
A.G. Becker

Warburg Paribas Becker

1978 Annual Review

Principal operating subsidiaries of
AGB-WPB Incorporated

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To Our Clients and Friends

A. G. Becker and Warburg Paribas Becker operate as a single firm under two names. As A. G. Becker we are market makers and distributors of securities; as Warburg Paribas Becker we provide a full range of investment banking services and underwrite securities. Maintenance of the A. G. Becker name perpetuates 85 years of business operation and tradition. In the name Warburg Paribas Becker, we have joined the Becker name with those of the Banque de Paris et des Pays-Bas and S. G. Warburg & Co. Ltd., as evidence of the partnership among the three firms in North America.

Our firm has a capital base of more than \$65 million and employs over 2,000 people. We maintain offices in Chicago, New York, Los Angeles, Atlanta, Boston, Cleveland, Geneva, Houston, London, Minneapolis, Philadelphia, San Francisco, San Juan, and Toronto. Of our securities sales force of more than 250 persons, about half specialize in debt securities, and the balance in equities. More than 500 other professionals provide financing, consulting, market making, and investment services.

Our fundamental business is that of financing corporations, governments, and government agencies in the United States and throughout the world. To this end, we underwrite, distribute,

and maintain secondary markets in all forms of debt and equity securities and deal in bonds, debentures, stocks, options, notes, bills, certificates of deposit, commercial paper, and bankers' acceptances.

The following indicate the magnitude of some of those activities in 1978:

—We distributed and made secondary markets in more than \$290 billion of short-term debt securities.

—We distributed and made secondary markets in over \$85 billion of United States Government and agency debt.

—We distributed and made secondary markets in over \$55 billion of certificates of deposit, bankers' acceptances, and other bank-related instruments.

—We raised over \$10 billion of new funds for the United States Government.

—We managed or co-managed over \$3.5 billion of publicly offered corporate, state, municipal, and international securities.

—We placed privately over \$825 million of securities with institutions.

Our investment banking services include domestic and international financings, mergers, and ac-

quisitions. We also provide specialized services to certain industries, such as banking, finance, thrift institutions, shipping, natural resources, and real estate. We act as advisors to state and municipal governments on financings for education, housing, medical care, public utility, and other types of facilities.

To serve our clients and customers fully, we offer investment-related services, which include:

- Research on economic trends, market strategy and timing, sector analysis, and specific companies.
- Institutional and retail brokerage services, including stock, option, and fixed-income investments, as well as investment opportunities in real estate and tax-related special situations.
- Clearance, execution, and trade processing services in stocks, options, and commodities for other broker-dealers and market makers.

—Performance evaluation and consulting services for pension funds and other institutions.

Our firm has operated profitably for more than 20 consecutive years. We take pride in this record in view of the turmoil in our industry during that period. We believe that we are in a position to thrive in the era before us. Our capital base is secure; our organization is experienced and enthusiastic; and, with our European partners, we are well equipped to provide worldwide financial services.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ira T. Wender". The signature is fluid and cursive, with the first name "Ira" being more prominent.

Ira T. Wender
Chief Executive Officer

Financing

Specialized Financial Services

Investment Services

Our basic business is assisting corporations and governments in assessing and fulfilling their financial requirements. In doing so, we help in the creation of financial plans, and we underwrite, distribute, and make markets in securities.

Short-Term Securities

Founded as a commercial paper dealer in 1893, we continue to employ our capital as a principal to serve our clients' best interests in the distribution of short-term debt securities. Daily transactions in short-term debt securities exceeded \$1 billion each trading day in 1978.

Our dealings in short-term bank instruments in 1978 exceeded \$55 billion. These included certificates of deposit, bank holding company paper, and bankers' acceptances issued by more than 150 domestic and foreign banks.

Our ability to distribute this amount of debt is based on extensive secondary market making activities and our specialized sales force for short-term, fixed-income securities. This sales force is the largest in the industry and maintains active contacts with institutions and investors throughout the world.

During 1978, we acted as commercial paper dealer for 220 industrial, financial, and utility corporations, and our average daily outstandings in commercial paper exceeded \$8 billion.

Among new United States clients introduced to

the market in the past year were CBS Inc., Dana Corporation, The Pittston Company, Sunoco Credit Corporation, and Trans Union Leasing Corporation. Notable among new international issuers were Neste Oy, the national oil company of Finland; Siemens Capital Corporation, the first German corporation to enter the United States market based on its own credit; Svenska Handelsbanken, the first foreign bank to issue commercial paper; and Svenska Varv, the nationally owned shipbuilding company of the Kingdom of Sweden.

