

J. L. BAINBRIDGE
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& C O M P A N Y, I N C.

April 4, 2005

Dear Mr. & Mrs. Client:

During the first three months of this year the market has declined and the media is once again promoting a gloom and doom scenario. We have been through so many of these declines over the past twenty-four years since the founding of our company, and in every one the predictions of serious problems seem to have merit to the general public as well as most investors. However within a few months of the market's inevitable recovery, most investors cannot even recall the problems. Today the headline story is the price of oil. While the price of oil is a real concern for some such as the auto industry, the fact is for quality growth companies that have demonstrated the ability to grow at a double-digit rate during various economic environments the price of oil is irrelevant.

Our letter last April presented our strategy for protecting client's hard earned money during market declines, and we deliberately chose to review this strategy at a time when the market was appreciating because we felt the message would be better understood without the emotional aspects of today's market turmoil. The strategy is based on two basic investment fundamentals. First, market declines are unpredictable and secondly, the only way to protect client's wealth is the careful selection of companies for investment that are attractively priced and have the ability to achieve long-term double-digit earnings growth and the wherewithal to aggressively repurchase their stock to counteract panic selling.

This investment philosophy is successful because it is rational, has been tested many times and produced a 13.8% compounded return. A good example is the decline that began in June of last year and continued until mid-October. In mid-October our portfolio was down almost 5% for the year, and the gloom and doom drums were pounding furiously. Had we sold our clients would have ended the year with a loss. However we did not sell and thereby achieved a 14.6% return for 2004.

The lesson is emotionally selling quality companies does not make sense and is the cause of poor results. Over the past eleven years and three months, \$250,000 invested at the beginning of this period has grown to \$1,031,670. Today the companies in our portfolio are more reasonably priced than at any time over the past nine years and in our opinion the opportunity to repeat the above results over the next eleven years is as good or better than eleven years ago.

Jerry L. Bainbridge, President