

J. L. BAINBRIDGE  
& COMPANY, INC.

April 5, 2008

Dear Client:

While the first quarter of this year has not been a great investment experience to say the least, we remain confident that we are on the threshold of several years of excellent double digit returns including this year. As we have stressed continually, the greatest investment potential always follows a period of years with poor investment returns and the resulting gloom and low expectations. Today after eight years with average returns of less than 1% annually as measured by the S&P 500 index and a decline of more than 50% for the NASDAQ, stock prices are cheap, gloom is prevalent and expectations are in the basement. However the current market environment is not the sole reason for our positive outlook. The following are additional reasons to be optimistic.

First, although the bursting of the speculative real-estate bubble is reducing economic growth in America which could lead to a recession, the world economy remains robust.

Second, the Federal Reserve has the power and has demonstrated the resolve to do whatever is necessary to prevent the slowdown from escalating.

Last and foremost, we have changed our investment portfolio in order to fully participate in the dramatic growth in emerging international markets which will remain in force for many years into the future. Today more than 50% of the total aggregate revenue for all the companies in our portfolio is derived from international markets around the world.

In last month's letter we focused on Eaton as an example of a cyclical industrial company that has evolved into a long-term international growth company. This month Boeing is being featured. Boeing's stock has been buffeted by the media and analysts regarding the delay in the 787 Dreamliner and the loss of the \$35 billion military contract for refueling tankers. Neither of these concerns is of long-term relevance. The delay of the 787 will reduce the growth of earnings slightly in 2008 and 2009, but with orders for over 900 of these planes on the books, the long-term outlook is extremely positive. The refueling tanker contract is being challenged, but regardless of the outcome, this is not a big deal considering Boeing's \$300 billion commercial airplane backlog. Importantly this backlog of orders is predominantly from financially strong international carriers with only a small portion from financially weak domestic airlines. In addition new order flow continues to be strong with the most recent being last week's order for fifty-five 737s from Malaysia Airlines. For the first quarter of this year, Boeing delivered 115 commercial airplanes up from 106 a year earlier as it ramps up production to meet burgeoning demand. With a seven year order backlog, we expect earnings per share to grow at a compounded rate of at least 13% and based on our analysis their stock has the potential to reach \$120 per share within the next twelve months.

Jerry L. Bainbridge, President