

The Becker and Warburg-Paribas Group
INCORPORATED

1974

Annual Report

10
20
30
40
50
60
70
80
90
100
110
120
130
140
150
160
170
180
190
200
210
220
230
240
250
260
270
280
290
300
310
320
330
340
350
360
370
380
390
400
410
420
430
440
450
460
470
480
490
500
510
520
530
540
550
560
570
580
590
600
610
620
630
640
650
660
670
680
690
700
710
720
730
740
750
760
770
780
790
800
810
820
830
840
850
860
870
880
890
900
910
920
930
940
950
960
970
980
990
1000

To Our Clients and Friends,

For the fiscal year ended October 25, 1974 the total revenues of The Becker and Warburg-Paribas Group Incorporated were \$106,081,000. Operating income before taxes was \$7,749,000, a strong increase over the \$4,559,000 reported for fiscal 1973. From an operational standpoint, these results were the second best in our history.

Net income of \$1,827,000, however, was down from the level of fiscal 1973, and included losses of \$2,176,000 sustained on investment securities, of which \$1,797,000 was net unrealized depreciation in valuations.

The year was a difficult period for financial service organizations closely dependent on securities market conditions. Thus, we take pride in our operating results, especially when coupled with the high level of client service and internal management control we believe we maintained throughout the year.

Our association with S. G. Warburg & Co. Ltd. and Compagnie Financière de Paris et des Pays-Bas made 1974 a year of historic change for our corporation. In this connection, we were pleased in September to welcome many new associates from Warburg-Paribas, Inc. and to combine these two highly respected names with that of Becker. With our new affiliation and restructuring into a holding company, we believe we are in an especially strong position to provide present and future clients financial services of the highest quality and innovation.

The consolidated capital funds of The Becker and Warburg-Paribas Group Incorporated now total some \$56 million. This capital base ranks the Group as one of the larger units in the U.S. securities industry.

The business environment for our 1974 operations began under the cloud of the oil embargo and resulting pressure on energy costs. This development provided a further impetus to an already high inflation rate and became a significant depressant on the financial markets, particularly on equity values. As the economy moved toward a recessionary pattern, a sharply increased demand early in the year for short term funds coupled with a restrictive monetary policy pushed short term interest rates up sharply to unprecedented levels. Not until late in our fiscal year did rates begin to ease. Concern about corporate liquidity, capital adequacy and international balance of payments problems increased throughout the period and investor psychology stayed at a low ebb.

Looking to 1975, a number of influences both external and internal to our industry will impact on the Group's success. The course of the domestic economy and the nature of government response, along with the concomitant influence on equity market values and activity, interest rates and the demand by corporations for capital will significantly affect our business. International monetary and foreign economic developments could also have a substantial effect. And finally, within the securities industry, 1975 will certainly be a year of substantial and uncertain change with the creation of a fully competitive pricing environment for investor services.

The challenges of the new fiscal year are substantial, but we think we are reasonably prepared for them. We believe that those organizations which provide valuable and distinctive services through professional and highly-motivated personnel organized into a team effort will be viable and profitable. To maintain and enhance such a range of services and organizational effort is our continuous endeavor.

A handwritten signature in black ink, appearing to read "PR Judy".

Paul R. Judy
President and
Chief Executive Officer

January 15, 1975

Review of Operations

CREDIT SECURITIES SERVICES

During the year we maintained our position as a leader in the commercial paper, money market and U.S. and municipal government securities businesses.

Commercial paper outstandings reached a record level by fiscal year end despite low activity during the summer months. The total volume of commercial paper handled during the year was in excess of \$40 billion, up substantially from the over \$25 billion reported for fiscal 1973. Fiscal 1974 tested our ability to provide a consistently high level of service to both issuing and investing clients under widely varying market conditions. We welcomed some 32 new issuers to our list of industrial, utility and financial corporations borrowing short term funds in the open market.

Continuing our comprehensive program of services to the banking industry, we handled some \$22 billion of bank related money market obligations during 1974 and continued our growth and leadership in this money market sector.

Government securities activities for the year were highlighted by quite satisfactory profitability and by our selection as one of three dealers in the new discount note program initiated by the Farm Credit System. We also served as co-manager for \$800 million of new federal agency underwritings and distributed a like amount of federal agency issues offered through fiscal agents. Our commitments and transactions in GNMA securities for fiscal 1974 were three times the previous year's totals, and, simultaneously, we successfully expanded our government bond distribution capability.

The stepped-up development of our corporate bond business which began in fiscal 1973 resulted in a doubling of size by year end as the unit gained increased recognition for its professionalism and creativity.

Our municipal bond trading and distribution businesses were reorganized in mid year and subsequently displayed good progress. For the year, the amount of municipal underwritings where we were a manager about doubled compared to fiscal 1973. We also participated in the distribution of over \$5 billion of municipal notes in fiscal 1974. Our municipal finance advisory services, directed primarily to the planning and execution of hospital and educational facilities financing, continued to grow and secure new clients.

