

J. L. BAINBRIDGE & COMPANY, INC.

◆ PROFESSIONAL MONEY MANAGEMENT ◆

Managing more than \$275 million for over 800 clients nationwide.

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2011 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2011, J. L. Bainbridge & Company, Inc. achieved a +8.5% 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, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.2%, -8.5%, 13.8%, 14.6%, 5.1%, 13.3%, 3.8%, -36.7%, 34.9 and 19% respectively, a January 1, 1994 investment of \$250,000 has grown to a June 30, 2011 value of \$1,426,600. This equates to an increase of 471% over the past seventeen and one half years or 10.4% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

The first half of 2011 followed somewhat the same path as last year in that both years were at a high point in April which was followed by a bout of selling in May and June which in 2010 resulted in a -2.4% return for the first half. The selling in both last year and this year was an overreaction to the financial crisis in Greece and concern that world economic growth is slowing. In mid-June it looked like we would again end the first half with a small loss. However, this year the market rebounded and our investments rose sharply in late June and we ended the first half with a +8.5% gain which positions us well for a double digit return again this year. As a result of continued market volatility and economic malaise, clients have wondered

how our investments can advance in light of high unemployment, the weak housing market and the federal deficit. The answer is we have positioned our holdings to take advantage of long-term trends as illustrated below that are experiencing fast growth. This, coupled with the trillions of dollars in cash on the sidelines earning nil, presents a very favorable investment environment for our portfolio.

INVESTMENT STRATEGY

Two important elements of our investment program are:

- 1) Invest in American companies that obtain a substantial business from international markets with a rapidly growing presence in emerging economies.
- 2) Invest such that our investments take full advantage of long-term trends that are driving growth at a much higher rate.

Forever our policy has been to invest in American companies with extensive business in foreign economies in order to reap the benefits of high growth in international markets without the risks of exchange rate fluctuations, lax accounting standards and inadequate regulatory oversight which are so prevalent in many foreign countries. A good example is a June 9, 2011 Wall Street Journal article entitled "Big Funds See Red in China." This article chronicled how many large sophisticated investment managers stormed into Chinese stocks in order to share in China's fast economic growth. Recently these stocks have tumbled as much as 70% amid questions from regulators about the

truthfulness of these companies' finances and operations. In our view these risks can be avoided by limiting investments to American companies with extensive operation around the globe. For example, Caterpillar which has twelve manufacturing plants in China all operating under American accounting standards and regulations. They also export a large amount of equipment manufactured in America. Another example is 3M which derives 72% and 28% of total revenue from overseas and emerging markets respectively. Importantly, 3M derives \$3 billion of sales in China up from only \$1 billion four years ago. Their goal is \$5 billion by 2014.

Regarding long-term trends, the surge in demand for commercial airplanes bodes well for this industry throughout at least the remainder of this decade. This demand is being fueled by a tremendous increase in air travel in the developing countries and the economics of replacing old aircraft with new more fuel efficient and lower maintenance aircraft in the developed areas of the world. An obvious beneficiary is Boeing. Boeing recently announced a 21% and 34% increase in the production of the 777 and 737 planes respectively over the next two years. In addition, they will begin to ship the new 747 expanded version and the new 787 Dreamliner this fall and both of these are selling well with the 787 particularly strong with a backlog of orders stretching eight years. As good as the outlook is for Boeing, for their suppliers the outlook is even better because they also provide parts and systems to Airbus which also has a multi-year backlog of orders. Furthermore these suppliers provide spare part and maintenance contracts to airlines for the full thirty year life of the airplanes. Hence our portfolio is heavily focused on this industry with positions in Boeing, Eaton, General Electric, Goodrich, Precision Cast Parts and United Technologies.

CONCLUSION

Although the market has appreciated strongly over the past two years, the investment environment has not changed materially. Pessimism is widespread which is very positive because many investors remain frozen on the sidelines holding a vast amount of cash. Furthermore inflation is subdued, interest rates are low and the Federal Reserve stated recently that rates will remain at today's level for at least several more months.

In addition to the above strategy, based on our over thirty years of experience the keys to investing are

quite simple: buy the best companies at a reasonable price. Our program has a very good record of selecting the best companies at a reasonable price. Our disciplined investment process dictates that we only purchase companies with a strong financial position, a proven growth record and based on our independent research, a rock-solid conviction that the past history of growth will continue for many years going forward. And we only purchase these companies when, based on our independent analysis of their future earnings growth rate and a correlated price-to-earnings ratio, the potential return over the next twelve months is at least 35%. However it is important to realize, this does not mean always buying at a price that is not followed by an unpleasant decline due to today's volatile market. For example we purchased Cummins Inc. (CMI) at \$105.69 in late May. Based on our expectation CMI will earn \$9.80 in 2012, this price was only 10.7 times forward earnings per share and their stock was down from a high of \$121.5 in early May. With our projection CMI will grow earnings at 15% or more over the next five years, our purchase price was a bargain, and based on our analysis CMI at this price has the potential to appreciate 48% over the next twelve months. However the market quickly went into a tailspin and CMI fell to \$93 within two weeks. Subsequently, in the past two weeks CMI has completely recovered.

We encountered the same situation with our initial purchase of Google. Nonetheless Google's stock is recovering. With over \$100 of cash per share and earnings per share increasing at least in the high teens, we are confident Google will prove to be an excellent investment. Fortunately these are exceptions and not the rule for our disciplined conservative investment program. Be assured we will not deviate from this investment philosophy, and we will strive to achieve a double digit return with less risk than other investment programs.

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.