

J. L. BAINBRIDGE
& COMPANY, INC.

October 2, 2007

Dear Client:

The Saturday, September 29, 2007 edition of the “Washington Post” carried the headline “Stocks Shook Off Credit Crunch for Third-Quarter Gain” on page one of the business section. In reading the story one could feel the author was not pleased to be reporting good news. He would much rather report that the market crashed in the third quarter as the credit crunch continued to deepen. It seems as though the media cannot stand anyone succeeding or enjoying life. To be sure the good news on page one was offset by a story on page four about investors’ concern that the trouble in the housing market may lead to a recession and a severe stock market decline. The story summed up the situation as follows; “The focus going forward will be whether the Fed is going to lower rates to shore this thing up, or decide the risk of inflation is too high.”

As we stated in our letter last month, there is no credit crunch but only speculators paying the price for making risky loans in order to get higher interest rates. We also do not think there is much risk of recession for the following reasons:

- With the recent larger than expected one-half percent cut in the fed-funds rate, the Federal Reserve clearly signaled their intent to do whatever is required to prevent housing and mortgage problems from escalating into an economic decline.
- The decline in the dollar is causing a surge in exports, which are on track to exceed one trillion dollars this year, is partially offsetting weakness in new home construction.

Although we do not expect a recession, economic growth in America will slow at least through 2008 because housing starts most likely will not recover until 2009 or 2010. Our strategy to achieve a 15% return compounded annually in a less than robust economic environment domestically requires having wide exposure to international economies around the world. However investing directly in foreign stock markets carries high risk, and therefore our approach is to own American companies who generate a significant portion of their business internationally.

A good example is 3M Company that derives 61% of total revenue outside the U.S.A. For this reason we became interested in the company two years ago, but we were concerned revenue and earnings were growing in single digits. To address this situation, their board recruited a new CEO. At a subsequent analysts meeting, new management presented their plan to stimulate growth by reducing costs, aggressively pursuing small acquisitions that complement existing lines of business and expanding more rapidly into emerging markets such as China and India. Most importantly, they established a goal to grow earnings per share 11% to 14% each year. Based on our conclusion their goals are attainable, we added 3M to our holdings in late 2006, and as you have witnessed 3M has been a very good investment. For our total portfolio, almost one-half of revenue is from international markets which is a main reason we are confident returns will meet our 15% annually compounded objective over the next several years.

Jerry L. Bainbridge, President