As we move into calendar 1975, all of the Group's credit securities activities will be carried on in our new subsidiary, A. G. Becker & Co. Incorporated.

CORPORATE FINANCE SERVICES

The corporate finance and investment banking services now being carried on by Warburg Paribas Becker Inc. were strongly affected by the adverse market environment of 1974. For the fiscal year, the amount of corporate financing managed, underwritten as a participant or placed privately totalled \$1.17 billion. While this total is 24 % higher than in fiscal 1973, it includes \$400 million of debt offerings which reached the market late in calendar 1973, and therefore early in our fiscal year. A large number of managed offerings and private placements were deferred during the balance of fiscal 1974 because of poor market conditions.

A record number of new industrial client relationships was established during the year and excellent progress was achieved in our program of extending financial planning, corporate development and related financing services to bank holding companies, large commercial banks and similar financial service businesses.

We were successful in assisting clients in the arrangement of \$80 million in Eurodollar credit facilities and in the completion of five merger transactions with an aggregate value of \$110 million.

FUNDS EVALUATION SERVICES

The growth of our funds evaluation services to both trustors and investment managers continued unabated during fiscal 1974.

The client base of our trustor services increased some 25 % to 1250 fund sponsors of all types, which include corporations, state and local governments, Taft-Hartley plans, foundations and endowments. Through our Canadian subsidiary we provide these services to some 200 clients, including 40 of the largest 100 corporations in Canada.

Our funds evaluation services to investment managers also made significant gains in market penetration. At fiscal year end our subscribers included 67 of the 100 largest banking institutions, 23 of the 25 largest insurance companies, and 45 of the 50 largest investment counseling firms.

The year was highlighted by the introduction of three new services. The Retirement Funds Planning Service received its initial market introduction to a select group of major corporations. The favorable reception granted to this important new service reflects the five years of intensive research and development preceding its introduction.

Two companion services for investment managers and plan sponsors were also introduced during the year. The Portfolio Analysis Review Service and the Portfolio Management Review Service are designed to assist plan sponsors and investment managers in the analysis and communication of equity investment strategy formulation and execution. Here also, the initial reactions of some 50 participating fund sponsors and a similar number of investment managers have been gratifying. Early in 1975 we expect to introduce a further extension of these services which will provide similar information relating to bond investments.

A noteworthy event of the year was the passage of the Employee Retirement Income Security Act of 1974 with its potentially far reaching impact on the responsibilities of both fiduciaries and investment managers. Initial indications suggest that our funds evaluation services will be especially responsive to the requirements of these fiduciary responsibilities.

In 1975, these activities will be continued by Becker Securities Corporation.

PORTFOLIO SERVICES

As we entered fiscal 1974 the Dow Jones Industrial Average stood at 987; twelve months later the average closed at 636. The average daily volume of shares traded on the NYSE during fiscal 1974 was down 9 % compared to the previous twelve month period. The dollar value of transactions for the comparable period fell more than 25 % . These indicators sharply characterize the environment in which our equity securities businesses had to operate during the year.

Despite this environment, our commission revenues for services rendered to institutions and individuals showed a small increase over fiscal 1973 levels and we achieved distinct gains in market penetration in selected areas.

Institutional Accounts. Toward the end of fiscal 1974 we determined that the various requirements of our major institutional accounts were so specialized that we focused the energy of a select group of

personnel to serve these clients exclusively. The formation of this specialized unit is part of a broader program of continuing to strengthen our marketing and research efforts in preparation for a competitive price environment. Further, the development of new and more sophisticated research products will involve an educational component designed to assist our clients in the most advantageous use of these valuable services.

Investment Research. These activities continued favorably within an overall investment strategy approach aimed at the primary needs of the portfolio manager. We also continued to provide in-depth industry analysis on a selected basis. During the year the use of econometric analysis was introduced to forecast trends in various economic sectors. Our Portfolio Management Approach (PMA) service continued its strong growth by adding some 125 new subscribers and was complemented by a new service, Industry Comments, directed toward the identification of industries whose equity values should outperform or underperform the overall market over a specified period. Another recently introduced feature is International Comments, a regular report on the impact of international economic trends and conditions.

Order Execution. The program of integrating our equity execution capabilities by combining our block trading and order handling personnel with exchange floor execution units continued its successful operations in 1974. Better coordination between marketing, execution and operations units enabled us to improve these vital client services. Our order executions for clients involved some 214 million shares, up by 20% from the previous year. These services were performed on seven stock exchanges and involved a total value in excess of \$6.5 billion.

Individual Accounts. In fiscal 1974 we continued to provide regular and discretionary account brokerage services and, through Mid-Continent Capital, Inc., investment counseling services for substantial portfolios of individuals and family groups. All these operations were adversely affected by prevailing market conditions.

In 1975, our Portfolio Services activities described above, as well as our Dealer and Equity Trading services discussed below, will be carried out by Becker Securities Corporation.

