economic slowdown. Accordingly the outlook is very positive, and we are fully invested.

As stated several times over the past two years, we are totally focused on achieving a 15% compounded return over the five year period from 1999 through 2003 which means a return of close to 20% will be required over the next two and one half years in order to make up for the shortfall of the past two and one half years. Past experience shows that if one's investments continue to grow earnings at a rapid clip, periods of lower returns will be followed by periods of higher returns. Today our portfolio has the potential to produce returns well in excess of 20%, and we remain extremely confident the second half of this year and the following two years will produce at least the returns required to meet our five year objective.

PRIVACY POICY: A new SEC ruling requires all investment advisors provide clients with their policy regarding non-public client information. J.L. Bainbridge & Company, Inc. policy is all client information is private and is not shared with any individual, organization or firm.

J.L. BAINBRIDGE

& COMPANY, INC.

Managing over \$140 million for more than 500 clients nationwide.
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