Federal Government Securities

As a Primary Dealer in United States Government securities, we report daily to the Federal Reserve Bank of New York. Our activities during 1978 involved distribution and secondary market making in \$85 billion of government securities. The securities included GNMA's; long- and short-term treasury notes and bonds; discount notes of the Federal Farm Credit Bureau, Federal Home Loan Bank, and Federal National Mortgage Association; and debentures of various federal agencies. We raised over \$10 billion of new funds, both long- and short-term, for the United States Government and its agencies.

State and Municipal Securities

The firm managed, co-managed, or served as financial advisor in municipal offerings with a total value of \$3.5 billion. Of this sum, \$2.5 billion was

long-term financing raised in 64 offerings, and over \$1 billion involved short-term, tax-exempt note financings. We also maintained active secondary markets in outstanding issues. Our distribution of these securities covered both the institutional and private investor markets.

Our financial advisory activities in 1978 primarily involved education, housing, and health care financing. Special projects included a \$15 million financing for The Art Institute of Chicago and \$200 million raised in a pooled financing of the housing and auxiliary facilities of five of the six public universities of the State of Illinois. We obtained \$26 million in financing for the Illinois State Scholarship Commission. We were also appointed financial advisor to the Missouri Health and Educational Facilities Authority.

Corporate Securities

During 1978, we managed or co-managed over \$1 billion of corporate debt and equity securities offerings for 24 corporate issuers. Our distribution of these offerings was well in excess of our underwriting commitments.

The distribution of these securities was accomplished through an institutional marketing network, which maintains contact with over 3,500 institutions worldwide, and through our retail brokerage sales force.

In 1978, as in the past five years, we continued to be a leader in the private placement field, placing

securities totalling more than \$825 million in 68 transactions. Through close contact with the institutional marketplace, we use our broad knowledge of institutional needs and preferences to place directly credits of various ratings and maturities.

International Financing

In 1978, collaboration with our European partners led to increased involvement in international financings. We co-managed one of the only two stock issues simultaneously offered in United States and foreign markets and a \$50 million international issue for the European Coal and Steel Community.

We were involved in three financings totalling approximately \$100 million in conjunction with Interest Relief Grants in the United Kingdom to major United States oil companies in connection with their North Sea developments, and we arranged a \$30 million financing for Aquitaine Company of Canada, Ltd.

Our firm was selected by an international consortium as financial advisor for a major ocean mining project. We arranged a number of long-term foreign exchange swaps and assisted several foreign companies in United States acquisitions and in financing projects in the United States.

Overall, the firm provided services for more than 100 non-United States corporations.

Specialized Financial Services

We perform specialized services in merger and acquisition transactions, for financial institutions, for the cable television and communications industries, and in real estate transactions.

Mergers and Acquisitions

A decision often faced by corporations is whether to develop a new line of business or to purchase an existing one. To assist in this choice, we provide our clients with a group of specialists able to draw on an extensive network of contacts in the business and financial communities here and abroad. Our relationships with S. G. Warburg & Co. Ltd. and the Banque de Paris et des Pays-Bas offer an expanded horizon for both buyers and sellers.

Transactions in 1978 included advising Diamond M Company in its merger with Kaneb Services, Inc.; Natomas Company in its acquisition of Brown Badgett, Inc.; American Finance System in its acquisition by Security Pacific Corporation; and Gamble-Skogmo, Inc. in its acquisition of Howard Bros. Discount Stores.

Financial Institutions

For many years, A. G. Becker/Warburg Paribas Becker has been deeply involved in meeting the capital requirements of financial institutions. These include commercial and consumer finance companies, leasing companies, banks and bank holding companies, and thrift institutions.

Acting on behalf of such clients as manager, co-manager or agent, we raised more than \$485 million in long-term financing in 1978. We were selected as a co-manager of the Bank of America's mortgage-backed pass-through certificate program. We also provided access to short-term financial markets by serving as dealer for the securities of some 150 domestic and overseas banks.

Special efforts were made during the year to assist thrift institutions in the development of new mortgage-related financing instruments and commercial note programs. Our large debt securities distribution system was especially successful in

marketing these new financial instruments to the institutional marketplace.

Cable TV and Communications Financing

Our firm has long been involved in financing for the cable television and communications industry. This commitment has included significant work in the institutional lending community and with government regulatory agencies on behalf of the industry. Our efforts in this field have been recognized by an award from the National Cable Television Association.

In 1978 we raised more than \$126 million for the industry, including \$70.5 million of long-term funds for Tele-Communications, Inc., the largest financing transaction ever completed for a cable TV company; and \$23 million for Cablevision Systems Development Company, the first major financing for a company whose primary product is pay-TV.

