

A.G. BECKER 1973

A.G. Becker & Co. Incorporated 1973 Annual Report

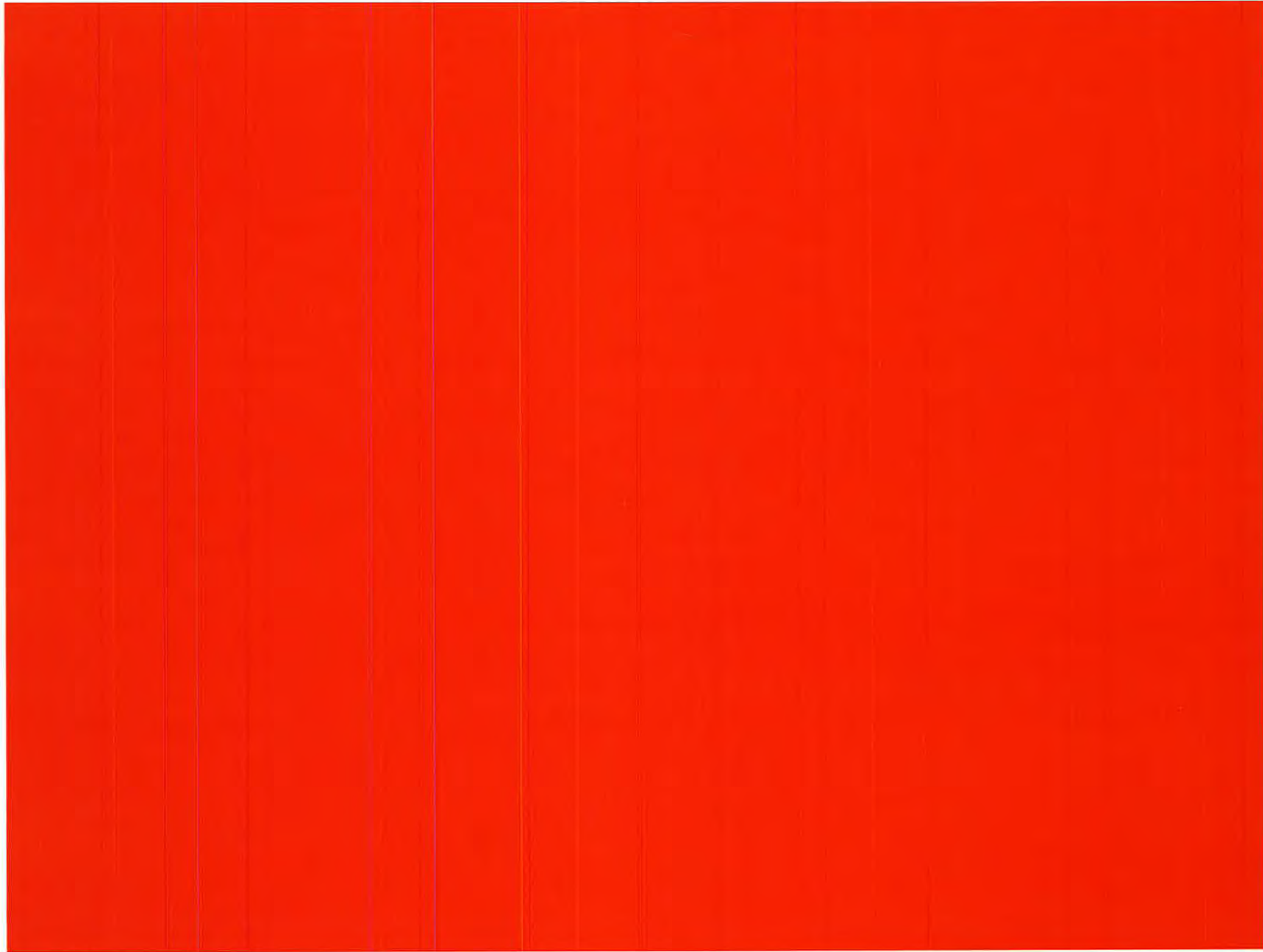
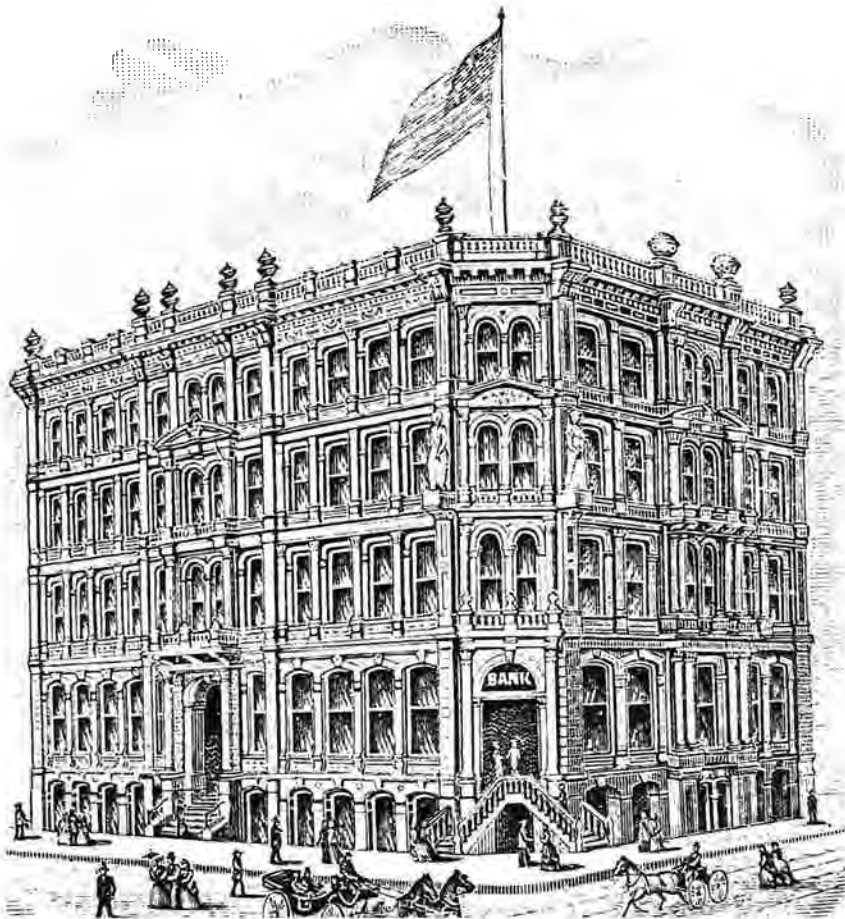


TABLE OF CONTENTS

	Page
Chairman's Letter	3
Credit Securities Services	5
Corporate Finance Services	7
Funds Evaluation Services	9
Investment Research Services	11
Equity Markets Services	12
Individual Investor Services	15
Private Investment Services	17
Operations and Administrative Support	18
Organizational Development	18
Community Service	19
Financial Progress	20
A. G. Becker & Co. Services	31
Board of Directors	32



In the late 1870's Abraham G. Becker joined the private banking firm of Herman Schaffner & Co. The Schaffner Bank building at that time stood at the corner of Dearborn and Madison streets—the same corner where, coincidentally, our First National Plaza office is now located.

During the severe financial panic of 1893 the Schaffner Bank failed, as did many throughout the country. From that ruin, A. G. Becker assumed the leadership of a new company which bore his name and whose primary business was dealing in commercial paper.

Courtesy Chicago Historical Society



DEATH OF A MAN OF HONOR

ONCE IN A GREAT WHILE A MAN DIES ABOUT WHOM THE ORDINARY EULOGIES DO NOT SUFFICE. SUCH A MAN WAS A. G. BECKER.

IT HAS BEEN TRUE OF MANY A MAN THAT HE WAS BORN IN POVERTY AND AMASSED A FORTUNE AS AN INVESTMENT BANKER. IT HAS BEEN TRUE OF MANY A MAN THAT HE HAS BECOME A DIRECTOR IN A NUMBER OF GREAT CORPORATIONS. OF MANY A MAN IT HAS BEEN TRUE THAT HE HAS GIVEN LIBERALLY TO RELIGION, CHARITY AND EDUCATION, AND HAS BEEN TRUSTEE OF AN ART MUSEUM AND ART SCHOOL AND MEMBER OF A SYMPHONY ORCHESTRA ASSOCIATION.

BUT OF FEW MEN HAS IT BEEN TRUE THAT THEY HAVE CONSISTENTLY EXHIBITED AN INTEGRITY WHICH NOT ONLY HAS MET ALL THE DEMANDS OF THE LAW AND ALL THE REQUIREMENTS OF COMMON MORALS BUT HAS GONE FAR BEYOND THEM.

SELDOM HAS THERE BEEN A PARALLEL TO THE PERSONAL SACRIFICE WHICH A. G. BECKER MADE FOR THE MAINTENANCE OF HIS HIGH CODE OF INTEGRITY. BY THAT SACRIFICE, HE ERECTED A STRUCTURE OF PERSONAL CREDIT WHICH WAS UNSHAKABLE. THE REGARD IN WHICH HE WAS HELD BY BANKERS WAS ALMOST UNPARALLELED. NO MAN IN THE WORLD COULD BORROW MORE MONEY IN PROPORTION TO HIS ASSETS THAN COULD A. G. BECKER. HE WAS A MAN. HE WAS HONORED IN LIFE AND HE IS HONORED IN DEATH. HE LEFT HIS FAMILY A HERITAGE WHICH IS GREATER THAN A HERITAGE OF RICHES.

EDITORIAL IN
CHICAGO JOURNAL OF COMMERCE, MAY, 16, 1925

CHAIRMAN'S LETTER

A. G. Becker & Co. completed its fiscal year ended October 26, 1973 with revenues of \$78,853,000, operating income before taxes of \$4,559,000, net income of \$5,583,000 and stockholders' equity of \$32,236,000.

In an absolute sense, our operating results for the year were disappointing. Relative to market conditions prevailing most of the year, we consider our financial progress to have been satisfactory.

Of perhaps greater importance to us as employees, managers and owners, however, was the feeling that many marketing and organizational strengths which we have been building for some time were brought out in 1973. It was especially gratifying to see a substantial increase in our share of market in a variety of the services we provide. For example, we made significant strides in the market for bankers' acceptances, private placement services to corporations, funds evaluation services to both trustors and investment managers, investment research services to medium-sized institutions and execution and clearance services to other investment dealers. The narrative which follows will further describe these and other marketing strides we took during 1973.

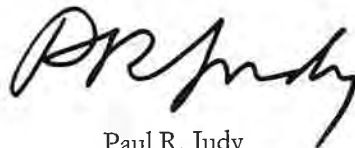
It was also rewarding during 1973 to realize the benefits of service diversification and specialization. This approach to service capability has been primary to our business policy since the late 1950's. As the financial markets become more complex, and as our clients' needs become more diverse, the value of this approach will become even more apparent.

A further satisfaction of 1973 was the high morale and sense of confidence displayed by our personnel throughout the year. When conditions became difficult, and a sense of crisis existed in many sectors of the securities industry, the Becker organization continued to move ahead on a previously charted course toward specific longer-term objectives.

Finally, 1973 was the 80th year since our founding in Chicago in 1893. It was a year, therefore, to be mindful of our traditions of integrity and service, and how they underpin more recently adopted concepts of planning and professionalism. In the pages which follow, we hope you will find interesting the selected comparisons we have made between some of our recent activities and their historical counterparts.

No such year as we have experienced can be complete without once again thanking our clients and other friends for the chance to serve them. Your patronage permits us to improve and innovate our services and to grow on a sound and profitable basis in order better to fulfill your future needs.