INVESTMENT DEALER SERVICES

Despite the unfavorable market conditions which prevailed through most of the year, revenues from the execution and clearing services provided to selected investment dealers increased by some 27% over fiscal 1973 levels. We were pleased by year end to be providing these services to 30 investment dealers on a "fully-disclosed" basis. Additionally, we increased the number of overseas investment dealer clients to 12.

Our position was maintained on the Chicago Board Options Exchange as a major broker-dealer providing execution and clearing services to CBOE members. During the year we developed a capability to provide the same range of execution and clearing services to specialists and investment dealers in connection with options contract trading on the American Stock Exchange.

EQUITY MARKET MAKING ACTIVITIES

During 1974 we reduced our specialist activities on the Pacific Stock Exchange and discontinued market making activities on the CBOE while maintaining our operations on the American and Midwest stock exchanges. Operating results for our specialist activities were disappointing for the year as they directly reflected the adverse equity market conditions.

Our specialized unit which provides transaction clearing services for specialists and registered traders on the American Stock Exchange and for registered traders on the New York Stock Exchange, Inc. performed well during the year and increased both the number of clearance relationships and the number of issues cleared.

PRIVATE INVESTMENT SERVICES

The firm continued to provide staff services for two specialized partnerships in which we also have an investment interest. Becker Communications Associates provided \$16.4 million in financing to CATV and related communications businesses during the year. Becker Technological Associates also continued its program of providing investment capital to technological companies in the developmental stage of growth.

OPERATIONS AND ADMINISTRATIVE SUPPORT

The operations processing unit of the firm was maintained at full employment to give a strong level of support to our clients' transactional needs. Special emphasis was given to the rapidly expanding dealer service requirements. Also, in response to increasing volume, our CBOE support capability was enlarged and refined. Credit securities order processing areas also performed well as money market volume moved to record levels as the fiscal year closed. Administrative support functions were maintained with a strong emphasis on cost control.

ORGANIZATIONAL DEVELOPMENT

A highlight of the 1974 fiscal year involved the further development of our top management team coupled with the adoption of the holding company structure. We were pleased recently to note the election of Frederick Moss as Chairman and John A. Wing as President and Chief Operating Officer of Becker Securities Corporation, and John F. Donahue, Jr., as President and Chief Operating Officer of A. G. Becker & Co. Incorporated. Each of these individuals is a director of The Becker and Warburg-Paribas Group Incorporated.

Substantially bolstering the experience and knowledge which will guide our newly-expanded organization, we are pleased to note the election, as Co-Chairmen of the Group, of Pierre Moussa (President, Banque de Paris et des Pays-Bas) and Geoffrey C. Seligman (Deputy Chairman and Chief Executive Officer, S. G. Warburg & Co. Ltd.). The President and Chief Executive Officer of the Group is Paul R. Judy. Other board members elected from the Group's management include William M. Cockrum (Senior Vice President of the Group) and Burton J. Weiss (Senior Vice President, Becker Securities Corporation). We also welcome as new Group board members Peter S. Darling (Executive Director, S. G. Warburg & Co. Ltd.); Pierre Haas (Executive Vice President, Banque de Paris et des Pays-Bas); Hervé Pinet (Executive Vice President, Banque de Paris et des Pays-Bas) and Ira T. Wender (Senior Partner of Wender, Murase & White).

After the successful completion of a difficult year, it is most appropriate to note the hard work and dedication of the nearly 1,600 employees of the Group, including some 225 employee-stockholders whose personal commitment to the Group's future success is indispensable.

1974 Financial Progress

The Group's consolidated operating income before taxes in 1974 equalled \$7,749,000. These results were slightly over the internal target for the year despite an environment substantially more adverse than expected. As shown on page 19, this operating performance was the second best in the company's history.

Despite a strong improvement in operating performance, Net Income Before Extraordinary Items was only \$1,827,000, up slightly from 1973's \$1,691,000. A loss of \$2,176,000 in the Group's investment account during 1974 was largely composed of net unrealized depreciation in valuations.

The Group reported no Extraordinary Items for 1974; in contrast, a change in an accounting principle and an Extraordinary Item were reported in 1973, adding a non-recurring amount to Net Income for that period of \$3,892,000.

Total revenues in 1974 of \$106,081,000 increased by some \$27 million over the 1973 level. An increase of some \$18 million in reported trading profits and underwriting revenues, stemming from the firm's varied money market trading activities, accounted for a major portion of this total increase. This growth of revenues offset a virtual doubling of the reported interest cost, which rose from \$13,554,000 in 1973 to \$27,069,000 in 1974.

Revenues from commissions and floor brokerage rose by \$7,899,000 in 1974, up 17% over 1973. This increase reflected substantial increases in the funds evaluation and dealer services revenues and a relatively modest year-to-year increase in the firm's institutional and retail commission revenues.

Fees, interest, dividends and other revenues were up in 1974 by \$1,267,000 or 12%, largely because of increased margin interest income. Overall, fees were only slightly above 1973. Fees received for corporate finance and investment banking services in 1974 were below 1973's level.