Becker Communications Associates, a related investment partnership, made additional financing commitments totalling \$16.3 million to seven cable systems during the year.

Real Estate

Real estate financing activities during the year included both debt and equity financings, as well as sale-leaseback financings for industrial and commercial properties. Among them were the sale-leaseback financings of a group of full-service restaurants for Saga Corporation and mortgage financing commitments for two hotels, one in Illinois and one in the Boston area.

During the year a team of bankers who specialize in real estate joined our firm, strengthening our ability to provide equity financing for real estate developments through the creation of limited partnership investment opportunities for both institutional and individual investors. In January, 1979, this group completed financing for a \$50 million Hilton International, 22-story luxury hotel at the World Trade Center in New York through the sale of \$7 million of limited partnership interests.

Investment Services

Providing financing for issuers requires effective service to investors. Accordingly, we assist our investor clients to define and achieve their investment goals. Other important activities of our firm are to provide liquidity to investors and services to other market makers and dealers.

Investment Research

The complexity of the economic environment requires constant monitoring and analysis. Our investment research provides a comprehensive view of the investment marketplace through the Economic Research, the Markets, and the Fundamental Research Groups.

The Economic Research Group publishes analyses of business and economic trends. In 1978, the group's publications included "The Most Bearish Story," an analysis of trends in corporate liquidity, and "The Becker Survey," which detailed the collective investment outlook of institutional portfolio managers for the year ahead.

The main objective of our Markets Group is to provide portfolio managers with a viewpoint aimed at improving investment timing. Based on a belief that general market direction is a singularly important factor in the price action of individual stocks or market sectors, the Markets Group employs technical analysis to recommend equity exposure levels. This group's views on market strategy and timing were presented in 1978 through the monthly "Investment Strategy Review," the "Portfolio Management Approach" cassette tape series, and through regional conferences.

The Fundamental Research Group provides portfolio managers with continuing research information and recommendations. This group monitors some 250 equity issues, comprising 64%

of the industry groups in the S & P 500. Additionally, industry groups are monitored by our sector analysis team, which uses computer-based macroanalysis techniques to aid in the timing of investments in various cyclical industries.

Institutional Brokerage

Our firm's services to institutions during 1978 combined investment research and block trading with communication through experienced institutional sales representatives. Primary institutional trading desks in New York and Chicago, linked with regional trading desks in Los Angeles and Boston, provide instant access to markets for our clients nationwide. These activities were supplemented in 1978 by the introduction of an over-the-counter trading desk.

Internationally, our offices in London and Geneva continued to increase their penetration of the European institutional market.

Retail Brokerage

Our services to private investors seek to combine investment advice with a comprehensive range of equity, fixed income, option, and special purpose investment opportunities. Our clients, substantial individual investors, are served through offices in Boston, Chicago, Los Angeles, Minneapolis, New York, and San Juan. The Minneapolis and San Juan offices were opened in 1978.

Also during 1978, the firm introduced two special private investor service teams: a tax shelter group which originates and markets tax-advantaged investment opportunities for private investors, including limited partnership investments in United States Government guaranteed subsidized housing projects and natural resource drilling projects; and a fixed income group, which originates leveraged investment programs in

United States Government and corporate bonds, and which develops and oversees opportunities in tax-free municipal bonds.

Investment Dealer Services

By serving more than 600 broker-dealers, exchange specialists, and, in increasing numbers, market makers, we are a major supplier of stock and option trade execution and clearing services. We provide these services on either a nondisclosed or fully disclosed basis to broker-dealers in the United States, Canada, Italy, Japan, and other countries.

Early in 1979, A. G. Becker and H. S. Kipnis & Co., a long-established commodities clearing firm headquartered in Chicago, formed A. G. Becker-Kipnis & Co. This new unit gives our broker-dealer

clients access to major commodities markets and provides a wide range of trade execution and clearing services for commodities transactions.

Performance Evaluation and Consulting

During 1978, our firm maintained its position as the largest supplier of services to the fiduciaries of tax-free funds. These services include performance evaluation, investment policy analysis and planning, and manager search. Our Funds Evaluation Services measured over 4,000 funds for 1,500 clients in 1978. These funds represent \$85 billion in assets, or more than one quarter of all dollars in noninsured private and state and local government pension funds. Our data base covers some 700 asset managers.

Clients

A. G. Becker/Warburg Paribas Becker recently has provided investment banking or financing services to the following clients.