It is also a pleasure, on behalf of our Board of Directors, to thank all our personnel for their dedicated work during this past and unusual year.



Paul R. Judy
Chairman and President



Paul R. Judy seated before a portrait of James H. Becker, former board chairman and son of A. G. Becker.

A. G. Becker & Co.

Chicago — New York

100 South La Salle Street, Chicago
Telephone - Franklin 6100
Long Distance 107

We offer, subject to prior sale and change of rate, the following notes in denominations of \$2,500, \$5,000 and \$10,000, for Chicago or New York delivery.

ARMOUR & COMPANY (Illinois) 6 months 3/4%
Armour & Co. has reported for the fiscal year ended October 31, 1936, consolidated net income of \$10,184,492, compared with net profit of \$9,348,678 reported for the preceding fiscal year. The October 31, 1936 published consolidated balance sheet reported current assets of \$153,440,451, including cash of \$12,263,163 and receivables of \$37,054,033, compared with current liabilities of \$41,149,232.

YELLOW MANUFACTURING ACCEPTANCE CORP. 85 Days 3/4%
Yellow Manufacturing Acceptance Corporation is a wholly owned subsidiary of Yellow Truck & Coach Manufacturing Company, which is controlled by General Motors Corporation. Yellow Manufacturing Acceptance Corporation acts as a finance company for the Yellow Truck & Coach Manufacturing Company in the same way that General Motors Acceptance Corporation acts for other divisions of General Motors Corporation. General Motors Truck Company, a subsidiary of Yellow Truck & Coach Manufacturing Co. has entered into agreements, the effect of which is that it will purchase from Yellow Manufacturing Acceptance Corporation motor vehicles repossessed by the Acceptance Corporation due to default

A. G. Becker & Co. INCORPORATED

Commercial Paper Department

CHICAGO	NEW YORK	SAN FRANCISCO	BOSTON	LOS ANGELES	PHILADELPHIA	ATLANTA
312 / 786 - 5100	212 / 747 - 4000	415 / 981 - 4200	617 / 742 - 6810	213 / 553 - 6231	215 / 561 - 6350	404 / 522 - 2100

Industrial Issuers

Air Products & Chemicals, Inc.
American Can Company
American Petrofina, Inc.
Archer-Daniels-Midland Company
*ARCO Pipe Line Company
(Guaranteed by Atlantic Richfield)
Atlantic Richfield Company
Bausch & Lomb, Incorporated
Bendix Corporation
Bethlehem Steel Corporation
Brunswick Pulp & Paper Company
Cargill, Incorporated
Caterpillar Tractor Company
Central Soya Company
Cone Mills Corporation
Consolidated Foods Corporation
Continental Oil Company
Cook United, Inc.
Crown Zellerbach Corporation

Dart Industries, Inc.
Dayton-Hudson Corporation
*Dixie Pipe Line Company
ESB Incorporated
Eaton Corporation
Empire City Subway Co. (Limited)
GTE Sylvania, Inc.
Gamble-Skogmo, Incorporated
General American Transportation Corporation
General Cable Corporation
General Signal Corporation
Georgia Kraft Company
Hallmark Cards, Incorporated
Hercules, Incorporated
Honeywell, Inc.
Inland Steel Company
Insilco Corporation
Interco, Incorporated

Acting as commercial paper dealers for 80 years has taken us through many different market situations. Rates for paper have varied in response to those conditions. In 1937, for example, A. G. Becker & Co. offered commercial paper at 3/4%. In contrast to these historically low rates, 1973 saw rates for top-rated issuers go as high as 10 1/4%, with lesser rated names reaching even higher. These were the highest rates at which we have ever offered paper. Pictured at right is a portion of an offering circular from January, 1937 and a section of our current list of issuers.

CREDIT SECURITIES SERVICES

- **Commercial paper outstandings declined some 35% by mid year but regained initial levels by fiscal year end.**
- **Dealings in bank-related money market instruments exceeded \$20 billion, over three times that of 1972.**
- **Penetration in bankers' acceptances market increased from 12% to some 22% during the year.**
- **Government and agency securities activities in the primary and secondary markets resulted in a record profit contribution.**

Since our founding eighty years ago, A. G. Becker & Co. has steadily built a reputation for integrity and expertise in the credit securities markets, centering around our extensive commercial paper and other money market activities.

During 1973 we provided a range of services to just under 200 industrial, utility and financial corporations borrowing short-term funds in the commercial paper market. Despite the severe market conditions resulting from an unprecedented rise in short-term interest rates and an artificially inverted difference between the prime bank and open market rates, our specialized commercial paper distribution and financing capability was maintained. During the course of the fiscal year, outstandings declined substantially and then regained former levels, with the volume of commercial paper handled once again totalling in excess of \$25 billion. Sustained efforts were made

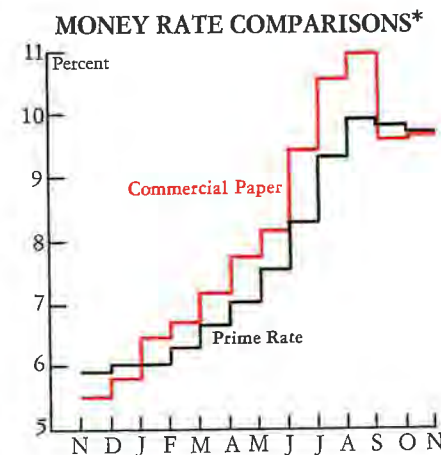
throughout the year to improve our services both to issuers and investors with the view to building a strong base for future growth.

As the typical open market borrower shifted his requirements to commercial banking sources during 1973, new demands for credit emerged from this sector of our clientele. For the year, we handled over \$20 billion of the money market obligations of some 95 separate issuers or endorsers who are banks or bank holding companies, or their direct or indirect subsidiaries. We continued to maintain an important participation in the secondary market for certificates of deposit, both in the domestic and in the London markets, as well as the bank holding company paper market, both primary and secondary. More significantly, however, we improved our position in the bankers' acceptance market during 1973 from about 12% to about 22%. Since beginning to deal in bankers' acceptances in early calendar 1972, we have become one of the largest dealers in this market. We were especially pleased in 1973 to have been a leader in the introduction and distribution of the acceptances of the leading Japanese banks or their affiliates.

Despite a generally adverse market environment, we had successful results from our U.S. Government and agency securities operations. We continued to be an important factor in the federal agency markets and were lead co-manager in the first competitive offering of Farmer's Home Administration notes. In total, we were a co-manager of \$1.4 billion of government agency financing during the year and we handled a growing volume of GNMA "pass-through" securities. Our overall volume of transactions in treasury bills, bonds, notes and agency securities increased over 1972 by over 60%.

During 1973, we more than doubled the amount of municipal bond offerings we handled as manager or co-manager. Financings totalling a record \$425 million were completed. Excellent progress was also made toward our objective of becoming a recognized expert in the financing by state and local governments of their health and educational facilities. As part of this program, we were pleased to have served the South Dakota Health and Educational Facilities Authority in connection with the financing of that state's \$15 million McKennan Hospital.

Despite a slight pick-up in the latter half of 1973, corporate bond underwritings handled by the securities industry were much reduced, and we shared in this decline. Through additions to our trading staff, we were able to augment our secondary market services in corporate bonds. Also, through the joint efforts of our credit securities and corporate finance personnel, seven separate Title XI vessel financing projects were completed, totaling \$62 million, making A. G. Becker & Co. one of the country's leading firms in this specialized financing technique.



*Comparison of A. G. Becker & Co. Monthly Average 90-Day Commercial Paper Rates to Prime Industrial Borrowers with Average Prime Bank Rates Adjusted from discount to interest bearing basis

Courtesy Chicago Historical Society



In 1893 the railroad ruled overland transportation for both passengers and freight. Chicago was the center of a growing rail network which linked all major cities. Since that time the auto and airplane have brought stiff competition to the railroad as a major carrier of passenger traffic. The formation of AMTRAK (National Railroad Passenger Corporation) in 1971 was an important step in the restoration of rail transportation as a major carrier of inter-city passenger traffic.

We were proud to assist AMTRAK in securing the financing for its first order of all-new equipment designed especially for long-haul passenger runs. The forty locomotives, 3,000 horsepower each, were built by the Electromotive Division of General Motors Corporation.



CORPORATE FINANCE SERVICES

- Corporate financing managed, underwritten as a participant, or placed privately totalled \$946 million, up 18% over 1972.
- Private placement volume of \$575 million was more than double last year's \$277 million.
- Lease financing transactions of approximately \$300 million were awarded during the year.
- Capital was raised directly for some 58 corporations, including 35 new relationships.

Some years ago we identified the growing preference of chief financial officers to search out specialized expertise in analyzing and solving the complex financial problems they faced. To suit these needs, we began to develop a number of specialized skills and areas of particular expertise to supplement our general investment banking services. Significant achievements were recorded in 1973 in these various specialized programs. Despite a general decline in domestic corporate capital financing in 1973 versus 1972, our fiscal 1973 corporate finance revenues were up 38% over the 1972 level.

Particular growth was achieved during 1973 in our private placement activities. Over recent years, we have come to rank among the nation's leading firms both as to the number and value of private placements completed. Our specialized private placement staff, working closely with other members of our corporate finance and credit securities organizations, structured and implemented a number of distinctive financings during 1973, raising a record amount of \$575 million for 45 clients. While this is over twice the amount of such financing we handled in 1972, available statistics indicate that private financing which took place nationally in 1973 was up about 10% over 1972. Our market share for these securities therefore about doubled during 1973.

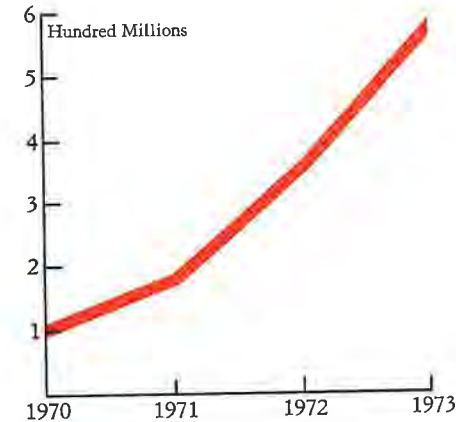
Although it was only our second full year of arranging conventional and leveraged lease financing, we emerged as a leading factor in this specialized field. During the year 20 clients awarded us projects involving the lease financing of approximately \$300 million. Transactions involving over \$115 million—almost triple our 1972 volume—were closed during this fiscal period. One of the highlights of the year was the completion of a \$45.8 million leveraged lease financing of a sugar beet processing plant for the Southern Minnesota Beet Sugar Cooperative. This particular financing called upon the full breadth of our organizational capabilities as we structured the lease equity funds, privately placed the long-term debt, negotiated the ownership interests, and assisted in arranging the project's interim construction financing.

