Report to Shareholders for the fiscal year ended October 31, 1971

A.G. Becker & Co.
INCORPORATED

Contents

1971 Financial Highlights

(000 omitted)	Year Ended October 31 1971 (2)	1970 (2)	Difference	% Increase (Decrease)
Revenues	$ 64,096	$ 49,931	$ 14,165	28.4%
Expenses	55,866	46,895	8,971	19.1
Operating Income Before Taxes	$ 8,230	$ 3,036	$ 5,194	171.1%
Provision for Taxes	4,301	1,356	2,945	217.2
Net Operating Income	$ 3,929	$ 1,680	$ 2,249	133.8 %
Net Gain (Loss) on Investment Securities	(24)	5,523	(5,547)	–
Net Income	$ 3,905	$ 7,203	$ (3,298)	(45.8)%
Common Equity at Year End	$ 25,367	$ 21,245	$ 4,121	19.4%
Per Share (1):				
Net Operating Income	$ 4.28	$ 1.73	$ 2.55	147.4%
Net Gain (Loss) on Investment Securities	(.03)	5.69	(5.72)	–
Net Income	$ 4.25	$ 7.42	$ (3.17)	(42.7)%
Net Asset Value at Fiscal Year End	$ 30.00	$ 25.04	$ 4.96	19.8%
Shares Outstanding at Year End	926,114	905,135	13,479	1.5%

(1) Based on average shares outstanding of 917,948 (1971) and 970,433 (1970)

(2) See Explanatory Notes on page 24.

Fellow Shareholders,

1971 was a record year in both revenues and net operating income. Record results were achieved despite rather weak markets during mid-year, and despite unfavorable results in selected phases of our overall operations.

Each of our marketing groups contributed to firm profit, with the outstanding performance being turned in by the Credit Securities Group. The excellent contributions of our Funds Evaluation, Specialist Clearance and Midwest Stock Exchange operations also deserve special mention. Key developments in each area of the business are summarized later; we think you will be pleased to review them.

During the year we completed a two-year planning effort directed toward defining the type of organization we want to become and the types of markets we want to serve over coming years. Arising in part out of this planning was the further organizational streamlining which took place at the inception of the new fiscal year. Another result was the adoption by your Board of Directors of a new statement of Corporate Objectives and supplementary guidelines. A further result of these planning efforts was the scheduling of certain programs in 1972 which will favorably influence our longer term growth and market position as well as enhance shorter term performance. The expected benefits of the long range planning and analysis accomplished during the 1970–1971 period will not likely be measurable for some years.

The securities industry in 1971 operated within an increasingly varied and rapidly changing general business environment coupled with growing internal changes in its own structure and operating patterns. This is the type of environment to which we must become accustomed. The further extension of competitively established commission rates and other changes in the structure and functioning of the securities markets are likely in 1972–1973 and may lead to significant changes in some of our operations. Thus, we must continue to maintain our flexibility and our willingness quickly to pursue new approaches and concepts. In this respect, we have an advantage over many of our competitors who are less well positioned, organized or conditioned for change.

In our annual operational planning completed a few months ago, we projected good equity markets both in transactional volume and values during 1972. In the credit markets, we anticipated reasonably favorable conditions, with modest changes over the year in the cost of short and longer term credit. Our targets for each area of the business for fiscal 1972 add up to a level of operating profitability substantially equal to that realized in fiscal 1971. Developments during the first two months of the new fiscal year give no basis for a better projection.

Operations during 1971 provided a fitting introduction to a new decade at A. G. Becker & Co. We have diversity and depth in talent, services, clientele and location. This diversity is coupled with an ability to plan, organize and act as an effective team. The decade ahead should see A. G. Becker & Co. develop into the acknowledged and singular financial services organization called for by our new Corporate Objectives.

Paul Judy

January 14, 1972

Paul R. Judy
President

1971 In Review

Operating Results

Our audited results for 1971 show that revenues increased by 28% over those of 1970, with an even greater increase in net operating income.

(000 omitted)	1971	1970
Revenues	$64,096	$49,931
Net Operating Income	$ 3,929	$ 1,680

The company's 1971 operating results and those of the prior two years have been audited by Arthur Andersen & Co. Audited statements of operating results and financial condition for the fiscal years ended October 31, 1971 and 1970, with accompanying footnotes, appear at the end of this report.

We are pleased now to be on a regular basis of annually audited operating results and financial condition as of our fiscal year end. This program was initiated three years ago, not only in preparation for possible public ownership, but with the general view to wider public communication of our corporate development.

