J.L. BAINBRIDGE & COMPANY, INC.

◆ PROFESSIONAL MONEY MANAGEMENT ◆

2006 ANNUAL REPORT

INVESTMENT RESULTS

For 2006 J. L. Bainbridge & Company, Inc. achieved a 13.3% 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, 2004 and 2005 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.3%, -8.5%, 13.8%, 14.6% and 5.1% respectively, a January 1, 1994 investment of $250,000 has grown to a December 31, 2006 value of $1,245,896. This equates to an increase of 398% over the past thirteen years or 13.2% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

Our results for 2006 were slightly below our fifteen percent annually compounded objective, and we are somewhat disappointed with this return because we would have exceeded our objective if irrational concerns by the media and various analysts about the health of the USA economy had not surfaced in December that depressed shares of companies deemed to be affected by slower economic growth. An example is 3M which was downgraded last month by analysts due to concerns about the decline of the housing industry. The facts are 3M has very little exposure to this industry due to the wide diversity of their product lines, and they derive over sixty percent of their total business from foreign markets with an exceptionally strong presence in the fast growing countries of Asia. W. W. Grainger shares were also affected by concerns of slower economic growth which was exasperated by Black & Decker's mid-December announcement that their earnings would be substantially lower due to the decline in housing. Although Grainger serves the maintenance, safety and laboratory markets with virtually no involvement in residential construction, their stock declined over four percent that day.

Consequently, Grainger declined 1.6% and 3M posted a mere 0.6% gain in 2006. Another company affected was General Electric which rose only 6.2%. Medtronic actually declined 7.1% due to a temporary decline in the demand for implantable cardioverter-defibrillators caused by a competitor's product recalls which led to patient safety concerns. All four of these companies reported another record year with earnings per share growing at a double digit rate in 2006. Thus in our opinion these stocks are undervalued and the potential for the next twelve months is an average return of 42% for their stocks which bodes very well for 2007.

We cannot wait for these companies' next earnings reports and projections for 2007 due to be released in late January, 2007. Our expectation is a very positive response by investors and a jump in their stock.

INVESTMENT STRATEGY

Last July the market was going through a relatively minor decline with many analysts and the media crying the typical "the sky is falling" alarm. Heeding such advice is a major cause of investment failure. In three of our 2006 monthly letters we cited Dunbar Inc.'s "Quantitative Analysis of Investor Behavior" study which found both the focus on short-term results and the aversion to loss as the primary causes of poor investment results. This study discovered that over a twenty year period, 1986 through 2005, the average investor achieved an annual return of just 3.9%. This rate of return would increase $250,000 invested thirteen years ago to $395,664 versus the $1,249,102 achieved by our investment program over the same period.

Warren Buffett describes focusing on short-term results as rearview mirror investing and asserts this is as detrimental to your financial wellbeing as driving an automobile in this manner is to your physical wellbeing. An example of rearview mirror investing is buying a stock simply because the stock has appreciated rapidly over some period of time with no regard to either the stock's price being overvalued or the company's business fundamentals and financial condition. From an emotional point of view this investment approach is appealing as investors become confident when a stock appreciates and investors become concerned and fearful when a stock stagnates or declines. Emotion often overwhelms professional analysts as well as individual investors. WorldCom illustrates this phenomenon in that analysts became mesmerized by the stock's ever rising price and ignored the deteriorating financials. When WorldCom fraudulently capitalized expenses, reported earnings continued to grow but cash flow did not, however analysts overlooked this fact and stuck with their buy recommendations. In the end investors suffered a major loss and WorldCom's employees lost their 401k and many lost their jobs. Although WorldCom is an extreme example, following the rearview mirror approach is in fact a major cause of not achieving ones financial goals. Typically investors randomly switch from one stock to another, one mutual fund to another or one asset class, such as stocks, to another, such as real estate, based solely on past short-term returns. From a logical point of view this behavior increases risk and decreases returns because money is moving from conservatively priced assets to overpriced assets with both reduced appreciation potential and greater risk of price declines. This is exactly what occurred over the past two or three years as investors exited the stock market and bought larger residences, overpriced condominiums and expensive vacation homes. Looking in the rearview mirror, stocks looked dull while real estate looked exciting. Today these investors are suffering the consequences.