Employee compensation and benefit expenses increased by 12% in 1974 versus 1973, whereas the number of employees at year end was 17% above the prior year end. Average base compensation for salaried personnel was up only moderately for the year.

The overall costs of our administrative and operations support functions increased by \$3,050,000 in 1974. These units had to cope throughout the year with a widely fluctuating transactional workload and simultaneously complete special programs to support our expanded options trading and dealer services capabilities. In addition, major efforts were undertaken and largely completed during the year to convert the firm's operational, financial and administrative systems to the holding company form of organization which was implemented on December 30.

In summary, 1974 consolidated operating results benefited from the firm's capabilities in money market and government securities trading and distribution, and from the success of its marketing programs resulting in commission revenues expanding despite adverse value and activity trends in the equity markets. The Group was able to exceed a planned level of profitability and at the same time spend substantial amounts for the development of organization, marketing programs and internal systems to support future growth.

Stockholders' Equity at October 25, 1974 was \$27,535,000 as compared to \$32,236,000 a year earlier. This reduction reflects the retirement of certain larger stockholders whose shares were redeemed in March, 1974. On a current basis, giving effect to the Amalgamation Agreement completed on December 27, 1974, and certain other transactions since October 25, Stockholders' Equity at December 27, 1974 was approximately \$28,700,000. Total long term capital funds (Subordinated Debt plus Stockholders' Equity) at December 27, 1974 were approximately \$56,600,000 as compared to \$56,232,000 at October 25, 1974. As of that date, the company's Net Capital Ratio was 3.1 to 1.

Consolidated Statements of Income
For the Years Ended October 25, 1974, and October 26, 1973
(000 omitted)

	<u>1974</u>	<u>1973</u>
REVENUES:		
Commissions and floor brokerage	\$ 54,155	\$46,256
Trading profits and underwriting (Note 10)	40,074	22,012
Fees, interest, dividends and other	11,852	10,585
	<u>\$106,081</u>	<u>\$78,853</u>
EXPENSES:		
Employee compensation and benefits	\$ 34,499	\$30,930
Interest (Note 10)	27,069	13,554
Floor brokerage and clearance fees	16,986	13,261
Other	19,778	16,549
	<u>\$ 98,332</u>	<u>\$74,294</u>
INCOME BEFORE LOSS ON INVESTMENT SECURITIES, TAXES ON INCOME, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE.	\$ 7,749	\$ 4,559
LOSS ON INVESTMENT SECURITIES (Note 11)	(2,176)	(315)
TAXES ON INCOME (Note 6)	3,746	2,553
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	\$ 1,827	\$ 1,691
EXTRAORDINARY ITEM , net of Federal income taxes of \$305,000 (Note 12)	—	(1,558)
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 13)	—	5,450
NET INCOME	<u>\$ 1,827</u>	<u>\$ 5,583</u>
PER SHARE OF COMMON STOCK (based upon the average number of shares outstanding during each of the periods):		
Income before extraordinary item and cumulative effect of a change in accounting principle....	\$2.31	\$1.80
Extraordinary item	—	(1.66)
Cumulative effect on prior years (to October 27, 1972) of changing to a different method of carrying investment securities	—	5.81
Net income	<u>\$2.31</u>	<u>\$5.95</u>

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets
October 25, 1974, and October 26, 1973
(000 omitted)