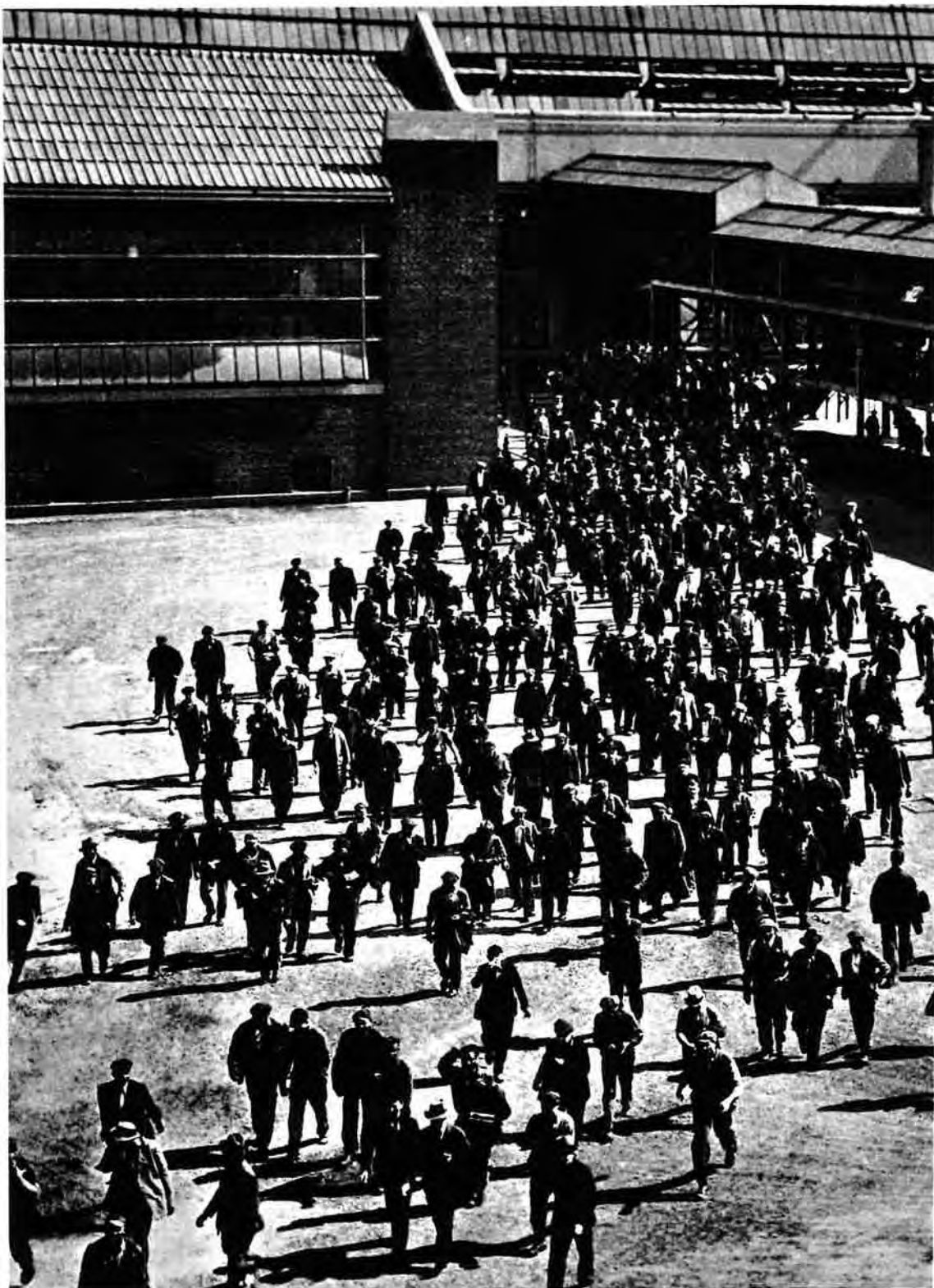
During 1973, corporate finance services were provided to a broad number of financial asset companies. A. G. Becker & Co.'s expertise in serving such companies has steadily evolved since the early 1960's and now includes a range of financial planning, corporate diversification, and short and long term financing services to banks, bank holding companies, finance companies (both independent and captive), mortgage banking companies, real estate financing organizations and savings institutions. An important aspect of this program has been our involvement in the acquisition of finance companies by bank holding companies.

Public financings of debt and equity issues were off substantially for the second year in a row and this served to intensify competition and shift some transactions from public to private sectors of the capital market. A. G. Becker & Co. managed or co-managed five public offerings of corporate securities with a total value of \$218 million. Additionally, we participated in 182 offerings managed by others for a total of \$153 million.

In addition to the \$62 million of vessel financing earlier reported, over \$50 million in privately financed rail equipment financing was completed, an added field of specialized focus.

**GROWTH IN
PRIVATE PLACEMENTS**





In 1893 retirement was little more than a dream for most workers—and practically the only means to that goal was through personal savings. Since that time much has changed for the American worker. Now retirement, much more than a dream, is a reality for millions made possible through the prospect of a regular income from a pension plan to supplement personal investments and savings. Retirement years are anticipated happily and with less concern for financial security because of pension plans.

Through personal presentations of performance measurement reports, A. G. Becker & Co. funds evaluation service representatives assist subscribers in determining how best to use the knowledge gained from these valuable reports. (George Faulstich, Jr., treasurer of Interlake Inc., left, and Tony Wilson discuss a Funds Evaluation Service annual report.)

FUNDS EVALUATION SERVICES

- Performance evaluation was completed on more than 2,300 non-taxable funds, up from some 1,800 last year.
- Almost 10,000 evaluation reports were provided to over 1,000 corporations and other trustors with exacting accuracy and timeliness.
- New services meeting the special needs of endowment, foundation, state and local government and joint trust administrators were introduced to 67 new clients.
- Clients on the new Institutional Funds Evaluation Service increased 53% to 184 by year end.

Over recent years, A.G. Becker & Co. has attained a pre-eminent position in providing evaluation services to trustors and investment managers of non-taxable investment portfolios. During fiscal 1973, we strengthened this position by introducing several new services. We also responded to client needs by significantly expanding our production capacity and increasing the quality and timeliness of our computerized reports. Total personnel devoted to developing, producing and marketing these unique services continued to grow at a substantial rate and now exceeds some 220 employees.

Our data base consists of over 22,000 equivalent years of investment portfolio data on funds now having a combined asset value of more than \$45 billion. We believe this data base is the most extensive aggregation of investment performance data in the world. More than one-third of the non-government employee benefit dollars in the United States and Canada are under measurement by A. G. Becker & Co.'s funds evaluation services.

The continued high acceptance of these services has reinforced our commitment to extend the family of related funds evaluation services to its logical length and breadth. By the end of fiscal 1974, we anticipate having fourteen such related services in or ready for the market.

TRUSTOR SERVICES

The continued high rate of acceptance of our services to trustor organizations, particularly corporations, was sustained during fiscal 1973 as the Corporate Funds Evaluation Service was further refined. New services were introduced to measure, compare and evaluate the performance of endowment and foundation funds, the employee benefit funds of state and local governments and their agencies, and jointly administered union-management trust funds.

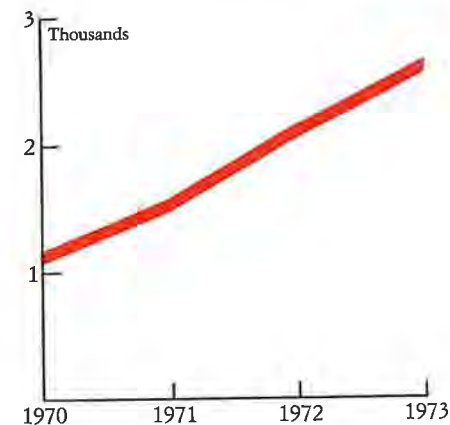
Another service, which responds to administrative needs of trustor clients by providing information required by proposed pension legislation, was also successfully introduced during the year. A further service designed to assist our clients in evaluating the long-range financial implications of their employee benefit funds is in the final stage of development and will be offered to trustors in 1974.

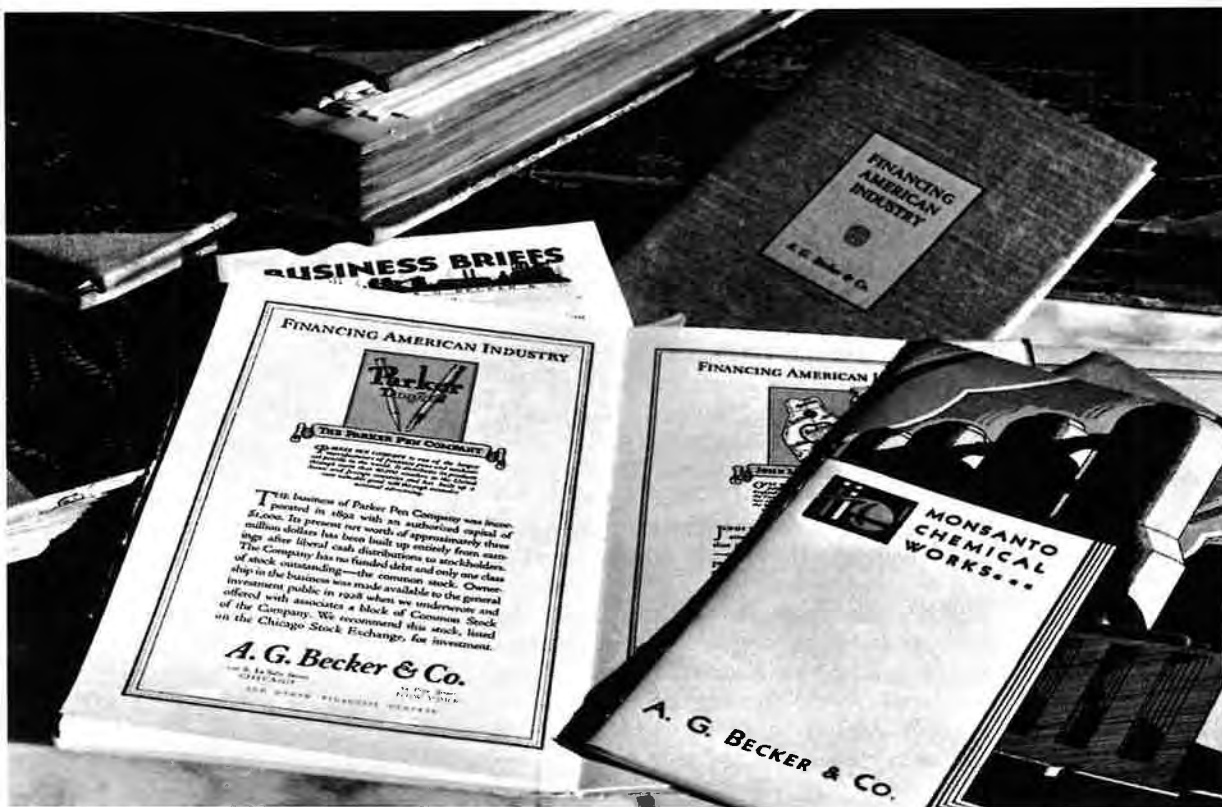
INVESTMENT MANAGER SERVICES

Since its introduction nearly three years ago, the Institutional Funds Evaluation Service has been a valuable tool for the investment manager to assess the investment performance environment in which he must operate and compete. Measured in terms of assets under management, 59 out of the 100 largest banking institutions, 37 of the 50 largest investment counseling firms and 19 of the 25 largest insurance companies providing investment management services now subscribe to this service.

"IFES" was developed initially to assist institutions in communications with clients and prospects. New phases have now been developed to aid institutions in detailed portfolio analysis and multiple fund management; these additions will be offered in fiscal 1974.

GROWTH IN
FES SUBSCRIBERS





The analytical depth and sophistication of investment research at A. G. Becker & Co. has made giant strides since our first reports were published some fifty years ago (above). One of the most important of these was the creation of the Strategy Group pictured right—three individuals with extensive analytical knowledge who mold the components of market analysis and economic environment into a comprehensive and responsive investment strategy for portfolio managers. (Stuart Porter, Director of Research, top; Donald Hahn, Director of Research-Investments, left; Dr. Roy Moor, Director of Economic Research, right.)