Aetna Business Credit, Inc.
Aetna Life and Casualty Company
Afco Credit Corporation
Air Products and Chemicals, Inc.
Alexander & Alexander Services Inc.
Allegheny Power System, Inc.
American Can Company
American Cyanamid Company
American Electric Power Company, Inc.
American Finance System Incorporated
American General Investment Corporation
American General Leasing & Finance Corporation
American Hospital Supply Corporation
American Invsco
American Medical International, Inc.
American Motors Corporation
American Petrofina, Incorporated
American Savings and Loan Association (Utah)
American Steamship Company
Amgro, Inc.
Aminoil U.S.A., Inc.
Amoco Credit Corporation
Anchor Hocking Corporation
Anderson Motor Service, Inc.
Anta Corporation
Aquitaine Company of Canada Ltd.
Archer Daniels Midland Company
ARCO Credit Corporation
The Art Institute of Chicago
Atlanta Gas Light Company
Atlantic City Electric Company
Atlantic Richfield Company
Avnet, Inc.
BLC Corporation
Ball Corporation
The Baltimore and Ohio Railroad Company
BankAmerica Corporation
Bank of America NT&SA
The Bank of New York Company, Inc.
Bankers Trust New York Corporation
Bausch & Lomb, Incorporated

Baxter Travenol Laboratories, Inc.
Bayerische Motoren Werke Aktiengesellschaft
Bell & Howell Company
The Bell Telephone Company of Pennsylvania
The Bendix Corporation
Borg-Warner Acceptance Corporation
Borg-Warner Corporation
The Brooklyn Union Gas Company
Brunswick Pulp & Paper Company
Burroughs Wellcome Co.
CBS Inc.
CBT Corporation
Cablevision Systems Development Company
Caisse Centrale de Coopération Economique
Caisse Nationale des Télécommunications
California Federal Savings and Loan Association
Capital Financial Services Inc.
Cargill, Incorporated
Caribbean Finance Company, Inc.
Carolina Power & Light Company
J I Case Credit Corporation
Castle & Cooke, Inc.
Caterpillar Tractor Co.
Cenco Incorporated
Central and South West Corporation
Central Federal Savings and Loan Association
Central Hudson Gas & Electric Corporation
Central Illinois Light Company
Central National Chicago Corporation
Central Telephone & Utilities Corporation
Charter New York Corporation
The Chase Manhattan Bank, N.A.
The Chase Manhattan Corporation
Chemical New York Corporation
Chevron Petroleum (U.K.) Limited
Cincinnati Bell Inc.
The Cincinnati Gas & Electric Company
Citicorp
City of Evanston, Illinois
Clark Equipment Credit Corporation
The Cleveland Electric Illuminating Company
The Clorox Company
Coast Federal Savings & Loan Association
The Coca Cola Bottling Company of New York, Inc.
The Colonial Bank and Trust Company

Colt Industries Inc
 The Columbia Gas System, Inc.
 Communications Properties, Inc.
 Cone Mills Corporation
 Congress Factors Corporation
 Consolidated Foods Credit Corporation
 Construction Aggregates Corporation
 Continental Illinois Corporation
 Continental Telephone Corporation
 Courtaulds Limited
 Crown Finance Corporation
 Cyprus Mines Corporation
 Dana Corporation
 The Dayton Power and Light Company
 Deaconess Hospital of Cleveland
 DEKALB AgResearch, Inc.
 Delmarva Power & Light Company
 Diamond M Company
 The Diners' Club, Inc.
 Domtar Inc.
 Dorchester Gas Corporation
 Duquesne Light Company
 Dura Containers, Inc.
 Eastern Illinois University
 Eaton Credit Corporation
 Elf Aquitaine Finance U.S.A. Inc.
 Empire City Subway Company
 Esmark, Inc.
 Estée Lauder, Inc.
 European Coal and Steel Community
 FMC Corporation
 FMC Finance Corporation
 Falcon Carriers, Inc.
 Falcon Tankers, Inc.
 Fidelity Acceptance Corporation
 Fidelity Federal Savings and Loan Association
 Fidelity Financial Corporation
 Field Drilling Company
 First Bank System, Inc.
 First Charter Financial Corporation
 First Chicago Corporation
 First Chicago Financial Corporation
 First Federal Savings and Loan Association
 of San Diego