<u>ASSETS</u>	<u>1974</u>	<u>1973</u>
Cash	\$ 7,565	\$ 7,980
Deposits with clearing organizations	\$ 1,908	\$ 1,937
Trading securities, at quoted market (Note 2)—		
Commercial paper	\$ 400,058	\$354,033
Certificates of deposit	235,832	76,693
U. S. Government obligations	52,789	34,213
Bankers' acceptances	91,663	33,101
Corporate securities	10,977	7,035
Municipal bonds	1,936	2,862
	<u>\$ 793,255</u>	<u>\$507,937</u>
Receivables from customers, less reserve (Note 3)	\$ 141,641	\$138,177
Receivables from brokers and dealers (Note 4)	99,043	87,705
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables	8,576	6,939
Investment securities, at estimated fair value—cost \$3,406,000 in 1974 and \$4,036,000 in 1973	2,859	5,286
Exchange memberships, at adjusted cost—market \$931,000 in 1974 and \$1,103,000 in 1973	968	694
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$2,399,000 in 1974 and \$1,821,000 in 1973	2,207	2,016
Deferred tax benefits	1,538	1,145
Other assets	288	337
	<u><u>\$1,059,848</u></u>	<u><u>\$760,153</u></u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1974	1973
Collateral loans—		
Secured by commercial paper, U. S. Government obligations, certificates of deposit and bankers' acceptances under repurchase agreements (Note 2)	\$ 496,743	\$280,780
Secured by firm securities (Note 2)	263,775	187,185
Secured by customer securities	16,268	17,414
	<u>\$ 776,786</u>	<u>\$485,379</u>
Securities sold, not yet purchased, at quoted market	61,954	83,507
Payables to brokers and dealers (Note 4)	64,307	73,255
Payables to customers	70,079	60,524
Accounts payable and accrued liabilities	24,809	18,467
Reserve for undisbursed pension expense (Note 5)	1,707	1,732
Accrued income taxes	3,974	3,431
	<u>\$1,003,616</u>	<u>\$726,295</u>
Liabilities subordinated to the claims of general creditors (Note 7)	\$ 28,697	\$ 1,622
Stockholders' equity—		
Common stock, voting, \$.20 par value; authorized 2,000,000 shares; issued 1,128,655 shares; outstanding 670,714 shares in 1974 and 829,393 shares in 1973 (Note 8)	\$ 226	\$ 226
Class A nonvoting common stock, \$.20 par value; authorized 500,000 shares; issued 75,213 shares in 1974 and 70,979 shares in 1973; outstanding 52,174 shares in 1974 and 64,002 shares in 1973 (Note 8)	15	14
Additional paid-in capital	2,891	2,296
Retained earnings (Note 14)	43,067	41,086
	<u>\$ 46,199</u>	<u>\$ 43,622</u>
Less—		
Treasury stock, at cost	16,462	9,190
Notes due from stockholders (Note 8)	2,202	2,196
Total stockholders' equity	<u>\$ 27,535</u>	<u>\$ 32,236</u>
	<u><u>\$1,059,848</u></u>	<u><u>\$760,153</u></u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended October 25, 1974, and October 26, 1973
(000 omitted)

	1974						1973	
	Common Stock	Class A Common Stock	Addi- tional Paid-in Capital	Re- tained Earnings	Treasury Stock	Notes Due from Stock- holders	Total Stock- holders' Equity	Total Stock- holders' Equity
BALANCE—BEGINNING OF YEAR.....	\$226	\$14	\$2,296	\$41,086	\$ (9,190)	\$ (2,196)	\$32,236	\$28,393
Net income.....	—	—	—	1,827	—	—	1,827	5,583
Proceeds from—								
Issuance of Class A common stock....	—	1	163	—	—	—	164	415
Sales of treasury stock.....	—	—	432	154	1,387	—	1,973	1,835
Collections on notes due from stock- holders.	—	—	—	—	—	297	297	533
Cost of treasury stock purchased.....	—	—	—	—	(8,659)	—	(8,659)	(4,187)
Additions to notes due from stockholders..	—	—	—	—	—	(303)	(303)	(336)
BALANCE—END OF YEAR.....	<u>\$226</u>	<u>\$15</u>	<u>\$2,891</u>	<u>\$43,067</u>	<u>\$ (16,462)</u>	<u>\$ (2,202)</u>	<u>\$27,535</u>	<u>\$32,236</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position
For the Years Ended October 25, 1974, and October 26, 1973
(000 omitted)

	1974	1973
FUNDS PROVIDED BY:		
Income before extraordinary item and cumulative effect of a change in accounting principle...	\$ 1,827	\$ 1,691
Add—Items not requiring the outlay of funds—		
Depreciation and amortization	419	471
Unrealized change in the market value of investment securities, net of taxes	1,797	4,574
Write-down of exchange memberships	—	847
Provided from operations	\$ 4,043	\$ 7,583
Sales of treasury stock	1,973	1,835
Issuance of Class A common stock	164	415
Increases in—		
Collateral loans	291,407	—
Securities sold, not yet purchased	—	79,127
Payables to brokers and dealers	—	55,170
Payables to customers	9,555	26,785
Accounts payable, accrued liabilities and reserve for undisbursed pension expense	6,317	5,903
Accrued income taxes	543	2,475
Subordinated liabilities	27,075	—
Decreases in—		
Cash	415	—
Trading securities	—	11,344
Investment securities (cost)	630	—
Exchange memberships (cost)	—	1,070
Total funds provided	<u>\$342,122</u>	<u>\$191,707</u>
FUNDS APPLIED TO:		
Extraordinary item, net of taxes	\$ —	\$ 1,558
Purchase of treasury stock	8,659	4,187
Purchases of office equipment and leasehold improvements, net	610	504
Decreases in—		
Collateral loans	—	27,238
Securities sold, not yet purchased	21,553	—
Payables to brokers and dealers	8,948	—
Subordinated liabilities	—	80
Increases in—		
Cash	—	1,656
Deposits with clearing organizations	—	303
Trading securities	285,318	—
Receivables from customers	3,464	99,810
Receivables from brokers and dealers	11,338	52,269
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables	1,637	1,992
Investment securities (cost)	—	1,925
Exchange memberships (cost)	274	—
Other changes	321	185
Total funds applied	<u>\$342,122</u>	<u>\$191,707</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements
October 25, 1974, and October 26, 1973

(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 nonmarketable. 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. 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, application of an earnings multiple 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.

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.

