Report to Stockholders for the Year Ended October 27, 1978

THE BECKER WARBURG PARIBAS GROUP

Holding company for

A. G. BECKER

WARBURG PARIBAS BECKER

January 17, 1979

Dear Fellow Stockholders,

I am pleased to report that despite the losses of the first six months and modest total earnings for fiscal 1978, the net asset value per share of the firm's common stock increased more than 7% for Class A and B shares and in excess of 6% for Class C shares. The table below sets forth the net asset values per share of Class A and B common stock and of Class C common stock at October 27, 1978, April 28, 1978 and October 28, 1977.

	Net Asset Value Per Share	
	Classes A and B	Class C
October 27, 1978	$30.60	$27.69
April 28, 1978	26.43	25.08
October 28, 1977	28.52	26.11

During the last six months of fiscal 1978, net asset value per share of Class A and B common stock increased nearly 16% and Class C shares over 10% in value. A ten-year summary of net asset values per share for Class A, B and C common stock appears as an attachment to this report.

As indicated by the wide swing in net asset values per share during the year, the firm had a net loss after taxes of $2,624,000 in the first six months, while second half earnings after taxes totalled $3,849,000. Equity activities including trading, investment banking including municipal finance and private investments, and funds evaluation activities were significantly profitable during the second six months. Although operating in a very poor environment during the last half of the year, the firm lost only about half a million dollars in its debt activities. For the full fiscal year, net income for the Group totalled $1,225,000, compared to $937,000 for the previous fiscal year.

An audited financial report with comparative information for fiscal 1978 and 1977 is included for your review at the back of this report.

THE BECKER WARBURG PARIBAS GROUP INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

OCTOBER 27, 1978, AND OCTOBER 28, 1977

(000 omitted)

A S S E T S	1978	1977
Cash	$ 15,950	$ 14,054
Deposits with clearing organizations	$ 7,664	$ 6,859
Money market instruments and trading securities, at market (Notes 2, 3 and 13)-		
Commercial paper	$ 393,295	$ 311,152
Certificates of deposit	281,246	440,888
U. S. Government obligations	154,949	73,315
Corporate securities	79,868	70,234
Bankers' acceptances	27,795	92,865
Municipal securities	15,360	4,426
	$ 952,513	$ 992,880
Money market instruments and trading securities purchased under agreements to resell (Notes 2 and 3)	$ 607,948	$ 344,262
Receivables from customers, less reserve of $423,000 in 1978 and $352,000 in 1977	322,458	203,161
Receivables from brokers and dealers	123,745	65,531
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables	23,652	13,964
Investment securities, at estimated fair value--cost $4,023,000 in 1978 and $4,007,000 in 1977	7,501	5,333
Exchange memberships, at adjusted cost--market $3,099,000 in 1978 and $1,240,000 in 1977	1,242	1,066
Equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $5,289,000 in 1978 and $4,464,000 in 1977	5,032	5,820
Other assets	179	903
	$2,067,884	$1,653,833

LIABILITIES AND STOCKHOLDERS' EQUITY	1978	1977
Money market instruments and trading securities sold under agreements to repurchase (Note 3)	$1,148,801	$ 933,680
Collateral loans (Note 2)	321,570	192,100
Money market instruments and trading securities sold, not yet purchased, at market	215,711	257,202
Payables to customers	179,236	107,335
Payables to brokers and dealers	84,676	57,464
Accounts payable and accrued liabilities	42,076	35,590
	$1,992,070	$1,583,371
Senior term credit note (Note 6)	$ 10,000	$ 3,000
Liabilities subordinated to the claims of general creditors-		
Senior term loan of subsidiary (Note 7)	$ 5,000	$ 5,000
Other (Note 8)	24,880	21,332
Total subordinated liabilities	$ 29,880	$ 26,332
Stockholders' equity-		
Common stock (Note 9)	$ 288	$ 288
Additional paid-in capital	13,676	13,376
Retained earnings (Notes 6, 7 and 12)	51,133	49,908
	$ 65,097	$ 63,572
Less-		
Treasury stock, at cost	26,251	19,295
Notes due from stockholders (Note 11)	2,912	3,147
Total stockholders' equity	$ 35,934	$ 41,130
Total subordinated liabilities and stockholders' equity	$ 65,814	$ 67,462
	$2,067,884	$1,653,833

The accompanying notes are an integral part of these statements.

THE BECKER WARBURG PARIBAS GROUP INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED OCTOBER 27, 1978, AND OCTOBER 28, 1977

(000 omitted)

	1978	1977
REVENUES:		
Commissions and floor brokerage	$ 53,539	$ 42,886
Trading profits and underwriting (Note 3)	45,674	40,702
Fees, interest, dividends and other (Note 13)	48,680	34,831
Gain on investment securities	2,127	1,915
	$150,020	$120,334
EXPENSES:		
Employee compensation and benefits	$ 60,721	$ 52,750
Floor brokerage and clearance fees	11,911	8,264
Interest (Note 3)	39,936	23,253
Other	36,465	34,945
	$149,033	$119,212
Income before taxes on income	$ 987	$ 1,122
INCOME TAX (PROVISION) BENEFIT (Note 5)	238	(185)
NET INCOME	$ 1,225	$ 937

The accompanying notes are an integral part of these statements.

