A. G. Becker & Co.
INCORPORATED

ANNUAL REPORT TO SHAREHOLDERS
FOR THE FISCAL YEAR ENDED
OCTOBER 31, 1969

TABLE OF CONTENTS

EXHIBITS

APPENDICIES

FINANCIAL HIGHLIGHTS OF 1969

$000 Omitted	For the Year Ended October 31 1969	1968	Change Amount	%
Gross Income	$43,920	$41,710	$2,210	5%
Total Operating Expenses	41,365	35,121	6,244	18%
Operating Profit Before Taxes	2,555	6,589	(4,034)	(61%)
Net Operating Income	1,196	3,375	(2,179)	(65%)
Non-operating Income (net)	251	2,234	(1,983)	(89%)
Total Income	1,447	5,609	(4,162)	(74%)
Increase in Valuation Surplus (net)	2,033	6,586	(4,553)	(69%)
Common Equity at Year End	29,285	23,137	6,148	27%
Per Common Share				
Net Operating Income	$ 1.08	$ 3.05	$(1.97)	(65%)
Book Value at Year End	$ 27.42	$ 23.97	$ 3.45	14%
Total Employees at Year End	1,223	987	236	24%

January 22, 1970

Fellow Shareholders:

Once again we have the pleasure of reporting to you the financial results of your company during its most recent fiscal year, along with some brief comments about the outlook for 1970.

In the few pages which follow it is possible only to summarize our financial development during 1969. Furthermore, being an investment service organization, our financial development, over a period of time, is essentially a mirror reflection of our organizational quality and growth, and these matters are even more difficult to describe in a few words.

As in the past, we have appended the annual summary of our principal personnel and organizational developments during 1969 (Appendix A). As is mentioned many times in Appendix A, our officer and shareholder family was substantially expanded during the past fiscal year. Appendix B provides a list of our officers, directors and shareholders, as of December 31, 1969, and also indicates those officers newly elected and those shareholders newly invited during the year.

Although operating profits were realized in 1969, a good portion of such profits was generated in the early months of the year; the balance of the year was only marginally profitable. As such, the overall margin of profit on revenues was the lowest it has been over the last ten years, and the return on average operating capital was less than 10%.

On the other hand, our diversification across a wide number of services and markets, and our decentralization across a wide number of profit

SUMMARY OF FIRM OPERATIONS

As shown in the Highlights, gross income for 1969 increased to $43,920,000, net operating income declined to $1,196,000, common equity increased substantially, and book value per share increased to $27.42, relative to the comparable figures for fiscal 1968.

The year 1968 was considered to be exceptional, as indicated in the last annual report to shareholders. About the same level of gross income was planned for fiscal 1969, but net operating profit for 1969 was expected to be some 30% below the excellent level of 1968.

As it turned out, the revenue goal for 1969 of $41.5 millon was exceeded by some 6%. Significant revenue declines in certain areas of the business (New York retail, municipals, and reciprocal dealers) were more than offset by revenue increases in other areas (over-the-counter trading, specialists operations, and funds evaluation), with less significant changes in all other phases of the business.

Net operating profits before taxes, however, declined some 61%, substantially in excess of the 30% decline which had been forecast relative to 1968 results. This reduction in net operating profits was due principally to an increase of $6.24 millon in total operating expenses over 1968 levels, compared with a forecast increase of $1 million in the planning of 1969 operations, consisting of the following:

	(000)
Operations and accounting activities	$3,404
Activities other than operating and accounting:	
Employee costs	882
Selling expenses	214
Other	1,744
	$6,244

market value of seats owned declined during the year by some $800,000. Thus, the carrying value of stock exchange seats owned at the end of the year declined some $378,000 from the value reported at the end of 1968. The aggregate market value of $2,568,000 at the end of 1969 still exceeds the cumulative cost of such seats by some $516,000, net of applicable capital gains taxes.

The results of our investment activities during the year were favorable. As indicated in Exhibit 3, the value of investments owned throughout the year (net of unrealized capital gains tax accrual) increased by some $2,101,000. Investments made during the year at an aggregate cost of $1,257,000 had a net valuation as of yearend of some $2,077,000, and thus showed an interim net appreciation of $820,000. The only disposition during the year of an investment owned at the beginning of the year was at a price which resulted in a net profit (relative to cost, and net of capital gains tax) of $228,000, such profit being in addition to the net profit realized in 1968 on another portion of the same original investment.*

Since the beginning of the fiscal year, 215,819 voting and non-voting shares were issued at the prevailing book value, and 98,300 total shares were retired before or as of October 31, 1969. This resulted in a net increase in our common equity during the year of some $2,577,740.

*As indicated in footnote (f) to Exhibit 3, the 100,000 shares of MDS were partly used in redemption of A. G. Becker common shares and the balance sold in the open market after the close of the fiscal year. Total value received was approximately $7,146,000 (before any accrual for capital gains tax) vs. the carrying value on the books of the company of $7,625,000 as of October 31, 1969.