Income tax expense is computed on reported income adjusted for differences which will never enter into the computations of taxes payable under applicable tax laws (permanent differences). Certain income or expense items are accounted for in different periods for financial reporting purposes than for income tax purposes. Appropriate provisions are made in the consolidated financial statements for deferred taxes in recognition of these timing differences. Investment tax credits are taken into income as utilized.

Provision is made for aggregate unrealized losses on contractual commitments.

(2) Securities Pledged:

At October 25, 1974, the Company and its subsidiaries had pledged (a) trading securities with a market value of \$499,000,000 to secure collateral loans under repurchase agreements of \$496,743,000 and (b) trading securities with a market value of \$265,890,000 to secure collateral firm loans of \$263,775,000.

(3) Receivables from Customers:

The receivables from customers include \$54,683,000 and \$64,799,000 receivable under reverse repurchase agreements at October 25, 1974, and October 26, 1973, respectively.

Reserves for doubtful accounts were \$157,000 in 1974 and \$247,000 in 1973.

(4) Receivables from and Payables to Brokers and Dealers:

Amounts receivable from and payable to brokers and dealers include (000 omitted):

	1974	1973
Securities failed to deliver.....	\$73,969	\$58,050
Accounts with clearing corporations.....	3,159	3,951
Deposits paid for securities borrowed.....	20,922	24,637
Other.....	993	1,067
Total receivables.....	<u>\$99,043</u>	<u>\$87,705</u>
Securities failed to receive.....	\$61,173	\$67,853
Accounts with clearing corporations.....	—	1,210
Deposits received for securities loaned.....	2,048	3,258
Other.....	1,086	934
Total payables.....	<u>\$64,307</u>	<u>\$73,255</u>

(5) Pension Plan:

The Company has a noncontributory pension plan covering substantially all of its employees. Total pension expense for the fiscal years ended October 25, 1974, and October 26, 1973, was \$1,041,000 and \$975,000, 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 1974 and 1973.

The Company's actuary is of the opinion that no material increase in annual pension expense will result from amending the Company's pension plan to comply with the Employee Retirement Income Security Act of 1974.

(6) Taxes on Income:

The following is a reconciliation of the Company's expected (at a 48% tax rate) to actual tax provision for 1974 and 1973 (000 omitted):

	1974		1973	
	Amount	Percent	Amount	Percent
Expected tax provisions	\$2,675	48.0%	\$4,983	48.0%
Effect of benefiting capital losses or taxing capital gains at 30%	422	7.6	(1,200)	(11.6)
Effect of state and local taxes, net of Federal benefit	414	7.4	376	3.6
Other, net	235	4.2	639	6.2
Taxes on income	<u>\$3,746</u>	<u>67.2%</u>	<u>\$4,798</u>	<u>46.2%</u>

Income tax expense includes deferred income tax credits of \$451,000 in 1974 and deferred income tax charges of \$89,000 in 1973. The sources of these items in 1974 and 1973 and the tax effect of each are as follows (000 omitted):

	1974	1973
Unrealized security gains (losses)	\$(790)	\$374
Pension provision not funded	—	(468)
Bad debt provision	73	184
Deferred compensation	78	90
Income from investment partnerships	70	51
Other, net	118	(142)
Total deferred provisions (credits)	<u>\$(451)</u>	<u>\$ 89</u>

(7) Liabilities Subordinated to the Claims of General Creditors:

Below is a summary of subordinated liabilities at the end of each year (000 omitted):

	1974	1973
Amounts payable under deferred compensation agreements	\$ 1,513	\$1,622
Interim capital notes	20,000	—
Junior subordinated debentures	5,184	—
Senior subordinated term loan	2,000	—
	<u>\$28,697</u>	<u>\$1,622</u>

Under the terms of the various agreements, these liabilities are subordinated to the claims of general creditors and these amounts are available to the Company in computing net capital under New York Stock Exchange, Inc. rules (see Note 14). These liabilities bear interest at rates varying from 8% to 11%, except that the senior subordinated term loan bears interest at a rate of prime plus 2%.

It is the Company's present intention to prepay its outstanding junior subordinated debentures and its senior subordinated term loan during the first quarter of fiscal 1975. Also, under the Amalgamation Agreement, the interim capital notes are to be redeemed and a final capital note of approximately \$18,000,000 will be issued (see Note 17). The Company has also made arrangements to obtain commitments for additional subordinated loans of approximately \$10,000,000 from certain banks. These commitments will be extended to the Company and one of its subsidiaries which will be formed in the holding company to be established under the Amalgamation Agreement.

Under the terms of the deferred compensation agreements, either the Company or the lender may terminate the agreement upon giving six months' prior written notice. As of October 25, 1974, six months' notice had been given with respect to \$173,000 of these liabilities.