Operating expenses in 1971 increased 19% over 1970. Most of this increase was attributable to the growth of direct compensation expenses; these expenses (salaries, commissions, additional compensation and profit sharing contributions) increased from $20,419,000 in 1970 to $25,688,000 in 1971. This gain reflected somewhat higher compensation levels, the increase in personnel during the year, and larger profit-related additional compensation.

All other operating expenses increased some 13%, due mostly to increased floor brokerage charges, professional services purchased, and error costs, as a result of increased transactional volume and organizational growth.

Financial Condition

The company's recent financial condition is presented in the audited Financial Statements which accompany this report. The firm's capital ratio at the end of the fiscal year was slightly less than 6 to 1, comfortably within the rules of the New York Stock Exchange. Our common equity increased from $21,245,000 as of November 1, 1970 to $25,367,000 on October 31, 1971, as summarized below.

		(000 omitted)
Balance, October 31, 1970 (as previously reported)		$ 21,537
Audit adjustments and cumulative effect of changes in accounting policies		(292)
Balance, October 31, 1970 (per Financial Statements)		$ 21,245
Increases:		
Net Income	$ 3,905	
Sales of common and Class A common treasury and newly-issued Class A common shares (net of increase in Notes due from stockholders)	2,134	6,039
Decreases:		
Repurchase of common and Class A common shares	(1,721)	
Other Factors	(196)	(1,917)
Balance, October 31, 1971		$ 25, 367

Net Asset Value Per Share and Shares Outstanding

Net asset value per share increased from $25.04 at the beginning of the fiscal year to $30.00 as of the end. The overall change during the year can be summarized as follows, with the per share effect calculated on the basis of the average number of shares outstanding during the year.

Net operating income	$ 4.28
Investment account activities (net)	(.15)
Unrealized gain on value of memberships (net)	.11
Other factors (net)	.72
Total increase	$ 4.96

As indicated in the Explanatory Notes on page 24, the company has changed its accounting policies and reporting practices in connection with its ownership of investment securities and exchange memberships. As noted, the estimated fair or market value of these assets will be regularly determined, as in the past, and noted in parentheses or in footnotes to its financial statements. The firm will also continue to take these estimated fair or market values into account, net of reserves for taxes, along with other adjustments, in determining the company's net asset value per share for purposes of share transactions.

As of year end, approximately $3.50 (11.7%) of our net asset value per share of $30.00 was attributable to our investment activities.

Marketing Group Operations

Credit Securities Group

Again this year, the largest contribution to firm profit made by a single activity came from our Commercial Paper business. The 1971 contribution was more than double that of 1970.

At year end, about 170 industrial, utility and finance companies were issuing clients, with over 130 such issuers active in the market and maintaining outstandings in excess of $3.3 billion. There was significant reduction in FNMA discount note outstandings to some $650 million in 1971 vs. $1.3 billion at the end of 1970. The aggregate sales volume of money market instruments during 1971 again well exceeded $35 billion.

Some of the new commercial paper issuers added during 1971 were Upjohn, Conoco Credit Corp., Caterpillar Tractor, Central Soya, Wisconsin Public Service, and Public Services of Indiana.

Both our Corporate Bond and the Government Bond operations also contributed substantially to the firm's 1971 profits. The Corporate Bond Unit, in its second year of operation, significantly exceeded its targets and has clearly helped to improve our pricing, underwriting, trading and distribution of corporate bonds.

The Government Bond Unit, through particularly skillful principal trading actions, posted a performance which more than tripled its targeted goals, and further moved us toward becoming an acknowledged leader in government securities.

Our role in federal agency financings was highlighted by the co-management of over $1 billion in the securities of the Farmers Home Administration.

The Municipal Department had another record year. Contribution to profitability increased by 50% over 1970, despite particularly adverse market conditions during part of the year. Our underwriting efforts in the municipal worked well. We were also able to expand our marketing organization and coverage both in Boston and on the West Coast. The effect of the new pricing for our services in handling over $500,000 value trades has been difficult to evaluate, but it appears that our position in that block trading market has been maintained, although our revenue from this category of business has been reduced by some 26%.

Our block positioning results for the year were very unfavorable due principally to the decline in value of one large block position.

Continued progress was made in the group approach to servicing larger individual accounts, including the installation at year end of the Client Portfolio Service System.

Our international operations were augmented late in the year by the opening of a London office. The Geneva office nicely exceeded its targeted contribution for the year and was incorporated as a subsidiary at year end.

Our investment research department operated within its budget for the year while adding personnel strength. The emphasis of the department continued to shift toward meeting the portfolio manager's need for an economic and technical investment framework, coupled with specific security recommendations derived from and supporting it. Further progress is expected in this overall approach during 1972.