First International Bankshares, Inc.
 First National Holding Corp.
 First Oklahoma Bancorporation Inc.
 Florida Power & Light Company
 Florida Power Corporation
 Four Seasons Nursing Centers, Inc.
 GATX Corporation
 Gamble-Skogmo, Inc.
 Gambles Credit Corporation
 The Gas Service Company
 General Mills, Inc.
 General Signal Corporation
 General Telephone & Electronics Corporation
 General Telephone Company of California
 General Telephone Company of Illinois
 General Telephone Co. of Indiana, Inc.
 General Telephone Company of Michigan
 General Telephone Company of the Midwest
 General Telephone Company of the Northwest, Inc.
 General Telephone Company of Wisconsin
 Georgia Kraft Company
 Globe Life and Accident Insurance Company
 Gould Financial, Inc.
 Gould Inc.
 Government Employees Financial Corporation
 Government National Mortgage Association
 Greenwich Savings Bank
 Gulf Power Company
 Gulf States Utilities Company
 Hallmark Cards, Incorporated
 Hawaiian Telephone Company
 Hayes-Albion Corporation
 Hercofina
 Hercules, Incorporated
 Holly Corporation
 Houston Natural Gas Corporation
 IOT Corporation
 Illinois Bell Telephone Company
 Illinois Educational Facilities Authority
 Illinois Health Facilities Authority
 Illinois Institute of Technology
 Illinois State Scholarship Commission
 Industrial National Corporation
 Insilco Corporation

Institut de Développement Industriel	Montana-Dakota Utilities Co.
International Minerals & Chemical Corporation	G. C. Murphy Company
International Multifoods Corporation	National Can Corporation
International Paper Credit Corporation	National Car Rental System, Inc.
Interox America	National Detroit Corporation
Interstate Power Company	National Fuel Gas Company
Iowa-Illinois Gas and Electric Company	National Union Electric Corporation
Iowa Power and Light Company	Nationwide Consumer Services, Inc.
Itel Corporation	Natomas Company
Jersey Central Power & Light Co.	Natural Gas Pipeline Company of America
Jewel Companies, Inc.	Neste Oy
Jostens, Inc.	Nevada Savings and Loan Association
Kaneb Services, Inc.	New England Power Company
Katy Industries, Inc.	New Orleans Public Service Inc.
Kentucky Utilities Company	New York Telephone Company
Lachmar	Niagara Mohawk Power Corporation
Land O'Lakes, Inc.	Northern Illinois Gas Company
Laporte Industries (Holdings) Limited	Northern Illinois University
Lawrence Steamship Company	Northwest Acceptance Corporation
Liberty Loan Corporation	Northwestern Bell Telephone Company
Liggett Group Inc.	Northwestern University
Lincoln First Banks, Inc.	Novamont Corporation
Long Island Lighting Company	Ocean Minerals Company
Mack Financial Corporation	Oklahoma Natural Gas Company
Mack Trucks, Inc.	Paccar Financial Corp.
Madison Gas and Electric Company	Pacific Federal Savings and Loan Association
Manufacturers Hanover Corporation	Pacific Gas and Electric Company
Marathon Oil Company	Pacific Gas Transmission Company
Marriott Corporation	Pacific Resources, Inc.
Marshall Field & Company	Pennsylvania Power & Light Company
Maryland National Corporation	The Peoples Gas Light and Coke Company
Massachusetts Electric Company	Philadelphia Electric Company
McDonnell Douglas Finance Corporation	Philadelphia National Corporation
McKenna Hospital of Sioux Falls	The Pittston Company
Mellon National Corporation	The Post Office (United Kingdom)
Mercantile Bancorporation Inc.	The Potomac Edison Company
Mercantile Bankshares Corporation	Premier Industrial Corporation
Michigan Higher Education Facilities Authority	Provident Federal Savings and Loan Association
Mid-Peninsular Energy Company	of Riverside
Minnesota Power & Light Company	Provident National Financial Corporation
Missouri Health and Educational Facilities Authority	Prulease, Inc.
Missouri Pacific Railroad Company	Public Loan Company, Inc.
Missouri Public Service Company	Public Service Company of Colorado
Mitsubishi International Corporation	Public Service Company of Indiana, Inc.
Monongahela Power Company	Public Service Company of New Mexico

Public Service Electric and Gas Company
 Puerto Rico Housing Development Authority
 Ravenswood Hospital Medical Center
 Realty and Mortgage Investors of the Pacific
 Reliance Electric Company
 Rexnord Inc.
 R. J. Reynolds Industries, Inc.
 Rochester Gas and Electric Corporation
 Safeway Stores, Incorporated
 Saga Corporation
 St. Louis Area Housing Finance Corporation
 Santa Fe Federal Savings & Loan Association
 Sea Containers Inc.
 Security Pacific Corporation
 Siemens Capital Corporation
 Simlog Leasing Company
 Skil Corporation
 Société Foncière et Financière Agache-Willot
 Société Nationale des Chemins de fer Français
 Sony Corporation of America
 Soo Line Railroad Company
 South Carolina Electric & Gas Company
 South Dakota Building Authority
 South Dakota Health and Educational Facilities
 Authority
 South Dakota Housing Development Authority
 Southern California Edison Company
 Southern Illinois University
 Southern Natural Gas Company
 Southern Pacific Transportation Company
 Southwestern Investment Company
 Spartan Stores, Inc.
 Springfield Housing Finance Corporation
 A. E. Staley Manufacturing Company
 Standard Oil Company of California
 Steuber Company, Inc.
 Stouffer's Five Seasons Hotel
 Suburban Cablevision
 Sun Company, Inc.
 Sunoco Credit Corporation
 Svenska Handelsbanken
 Svenska Varv A.B.

