

J.L. BAINBRIDGE & COMPANY, INC.

◆ PROFESSIONAL MONEY MANAGEMENT ◆

2004 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2004, J. L. Bainbridge & Company, Inc. achieved an 8.8% rate of return on all money under management for our growth equity investment program. In conjunction with 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, and 2003 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.2%, -8.5% and 13.8% respectively, a January 1, 1994 investment of \$100,000 has grown to a June 30, 2004 value of \$397,218 which equates to an increase of 297% over the past ten and one half years. The annually compounded return over this period is 14.2%. These results assume reinvestment of dividends and are after transaction costs and J. L. Bainbridge & Company, Inc.'s management fee.

INVESTMENT REVIEW

Our results for the past six months are gratifying in that they were achieved in an essentially flat market, and we continue to see the potential to exceed our 15% objective over the next several years. The overall market has been subdued by rising interest rates, which are likely to continue to increase over the next year or so. While in the past higher interest rates were the cause of many market declines, we do not expect the current increases to have much of an impact on the market because the present situation represents the return to normal interest rate levels from the abnormally low levels the Federal Reserve cut interest rates in 2002 and 2003 to prevent a serious economic decline. The war on terrorism is also weighing on the market. While the war is taking a heavy toll on our troops that we all hate to see, the impact economically is not significant. In addition as countries around the world make further progress against various terrorist elements, the news should become more positive.

As has been the case for several years the markets are volatile, and we expect this to continue. However, this

volatility can provide beneficial buying opportunities, and we will continue to patiently wait for and take full advantage of these opportunities. Our purchase of Avon Products last December and January is a good example. At that time Avon declined because two analysts thought they saw a weakening in Avon's business and down graded their investment rating from buy to hold. Subsequently Avon announced first quarter earnings increased 48% and as a result their stock appreciated 37% in the first half of 2004, which is the biggest gain of any stock in our portfolio. Because the first quarter is a relatively small quarter, full year earnings will not increase as much, but 2004 earnings are expected to grow an impressive 25% as their business is strong around the world with exceptional growth in China, Eastern Europe and Russia. As is always the case while some of our investments lead, others lag. This was true for First America, Forest Laboratories, Medtronic, Wal-Mart and Walgreen's during the first half of 2004. However their businesses are very healthy, and consequently they will likely lead our investments the remainder of the year.

INVESTMENT STRATEGY

For the past twenty-three years we have steadfastly adhered to the discipline of investing in only companies with a proven record of double-digit growth, exceptional financial position with a conservative level of debt and significant excess cash flow. This approach has produced excellent returns for our clients in the past, and we expect future returns to at least meet our 15% objective even though we expect market returns to be less. Our positive outlook is based on both our past results and the fact blue chip companies are currently attractively priced. In 1999 when the overall market was soaring and stock prices were high, we began to advise caution. Today the opposite is true. The market is languishing and stock prices are reasonable hence we are optimistic. Wal-Mart is an excellent example. In 1999 Wal-Mart

was selling for \$48 per share or 38 times 1999 earnings per share. Today the price is \$53 per share or 22 times estimated 2004 earnings per share. Based on our analysis Wal-Mart's stock is at full value when the price to earnings ratio is 25 times the next twelve months earnings. Using this analysis Wal-Mart's stock price has the potential to reach \$88 by the end of 2005 or 59% higher than the current price. The following table presents additional examples.

| <u>Investment</u> | <u>1999 PE</u> | <u>2004 PE</u> | <u>Potential Return</u> |
|-------------------|----------------|----------------|-------------------------|
| First Data | 28 | 20 | 56% |
| Johnson & Johnson | 33 | 18 | 58% |
| Medtronic | 44 | 26 | 51% |
| McGraw-Hill | 24 | 22 | 54% |
| Sysco | 32 | 24 | 52% |
| Walgreens | 45 | 26 | 49% |

Although achieving returns this high is not expected, these high potential returns bode well for exceeding our 15% objective over the next eighteen months.

The other key element of our strategy is the understanding that in order for a company to grow at a double-digit rate year after year, they must be participating in a long-term economic trend that drives parts of the economy much faster than the overall long-term economic growth of 3% annually. There are three of these trends and the most important is the aging of the population. Obviously, this trend drives increased health care spending which is very positive for Cardinal Health, Forest Laboratories, Henry Schein, Johnson & Johnson, Medtronic and Walgreens. Less obvious is the fact people over age fifty spend more on pets as well as lawn and garden care, which is very beneficial to Petsmart and Scotts. Because this worldwide trend will continue for decades, we are constantly seeking new investments aligned with this pervasive trend.

The globalization of trade is another important trend. This trend has opened numerous emerging international markets to American companies. This is significant because in most cases these markets are

growing faster than mature economies such as the USA and Western Europe. Our investments in Avon Products, First Data, Johnson & Johnson, McGraw-Hill, Pepsi and Wal-Mart are all reaping the rewards.

The last major trend is leading edge utilization of high technology. A good example is Wal-Mart which has developed a high technology based distribution system that has reached the point where Wal-Mart's stores receive goods on a timely basis which results in more than half of goods sold before they are paid for. Also benefiting from the use of technology are Avon Products, First America, First Data, Johnson & Johnson, McGraw-Hill and Sysco.

CONCLUSION

In the past ten and one half years, world affairs, economic events and financial markets have been highly volatile. Our record of growth returns during this dynamic environment speaks to the consistency and effectiveness of our investment philosophy. Many have the impression the decade of the nineties was easy, but there were major market declines in 1994 and 1998 accompanied with the frenzy of the media predicting the end of the world. While it is hard to imagine the next ten years will be as challenging, no one can predict the future. Therefore we will not deviate from our conservative investment program that has served our clients so well during difficult periods in the past.

Last month we exceeded \$250 million in money managed. Thus we are on target to achieving our goal of \$1 billion by the end of this decade. Our company's growth is directly attributable to our clients' loyalty and referrals for which we deeply appreciate every day.

It should not be assumed that past results will be achieved in the future or that a loss could not be incurred. Furthermore it should not be assumed that a 15% compounded return will be achieved or that future results will exceed market indexes.

J.L. BAINBRIDGE

& COMPANY, INC.

Managing over \$250 million for more than 800 clients nationwide.
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