J.L. BAINBRIDGE
& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

2002 ANNUAL REPORT

INVESTMENT RESULTS

For 2002, J. L. Bainbridge & Company, Inc. achieved a -8.5% rate of return on all money managed. In conjunction with 1994, 1995, 1996, 1997, 1998, 1999, 2000 and 2001 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9% and -3.3% respectively, a January 1, 1994 investment of $100,000 has grown to a December 31, 2002 value of $320,886 which equates to an increase of 220% over the past nine years. The annually compounded return over the past nine years is 13.8%. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

Our 2002 return of -8.5% and our total return over the past three years of 3.4% are well above the market which witnessed declines of -15% and -24.6% in the DJI Average, -22.1% and -37.6% in the S&P 500 and -31.5% and -67.2% in the NASDAQ Composite over the past year and three years respectively. Our conservative investment program proved to be effective in protecting clients' investment dollars against the devastating market decline of the past three years. Consequently our clients are well positioned to see their portfolios grow to new heights while the vast majority of investors will spend the next several years recouping losses.

At the beginning of last year we expected to achieve positive results and saw the potential to achieve a 2002 return in excess of 15%. The first quarter followed the script as we recorded a 9.6% gain while the market was flat. However the ensuing accounting scandals and slow economic recovery caused a devastating market decline over the next six months which eventually engulfed all stocks. The good news is that the quality companies in our portfolio continued to produce strong earnings growth independent of the slow economy which protected our clients from a severe decline. The steadfast adherence to our philosophy of investing in only the highest quality growth companies is both the reason for the positive results over the past three years and the basis for our confidence going forward.

INVESTMENT STRATEGY

The market declined last year for the third consecutive year which is a situation investors have not experienced in over sixty years. In addition the 2002 decline in the DJI Average and the S&P 500 are the worst since 1977 and 1974 respectively. The result is a great deal of pessimism and dour predictions about the prospects for future investment returns. Ironically when the market is strong, investors become increasingly optimistic, and when the market is weak investors become increasingly pessimistic. However pure logic dictates that as markets reach high levels, risk increases and the probability of additional strong gains diminish, and vice versa, market declines mean lower risk and enhanced opportunity for strong gains. Accordingly we do not share the view that one should expect future returns of 6% to 8% annually. We remain committed to and fully confident of achieving our objective of 15% annually compounded growth over the next several years.

Last years Annual Report listed the following as the fundamental reasons for our conviction that the investment environment remains positive. They have not changed and bear repeating. Please refer to last years report for a more detailed analysis of each.

- First and foremost the companies carefully selected for investment continue to produce impressive earnings growth and are very reasonably priced.

- The amount of cash held by households is at record levels.

- The massive build-up of retirement assets by the next generation continues.

- The lowest interest rates in forty years coupled with stimulative government spending will bring about an economic recovery.

Be this as it may, clients have asked: "Why will their investments appreciate if no one wants to own stocks?" The truth is that in the short term stocks may be depressed, but over time growth in earnings and dividends will translate into increased value. As we have stressed in the past a company that grows at a double digit rate is just like a commercial or apartment building, healthy annual rent increases as well as dividend increases will mean future buyers will pay a higher and higher price. Pfizer's prospects are reviewed in the next two paragraphs because despite earnings growth of 20% the stock fell 23% in 2002. This decline was caused by the overall market decline, their proposed merger with Pharmacia and the suspension of stock repurchases. The proposed merger depressed Pfizer's stock because arbitrageurs sell the shares of the acquiring company and simultaneously buy shares of the acquired company. At the same time Pfizer had to suspend their stock repurchases which are prohibited while a merger is pending.

What will cause their stock to recover? For one thing upon the completion of the merger, which is expected within the next month, stock repurchases will resume. Last summer just prior to the announced merger Pfizer initiated a $10 billion repurchase program. At that time their cash on hand was $12 billion. Within the next six months they sold their Adams Confectionery and Schick businesses for $5 billion. This plus the free cash generated in the last half of 2002 and Pharmacia's cash on hand will balloon cash on hand to almost $25 billion when the merger closes. This is enough cash to repurchase 12% of the stock outstanding and the combined company will be generating $12 billion in excess cash annually to buy additional shares. This will not only support the stock price but accelerate future earnings and dividend growth.

The current dividend return is 2% which is more than the current money market rate and more than half the ten year treasury rate of 3.8%. Based on what we consider a conservative assumption that dividends will grow 15% annually, the dividend return would be 4% in five years and 8% in ten years. Thus just the dividend income would far exceed the interest on the ten year bond over the next ten years. Assuming earnings grow 15% and the PE ratio remains the same, the appreciation plus reinvested dividends equate to a 17% annual return and result in a $10,000 investment having a value of $21,924 in five years and $48,068 in ten years versus $12,049 and $14,517 for the bond holder. In the event their stock over time experiences a slight increase in its PE ratio and the return equals 20% annually, the value in five and ten years is $24,883 and $61,917 respectively. As both retirees and those preparing for retirement begin to realize that being hunkered down with cash or low interest bonds will not provide the wherewithal for an enhanced retirement, they will become attracted to the high quality growth companies. Unfortunately most will wait too long and consequently pay much higher prices and thereby incur the higher risk they are now trying to avoid by being too cautious today.

On the other hand because we do not foresee a robust economic recovery, our expectation is most companies will continue to experience anemic profits, and therefore stockmarket gains over the next several years could be well below 15% annually. Thus over the past year we have replaced holdings in our portfolio, such as Black & Decker and lodging stocks, with First Data, Gillette, Medtronic and Sysco that are producing double digit growth independent of the strength of the economy. Today we have a strong portfolio designed to provide both protection against market volatility and produce a 15% return during a period when market returns may be considerably less.

CONCLUSION

While clearly 15% compounded over the five year period 1999 through 2003 will not be achieved given the severity of the market decline, and in all honesty catching-up to a 15% return from year 2000 forward may not be possible or at best may take as many as ten years. But given the current low evaluation of the stocks in our portfolio versus three years ago, their dependable double digit earnings and dividend growth, ongoing stock repurchases and the probability inflation and interest rates will remain low, we simply cannot accept today's gloom and doom view and lower our long term objective. In fact the potential for much better results is a distinct possibility because if most companies profits continue to falter, increasing investor attention to those few growth companies flourishing will likely translate into higher evaluations as time goes on.

The merits of restricting investment to only high quality extraordinary companies have been proven over the past many years and particularly over the past three years. These exceptional companies have established uninterrupted growth records going back as far as twenty years and have exceptional financials with little or no debt and healthy excess cash flow. This emphasis on quality together with our disciplined approach to buy only when the price is reasonable is totally geared to minimize risk, which in our view is the most important key to investment success. Be assured we will never deviate from this conservative growth investment approach.

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.

Managing more than $150 million for over 600 clients nationwide.

VISIT OUR WEBSITE: www.jlbainbridge.com

1582 MAIN STREET
SARASOTA, FLORIDA 34236
(941) 365-3435/(800) 899-5171