T K M Corporation
 James Talcott, Inc.
 Tampa Electric Company
 G. K. Technologies, Inc.
 Tele-Communications, Inc.
 Tenneco Inc
 Total International Limited
 Total Petroleum (North America) Limited
 Trans Union Leasing Corporation
 Union Investment Company
 Union Oil Company of California
 The United Illuminating Company
 United States Leasing Corporation
 The United States Shoe Corporation
 United Telecommunications, Inc.
 United Telephone Company of Ohio
 The University of Chicago
 University of Illinois
 The Upjohn Company
 USLIFE Credit Corporation
 Utah Power & Light Company
 The Vadic Corporation
 Virginia Electric and Power Company
 Vulcan Materials Company
 WTC Hotel Associates
 Jim Walter Corporation
 Ward Foods, Inc.
 The Warner & Swasey Company
 Warner Communications Inc.
 West Penn Power Company
 Western Illinois University
 Western Publishing Company, Inc.
 Weyerhaeuser Company
 Weyerhaeuser Real Estate Company
 White Motor Corporation
 The Wickes Corporation
 Williamson Leasing Company, Inc.
 Wisconsin Electric Power Company
 Wisconsin Public Service Corporation
 Wisconsin Telephone Company
 Yankee Atomic Electric Company
 Zenith Radio Corporation

Statement of Financial Condition

Consolidated Statement of Financial Condition

AGB-WPB Incorporated and Subsidiaries

October 27, 1978
(000 omitted)

Assets

Cash	\$ 15,874
Deposits with clearing organizations	\$ 7,664
Money market instruments and trading securities, at market (Notes 3, 4 and 11)—	
Commercial paper	\$ 393,295
Certificates of deposit	281,246
U. S. Government obligations	154,949
Corporate securities	79,868
Bankers' acceptances	27,795
Municipal securities	15,360
	\$ 952,513
Money market instruments and trading securities purchased under agreements to resell (Notes 3 and 4)	\$ 607,948
Receivables from customers, less reserve of \$423,000	322,458
Receivables from brokers and dealers	123,745
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables (Note 10)	25,144
Investment securities, at estimated fair value—cost \$4,023,000	7,501
Exchange memberships, at adjusted cost—market \$3,099,000	1,242
Equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$5,289,000	5,032
Other assets	179
	\$2,069,300

The accompanying notes are an integral part of this statement.

Liabilities and Stockholder's Equity

Money market instruments and trading securities sold under agreements to repurchase (Note 4)	\$1,148,801
Collateral loans (Note 3)	321,570
Money market instruments and trading securities sold, not yet purchased, at market	215,711
Payables to customers	179,236
Payables to brokers and dealers	84,676
Accounts payable and accrued liabilities	42,312
	<u>\$1,992,306</u>
 Senior term credit note (Note 5)	 <u>\$ 10,000</u>
 Liabilities subordinated to the claims of general creditors—	
Senior subordinated term loan of subsidiary (Note 6)	\$ 5,000
Subordinated capital note (Note 7)	18,000
	<u>\$ 23,000</u>
 Stockholder's equity (Notes 5, 6 and 9)	 \$ 43,994
	 <u>\$2,069,300</u>

The accompanying notes are an integral part of this statement.

Notes to Consolidated Statement of Financial Condition

October 27, 1978

(1) Organization of the Company:

The Company was formed on September 29, 1978, and was capitalized by the transfer of substantially all of the assets of its parent, The Becker Warburg Paribas Group Incorporated (BWP), in return for the assumption by the Company of certain liabilities, including the \$10 million senior term credit note and the issuance by the Company of the \$18 million subordinated capital note and all of its common stock.

(2) Accounting Policies:

(a) The consolidated statement of financial condition includes the accounts of AGB-WPB Incorporated (AGB-WPB) and its subsidiary companies, all of which are wholly owned. All material intercompany accounts and transactions are eliminated. Foreign currency items are translated into U.S. dollars at year-end exchange rates.

(b) Money market instruments and trading securities are held for resale to customers and are valued at market. For some trading securities, published market quotations may not be available. In such instances, consideration is given to various factors, such as subsequent sales, sales of similar securities and quotes received from other recognized dealers.