INVESTMENT RESEARCH SERVICES

- A record number of specific investment recommendations were developed including recommendations to sell a number of equity securities.
- PMA subscribers reached 448 at fiscal year end, up almost 50% for the year.

Throughout 1973, we continued to pursue the systematic and disciplined investment research program instituted some four years ago. Directed to the needs of the portfolio manager, the objective of this program has been to recommend specific security investment decisions within a comprehensive appraisal of and outlook for economic and market conditions. The results of this program in 1973 were particularly gratifying.

Starting late in 1972 and continuing until late in 1973, the primary view of our investment research strategy was that equity values were under pressure. Correspondingly, specific sell recommendations were developed on some 32 securities during this period. Portfolio managers were presented with a new and controversial dimension in analytical information instead of the usual optimism generated by the investment research community. To our knowledge, no other major securities firm took such a definitive stance.

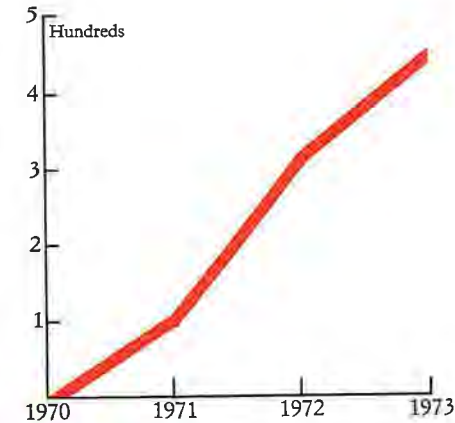
As we move into 1974, we intend to make added improvements to our investment research program. Through the further development of specialized approaches, such as relevant accounting, sector analysis and careful attention to historical multiples, it is our objective to provide a growing number of investor clients the kinds of insights and judgments needed to achieve superior relative performance on a sustained basis.

The growth of our Portfolio Management Approach service in fiscal 1973 was excellent. At year end, 448 smaller and medium-sized institutions, located in 49 states, Canada and Europe, were receiving the complete PMA package. This package includes monthly tape cassettes, economic chart information, and the total range of A. G. Becker & Co.'s written investment research recommendations. PMA is marketed and interpreted through specially trained representatives and is designed to provide a practical, economic and effective means of communicating our investment research and portfolio management advice regularly and quickly to a wide range of institutional portfolio managers.

EUROPEAN INVESTOR SERVICES

Our European offices in London and Geneva operated profitably in fiscal 1973, despite the squeeze on profit margins and the unsettled investment climate arising from successive dollar devaluations. We gained increasing recognition throughout Europe for the objectivity and integrity of our investment research views and the efficiency of our executions.

**GROWTH IN
PMA SUBSCRIBERS**





EQUITY MARKETS SERVICES

- NYSE commission revenues increased approximately 21% on a year-to-year basis compared to a slight decline in total estimated NYSE member commissions.
- Primary and regional exchange clearing and execution services were extended to 117 securities dealers at year end.
- Block trades handled on the NYSE increased 43% over our 1972 level versus an increase of under 1% in all NYSE member block trades.
- Chicago Board Options Exchange execution and clearing services were initiated and extended to over 60 securities dealers.
- Specialist activities on the New York, Philadelphia and Pacific Stock Exchanges were reduced or discontinued; operations on the American and Midwest were maintained.



EXECUTION SERVICES

The strengthening of our equity execution capabilities, a program which was initiated during fiscal 1972, was carried on in 1973. At the end of the year, all block trading and order handling personnel and facilities in our two principal offices were combined with the execution units on all exchanges to form a unified execution services group. At the end of 1973, order executions of over 1,200 institutional, dealer and other professional organizations were handled directly by personnel in this new organizational unit.

Our trading desk operations in New York and Chicago are staffed by 17 traders whose experience in the business totals more than 150 years. The effectiveness of these units is extended by institutional trading facilities and personnel in Los Angeles, Boston and in our European offices. Our personnel on exchange floors are interconnected by an extensive network of sophisticated communications equipment designed especially to provide our clients with rapid execution services of the highest quality. A. G. Becker & Co. is one of a very few securities firms which, through its own personnel, can perform executions on the trading floors of all the major national and regional stock exchanges.

Total order executions for clients during the year involved over 178 million shares on seven stock exchanges with a value in excess of \$6.5 billion. This represents an increase in share volume handled of some 28 million shares and an 18% rise in total value handled over fiscal 1972 totals.

INVESTMENT DEALER SERVICES

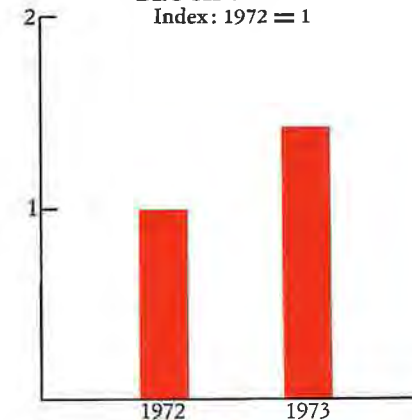
Our program of extending a range of trade execution and clearance services to selected broker/dealers enjoyed excellent results during the year, despite the lower stock market volume and price levels which prevailed for a major portion of that time. A. G. Becker & Co. is now a recognized leader in providing these services to securities dealers throughout the United States and Canada. Of particular note for the year was the initiation of eight additional clients on a "fully disclosed" basis of executions and clearances.

In November 1972, after some months of evaluation, we decided to become significantly involved in the Chicago Board Options Exchange then being organized. The formation of the CBOE was completed and initial trading in a limited number of contracts began in April, 1973. The early success of the exchange has been clear as the volume levels have well exceeded expectations. Our own commitment to the CBOE has resulted in our becoming one of the key securities firms participating in its operation. In addition to our role as a market maker, our floor brokerage and clearing services to other securities dealers involve us in approximately 20% of all transactions executed and cleared on the exchange. Our full time CBOE staff has grown to about 40 during the year. In the coming year we intend to devote increased attention to the employment of options strategies by institutional investment managers.

EQUITY MARKET MAKING ACTIVITIES

We continued in 1973 to refine our role as a registered specialist on several of the nation's securities exchanges. At fiscal year end, we were serving as registered specialists in 48 issues on the American Stock Exchange, 64 issues on the Midwest Stock Exchange, 81 issues on the Pacific Stock Exchange and we became a registered market maker in six classes of contracts on the Chicago Board Options Exchange. Our specialist operations on the New York, PBW and Boston Stock Exchanges were discontinued during the year in order to direct the resources involved to other aspects of firm operations. The operating results of our various exchange specialist activities during 1973 were disappointing. Market making in over-the-counter securities was kept to minimal levels, furthering a decision we made in 1971.

GROWTH IN
BLOCK TRADES
Index: 1972 = 1



Our nation's stock exchanges have changed greatly since the old Curb exchange was in its heyday some fifty years ago. The newest of the country's equity securities exchanges, the Chicago Board Options Exchange (also pictured left), began operations in April of 1973 and has been remarkably successful in adding a new dimension to equity investing. A. G. Becker & Co.'s CBOE operations include activities as a market maker, and serving as floor broker and clearing agent for over 60 securities dealers throughout the nation.

NAME	ADDRESS	AMOUNT	DATE	REMARKS
324 Hirsch	1000 N. 1st St.	62.70		
325 Hirsch	1000 N. 1st St.	54.50		
326 Hirsch	1000 N. 1st St.	52.20		
327 Hirsch	1000 N. 1st St.	58.60		
328 Hirsch	1000 N. 1st St.	25.70		
329 Hirsch	1000 N. 1st St.	255.00		
330 Hirsch	1000 N. 1st St.	21.00		
331 Hirsch	1000 N. 1st St.	10.00		
332 Hirsch	1000 N. 1st St.	125.00		
333 Hirsch	1000 N. 1st St.	10.12		
334 Hirsch	1000 N. 1st St.	700.00		
335 Hirsch	1000 N. 1st St.	541.20		
336 Hirsch	1000 N. 1st St.	52.00		
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338 Hirsch	1000 N. 1st St.	39.50		
339 Hirsch	1000 N. 1st St.	54.50		
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NAME	ADDRESS	AMOUNT	DATE	REMARKS
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397 Hirsch	1000 N. 1st St.	10.00		
398 Hirsch	1000 N. 1st St.	10.00		
399 Hirsch	1000 N. 1st St.	10.00		
400 Hirsch	1000 N. 1st St.	10.00		

INDIVIDUAL INVESTOR SERVICES

- Services to individuals were continued on a selective basis.
- Investment counseling and financial planning services to individuals and families with substantial assets were initiated through a wholly-owned subsidiary, Mid-Continent Capital, Inc.

The ledger pictured at the left is testimony to the integrity of Abraham G. Becker. After the failure of the Schaffner Bank in 1893, Mr. Becker began his own commercial paper firm. The business was successful from the start, but A. G. Becker withdrew very little of the profits for his own benefit. Instead he sought the depositors of Herman Schaffner's bank to repay their losses. Since this was an obligation of conscience rather than law, Mr. Becker used his discretion to repay small depositors first—widows and others who had felt the loss most severely. The payments, which were recorded in this ledger, continued for a number of years until all the depositors he was able to locate had been paid.

A. G. Becker & Co. has provided a range of general investment services to individual clients since 1919. A conscious decision was made some five years ago to restrict these services to a select and limited individual clientele, and to serve this clientele just as professionally as possible. This program included the decisions to close the few small outlying branch offices we then operated, to forego any future branch office expansion, and to concentrate our efforts in serving individual clients only from our major facilities in Chicago and New York, with our Chicago program being extended to include our nearby Milwaukee office. We have subsequently developed a number of elements in this program designed to provide the more substantial individual and family investor with professional brokerage and investment management services.

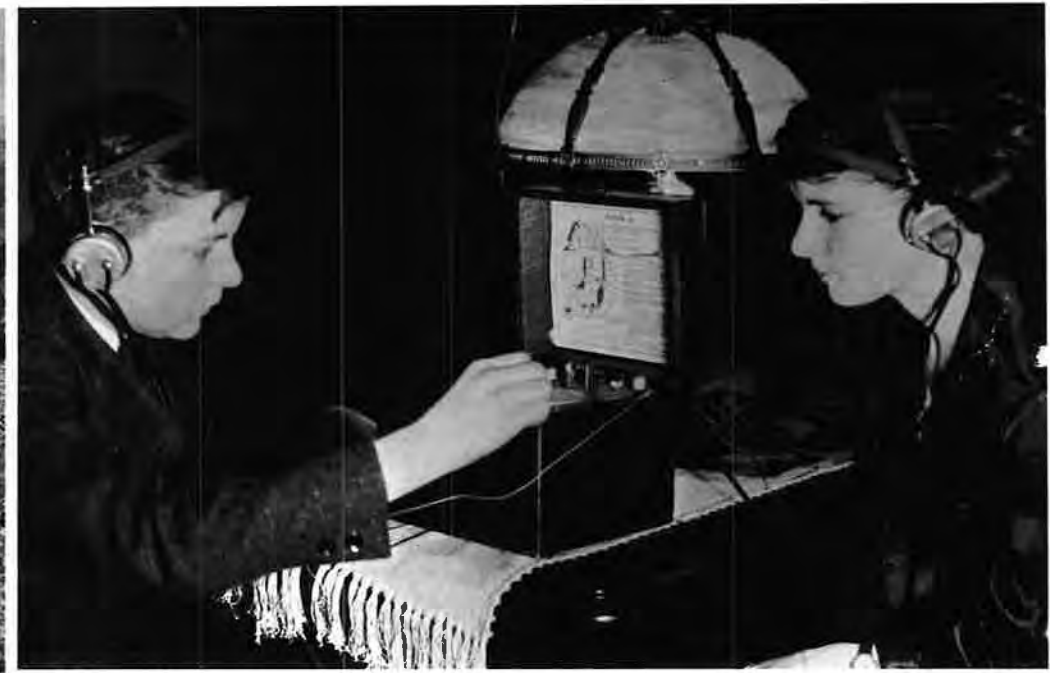
Our first step was to develop and adopt the "group approach" method of serving our individual clients. The "group approach" provides our clients the combined benefits of qualified, experienced and personalized service with the analysis and coverage of a team. It has also meant that the continuity of account contact is maintained regardless of business travel, vacation or illness on the part of our personnel.