THE BECKER WARBURG PARIBAS GROUP INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 27, 1978, AND OCTOBER 28, 1977

(000 omitted)

	1978						1977
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Notes Due From Stockholders	Total Stockholders' Equity	Total Stockholders' Equity
BALANCE, beginning of year	$288	$13,376	$49,908	$(19,295)	$(3,147)	$41,130	$41,725
Net income	-	-	1,225	-	-	1,225	937
Proceeds from-							
Sales of treasury stock	-	300	-	616	-	916	2,834
Collection on notes due from stockholders	-	-	-	-	466	466	463
Cost of treasury stock purchased	-	-	-	(7,572)	-	(7,572)	(3,410)
Additions to notes due from stockholders	-	-	-	-	(231)	(231)	(966)
Cash dividend paid	-	-	-	-	-	-	(453)
BALANCE, end of year	$288	$13,676	$51,133	$(26,251)	$(2,912)	$35,934	$41,130

The accompanying notes are an integral part of these statements.

THE BECKER WARBURG PARIBAS GROUP INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED OCTOBER 27, 1978, AND OCTOBER 28, 1977

(000 omitted)

	1978	1977
FUNDS PROVIDED BY:		
Net income	$ 1,225	$ 937
Add (deduct)- Items not requiring the outlay of funds-		
Unrealized change in carrying value of investment securities	(2,151)	(59)
Deferred income taxes	1,972	163
Depreciation and amortization	1,225	1,039
Increase in permanent impairment of exchange memberships	-	512
Provided from operations	$ 2,271	$ 2,592
Sales of treasury stock, net of stockholders' notes issued	685	1,868
Collections of stockholders' notes	466	463
Increases in-		
Money market instruments and trading securities sold under agreements to repurchase	215,121	149,407
Money market instruments and trading securities sold, not yet purchased	-	218,442
Collateral loans	129,470	-
Payables to customers	71,901	25,763
Payables to brokers and dealers	27,212	18,532
Senior term credit note	7,000	3,000
Accounts payable and accrued liabilities	4,514	-
Senior subordinated term loan of subsidiary	-	1,300
Other subordinated liabilities	3,548	933
Decreases in-		
Money market instruments and trading securities	40,367	-
Other assets	724	-
Exchange memberships	-	178
Other, net	-	7
	$503,279	$422,485
FUNDS APPLIED TO:		
Purchases of treasury stock	$ 7,572	$ 3,410
Cash dividend	-	453
Purchases of equipment and leasehold improvements, net	437	3,150
Decreases in-		
Money market instruments and trading securities sold, not yet purchased	41,491	-
Collateral loans	-	189,172
Accounts payable and accrued liabilities	-	713
Increases in-		
Money market instruments and trading securities purchased under agreements to resell	263,686	131,463
Receivables from customers	119,297	56,463
Receivables from brokers and dealers	58,214	17,524
Accrued interest, syndicate settlements, dividends, floor brokerage and other receivables	9,688	1,968
Cash	1,896	4,963
Deposits with clearing organizations	805	2,483
Exchange memberships	176	-
Investment securities	17	765
Money market instruments and trading securities	-	9,958
	$503,279	$422,485

The accompanying notes are an integral part of these statements.

(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.

(j) Provision is made for net unrealized losses on contractual commitments.

(k) Underwriting fees are recognized on the offering date of the security. Private placement, consulting and other fees are recognized when earned and billed.

(l) Pension expense includes normal cost plus amortization of unfunded past-service costs over 40 years.

(2) 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 trading 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.

(3) 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.

Gross trading profits from the purchase and sale of money market instruments and trading securities are included as trading profits and underwriting in the consolidated statements of income. Interest costs associated with repurchase transactions in these instruments of $64,796,000 in 1978 and $40,585,000 in 1977 were offset against such trading profits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 27, 1978, AND OCTOBER 28, 1977

(1) ACCOUNTING POLICIES:

(a) The consolidated financial statements include the accounts of The Becker Warburg Paribas Group Incorporated (BWP) 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. The gains and losses from translation, which are not material, are included in consolidated income.

(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, and $3,107,000 as of October 28, 1977, 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 nonmarketability, 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.

(4) PENSION PLAN:

The Company has a noncontributory pension plan covering substantially all of its employees. The general policy is to fund pension costs accrued. Pension expense for the years ended October 27, 1978, and October 28, 1977, was $1,162,000 and $1,235,000, respectively. The net assets of the pension fund at the end of 1978 and 1977 exceeded the actuarially computed value of the vested benefits.