(c) Investment securities generally represent long-term investments in securities which are carried at estimated fair value as determined by management. Investment securities amounting to \$5,219,000 as of October 27, 1978, were not readily marketable. In the determination of estimated fair value, the following guidelines were observed:

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

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

(iii) When an objective measure of fair value is not readily obtainable due to nonmarketabil-

ity, estimated fair value is measured by bona fide sales of the same securities or similar securities of the same issuer, application of an earnings multiple or other significant factors.

(d) Money market instruments and trading securities sold under delayed delivery contracts are valued at subsequent sales price.

(e) Money market instrument and security transactions and related revenues and expenses are recorded in the accounts on settlement date.

(f) The Company's fiscal year ends on the last Friday of October.

(g) Exchange memberships are carried at cost, adjusted for permanent impairment in value as determined by management.

(h) 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 improvements or the remaining lease term.

(i) The income tax provision is computed on reported income adjusted for permanent differences in computing taxes payable under applicable tax laws. Certain income or expense items are accounted for in different periods for financial reporting purposes than for income tax purposes. Appropriate provisions are made for deferred taxes in recognition of these timing differences, which are primarily unrealized gains on trading and investment securities. The investment tax credit is accounted for as a reduction of the provision for income taxes in the year realized.

The Company's taxable income is included in a consolidated Federal income tax return with BWP and, as a result, the Company pays to or collects from BWP the Federal tax liability or benefit arising from the Company's taxable income (loss) included in the consolidated Federal tax return.

(3) Collateral Loans:

Collateral loans of \$320,129,000 represent borrowings payable on demand made at the market rate of interest to brokers and dealers and are collateralized by customer-owned securities and firm-owned money market instruments and trad-

ing securities. At October 27, 1978, the Company had pledged \$214,499,000 of firm-owned money market instruments and trading securities and \$17,000,000 of securities purchased under agreements to resell at a future date to collateralize firm loans of \$198,763,000.

(4) Repurchase Agreements:

Repurchase agreements consist of the sale of money market instruments and trading securities with an agreement to repurchase at a future date. As of October 27, 1978, the value of money market instruments and trading securities covered by such agreements approximated their contract value of \$1,148,801,000. \$437,688,000 of such money market instruments and trading securities were purchased under agreements to resell at a future date.

(5) Senior Term Credit Note:

The senior term credit note represents borrowings from a bank, matures December 31, 1978, bears interest at 125% of the bank's prime rate plus $\frac{3}{8}$ of 1%, and is senior to all indebtedness of AGB-WPB. Any indebtedness outstanding at December 31, 1978, may be converted into a term loan payable in six equal semiannual installments beginning June 30, 1979. The note is collateralized by \$15 million of subordinated notes issued to AGB-WPB by two of its subsidiaries. Under the terms of this borrowing, the Company is required to maintain consolidated net worth of \$32 million.

(6) Senior Subordinated Term Loan of Subsidiary:

The senior subordinated term loan represents borrowings from a bank by A. G. Becker Incorporated (AGB) and is payable in four equal semiannual installments beginning June 27, 1979. The senior subordinated term loan bears interest at 130% of the greater of the lending bank's base rate on 90-day loans to responsible and substantial commercial borrowers in effect from time to time or one half of one percent above an alternative rate set forth in the loan agreement. The loan is senior to all other subordinated borrowings of AGB.

Under terms of the senior subordinated term loan agreement, as amended, AGB is required, among other things, to maintain net worth of at least \$12,800,000, "net capital" of not less than 7% of "aggregate debit items" and a ratio of "net capital to allowable capital" of at least 33.3% (as those terms are defined). As of October 27, 1978, AGB had a net worth of \$45,141,000, net capital of \$31,874,000, which was equal to 10.1% of aggregate debit items pursuant to Securities and

Exchange Commission (SEC) Rule 15c3-3, and a ratio of net capital to allowable capital of 46.4%.

(7) Subordinated Capital Note:

The capital note is payable to BWP, bears interest at the rate of 10% and matures on October 31, 1980.

(8) Voting Trust:

AGB is engaged in business as a member firm of the New York Stock Exchange, Inc. The capital stock of AGB is held by a voting trust which vests the voting power of AGB's capital stock in voting trustees.

(9) Net Capital Requirements:

Certain of the Company's domestic subsidiaries are subject to the Uniform Net Capital Rule promulgated by the SEC. Also, as a member of the New York Stock Exchange, Inc., AGB is subject to the Exchange's Growth and Business Reduction Capital Requirements. All applicable subsidiaries were in compliance with these rules at October 27, 1978.