We extended discretionary account management services to a significant number of clients during fiscal 1973. This service is provided by registered representatives who have been selected for their portfolio management capabilities and experience. Although not appropriate for all individual accounts, we believe that discretionary management provides a more consistent monitoring of investment objectives and portfolio progress, and clearer investment responsibility, than the normal brokerage account relationship.

Our Client Portfolio Service System (CPSS) was introduced a little over one year ago, and became a seasoned service in 1973. CPSS provides our clients and registered representatives with up-to-date, accurate records on purchase and current prices, realized and unrealized gains and losses, as well as dividend and interest income information on portfolio securities. This service is available for larger portfolios.

Through Mid-Continent Capital, Inc., a wholly-owned subsidiary registered under the Investment Advisors Act of 1940, investment counseling services are provided to clients with portfolios in excess of \$500,000, and, as a matter of policy, no funds of an institutional or public beneficiary character are accepted for management. Financial planning and advisory services are being initiated in 1974 for individuals and families of substantial wealth.





Courtesy Valley Publishing Company

PRIVATE INVESTMENT SERVICES

- Becker Communications Associates completed its first seven months of operation and committed over \$6 million to CATV systems operators.
- New or additional investments in developmental stage technology companies amounting to over \$1.6 million were made by Becker Technological Associates.

A. G. Becker & Co. is an investor in and provides staff services supporting two specialized investment programs. Becker Technological Associates, a private investment partnership, was formed in 1968 to assist technologically oriented companies in the developmental stage of growth through a combination of financial management services and investment capital. At the end of October, 1973, the BTA portfolio held investments in 16 companies. Six investments aggregating over \$1.6 million were made during fiscal 1973. The recently estimated equity value of the partnership was about \$15 million.

Becker Communications Associates, a limited partnership formed with \$11.5 million in partnership capital, was established early in 1973 and began operations in March. BCA was initiated to provide specialized financing and management services to CATV and related communications businesses. Its limited partners include a select group of large insurance companies, banks and corporations. The BCA staff is comprised of individuals who are knowledgeable and experienced in CATV financing and related disciplines. During its initial months of operation, BCA committed to four financings involving over \$6 million, despite the unusually tight credit market environment that has existed during most of this period. Other financings totalling approximately \$9 million were committed by calendar year end.

In addition to these structured investment programs, A. G. Becker & Co. also considers a limited number of other types of direct venture investments. During 1973, three such opportunities were supported by investments and two other investments were completely liquidated.

When broadcast entertainment began about 55 years ago, eager listeners strained to hear it through the "magic" of the crystal set. Since then, the remarkable success of the electronic communications and entertainment industries has had an incalculable effect on twentieth century life. Television, once a luxury, is now a necessity with over 100 million sets in the homes and offices of Americans. The CATV industry has brought quality TV reception to many communities where terrain or building interference has otherwise made such reception impossible.

The specialized financing needs of the CATV industry are being served by Becker Communications Associates, which began operations in March, 1973. Through December, 1973, BCA had committed to nearly \$15 million in financings for the growing CATV industry.



OPERATIONS AND ADMINISTRATIVE SUPPORT

- Operations and administrative support for a growing but highly fluctuating level of equity and credit securities transactional volume was provided with relative smoothness.
- A specialized clearance system for dealers using the CBOE was designed and put into operation.

During 1973, the firm maintained the high quality of its operations and administrative support through a period when cost control measures were being consistently followed. The year provided an excellent opportunity to continue to upgrade our processing techniques under conditions of widely varying transactional volume.

A major specific accomplishment during the year was the development and installation of the specialized transaction clearance system now serving some 60 dealers doing business on the CBOE. Despite challenges posed by heavier-than-expected usage, this system played a key role in the firm's obtaining of a major portion of the clearance business on the country's newest securities exchange.

The absorption of several large dealer accounts being cleared on a "fully disclosed" basis provided an additional challenge to our operations organization. We also continued to refine our overall clearance services for other investment dealer clients. Finally, we tested an improved order handling system for installation in 1974.

In March, 1973, we completed the move of our entire New York City staff to new and expanded facilities at 55 Water Street. Located in the country's largest privately sponsored office building, these new facilities occupy 108,000 square feet on two complete floors and accommodate over 550 employees.

A major firm-wide telecommunications study was completed in 1973 and yielded recommendations which are now being implemented. We anticipate that these changes will create substantial operating cost savings in 1974, while actually improving our communications systems and services to clients.

ORGANIZATIONAL DEVELOPMENT

- Top management changes were made in preparation for future growth and development.

COMMUNITY SERVICE

Clear progress was made during 1973 in better preparing A. G. Becker & Co. for the later 1970's and the decade beyond. The normal demands of growth are made even more complex by the fast-changing structure of the securities and financial services industries. Planning for these needs, and with the aid of outside consultants, an inventory of the firm's management resources was completed at the close of fiscal 1972. Based on this assessment, our Board of Directors adopted a longer term management development program.

As a step in this program, Frederick Moss, 44, was elected a senior vice president and John F. Donahue, Jr., 37, and John A. Wing, 38, were elected senior vice presidents and members of the Executive Committee. Each of these men has also been given increased administrative responsibilities. In addition, Barry S. Friedberg, Stuart P. Gassel and Daniel J. Good were added to the Board of Directors. These moves were designed to meet our current and near-term needs as well as to lay a foundation for further future management evolution at all levels.

The company's Board of Directors accepted with regret the resignations of John F. Connor, executive vice president and treasurer, and Roger O. Brown, senior vice president, effective December 28, 1973. Both men have made significant contributions to the growth of A. G. Becker & Co. during their long tenure, and their future assistance will be missed.

■ **Emphasis on community service was continued despite poor industry conditions.**

While many securities industry firms were trimming their commitments to charitable and community organizations, A. G. Becker & Co.'s involvement as a responsible corporate citizen has moved ahead during the year. Our Foundation maintained its special emphasis on supporting inner-city agencies, particularly those where our employees contributed their own time, talent and money. Personal participation by employees in community affairs appears to have increased, and employee financial support of local community funds was excellent.

The James H. Becker Fund provided financial support in 1973 to nine young Chicagoans developing skills for their self-improvement in fields ranging from social work to law and pre-medicine. We are committed through this special program to supporting selected "high-risk" younger people in their attempts to overcome social hardship or physical handicaps.

FINANCIAL PROGRESS

As pointed out in our 1972 Annual Report, we were planning for 1973 operating results which exceeded those in 1972, but we added "we do so with more than average caution." Even though we were less optimistic than many about the financial markets which would exist in 1973, the impact of the year's adverse market conditions was more severe than we predicted. Our overall operating results were disappointing, but considering the marketing gains and organizational strength which emerged during this period, we felt 1973 was a year of accomplishment.

In summary, revenues for fiscal 1973 were \$78,853,000, up 13% over 1972. Operating income before taxes, however, declined to \$4,559,000, down some 22% from the fiscal 1972 level. Net income, however, rose from \$2,337,000 in 1972 to \$5,583,000 in 1973, after giving account to special items and firm investment account developments. Stockholders' equity increased to \$32,236,000 a 14% gain over the October 27, 1972 level.

Commission and floor brokerage income increased \$5,232,000 over 1972. This was a 13% gain, which compares with a slight decline in estimated NYSE commission revenue of all member firms during the same period. Our commission revenue growth during 1973 reflected good progress in each service for which we receive brokerage income.

Overall trading and underwriting revenues for 1973 were at about the same level as in 1972, but the profit contribution of this revenue declined. This decline particularly took place in our money market, corporate underwriting and equity trading activities. Net principal income arising from our commercial paper business was reduced from the 1972 level due both to lower average outstandings and higher inventory costs. Some of this decline was offset by the increased gross trading profits from more active dealings in government and bank related obligations. Gross income from corporate securities underwritings was off significantly from 1972 due to the reduction in public financing by the nation's corporations. Equity trading income was reduced by disappointing results in particular equity trading units as compared with the revenue they generated in 1972.

Fees, interest, dividend and other revenues increased \$3,622,000 or 52% over 1972, reflecting the substantial increase in corporate financial services rendered during the year on a fee payment basis, as well as an increase in margin interest income.

Turning to the year's operating expenses, employee compensation and benefit expenses increased 4.3% on a year-to-year basis. Although the average number of firm employees increased some 6.8% year-to-year, and the average base compensation for salaried personnel was up somewhat, additional compensation expense for 1973 was well under that for 1972.

A major factor in the year's disappointing operating results was the substantially increased expense of borrowed money. The increased expense of \$6.1 million was up 82% over 1972. Although a portion of this increase was applicable to the greater average use of funds, and some of the increase was offset by higher income, an important part of our reduction in operating profit from the 1971-1972 level was due to high interest rates.

Floor brokerage, clearance and other expenses were also higher in 1973, by some 12%. Transactional expenses were up 11% primarily reflecting increases in commission revenues. Only modest increases took place in occupancy, communications and purchased services expense.

Steady pressure was placed during the year on our administrative and operations systems. Particular pressures resulted when new options and funds evaluation service systems were brought on stream. Short-term transactional processing workloads probably varied more within the fiscal year than in any recent year, if not in our history. Even so, the overall costs of our operations and administrative support functions were held to within 2% of the level we experienced in fiscal 1972.

In summary, 1973 operating results benefitted from the momentum built up in many of our marketing programs during recent years, and from a generally satisfactory management of controllable costs. The year's results suffered from the impact of adverse securities markets conditions on equity and credit securities principal income, from low corporate underwriting activity, and from substantial increases in the cost of borrowed money.

After accounting for the company's operating income before taxes of \$4,559,000 a number of items brought our reported net income for 1973 up to \$5,583,000. Much of this net income (other than the portion applicable to 1973 operations) reflects the development or realization of profit (or loss) over more than one fiscal year period, which however, must be recorded in our fiscal 1973 operating statement in accordance with the revised Audit Guide for Securities Brokers and Dealers adopted by the American Institute of Certified Public Accountants during 1973.