A current example of the rearview mirror approach is investing in foreign markets simply because in 2006 their stock markets outperformed domestic stocks. Hence without regard to the risks of investing directly into countries with lax regulatory controls, loose accounting standards, less than free capital markets and the current high stock market evaluations, money is pouring in. This is something we will always avoid. However we do recognize the greater growth potential of faster growing international economies, and for the past ten years we have selected companies with substantial and successful businesses overseas. Accordingly, 42% of the revenue of all of the companies in our portfolio is derived internationally. Thus we have and will continue to reap the rewards of faster growth in emerging economies but without the risk of direct investments in these markets.

Fear of losing ones hard earned money is the second cause of poor investment returns. This fear is understandable given the media's constant hype of imaginary pending disasters and their coverage of high profile bankruptcies such as Enron. However to achieve meaningful investment results, one must realize this fear does not prevent losses but actually causes just the opposite result, and therefore one must set emotion driven actions aside and focus on owning quality companies with long histories of consistent double digit earnings growth, an exceptionally strong financial position and a dominant market position.

Fear of losing money provokes panic selling of an individual stock that is declining as well as liquidating an entire portfolio when the market is declining rapidly. In both instances short-term losses are converted to a permanent loss of capital. For example, in 2004 Cardinal Health's stock declined due to concern of an internal examination of accounting procedures and a related SEC inquiry. Our analysis of Cardinal's cash flow indicated that fraud was not an issue and strongly recommended clients hold Cardinal's stock. Ironically on the day before the results of this examination were announced, a client called very upset because an analyst on television stated Cardinal is a junk company and should be sold. Based on our advice this client decided not to sell, and the next day when the results of their accounting review amounted to insignificant changes, Cardinal's stock appreciated 21% in a single day. Today the stock is $64 versus the low of $36 two years ago. Unfortunately a few clients did sell and incurred a permanent loss.

Liquidating a major portion of or total portfolio is caused by media invoked fear the world is coming to an end. Media hype has reached the point where fear is created when a relatively minor market decline occurs. In July of 2006 the market declined to a level 7% below its April high but only 1% below the level at the beginning of this year. This minor decline was magnified by the media into a bear market that due to high fuel prices, rising inflation and a declining real-estate market would become catastrophic. The anxiety caused by media's constant pounding drums of doom and gloom is commonplace, but must be set aside in order to achieve good investment returns. Our 13.2% annually compounded return achieved over the past thirteen years, which included the overall market decline from 2000 through 2005, would not have been achieved without being fully invested throughout the entire thirteen year period.

CONCLUSION

Since our founding in 1981, we have followed a disciplined approach with emphasis on owning companies with proven revenue and earnings growth records and significant excess cash flow. The importance of free cash flow has been discussed over the years and cannot be over emphasized. This has never been demonstrated more clearly than by Scotts Miracle-Gro's announcement to return $750 million of cash to shareholders. Initially they will repurchase $250 million in January, 2007 of stock followed by a $500 million special dividend in February. This dividend will approximate $8 per share which combined with the quarterly dividend will provide shareholders with a 17% dividend yield in 2007. THEREFORE OUR RECOMMENDATION TO CLIENTS IS DO NOT PARTICIPATE IN THE STOCK REPURCHASE OFFER because those choosing to sell will not receive the special dividend.

This is just one example of the wisdom of owning only companies with strong businesses with a long record of success and exceptional finances including extremely high levels of free cash flow. Accompany this with the discipline to make investments only when the price is attractive, and you have the essence of our investment program. We remain confident this approach, which at times may appear unexciting and too conservative, will continue to meet our clients' long-term financial goals and our 15% objective. Excitement maybe enticing at times, but it does not build or preserve the wherewithal for an enhanced retirement.

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.
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