(5) TAXES ON INCOME:

Tax-exempt interest income on municipal instruments and the application of the long-term capital gain tax rate of 30% cause the effective income tax rate to be lower than the "expected" income tax rate. The income tax (provision) benefit includes the following components for 1978 and 1977 (000 omitted):

	Federal	State and Local	Total
1978-			
Current	$1,856	$354	$2,210
Deferred	(1,819)	(153)	(1,972)
	$ 37	$201	$ 238
1977-			
Current	$ (31)	$ 9	$ (22)
Deferred	(124)	(39)	(163)
	$ (155)	$(30)	$ (185)

(6) SENIOR TERM CREDIT NOTE:

The senior term credit note which represents borrowings from a bank by AGB-WPB Incorporated (AGB-WPB), a subsidiary of the Company, matures December 31, 1978, bears interest at 125% of the bank's prime rate plus 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, AGB-WPB is required to maintain consolidated net worth of $32 million. As of October 27, 1978, AGB-WPB's consolidated net worth was $43,994,000.

(7) 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

(9) COMMON STOCK:

The three classes of $.10 par value common stock, each of which is divided into a series of voting stock and non-voting stock, are described as follows:

	Shares			
			Outstanding	
Description	Authorized	Issued	1978	1977
Class A-				
Voting	1,600,000	1,564,920	869,878	1,088,662
Non-voting	400,000	111,090	86,974	108,847
Class B-				
Voting	2,600,000	282,819	282,819	282,819
Non-voting	650,000	24,475	24,475	24,475
Class C-				
Voting	1,000,000	881,162	208,708	208,149
Non-voting	250,000	21,656	17,317	20,811

In March, 1977, the Company paid a stock dividend of one share of Class A, B or C non-voting stock for every ten shares of Class A, B or C voting stock issued and outstanding as of February 2, 1977.

Effective July 3, 1974, the Company entered into an Amalgamation Agreement (Agreement) with S. G. Warburg & Co. Ltd. (Warburg), Paribas International (Paribas) and Warburg-Paribas, Inc. (W-P). W-P is jointly owned by Warburg and Paribas. Pursuant to the Agreement, 138,346 Class A voting and 13,835 Class A non-voting shares have been issued and placed in escrow pending the resolution of certain claims of the Company outstanding as of December 27, 1974. Ultimately, such shares will be issued to Class A holders as of December 27, 1974, as an adjustment of the terms of the Agreement or will be returned to the Company and canceled. W-P owns all the outstanding Class B shares. Upon termination of the escrow, in order to prevent dilution of the equity ratios contemplated in the Agreement, W-P will purchase an additional number of shares of Class B stock equal to 25% of the number of escrow shares not canceled.

The Agreement provides that, subject to certain conditions, including regulatory approval, W-P will acquire a number of shares which will bring its ownership to 50% of the then outstanding voting stock of the Company. This acquisition will commence when the Company's earnings allocable to Class A and B shares aggregate $20 million after October 25, 1974, but not later than October 31, 1980. Such shares will be acquired by means of purchases from shareholders and/or from the Company. Thereafter, W-P may, under certain conditions, acquire or make a tender offer for additional shares.

The Agreement also provides that all shares sold by the Company to employees subsequent to December 27, 1974, will be Class C shares. Immediately prior to the additional acquisition by W-P, the Company will acquire from W-P 99,892 (94,271.6 voting and 5,620.4 non-voting) shares of Class B stock at a cost of $2,921,000. This purchase results from the repurchase of one share of Class B stock for every four shares of Class A stock repurchased by the Company since December 27, 1974, up to such maximum amount as defined in the Agreement.

(10) 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.

(11) 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 the individual 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 common stock under management share agreements. These management share agreements, which are subject to certain conditions other 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 1980 through 1992. At October 27, 1978, there were 86 of these notes outstanding, resulting from the sale of 128,447 and 70,038 shares of Class A and Class C common stock, respectively. These notes bear interest at rates varying from 5% to 8%.

(12) 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.

(13) 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 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 financial statements. 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 amounts of the contract prices of the purchase-resale and the sale-repurchase are all 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
	$36,143,000

Total rental expense, including monthly rentals in 1978 and 1977, was $6,972,000 and $7,256,000, respectively. The Company terminated and sold a space lease in 1978 for $1,228,000, which is included as other income in the consolidated statements of income.

(14) 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.

(15) OTHER MATTERS:

The Company has entered into a partnership with Synectics Management, Inc. (SMI) and a third company, under terms by which the Company may contribute up to $4 million to the capital of the partnership and may extend up to $2 million in interest-free loans to SMI for its capital contributions, provided that the total amount contributed or loaned outstanding at any one time does not exceed $4 million. Any loans to SMI are to be repaid by March 31, 1983, or sooner when certain funds become available to SMI. Ira T. Wender, President and a Director of the Company, owns a minority interest in SMI.