The following table summarizes the overall changes in our common equity accounts for the fiscal year:

($-000)

Common Equity, November 1, 1968				$23,137
Increase due to Net Operating Income			$1,196	
Increase in Valuation Surplus:				
Unrealized Appreciation in our Investment Account (net)		$2,591		
Unrealized Appreciation in our Stock Exchange Memberships		(578)		
Other		20		
Total			2,033	
Net gain in Securities Sold			228	
Net Sale of common shares:				
Regular (Voting)	$3,995			
Class A (non-Voting)	887	4,882		
Less: Redemption of Shares				
Regular	$2,259			
Class A	46	2,305		
Total			2,577	
Other (net)			114	
Total increase in common equity				6,148
Common Equity, October 31, 1969				$29,285

It should be noted that between October 31, 1969 and January 31, 1970, and not reflected in the preceding table, 165,300 additional common shares were retired or scheduled for retirement resulting in an expected net reduction in capital of approximately $4,625,000 as of January 31, 1970. Some 52,000 voting and non-voting shares are expected to be sold to old and new shareholders by mid-March, adding back some $1,400,000 to our capital accounts.

Research and Institutional Sales

Institutional Sales revenues were very close to those of 1968, and some 20% over the 1969 plan, the latter reflecting the expectation of reduced gross income due to the volume discount. The number of tickets processed during 1969 was about the same as in 1968. Our average revenue per ticket therefore was about the same for the two years, meaning, with the discount in effect, that we generally processed larger money transactions in 1969 than in 1968.

The profit contribution of the Division was some $500,000 less than 1968, and some $250,000 under plan, mostly due to the growth in operations costs. Employment in all departments was essentially stable during the year.

Research department expenditures increased approximately 17% from the 1968 level.

Retail Sales

As indicated in the organizational review, the number of personnel in the Retail Sales Division was stable over the course of the year.

Total revenue of the Division was off by about 6%, reflecting principally a decline in New York.

The contribution to profits from this large area of our business declined some $2.1 million from 1968, representing some $900,000 less gross income, some $900,000 more operating costs, and a net increase of some $300,000 in other costs. Declines of $300,000 in revenue and $500,000 in profit were forecast when 1969 was planned.

The average brokerage commission ticket processed for the Retail Department was about $70. In New York, the average increased from about $66.50 to $79.50; in Chicago, from $55.50 to only $61; and for other Divisional areas from $73.50 to about $76.50.

Syndicate, Municipals and Trading

Over-the-Counter Trading gross revenue was up some 160% over both 1968 actual and 1969 plan. The profit contribution was more than $200,000 over 1968 results and more than $400,000 over plan, despite substantially higher costs than were planned. This area provided the most outstanding financial performance in the firm in 1969.

Syndicate activities also were favorable for the year. Gross revenue realized was up about 40% over 1968 and expected 1969 levels. Although activities of the department are not a major factor in overall firm results, it was good to see a profit contribution over 1969 plan and 1968 actual.

Owing to very unfavorable markets and management problems in the Municipal Department, results were very poor for the year. Gross revenues declined some 30% from 1968, and were 45% less than planned. There was a swing of some $1 million between the department's profitability in 1968 and the loss in 1969, with the loss in 1969 slightly more than offsetting the 1968 profit contribution. New management was established during 1969 and additional cost reduction and profit improvement programs are under way.

Operations

Direct operating expenses were up 65% from 1968 actual, and 54% over the 1969 plan. Indirect operating expenses were up 76% from 1968 actual, and 64% over the 1969 plan. However, actual ticket volume increased by only 9% over fiscal 1968. The mix of tickets processed was different than for 1968, as summarized below by areas of the business

OUTLOOK FOR 1970

Our 1970 operating plan includes a revenue goal of slightly more than $50 million, which should develop net operating profits before taxes of approximately $3.25 million. The markets in which we participate are expected to be continuously difficult in 1970 and not conducive to highly profitable results. Each area of the business is, however, scheduling a profit, with major improvements over 1969 performance expected in the retail and municipal areas.

The year 1970 should also be one in which we complete a new review of our longer-term goals, digest the personnel growth of 1969, and continue to add top personnel in selected revenue service areas.

We hope also to achieve in 1970 better insight into the kinds of returns on operating capital which we are obtaining in the various segments of our operations, and the objectives we should set for each area when a redirection or restructuring program is the answer to improved performance. In addition, we will be examining certain new areas of expansion, bearing in mind, however, that it is good business to get the most out of existing resources and opportunities before taking on new commitments.

Thus we will likely look back on 1970 more as the first year in a decade of profitable growth than as a year of unique operating performance. But, of course, with an unexpected change in markets and some good luck, it could be both!

Exhibit 2

A. G. BECKER & CO. INCORPORATED
COMPARATIVE OPERATING STATEMENTS
FISCAL YEARS 1969 AND 1968

($000)

	Fiscal Year 1969		Fiscal Year 1968			
	Dollar Amount	Percent of Gross Income	Dollar Amount	Percent of Gross Income	Dollar Increase (Decrease)	Percent Increase (Decrease)
Gross Income #	$ 43,920	100.0%	$ 41,710	100.0%	$ 2,210	5.3%
Expenses: #						
Selling	16,856	38.4%	16,686	40.0%	170	1.0%
Employee	15,291	34.8%	12,183	29.2%	3,108	25.5%
Communication, Facilities and Promotional	5,922	13.5%	4,217	10.1%	1,705	40.4%
Other General Expenses	3,296	7.5%	2,035	4.9%	1,261	62.0%
Total Operating Expenses	$ 41,365	94.2%	$ 35,121	84.2%	$ 6,244	17.8%
Operating Profit Before Taxes	2,555	5.8%	6,589	15.8%	(4,034)	(61.2%)
Provision for Income Taxes	(1,359)	(3.1%)	(3,214)	(7.7%)	(1,855)	(57.7%)
Net Operating Income	$ 1,196	2.7%	$ 3,375	8.1%	$ (2,179)	(64.6%)

All intra-company debits and credits have been eliminated.