(8) Stockholder Agreements:

Under various agreements, the Company sells stock to its officers and employees at net asset value, as defined. These agreements provide for the purchase by the Company of a stockholder's shares when he ceases to be an officer or employee. 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. The balances on these notes mature in varying amounts in the years 1979 through 1988. At October 25, 1974, there were 67 of these notes outstanding, resulting from the purchase of 87,885 shares of common stock. These notes bear interest at rates varying from 5% to 8%. Two additional notes in the amount of \$105,000 mature in 1975.

(9) Collateral Loans:

Collateral loans, exclusive of repurchase agreements, represent short-term borrowings made at the market rate of interest to brokers and dealers and are fully collateralized and payable on demand. The average interest rate at October 25, 1974, for such loans was approximately 10.4%. For the year ended October 25, 1974, the weighted average interest rate paid on such loans was approximately 11.7% based on average monthly loan balances of approximately \$216,000,000. The maximum amount of aggregate collateral loans, exclusive of repurchase agreements, at any month end during the year was \$297,000,000.

(10) 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 \$42,279,000 in 1974 and \$22,030,000 in 1973 are offset against such gross trading profits.

(11) Gain (Loss) on Investment Securities:

Gain (loss) on investment securities is comprised of the following realized and unrealized amounts (000 omitted):

	1974	1973
Realized gain (loss).....	\$ (379)	\$ 6,435
Unrealized loss.....	(1,797)	(6,750)
Net loss.....	<u><u>\$ (2,176)</u></u>	<u><u>\$ (315)</u></u>

(12) Extraordinary Item:

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, was 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 statements of income as an extraordinary item in 1973.

(13) 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.

(14) 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 25, 1974, the Company's net capital, as defined, was \$39,498,000 (3.1 to 1) and the minimum net capital requirement on the basis of a 15-to-1 ratio was \$8,075,000.

(15) Commitments:

In the normal course of business, the Company enters into underwriting commitments. Open underwriting commitments as of October 25, 1974, were approximately \$53,000,000.

As of October 25, 1974, the Company had entered into "matched repurchase" agreements at contract amounts aggregating \$532,695,000, which are not reflected in the accompanying financial statements. The contracts are collateralized by securities with a quoted market value of \$552,092,000. 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 are as follows:

Fiscal year ending on the last Friday of—	
October, 1975.....	\$ 2,996,000
October, 1976.....	2,749,000
October, 1977.....	2,641,000
October, 1978.....	2,603,000
October, 1979.....	<u>2,461,000</u>
Five-year period ending on the last Friday of—	
October, 1984.....	\$10,383,000
October, 1989.....	9,270,000
October, 1994.....	<u>1,562,000</u>

Included in the foregoing data are finance leases of an immaterial amount. Total rent expense, including monthly rentals, in 1974 and 1973 was \$3,339,000 and \$2,767,000, respectively.

(16) Contingent Liabilities:

The Company has been named as a defendant or codefendant in a number of class action law suits arising out of seven different matters in connection with 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 and arbitration. In the present opinion of management, after considering the advice of 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 25, 1974, the Company was contingently liable on security drafts deposited for immediate credit of approximately \$2,569,000.

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 25, 1974.

The Company has obtained \$9,000,000 in letters of credit and has utilized these letters of credit to meet margin requirements of a clearing organization.

(17) Amalgamation Agreement:

Effective July 3, 1974, the Company entered into an Amalgamation Agreement (the Agreement) with S. G. Warburg & Co. Ltd., Paribas International and Warburg-Paribas, Inc. (W-P). Pursuant to the Agreement, on September 24, 1974, W-P made an initial investment in the Company of \$20,000,000 in the form of subordinated interim capital notes (Note 7). On December 27, 1974, the Interim Capital Notes will be redeemed and an \$18,000,000 Final Capital Note will be issued to W-P. Shortly after January 1, 1975, W-P will purchase from existing shareholders sufficient shares to constitute it as the owner of 20% of the then outstanding shares.

The Agreement provides that, subject to certain conditions, including regulatory approval, at the end of a period of no more than six years, W-P will acquire a number of shares which will bring its ownership to 50% of the then outstanding shares of the Company. Such shares will be acquired by means of purchases from shareholders and/or from the Company. At that time the \$18,000,000 Final Capital Note will be redeemed. At such time or thereafter, W-P may, under certain conditions, acquire or make a tender offer for additional shares.

Under the Agreement, the authorized capital stock of the Company will be as follows:

Class	Number Authorized	Par Value
A	1,600,000	\$.10
B	2,600,000	.10
C	1,000,000	<u>.10</u>
Total	<u>5,200,000</u>	

Under the terms of the Agreement, the Company has also agreed to:

- Establish a holding company structure under which the business activities previously conducted by the Company and W-P will be carried on through several wholly owned subsidiaries.
- Change its name to The Becker and Warburg-Paribas Group Incorporated.
- Provide for the conversion of the outstanding voting and nonvoting shares into approximately two Class A shares.

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 25, 1974, and October 26, 1973, and the related consolidated statements of income, changes in stockholders' equity 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.