Two packaged services for institutional investors were introduced during the year. A sophisticated portfolio evaluation service serving the needs of investment managers of non-taxable funds was created and marketed. The broad favorable reaction to this service and its prospective extensions augur well for 1972 and future years. The other packaged service, Portfolio Management Approach, is the result of the innovative thinking of one of our general accounts groups and has been able to attract a subscriber list of more than 100 clients in its initial marketing program, some 80% of which involve new relationships for the firm.

Support Group Operations

The Operations Group processed some 6% more tickets during fiscal 1971 than during 1970, as summarized below. The 384,000 tickets handled in 1971 were, however, some 43,000 tickets (or 10%) below the 1971 volume level we projected at the beginning of the year.

Comparison of Tickets Processed During 1971 and 1970 Fiscal Years

(000) omitted	1971	1970	Change	%
General Accounts	111	97	14	14
Institutional Sales and Funds Evaluation	44	49	(5)	(10)
Sub-total	155	146	9	6
Investment Dealers	103	95	8	8
OTC	72	77	(5)	(7)
All Other	54	45	9	20
Total	384	363	21	6

The total expense of our operations group in 1971 was somewhat over $7,300,000, and was almost exactly the amount spent in 1970. Year-end employment was 419 this year vs. 428 last year. The cost and quality of operations throughout fiscal 1971 reflected tight managerial control.

A program was initiated during the year to identify the mix of technical and specialized skills required to process various types and levels of transactional volume. This study should help meet future variations in processing such volume with improved efficiency and flexibility.

While not yet complete, a study was undertaken in early 1971 to determine the characteristics of an optimal operational system for the firm and is nearing completion. We anticipate soon being able to decide what changes and/or investments may be required in our operating systems to insure an ability to handle the transactional business we expect to develop in our diversified activities over coming years.

Although a form of dealer service, we continue to maintain our unique specialist clearance unit as a part of our Operations Group. In its first complete year of operation as a part of Becker, revenues were up 46% over the 1970 annualized rate, and profit contribution was 26% over target level.

Our general operational posture is very sound. Our work is current; our records are in balance; unreconciled differences are minimal if existent. Since we took advantage of lulls in volume to further train and cross train many people, we believe we are in good shape to handle whatever transactional volume the markets might foster in 1972.

Particular progress is expected in 1972 from our new Marketing Services Group. A major near-term contribution will be the efficient and timely processing of our growing range of funds evaluation services, along with the continuous and complex product design and systems development work which supports these new and sophisticated services. Of longer term value will be the results of the selected basic market research, marketing information systems, and external communication projects this new Group will complete during 1972.

Our Administrative Group again provided the range of central management services so necessary to a growing business operating in an increasingly more regulated and yet, paradoxically, more competitive environment. The total annual cost of this function (exclusive of the executive group) was some $2,643,000, a level which was up some 9% over comparable costs for 1970.

Investment Activities

As reflected in our Financial Statements, and in the analysis of change in net asset value per share, our investment activities for 1971 resulted in a modest loss both on a cost and a value basis. We made no significant changes during 1971 in the investment positions we owned as of the beginning of the year. Disposition is anticipated in fiscal 1972 of almost every such position except our interest in Becktech, through which we participate in Becker Technological Associates. We also expect to acquire some fresh new investments, particularly as a result of the formation of the Private Investment Services Group.

Balance Sheets—October 31, 1971 and 1970

(000 omitted)

ASSETS	1971	1970
Current Assets:		
Cash	$ 7,727	$ 1,392
Trading securities, at quoted market—		
Commercial paper	$335,081	$338,016
U. S. Government obligations	92,950	37,681
Certificates of deposit	38,552	74,300
Corporate securities	12,059	12,160
Municipal bonds	5,205	3,366
	$483,847	$465,523
Receivables from customers less reserve (Note 3)	$ 35,441	$ 44,851
Receivables from brokers and dealers	44,665	22,317
Other current assets	4,928	5,400
Total current assets	$576,608	$539,483
Securities in Accounts Under Subordination Agreements, at quoted market (Note 5)	162	134
Investment Securities, at cost (estimated fair value—$3,559,000 in 1971 and $3,971,000 in 1970) (Note 2)	2,487	2,745
Exchange Memberships, at cost (market $1,674,000 in 1971 and $1,661,000 in 1970)	1,943	2,048
Office Equipment and Leasehold Improvements, at cost, less accumulated depreciation and amortization of $2,070,000 in 1971 and $1,598,000 in 1970 (Note 4)	1,604	1,621
Deferred Tax Benefits	1,419	1,381
Other Assets	189	306
	$584,412	$547,718

