J.L. BAINBRIDGE
& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

2002 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2002, J. L. Bainbridge & Company, Inc. achieved a -3.4% rate of return on all money under management. 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 June 30, 2002 value of $338,747 which equates to an increase of 239% over the past eight and one half years. The annually compounded return over the past eight and one half years is 15.5%. These results assume reinvestment of dividends and are after transaction costs and J. L. Bainbridge & Company, Inc. ‘s management fee.

INVESTMENT REVIEW

Our expectation for the market over the next two or three years is for moderate gains marked by continued volatility. However our expectation for our portfolio of extraordinary companies is for strong gains well in excess of 15% compounded annually. The reason for this view is the double digit earnings growth being recorded by these companies compared to the dismal performance of the vast majority of companies in general and the deplorable business conditions in technology and telecommunications.

The first quarter of this year followed this script with the market unchanged versus our return of +9.3%. The second quarter was a different story with both the market and our holdings down around 13%. While our results continued to better the market by a wide margin over the past six months, the severe selling pressure that occurred in April, May and June eventually took its toll and we failed to meet objective. The panic selling was due to poor earnings; a slow economic recovery; accounting irregularities; and the fear of another terrorist attack. While the companies we carefully selected for investment reported exceptional results and have absolutely no accounting problems, this was temporarily ignored. We expect the remainder of the year to be much better as investors realize the accounting problem is limited to just a few bad apples and earnings show some overall improvement as the economic recovery moves forward at a moderate pace. As to the threat of further terrorism, this is being overstated in that those wanting to harm America have little talent or resources to act. Consider that the September 11 attack was a low technology barbaric activity that required little talent and only succeeded because America’s guard was down. This does not mean there will be no further attacks, but our thoughts on the situation is that future attacks will be minor in scale, will be followed by quick arrests and will have a limited affect on both the economy and the stock market.

INVESTMENT STRATEGY

In our 2001 Annual Report we expressed our optimism that the next several years have the potential to produce returns well in excess of our 15% objective. The results of the first half of 2002 have not changed this view at all as we continue to feel the future is indeed bright. This optimistic view is based on the following factors:

- 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.

Each of these are covered in detail in our 2001 Annual Report which is available at our website or via the mail upon request.

While these powerful forces bode well for the economy, there are other factors which we believe will cause the economy to grow slower over the remainder of this decade than the rapid growth experienced in the past decade. Specifically the excessive capital investment and subsequent over manufacturing and service capacity in the technology and telecommunications industries that occurred over the past decade will dampen the current economic recovery for the next several years. In addition the recovery will be hampered by sluggish growth in Europe and economic problems in Japan. In this environment most companies will have a difficult time achieving significant earning progress.

Therefore we decided to restructure our portfolio by removing companies that are susceptible to either slower economic growth or the aftermath of last year's terrorism and replace them with companies that are growing at a double digit rate independent of the economy and last year's tragic events. This action was not taken because some of our investments were not great businesses, the changes were made because the environment has changed. For example Black & Decker was sold because a slower economy caused Home Depot and Lowes to be more demanding of discounts from suppliers in order to stimulate their sales by lowering prices to their customers. Consequently while the DeWalt line of power tools remain highly successful, profit margins are being squeezed. Similarly because travel is the hardest hit by the terrorist attacks and the recovery of this industry could take years, we sold Marriott and Merristar Hospitality and are waiting for a good opportunity to sell Host Marriott. The proceeds were used to purchase First Data, Medtronics, Pepsi, Target Stores and Walgreens. Consequently we now have the strongest portfolio in our history with every holding growing at a strong double-digit rate in this less than robust economy. A key to investment success is to make adjustments to a changing world, and we are confident these changes position our portfolio to exceed 15% annually compounded in a period when market returns will likely be less.

CONCLUSION

When the market declines emotionally one becomes discouraged, but in reality down markets present the most potential for large gains. Recognizing some clients are naturally nervous about the hype regarding a small number of companies that have committed fraud, it is important to note the following characteristics of the companies we have carefully selected for investment:

- None are managed by a swashbuckler CEO.
- None pay executives exorbitant compensation.
- None make loans to their executives.
- None operate businesses off the books.
- None have hidden debt obligations.
- None have businesses that are growing at an unrealistic rate and none are growing via an aggressive acquisition program.
- None use debt to leverage growth.
- All except Target and Waigreens generate large and growing excess cash flow. Target and Walgreens also generate tremendous cash flow but use all of it to fund store opening programs.
- All except Target and Walgreens are continuously repurchasing their stock.
- All use conservative accounting principles.
- All have businesses that are understandable and have long term records of earnings growth.

With the demise of speculation in both the stock market and the boardroom as well as investors' full recognition of the high risk associated with investments in debt ridden companies pursuing an aggressive acquisition strategy, investors will increasingly focus on the truly extraordinary, high quality American growth companies. This is the basis of our extremely positive outlook for our disciplined high quality growth investment program.

J.L. BAINBRIDGE
& COMPANY, INC.

Managing over $170 million for more than 600 clients nationwide.
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