J.L. BAINBRIDGE & COMPANY, INC.

◆ PROFESSIONAL MONEY MANAGEMENT ◆

2005 ANNUAL REPORT

INVESTMENT RESULTS

For 2005 J. L. Bainbridge & Company, Inc. achieved a 5% rate of return on all monies managed in its equity investment program. In conjunction with returns in its equity program for 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003 and 2004 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.2%, -8.5%, 13.8% and 14.6% respectively, a January 1, 1994 investment of $250,000 has grown to a December 31, 2005 value of $1,098,332. This equates to an increase of 339% over the past twelve years or 13.2% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

While our results for 2005 were below our fifteen percent annually compounded objective, the last quarter of the year produced almost all of our 2005 gain which we think is a harbinger for 2006. The first nine months of the year were negatively impacted by the rapid rise in energy prices. This increase was less of a factor in the later months of the year as prices fell somewhat and consumers and businesses adjusted to the fact oil and gas prices will likely remain at relatively high levels for several years. Relative to the market our results were satisfactory in that depending on which index is used to measure market returns, the market increased within a range of 1.6% to 4.9% including dividends. However we are not pleased our results were below our long-term objective, and we remain committed to achieving a 15% compounded return over the next several years including 2006.

INVESTMENT STRATEGY

Recognizing our strategy for future success has been stated in previous reports and monthly letters, we were somewhat hesitant to repeat essentially the same thoughts again. However because we felt it important to clearly state that our program has not and will not change and because we feel this strategy was not only the key to saving our clients from the devastating market losses over the past six years but will also be the key to future success, we concluded the strategy which is in essence the foundation of our investment philosophy warrants restatement.

Before delving into the reasons for both our optimism and confidence that our objective is attainable, first a look at our assumptions of what the economic and investment environment will be like over the next several years is in order. Foremost we do not expect utopia. Far from it, we expect growth for both the United States and global economies will be much less than during the 1990s. The reason being Western Europe and Japan, the second and third largest world economies, will continue to experience long-term economic problems with high unemployment and anemic GDP expansion. Because of the economic drag from these regions and the intense competition from developing countries, we also expect low inflation and moderate interest rates. Accordingly, these conditions will likely cause both modest profit growth for most companies and single digit overall stock market returns. Obviously this represents a challenge.

Our strategy for success in this environment is fourfold. First select investments that are benefiting from long-term trends that cause some segments of both the United States and Global economies to expand much faster than their respective overall economies. Second select American companies that are serving those geographic regions of the globe that are growing rapidly. Third purchase these companies only when the current price offers at least 35% appreciation potential over the next year. And lastly avoid catastrophic losses.

As we have stated for many years, the most important long-term trend for investors is the aging of the population that will be a major factor for decades. However this trend has both positive and negative implications. For example, healthcare expenditures will continually increase which is good for the healthcare industry, but the burden on government budgets will cause price constraints, which is negative for pharmaceutical companies. Consequently, our approach to mitigating the impact of pricing pressure is to avoid the major drug firms, and invest in widely diverse healthcare companies. Hence our clients own the following:

Cardinal Health for drug distribution, medical supplies, drug testing and manufacturing services and hospital automation systems.
Henry Schein the major distributor of dental products and supplies.
Johnson & Johnson with its huge consumer, medical device and pharmaceutical divisions, which operate in more than one hundred international markets around the world.
Medtronic and Stryker the major producers of cardiovascular, diabetic and spinal products to control chronic life threatening and severe pain conditions as well as hip and knee replacements.

While healthcare is the most obvious beneficiary, the aging trend also benefits other industries. For example, our clients own Petsmart and Scotts Miracle Grow because the over fifty age group spends the most on pets and gardening. Our clients also own McGraw-Hill, Nuveen and T Rowe Price in order to participate in the investment management and service industries that are growing rapidly as the wave of baby boomers prepare for retirement. In total half of our portfolio is benefiting today and will benefit even more over the next several years as four million baby boomers reach age fifty every year for the next nine years and the first of this generation reach sixty this year.