Shareholders' equity increased to \$32,236,000 at year end, and net capital under NYSE regulations increased to \$17,556,000 as of such date. Our net capital ratio at fiscal year end was 7.6 to 1, reflecting particularly the expanded use of capital to support inventory positions and liabilities relating to customer activities during the last two months of our fiscal year.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended October 26, 1973, and October 27, 1972

(000 omitted)

	1973	1972
REVENUES:		
Commissions and floor brokerage.....	\$46,256	\$41,024
Trading profits and underwriting (Note 11).....	22,012	21,558
Fees, interest, dividends and other.....	10,585	6,963
	<u>\$78,853</u>	<u>\$69,545</u>
EXPENSES:		
Employee compensation and benefits.....	\$30,930	\$29,667
Interest (Note 11).....	13,554	7,436
Floor brokerage and clearance fees.....	13,261	11,985
Other.....	16,549	14,584
	<u>\$74,294</u>	<u>\$63,672</u>
INCOME BEFORE GAIN (LOSS) ON INVESTMENT SECURITIES, TAXES ON INCOME, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE.....	\$ 4,559	\$ 5,873
Gain (loss) on investment securities (Note 12).....	(315)	495
Taxes on income (Note 13).....	(2,553)	(3,415)
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE.....	\$ 1,691	\$ 2,953
EXTRAORDINARY ITEMS, net of Federal income taxes of \$305,000 in 1973 and \$569,000 in 1972 (Note 14).....	(1,558)	(616)
CUMULATIVE EFFECT ON PRIOR YEARS (to October 27, 1972) of changing to a different method of carrying investment securities, net of related income taxes of \$2,550,000 (Note 2).....	5,450	—
NET INCOME.....	<u>\$ 5,583</u>	<u>\$ 2,337</u>
PER SHARE OF COMMON STOCK (based upon the average number of shares outstanding during each of the periods):		
Income before extraordinary items and cumulative effect of a change in accounting principle.....	\$1.80	\$3.14
Extraordinary items.....	(1.66)	(.66)
Cumulative effect on prior years (to October 27, 1972) of changing to a different method of carrying investment securities.....	5.81	—
Net income.....	<u>\$5.95</u>	<u>\$2.48</u>
PRO FORMA AMOUNTS, assuming the new method of carrying investment securities is applied retroactively:		
Income before extraordinary items.....	\$ 1,691	\$ 7,658
Per common share.....	1.80	8.14
Net income.....	133	7,042
Per common share.....	<u>.14</u>	<u>7.48</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

October 26, 1973 and October 27, 1972

(000 omitted)

ASSETS	1973	1972
Cash.....	\$ 7,980	\$ 6,324
Deposits with clearing organizations.....	\$ 1,937	\$ 1,634
Trading securities, at quoted market (Note 3)—		
Commercial paper.....	\$354,033	\$189,074
Certificates of deposit.....	76,693	167,243
U.S. Government obligations.....	34,213	110,042
Bankers' acceptances.....	33,101	37,848
Corporate securities.....	7,035	13,019
Municipal bonds.....	2,862	2,055
	<u>\$507,937</u>	<u>\$519,281</u>
Receivables from customers, less reserve (including \$64,517,000 under reverse repurchase agreements in 1973) (Note 5).....	\$138,177	\$38,367
Receivables from brokers and dealers (Note 4).....	87,705	35,436
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables.....	6,939	4,947
Securities in accounts under subordination agreements, at quoted market (Note 6).....	—	183
Investment securities, at estimated fair value in 1973 (cost \$4,036,000); at cost in 1972 (estimated fair value \$10,100,000) (Notes 1 and 2).....	5,286	2,111
Exchange memberships, at adjusted cost in 1973 (market \$1,103,000); at cost in 1972 (market \$1,785,000) (Note 14).....	694	2,611
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$1,821,000 in 1973 and \$2,665,000 in 1972.....	2,016	1,983
Deferred tax benefits.....	1,145	1,234
Other assets.....	337	240
	<u>\$760,153</u>	<u>\$614,351</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1973	1972
Collateral loans—		
Secured by commercial paper, U.S. Government obligations, certificates of deposit and bankers' acceptances under repurchase agreements (Note 3)	\$280,780	\$352,790
Secured by firm securities (Note 3)	187,185	151,098
Secured by customer securities	17,414	8,729
	<u>\$485,379</u>	<u>\$512,617</u>
Securities sold, not yet purchased, at quoted market	83,507	4,380
Payables to brokers and dealers (Note 4)	73,255	18,085
Payables to customers	60,524	33,739
Accounts payable and accrued liabilities	18,467	13,539
Reserve for undisbursed pension expense (Note 10)	1,732	757
Accrued income taxes	3,431	956
	<u>\$726,295</u>	<u>\$584,073</u>
Liabilities subordinated to the claims of general creditors (Note 6)	<u>\$ 1,622</u>	<u>\$ 1,885</u>
Stockholders' Equity:		
Common stock, voting, \$.20 par value; authorized 2,000,000 shares; issued 1,128,655 shares; outstanding 829,393 shares in 1973 and 891,432 shares in 1972 (Note 7)	\$ 226	\$ 226
Class A non-voting common stock, \$.20 par value; authorized 500,000 shares; issued 70,979 shares in 1973 and 59,838 shares in 1972; outstanding 64,002 shares in 1973 and 58,838 shares in 1972 (Note 7)	14	12
Additional paid-in capital	2,296	1,883
Retained earnings (Note 9)	41,086	35,081
	<u>\$ 43,622</u>	<u>\$ 37,202</u>
Less—		
Treasury stock, at cost (Note 8)	9,190	6,416
Notes due from stockholders (Note 7)	2,196	2,393
	<u>\$ 32,236</u>	<u>\$ 28,393</u>
Total Stockholders' Equity	<u>\$760,153</u>	<u>\$614,351</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS

For the Years Ended October 26, 1973 and October 27, 1972

(000 omitted)

ADDITIONAL PAID-IN CAPITAL

	1973	1972
BALANCE, BEGINNING OF YEAR	\$ 1,883	\$ 1,236
Excess of selling price over par value of Class A common stock issued (11,141 shares in 1973 and 21,584 shares in 1972)	413	647
BALANCE, END OF YEAR	<u>\$ 2,296</u>	<u>\$ 1,883</u>

RETAINED EARNINGS

	1973	1972
BALANCE, BEGINNING OF YEAR	\$35,081	\$32,535
Net income	5,583	2,337
Proceeds over cost of treasury stock sold (Note 8)—		
Common	419	206
Class A common	3	3
BALANCE, END OF YEAR (Note 9)	<u>\$41,086</u>	<u>\$35,081</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended October 26, 1973 and October 27, 1972

(000 omitted)

FUNDS PROVIDED BY:

	1973	1972
Income before extraordinary items	\$ 1,691	\$ 2,953
Extraordinary item, net of taxes	(1,558)	—
Cumulative effect of a change in accounting principle	5,450	—
	<u>\$ 5,583</u>	<u>\$ 2,953</u>
Add (deduct)—items not requiring the outlay of funds—		
Depreciation and amortization	471	369
Decrease in unrealized appreciation of investment securities, net of taxes	4,574	—
Writedown of exchange memberships	847	—
Cumulative effect of a change in accounting principle	(5,450)	—
	<u>\$ 6,025</u>	<u>\$ 3,322</u>
Provided from operations	1,413	2,263
Sales of treasury stock	415	651
Issuance of Class A common stock		
Increases in—		
Bank loans (firm and customer)	44,772	83,358
Securities sold, not yet purchased	79,127	718
Payables to brokers and dealers	55,170	—
Payables to customers	26,785	—
Accounts payable, accrued liabilities and reserve for undisbursed pension expense	5,903	—
Accrued income taxes	2,475	—
Subordinated liabilities	—	354
Decreases in—		
Cash	—	1,462
Trading securities	11,344	—
Receivables from brokers and dealers	—	9,189
Investment securities	—	376
Exchange memberships (cost)	1,070	—
Other changes	237	249
	<u>\$234,736</u>	<u>\$101,942</u>
Total funds provided		

FUNDS APPLIED TO:

Extraordinary items, net of tax	\$ —	\$ 616
Purchase of treasury stock	4,187	2,387
Purchases of office equipment and leasehold improvements	504	748
Decreases in—		
Loans under repurchase agreements	72,010	41,832
Payables to brokers and dealers	—	14,693
Payables to customers	—	167
Accounts payable, accrued liabilities and reserve for undisbursed pension expense	—	373
Accrued income taxes	—	473
Subordinated liabilities	80	—
Increases in—		
Cash	1,656	—
Deposits with clearing organizations	303	—
Trading securities	—	36,814
Receivables from customers	99,810	2,926
Receivables from brokers and dealers	52,269	—
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables	1,992	449
Investment securities (cost)	1,925	—
Other changes	—	464
	<u>\$234,736</u>	<u>\$101,942</u>
Total funds applied		

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

October 26, 1973, and October 27, 1972

(1) ACCOUNTING POLICIES:

The consolidated financial statements include the accounts of A. G. Becker & Co. Incorporated and all of its wholly owned subsidiary companies. All material intercompany accounts and transactions were eliminated. Foreign currency items are translated into U. S. dollars at year-end exchange rates. The gains and losses from translation, which are not material, are included in consolidated income.

Trading securities consist of securities held for resale to customers and are valued at quoted market.

Investment securities generally represent long-term investments in securities which, at the time the investments are made, are restricted or non-marketable. Although some of these securities may subsequently become marketable, they remain classified as investment securities. Effective October 26, 1973, these securities are carried at estimated fair value as determined by management (see Note 2). In the determination of estimated fair value, the following guidelines are observed:

(a) Marketable securities are valued at the quoted market price or at quoted market less an appropriate discount, when it is felt that the public market cannot absorb the entire position at the quoted market price.

(b) Restricted securities are valued at the quoted market price of their marketable equivalents, less an appropriate discount.

(c) When an objective measure of fair value is not readily obtainable due to nonmarketability, estimated fair value is measured by bona fide sales of the same securities or similar securities by the same issuer, or other significant factors.

Securities transactions and related commission revenues and expenses are recorded in the accounts on settlement date.

The Company's fiscal year ends on the last Friday in October.

Exchange memberships are carried at cost, adjusted for permanent impairment in value (see Note 14).

Office equipment is depreciated over a ten-year period using the sum of the years-digits method. Leasehold improvements are amortized over the lesser of the estimated economic life of the improvement or the remaining lease term.

(2) ACCOUNTING CHANGE:

Effective in 1973, the American Institute of Certified Public Accountants required brokers and dealers in securities to carry investment securities at estimated fair value. Prior to October 26, 1973, the Company followed the practice of carrying such securities at cost. On October 26, 1973, the Company adopted the practice of carrying these securities at estimated fair value, as determined by management. The effect of this change in 1973 was to increase the carrying value of investment securities by \$1,250,000, and decrease income before extraordinary items by \$4,574,000 (net of income taxes of \$2,176,000) or \$4.88 per share. 1973 net income includes an adjustment of \$5,450,000 (net of income taxes of \$2,550,000) which represents the retroactive application of the new method.

(3) SECURITIES PLEDGED:

At October 26, 1973, the Company and its subsidiaries had pledged (a) trading securities with a market value of \$280,999,000 to secure collateral loans under repurchase agreements of \$280,780,000 and (b) trading securities with a market value of \$188,407,000 to secure collateral firm loans of \$187,185,000.

In addition, the Company borrowed \$50,922,000 of U. S. Government obligations for which it pledged \$22,402,000 of trading securities and \$30,385,000 of securities included in the aforementioned amount borrowed.

(4) RECEIVABLES FROM AND PAYABLES TO BROKERS AND DEALERS:

Amounts receivable from and payable to brokers and dealers include (in thousands of dollars):

	1973	1972
Securities failed to deliver..	\$58,050	\$17,869
Accounts with clearing corporations.....	3,951	3,143
Deposits paid for securities borrowed.....	24,637	14,105
Other.....	1,067	319
Total receivables.....	<u>\$87,705</u>	<u>\$35,436</u>
Securities failed to receive..	\$67,853	\$14,623
Accounts with clearing corporations.....	1,210	575
Deposits received for securities loaned.....	3,258	2,586
Other.....	934	301
Total payables.....	<u>\$73,255</u>	<u>\$18,085</u>

(5) RECEIVABLES FROM CUSTOMERS:

Reserves for doubtful accounts were \$247,000 in 1973 and \$272,000 in 1972.