(10) Transactions with BWP:

The Company has entered into contracts with BWP. Pursuant to these contracts, the Company reimburses BWP for various management and administrative services performed on behalf of the Company. The Company is also reimbursed for certain administrative services performed on behalf of BWP. In 1978, the Company incurred net expenses of \$7,850,000 pursuant to these contracts.

Settlement for contracted services and allocated expenses is accomplished through inter-company accounts. As of October 27, 1978, the Company had receivables from BWP of \$1,497,000 included in accrued interest, syndicate settlements, dividends, floor brokerage and other receivables.

Refer to Note 7 for details of the Company's subordinated borrowing from BWP.

(11) Commitments:

In the normal course of business, certain subsidiaries of the Company enter into contractual commitments. Open underwriting and delayed delivery commitments as of October 27, 1978, were approximately \$1,461 million.

Primarily as a hedging vehicle, a subsidiary of the Company as of October 27, 1978, had entered into financial instrument futures transactions with an underlying market value of approximately \$275 million.

As of October 27, 1978, subsidiaries of the Company had entered into "matched repurchase"

agreements at contract amounts aggregating \$547 million which are not reflected in the accompanying consolidated statement of financial condition. A matched repurchase agreement consists of a purchase of money market instruments and trading securities 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 principal amount of the contract price of the purchase-resale and the sale-repurchase is equal in amount.

The Company conducts its operations using leased facilities and equipment. All leases are accounted for as operating leases. Management expects that, in the normal course of business, leases will be renewed or replaced by other leases.

The minimum rental commitments under noncancelable leases of the Company are listed below. The commitments have not been reduced by minimum sublease rentals of \$4,632,000 due in future years under noncancelable sublease arrangements.

Fiscal Year Ending on the
Last Friday of October

1979	\$ 4,989,000
1980	4,899,000
1981	4,600,000
1982	4,329,000
1983	4,091,000
Subsequent to 1983	13,235,000
	<hr/> \$36,143,000

(12) Contingent Liabilities:

The Company and its subsidiaries are responsible for certain contingent liabilities arising out of litigation in which the former A. G. Becker & Co. Incorporated (the predecessor of BWP) was named a defendant. The Company and its subsidiaries also are defendants in other litigation. This litigation includes six class actions relating to alleged securities law violations. Class actions such as these are frequently instituted on behalf of a large number of plaintiffs, often name many securities dealers as defendants and typically seek large amounts in damages. In the present opinion of management, after considering the advice of legal counsel, these actions will have no material adverse effect on the Company's consolidated financial position.

At October 27, 1978, AGB was contingently liable on security drafts deposited for immediate credit of approximately \$4,507,000.

AGB had obtained \$43 million in letters of credit and had utilized approximately \$33 million of these letters of credit to meet margin requirements of clearing organizations as of October 27, 1978.

Auditors' Report

To the Board of Directors of AGB-WPB Incorporated:

We have examined the consolidated statement of financial condition of AGB-WPB INCORPORATED (a Delaware corporation and a wholly owned subsidiary of The Becker Warburg Paribas Group Incorporated) AND SUBSIDIARIES as of October 27, 1978. 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 discussed in Note 2 to the consolidated statement of financial condition, investment securities which are not readily marketable have been valued at estimated fair value. We have reviewed the procedures applied by management in valuing such investments and have inspected the 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 certain investment securities by management as described in the preceding paragraph, the consolidated statement of financial condition referred to above presents fairly the financial position of AGB-WPB Incorporated and Subsidiaries as of October 27, 1978.

Arthur Andersen & Co.

Chicago, Illinois,
December 15, 1978.

A.G. Becker

Warburg Paribas Becker

Officers and Directors

A. G. Becker/Warburg Paribas Becker

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Vice Chairman, Warburg Paribas Becker Inc.; President,
Paribas International*

David G. Scholey (London)

*Co-Chairman, AGB-WPB Inc.;
Vice Chairman, Warburg Paribas Becker Inc.; Deputy
Chairman, S. G. Warburg & Co. Ltd.*

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Chairman of the Executive Committee and Chief Executive
Officer, A. G. Becker Inc.; President, Chief Executive
Officer and Director, Warburg Paribas Becker Inc.*

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Managing Director, Warburg Paribas Becker Inc.*

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Managing Director, Warburg Paribas Becker Inc.*

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Director, AGB-WPB Inc.; Director, A. G. Becker Inc.; Director, Warburg Paribas Becker Inc.; Vice Chairman, S. G. Warburg & Co. Ltd.

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Director, AGB-WPB Inc.; Director, A. G. Becker Inc.; Senior Vice President, Banque de Paris et des Pays-Bas

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Director, AGB-WPB Inc.; Senior Vice President and Director, A. G. Becker Inc.

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Warburg Paribas Becker Inc.

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Managing Director

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