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1971	1970
Current Liabilities:		
Collateral loans—		
Secured by commercial paper, U. S. Government obligations and certificates of deposit under repurchase agreements	$394,622	$285,060
Secured by firm securities	75,869	164,755
Secured by customer securities	600	200
	$471,091	$450,015
Securities sold, not yet purchased, at quoted market	3,661	1,969
Payables to customers	33,906	37,802
Payables to brokers and dealers	32,779	22,272
Accounts payable and accrued liabilities	14,668	12,023
Accrued income taxes	1,430	1,664
Total current liabilities	$557,535	$525,745
Liabilities Subordinated to the Claims of General Creditors (Note 5)	$ 1,510	$ 728
Stockholders' Equity:		
Common stock, voting, $.20 par value; authorized 2,000,000 shares; issued 1,128,655 shares; outstanding 888,160 shares in 1971 and 870,620 shares in 1970 (Note 6)	$ 226	$ 226
Class A nonvoting common stock, $.20 par value; authorized 500,000 shares; issued 38,254 shares in 1971 and 35,657 shares in 1970; outstanding 37,954 shares in 1971 and 34,515 shares in 1970 (Note 6)	8	7
Additional paid-in capital	1,236	1,166
Retained earnings (Note 8)	32,535	28,826
	$ 34,005	$ 30,225
Less—		
Treasury stock, at cost (Note 7)	6,292	6,956
Notes due from stockholders (Note 6)	2,346	2,024
	$ 25,367	$ 21,245
	$584,412	$547,718

Statements of Additional Paid-In Capital and Retained Earnings

FOR THE YEARS ENDED OCTOBER 31, 1971 AND 1970

(000 omitted)

ADDITIONAL PAID-IN CAPITAL	1971	1970
Balance, Beginning of Year	$ 1,166	$ 1,142
Excess of selling price over par value of Class A common stock issued (2,597 shares in 1971 and 933 shares in 1970)	70	24
Balance, End of Year	$ 1,236	$ 1,166

RETAINED EARNINGS	1971	1970
Balance, Beginning of Year	$28,826	$21,651
Net income	3,905	7,203
Excess of cost over proceeds of treasury stock sold (Note 7)—		
Common	(190)	(4)
Class A common	(6)	(24)
Balance, End of Year (Note 8)	$32,535	$28,826

The accompanying notes are an integral part of these statements.

Statements of Changes in Financial Position

FOR THE YEARS ENDED OCTOBER 31, 1971 AND 1970

(000 omitted)

	1971	1970
Funds Provided By:		
Net income	$ 3,905	$ 7,203
Expenses not requiring the outlay of funds—		
Depreciation and amortization	539	475
Provision for doubtful accounts	40	80
Provided from operations	$ 4,484	$ 7,758
Sales of treasury stock	2,385	2,381
Issuance of Class A common stock	70	24
Decrease in receivables from customers	9,370	16,301
Increase (decrease) in—		
Loans under repurchase agreements	109,562	163,025
Bank loans (firm and customer)	(88,486)	63,477
Payables to brokers and dealers	10,507	(17,490)
Securities sold, not yet purchased	1,692	(44)
Subordinated liabilities	754	125
Accounts payable and accrued liabilities	2,645	1,682
Other changes	245	—
Total funds provided	$ 53,228	$237,239
Funds Applied To:		
Purchases of treasury stock	$ 1,721	$ 9,015
Purchases of office equipment and leasehold improvements	595	388
Decrease in payables to customers	3,896	4,189
Decrease (increase) in accrued income taxes	234	(1,375)
Increase (decrease) in—		
Trading inventory	18,324	250,978
Investment securities	(258)	484
Receivables from brokers and dealers	22,348	(20,455)
Other current assets	(472)	2,749
Cash	6,335	(9,410)
Other changes	505	676
Total funds applied	$ 53,228	$237,239

The accompanying notes are an integral part of these statements.

Corporate Objectives

- To become an acknowledged leader in providing select, diverse and professional financial services.
- To attain a leading position in each market in which we participate.
- To emphasize the development of new and improved services, particularly those which satisfy key needs of large multi-client groups.
- To attract and develop talented people and to provide a stimulating work environment which fosters team effort.
- To provide our shareholders with an above average return on the investment of their funds while maintaining a sound capital structure and the widest available access to capital.
- To fulfill our responsibilities to the communities in which we operate and to foster the same sense of community responsibility among our employees.