(6) LIABILITIES SUBORDINATED TO THE CLAIMS OF GENERAL CREDITORS:

Below is a summary of subordinated liabilities at the end of each year (in thousands of dollars):

	1973	1972
Amounts payable under deferred compensation agreements.....	\$1,622	\$1,702
Securities, at quoted market..	—	183
	<u>\$1,622</u>	<u>\$1,885</u>

Under the terms of the various agreements, these liabilities are subordinated to the claims of general creditors and \$1,573,000 of these amounts are available to the Company in computing net capital under New York Stock Exchange, Inc. rules (see Note 9). These liabilities bear interest at rates varying from 8% to 9%.

Either the Company or the lender may terminate the agreement upon giving six months' prior written notice; however, the agreements generally may not be terminated prior to one year from the effective date. As of October 26, 1973, six months' notice had been given with respect to \$147,000 of these liabilities. Additional amounts payable mature as follows: \$43,000 in 1974, \$169,000 in 1975, \$133,000 in 1976, \$159,000 in 1977 and \$971,000 in varying amounts thereafter.

(7) STOCKHOLDER AGREEMENTS:

Under various stockholder agreements, the Company sells stock to its officers and employees at net asset value, as defined. All stockholder agreements provide for the purchase by the Company of a stockholder's shares within six months after he ceases to be an officer or employee, subject to certain conditions.

As of October 26, 1973, certain stockholders had resigned or given notice of resignation; such stockholders owned shares with an aggregate net asset value of approximately \$1,000,000. In addition, two stockholders, whose shares have an aggregate net asset value of approximately \$5,500,000 have notified the Company of their intention to resign. The exact timing of the resignations and method of repurchase of their shares have not yet been determined.

The Company is in the process of negotiating with a bank for a subordinated term credit agreement, some of the proceeds of which are expected to be used to purchase a portion of terminating stockholders' equity. The terms of the subordinated term credit agreement are expected to restrict the amount of cash which the Company will be permitted to use to repurchase the shares of stockholders and to provide for the Company's issuance of obligations, subordinated for purposes of New York Stock Exchange net capital requirements, for the remainder of such shares.

Certain officers, who have been designated by the Board of Directors as employed in a "senior managerial capacity" are entitled to purchase voting common stock under management share agreements. These management share agreements, which contain more restrictive conditions than those agreements governing the regular sale of the Company's stock, provide for payment of 10% in cash and a 15-year note. At October 26, 1973, there were \$2,196,000 of these notes outstanding, resulting from the purchase of 128,961 shares of common stock. These notes bear interest at rates varying from 5% to 8% and mature in varying amounts in the years 1979-1980 and 1982-1988.

(8) TREASURY STOCK TRANSACTIONS:

Treasury stock transactions for the two years ended October 26, 1973, were as follows:

	Common Stock		Class A Common Stock	
	Shares	Amount*	Shares	Amount*
Balance,				
10/31/71	240,495	\$6,283	300	\$ 9
Pur-				
chases	68,706	2,082	9,880	305
Sales	(71,978)	(1,983)	(9,180)	(280)
Balance,				
10/27/72	237,223	\$6,382	1,000	\$ 34
Pur-				
chases	97,500	3,458	19,627	729
Sales	(35,461)	(908)	(13,650)	(505)
Balance,				
10/26/73	299,262	\$8,932	6,977	\$ 258

*In thousands of dollars.

The cumulative losses on sales of treasury stock have been charged to retained earnings.

(9) NET CAPITAL REQUIREMENTS:

As a member of the New York Stock Exchange, Inc., the Company is subject to the Exchange's net capital rule. This rule requires that the ratio of "aggregate indebtedness" to "net capital" of a member firm must not exceed 15 to 1 (as those terms are defined by the

rule). In addition, a member firm must reduce its business if its ratio exceeds 12 to 1 and its expansion may be restricted if its ratio exceeds 10 to 1. At October 26, 1973, the Company's net capital, as defined, was \$17,556,000 (7.6 to 1) and the minimum net capital requirement on the basis of a 15 to 1 ratio was \$8,933,000.

(10) PENSION PLAN:

The Company has a noncontributory pension plan covering substantially all of its employees. Total pension expense for the fiscal years ended October 26, 1973, and October 27, 1972, was \$975,000 and \$861,000, respectively, which includes normal cost plus interest on past-service costs. The Company's general policy is to fund pension costs accrued; however, the fiscal 1970 and 1973 accruals were not funded.

The net assets of the pension fund exceeded the actuarially computed value of the vested benefits at the end of 1973 and 1972.

(11) INTEREST ON REPURCHASE TRANSACTIONS:

Gross trading profits from the purchase and sale of money market instruments are included in "trading profits and underwriting." Discount interest costs associated with repurchase transactions in these instruments of \$22,030,000 in 1973 and \$12,688,000 in 1972 are offset against such gross trading profits.

(12) GAIN (LOSS) ON INVESTMENT SECURITIES:

As explained in Note 2, in 1973 the Company adopted the practice of carrying investment securities at estimated fair value. Accordingly, the 1973 loss on investment securities is comprised of a decrease in unrealized appreciation of \$6,750,000 less realized gains of \$6,435,000. The 1972 amount consists solely of realized gains.

(13) TAXES ON INCOME:

Taxes on income include Federal, state and local income taxes. Federal income taxes have been provided on undistributed earnings of foreign subsidiaries. The Company also provides for deferred income

taxes on items which are recorded for tax and accounting purposes in different periods. The amounts of current and deferred tax provisions during 1973 and 1972 were as follows (in thousands of dollars):

	1973	1972
Current	\$4,709	\$2,722
Deferred	89	124
Total	<u>\$4,798</u>	<u>\$2,846</u>

The difference between the effective rate of income taxes and the rate normally expected is principally due to permanent differences pertaining to nontaxable municipal interest and dividend exclusion, offset by a loss sustained in a foreign subsidiary for which no tax benefit has been taken.

(14) EXTRAORDINARY ITEMS:

During 1973, the Company adjusted the carrying value (cost) of exchange memberships to reflect permanent impairment in value, which management determined to be the excess of historical cost over the lowest consummated sale price for the five and one-half year period ended June 29, 1973. Accordingly, the cost of exchange memberships held as of October 26, 1973, has been reduced by \$847,000. In addition, the Company sold certain memberships and realized a loss of \$711,000 (net of related Federal income tax benefits of \$305,000). The total realized and unrealized loss on exchange memberships (\$1,558,000) is reflected in the consolidated statement of income as an extraordinary item.

During 1972, the Company paid \$797,000, including related legal fees, in settlement of certain litigation. In addition, the Company provided \$388,000 to cover lease termination penalties, abandonment of leasehold improvements and other costs incident to the relocation of its New York office. The foregoing amounts are reflected in the 1972 consolidated statement of income as extraordinary items net of related Federal income tax benefits of \$569,000.

(15) COMMITMENTS:

In the normal course of business, the Company enters into underwriting commitments. Open underwriting commitments as of October 26, 1973, were approximately \$37,000,000.

As of October 26, 1973, the Company had entered into "matched repurchase" agreements at contract amounts aggregating \$453,039,000, which are not reflected in the accompanying financial statements. These contracts are collateralized by securities with a quoted market value of \$474,427,000. A matched repurchase consists of a purchase of U. S. Government obligations or certificates of deposit with an agreement to resell at a specific future date and a sale of the same instrument with an agreement to repurchase at the same future date. The contract prices of the purchase-resale and the sale-repurchase are all equal in amount.

The Company's minimum rental commitments under noncancelable leases in each of the years 1974 through 1978 are between \$2,342,000 and \$2,551,000. The aggregate amount of such commitments for each of the five year periods ended 1983, 1988 and 1993 are \$10,670,000, \$7,857,000 and \$451,000, respectively. The foregoing includes immaterial amounts under finance leases.

Total rent expense, including monthly rentals, in 1973 and 1972 was \$2,767,000 and \$2,457,000, respectively.

(16) CONTINGENT LIABILITIES:

The Company has been named as a defendant in three class actions arising out of its activities as a broker-dealer or by reason of its membership on securities exchanges. Such suits are frequently brought for the alleged benefit of large numbers of brokers and dealers or customers, name many securities dealers as defendants and typically seek extremely large amounts in damages. The Company is also a defendant in other litigation. In the present opinion of management and its legal counsel, the Company has meritorious defenses and these actions will not result in a material adverse effect on the Company's financial position.

At October 26, 1973, the Company was contingently liable on security drafts deposited for immediate credit of approximately \$11,798,000.

In the ordinary course of business, the Company endorses acceptances sold. The Company has never experienced losses arising from such endorsements

and does not expect any losses on endorsed acceptances outstanding at October 26, 1973.

(17) RECLASSIFICATIONS:

Certain minor reclassifications were made to 1972 amounts for comparative purposes.

(18) EVENTS SUBSEQUENT TO DATE OF AUDITORS' REPORT:

With respect to the two terminating stockholders mentioned in Note 7 whose shares have an aggregate net asset value of approximately \$5,500,000, their resignations as employees and officers were tendered and were effective December 28, 1973.

On December 28, 1973, the Company entered into a \$5,000,000 senior subordinated term loan and credit agreement with a bank which provides for (a) a \$2,000,000 term loan repayable over a seven year period, the proceeds of which are expected to be used to purchase a portion of the shares owned by the terminating stockholders described in Note 7, and (b) a \$3,000,000 credit commitment, advances under which may be converted at any time up to two years into term loans repayable with, and subject to the same provisions as, the \$2,000,000 term loan.

Under the terms of the above bank loan agreement, the Company is restricted as to the amount of cash or property it may use and the procedures it must follow for the payment of dividends or the redemption, retirement, purchase, or other acquisition of shares of its capital stock. The agreement provides for the issuance of obligations, subordinate to the notes issued under the bank loan agreement and subordinated for purposes of New York Stock Exchange net capital requirements, for the repurchase of shares of terminating stockholders. Among other things, the agreement requires the Company to maintain consolidated net worth of at least \$22,500,000; a net capital ratio (as that term is defined by the New York Stock Exchange) not greater than 10 to 1 and a ratio of net capital to allowable capital (as defined) of at least 40%. The agreement also imposes limits on the amounts of additional subordinated debt which may be issued.

AUDITORS' REPORT

To the Board of Directors and Stockholders of
A. G. Becker & Co. Incorporated:

We have examined the consolidated balance sheets of A. G. BECKER & CO. INCORPORATED (a Delaware corporation) AND SUBSIDIARIES as of October 26, 1973, and October 27, 1972, and the related statements of consolidated income, additional paid-in capital and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Prior to 1973, investment securities were carried at cost. As further explained in Notes 1 and 2 to the financial statements, the Company changed its method of carrying investment securities to estimated fair value in compliance with pronouncements of the American Institute of Certified Public Accountants which became effective in 1973. Accordingly, as of October 26, 1973, investment securities not readily marketable amounting to \$5,052,000 (16% of Stockholders' Equity as of October 26, 1973) have been valued at estimated fair value as determined by management. We have reviewed the procedures applied by management in valuing such investments and have inspected underlying documentation; while in the circumstances the procedures appear to be reasonable and the documentation appropriate, determination of fair value involves subjective judgment which is not susceptible to substantiation by auditing procedures.

In our opinion, subject to the effect on the October 26, 1973, financial statements of the valuation of investment securities determined by management as described in the preceding paragraph, the accompanying financial statements present fairly the financial position of A. G. Becker & Co. Incorporated and Subsidiaries as of October 26, 1973, and October 27, 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, other than for the change in method of carrying investment securities, were consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
December 5, 1973 (except with respect
to the matters discussed in Note 18, as
to which the date is December 28, 1973).