As explained in Notes 1 and 13 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, investment securities not readily marketable amounting to \$2,553,000 as of October 25, 1974, and \$5,052,000 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 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 25, 1974, and October 26, 1973, 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 applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
December 13, 1974.

Ten Year Financial Summary

(000 omitted)

Fiscal Year Ended	October 25, 1974	October 26, 1973	October 27, 1972
			Audi
REVENUES:			
Commissions and floor brokerage	\$ 54,155	\$46,256	\$41,024
Trading profits and underwriting	40,074	22,012	21,558
Fees, interest, dividends and other . . .	11,852	10,585	6,963
Revenues	<u>\$106,081</u>	<u>\$78,853</u>	<u>\$69,545</u>
EXPENSES:			
Employee compensation and benefits..	\$ 34,499	\$30,930	\$29,667
Interest	27,069	13,554	7,436
Floor brokerage and clearance fees . . .	16,986	13,261	11,985
Other	19,778	16,549	14,584
Expenses	<u>\$ 98,332</u>	<u>\$74,294</u>	<u>\$63,672</u>
Operating Income Before Gain (Loss) on Investment Securities, Taxes on Income, Extraordinary Items and Cumulative Effect of a Change in Accounting Principle . . .	\$ 7,749	\$ 4,559	\$ 5,873
Gain (Loss) on Investment Securities ¹	(2,176)	(315)	495
Taxes on income	<u>3,746</u>	<u>2,553</u>	<u>3,415</u>
Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle	\$ 1,827	\$ 1,691	\$ 2,953
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>\$ 1,827</u>	<u>\$ 5,583</u>	<u>\$ 2,337</u>
Stockholders' equity at fiscal year end	<u>\$ 27,535</u>	<u>\$32,236</u>	<u>\$28,393</u>

EXPLANATORY NOTES:

1. In 1973, the Company adopted the practice of carrying investment securities at estimated fair value. Accordingly, the 1973 and 1974 losses on investment securities are comprised of increases and decreases in both realized and unrealized gains or losses. 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.

Board of Directors

Co-Chairmen:

Pierre Moussa, President, Banque de Paris et des Pays-Bas

Geoffrey C. Seligman, Deputy Chairman and Chief Executive Officer, S. G. Warburg & Co. Ltd.

Members:

William M. Cockrum, Senior Vice President, The Becker and Warburg-Paribas Group Incorporated

Peter S. Darling, Executive Director, S. G. Warburg & Co. Ltd.

*John F. Donahue, Jr., President and Chief Operating Officer, A. G. Becker & Co. Incorporated

Pierre Haas, Executive Vice President, Banque de Paris et des Pays-Bas

*Paul R. Judy, President and Chief Executive Officer,
The Becker and Warburg-Paribas Group Incorporated

*Frederick Moss, Chairman, Becker Securities Corporation

*Hervé Pinet, Executive Vice President, Banque de Paris et des Pays-Bas

Burton J. Weiss, Senior Vice President, Becker Securities Corporation

*Ira T. Wender, Senior Partner, Wender, Murase & White

*John A. Wing, President and Chief Operating Officer, Becker Securities Corporation

*Member of the Executive Committee

October 31, 1971	October 31, 1970	October 31, 1969	October 31, 1968	October 31, 1967	December 31, 1966	December 31, 1965
Unaudited						
\$33,609	\$24,492	\$23,965	\$25,202	\$17,075	See Explanatory Notes	
25,158	20,715	19,194	16,251	12,158		
5,329	4,724	5,538	4,509	3,485		
<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>
\$27,985	\$22,349	\$22,344	\$18,584	\$13,386	See Explanatory Notes	
6,335	8,483	8,708	6,964	5,743		
8,669	6,554	6,014	7,215	5,282		
12,877	9,509	9,449	6,429	4,823		
<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>
\$ 8,230	\$ 3,036	\$ 2,182	\$ 6,770	\$ 3,484	\$ 1,229	\$ 1,548
(39)	6,831	337	9,731	3,450	(3)	177
<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>
\$ 3,905	\$ 7,203	\$ 1,260	\$12,033	\$ 4,312	\$ 756	\$ 1,007
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<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>\$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>

3. The data in the above Financial Summary for the 1967-1974 fiscal years have been prepared on a consistent basis. The data for the years 1969-1974 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 two years ended December 31, 1966 is unaudited. Breakdowns of revenues and expenses by the categories given for 1967-1974 are not available for these years.

Ten Year Financial Summary

Warburg Paribas Becker Inc.

Chicago
New York
Los Angeles

A. G. Becker & Co. Incorporated

Chicago
New York
Los Angeles
San Francisco
Atlanta
Boston
Philadelphia

Becker Securities Corporation

Chicago
New York
Los Angeles
San Francisco
Boston
Milwaukee
Atlanta
London

The Becker and Warburg-Paribas Group Incorporated

Chicago
New York
Los Angeles
San Francisco

The Becker and Warburg-Paribas Group
INCORPORATED

Two First National Plaza / Chicago, Illinois 60603
Telephone: 312/630-5080