The other major trend is the use of high technology to reduce costs and improve customer service. While high technology is available to all companies, some are much better at effectively incorporating technology into their business processes than the majority. Accordingly, our clients own American Express and First Data that use technology to cost effectively process millions of transactions daily. McGraw-Hill utilizes the latest digital printing to produce educational material in book form as well as electronically over the Internet. And as a final example, Wal-Mart's computer controlled distribution system results in products delivered to their stores on a just in time schedule. As a result Wal-Mart sells more than half of the goods in the store before the goods are paid for. Thus the cash that would otherwise be stuck in inventory is available to fund store expansion and share repurchases.

The second part of our strategy is to invest in American companies serving the fastest growing international markets. While globalization is increasing the standard of living in many poor countries, it is causing increased competition for high cost nations. Hence Asia, particularly China and India, Eastern Europe and Russia are growing more than twice as fast as the world economy while Japan and Western Europe are growing at less than one-half the world economy. The companies leading the charge are Avon Products, First Data, Johnson & Johnson, McGraw-Hill, Proctor & Gamble, 3M and Wal-Mart. Notable examples are Avon Products that has surpassed $1 billion in sales in Eastern Europe, is expanding rapidly in India and is already profitable in China where it is the only foreign company with government approval to employ representatives to sell directly to consumers. Another is First Data, which has contracts in both China and India to deploy Western Union in more than forty five thousand post offices. First Data also has deployed Western Union throughout the remainder of Southeast Asia as well as Eastern Europe and Russia. Another is McGraw-Hill that is opening offices all around the globe to provide Standard & Poor's debt rating and market indices in virtually every major country worldwide. And lastly Wal-Mart is rapidly expanding both Supercenters and Sam's Clubs in China. Who could have imagined an American company would have the opportunity to freely operate giant retail outlets in the world's most populated country that not many years ago was a closed communist society? In total for all the companies in our portfolio, 41% of their total revenue is derived from international markets.

The third part of our strategy to purchase only when the appreciation potential over the next twelve months is at least 35%, and fourth, avoid catastrophic losses, are closely related in that one cause of catastrophic losses is due to over paying for a company's stock. For example, Intel and Microsoft remain leaders in their industries, but investors that purchased their stock at the lofty prices that prevailed five years ago are currently experiencing a loss of almost 60%. The discipline of refusing to pay exorbitant prices that are being hyped by analysts and the media is difficult, but it is essential for good long-term investment results. The same discipline is utilized to establish prices when one of our investments reaches full value and should be sold.

Avoiding catastrophic losses is also based on possessing a thorough understanding of the businesses of companies considered for investment. This includes a complete analysis of their financial condition and cash flow. Equally important is a deep understanding of the economic trends that have driven past revenue and earnings growth and the sustainability of these trends to drive future growth. The movie, "Enron-The Smartest Guys," provides a fascinating view of how an escalating stock price causes investors to blindly jump on board a ship destined to sink. Consider all seventeen analysts following Enron rated the stock a strong buy just before the company went downhill like a roller coaster. We did not invest in Enron, not because we are the smartest investors, but because we did not understand how the profits were being generated. Supposedly they were coming from astute trading of energy. However, as history has taught many times, trading profits are easy to come by when prices are rising but evaporate when prices are flat or declining. Accordingly, we could not see any long-tern viability to their business model. Enron's investors lost billions of dollars by throwing caution to the wind and assuming their stock's appreciation was sufficient proof that this was a great company. Be assured we will never invest in a company we do not understand.

CONCLUSION

From an emotional point of view a period of lower investment returns cause caution and lower expectations for future returns. From a logical point of view just the opposite is true. Over the past six years the appreciation of the stocks of the companies in our portfolio, although considerably better than the losses incurred by the stock market, has been less than one-half the increase in earnings and dividends. Consequently the evaluation of their stocks versus current and projected earnings is very attractive and the potential return today is higher than at anytime since the early 1990s. Specifically the average potential return for all the companies in our portfolio is 57% and 165% over the next one year and five years respectively. These potential returns, the continued strong growth in earnings and dividends of these companies and the likelihood inflation and interest rates will remain low, all portend several years of returns of at least our 15% objective. Be assured we will be working diligently to bring results of at least 15% annually to fruition.

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.

In accordance with SEC regulation, a current copy of our SEC registration from ADV Part II is available upon request free of charge.

PRIVACY POLICY: J.L. Bainbridge & Company, Inc. policy is client information is private and is not shared with any individual, organization or firm.

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 $375 million for over 800 clients nationwide.

VISIT OUR WEBSITE: www.jlbainbridge.com

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