TEN YEAR FINANCIAL SUMMARY

(000 omitted)

	Fiscal Year Ended	October 26, 1973	October 27, 1972	October 31, 1971	October 31, 1970	October 31, 1969	October 31, 1968	October 31, 1967	October 31, December 31, 1966	December 31, 1965	December 31, 1964
		Audited					Unaudited				
REVENUES:											
Commissions and floor brokerage		\$46,256	\$41,024	\$33,609	\$24,492	\$23,965	\$25,202	\$17,075	See Explanatory Notes		
Trading profits and underwriting		22,012	21,558	25,158	20,715	19,194	16,251	12,158			
Fees, interest, dividends and other		10,585	6,963	5,329	4,724	5,538	4,509	3,485			
Revenues		<u>\$78,853</u>	<u>\$69,545</u>	<u>\$64,096</u>	<u>\$49,931</u>	<u>\$48,697</u>	<u>\$45,962</u>	<u>\$32,718</u>	<u>\$21,301</u>	<u>\$16,646</u>	<u>\$12,610</u>
EXPENSES:											
Employee compensation and benefits		\$30,930	\$29,667	\$27,985	\$22,349	\$22,344	\$18,584	\$13,386	See Explanatory Notes		
Interest		13,554	7,436	6,335	8,483	8,708	6,964	5,743			
Floor brokerage and clearance fees		13,261	11,985	8,669	6,554	6,014	7,215	5,282			
Other		16,549	14,584	12,877	9,509	9,449	6,429	4,823			
Expenses		<u>\$74,294</u>	<u>\$63,672</u>	<u>\$55,866</u>	<u>\$46,895</u>	<u>\$46,515</u>	<u>\$39,192</u>	<u>\$29,234</u>	<u>\$20,072</u>	<u>\$15,098</u>	<u>\$11,496</u>
Operating Income Before Gain (Loss) on Investment Securities, Taxes on Income, Extraordinary Items and Cumulative Effect of a Change in Accounting Principle											
		\$ 4,559	\$ 5,873	\$ 8,230	\$ 3,036	\$ 2,182	\$ 6,770	\$ 3,484	\$ 1,229	\$ 1,548	\$ 1,114
Gain (Loss) on Investment Securities ¹		(315)	495	(39)	6,831	337	9,731	3,450	(3)	177	(73)
Taxes on income		<u>2,553</u>	<u>3,415</u>	<u>4,286</u>	<u>2,664</u>	<u>1,259</u>	<u>4,468</u>	<u>2,622</u>	<u>470</u>	<u>718</u>	<u>521</u>
Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle											
		\$ 1,691	\$ 2,953	\$ 3,905	\$ 7,203	\$ 1,260	\$12,033	\$ 4,312	\$ 756	\$ 1,007	\$ 520
Extraordinary Items, Net of Federal Income Taxes		(1,558)	(616)	—	—	—	—	—	—	—	—
Cumulative Effect on Prior Years (to October 27, 1972) of changing to a different method of carrying investment securities, net of related income taxes of \$2,550,000		5,450	—	—	—	—	—	—	—	—	—
Net Income		<u>\$ 5,583</u>	<u>\$ 2,337</u>	<u>\$ 3,905</u>	<u>\$ 7,203</u>	<u>\$ 1,260</u>	<u>\$12,033</u>	<u>\$ 4,312</u>	<u>\$ 756</u>	<u>\$ 1,007</u>	<u>\$ 520</u>
Stockholders' equity at fiscal year end		<u>\$32,236</u>	<u>\$28,393</u>	<u>\$25,367</u>	<u>\$21,245</u>	<u>\$20,683</u>	<u>\$16,720</u>	<u>\$12,167</u>	<u>\$ 8,946</u>	<u>\$ 6,343</u>	<u>\$ 7,791</u>

EXPLANATORY NOTES:

1. In 1973, the Company adopted the practice of carrying investment securities at estimated fair value. Accordingly, the 1973 loss on investment securities is comprised of a decrease in unrealized appreciation of \$6,750,000 less realized gains of \$6,435,000. All prior year amounts consist solely of realized gains or losses.

2. The Company changed its fiscal year end from December 31 to October 31 as of October 31, 1967, and, in 1972, the Company adopted a fiscal year ending on the last Friday in October. The operating results for 1967 include the results for November and December of 1966. The operating results of these two months are also included in the fiscal year ended December 31, 1966.

3. The data in the above Financial Summary for the 1967–1973 fiscal years have been prepared on a consistent basis. The data for the years 1969–1973 have been examined by independent public accountants; the data for 1967 and 1968 were prepared by the Company's management and are unaudited.

4. The summary of operating results for the three years ended December 31, 1966 is unaudited. Breakdowns of revenues and expenses by the categories given for 1967–1973 are not available for these years.

A.G. BECKER & CO. SERVICES

TO CORPORATIONS

- Private placement of intermediate and long-term credit securities.
- Formation and implementation of commercial paper issuance programs.
- Structuring of conventional and leveraged lease financings.
- Management of and participation in public offerings of debt or equity securities.
- Expertise in the financing of vessels and other types of transportation equipment.
- Assistance in acquisition, merger, consolidation and divestment programs.
- Investment programs in short-term credit securities.
- Assistance in the formation of captive finance subsidiaries.
- Evaluation of employee benefit fund investment programs.
- Financial planning services.
- Execution of transactions in listed and unlisted corporate and municipal securities.
- Participations in specialized venture investment programs.

TO INSTITUTIONS

- Order executions on all major stock exchanges and OTC.
- Portfolio management oriented investment research.
- Primary dealings in a wide range of short-term investments.
- Execution and positioning of block transactions.
- Underwritten offerings and secondary markets in debt and equity securities.

- Evaluation of investment management performance, client communications, and related matters.
- Debt and equity securities offered by private placement.
- Performance evaluation of endowment funds.
- "PMA" service.
- Specialized money market services for financial institutions.
- Venture capital investments and programs.
- Options strategies and executions oriented to portfolio managers.

TO GOVERNMENTS AND THEIR AGENCIES

- Management of and participation in negotiated and competitive public offerings of the securities of federal and municipal governments and agencies.
- Secondary market services in such securities.
- Advice as to the structuring and pricing of such securities.
- Specialized advisory services for the funding of state health and educational facilities.
- Specialized advisory, management and secondary market dealer services regarding short-term borrowing programs.
- Evaluation of employee benefit fund investment programs.

TO INDIVIDUALS

- Trade executions in listed and unlisted equity and credit securities.
- Discretionary account services by selected registered representatives.
- Portfolio management oriented investment research.
- "Group Approach" account coverage.
- Custodial services.
- Client Portfolio Service System for qualifying portfolios.
- Private investment opportunities for substantial individual investors.
- Investment counseling services for individual or family unit portfolios in excess of \$500,000.
- Specialized assistance in the sale of "restricted" securities.

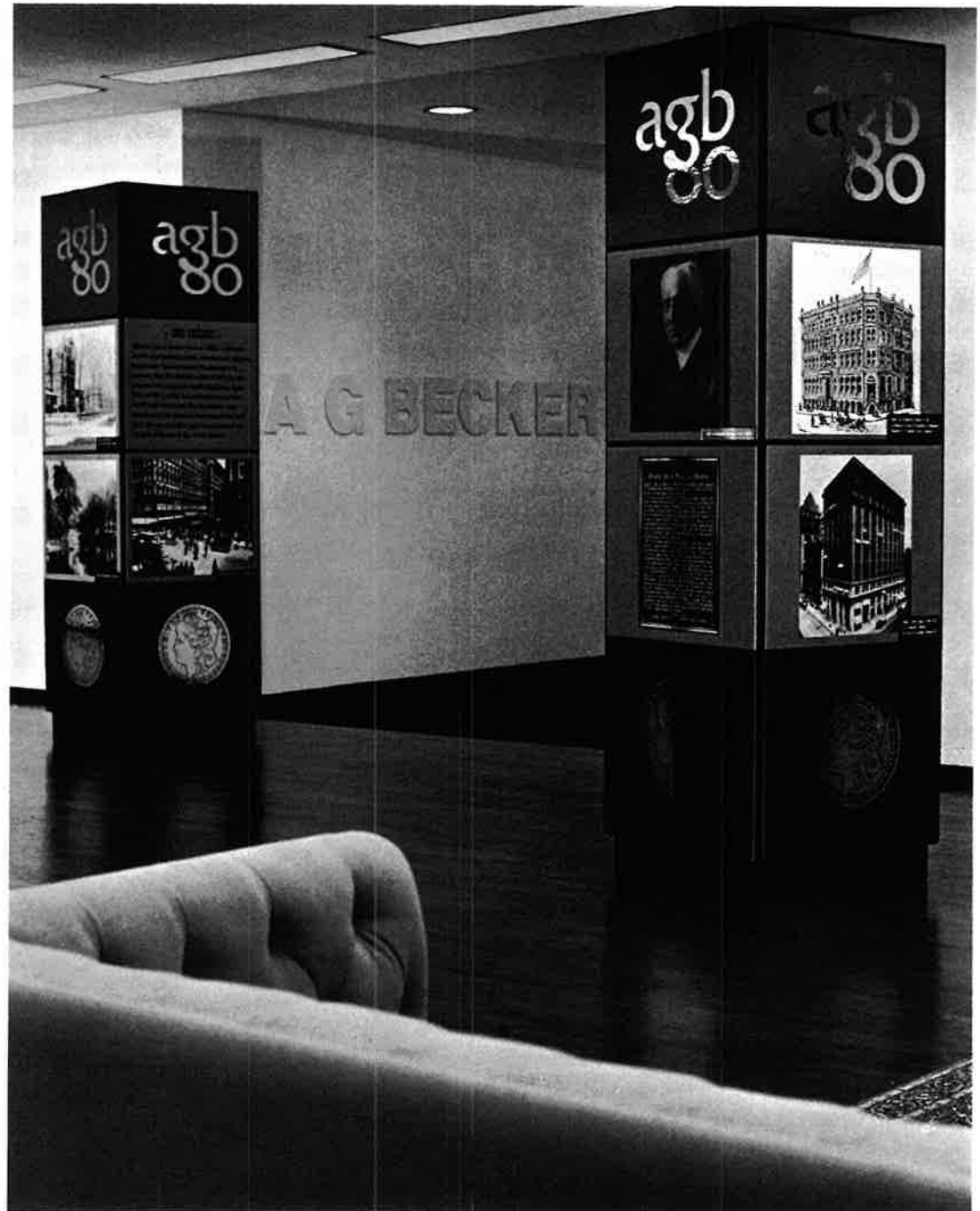
TO INVESTMENT DEALERS

- Fully disclosed and omnibus clearing services.
- Exchange execution services.
- Chicago Board Options Exchange brokerage and clearance services.
- Specialists services on national and principal regional stock exchanges.
- Sales-oriented supplementary research services.
- Specialist clearance services.
- OTC transaction clearance services.
- Participations in managed public offerings.
- Advice or joint working role on corporate and municipal financings.
- Assistance in securing capital for own business.

BOARD OF DIRECTORS

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Barry S. Friedberg	Vice President
Stuart P. Gassel	Vice President
Daniel J. Good	Vice President
Raymond C. Holland	Vice President
*Paul R. Judy	Chairman and President
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John D. Mabie	President, Mid-Continent Capital, Inc.
*Frederick Moss	Senior Vice President
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**Member of the Executive Committee*



A.G. Becker & Co.

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