A. G. BECKER
INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

October 31, 1981

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Consolidated Statement of Financial Condition
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(000's omitted)

Assets

Cash	$ 29,331
Cash and securities segregated under Federal and other regulations	261,752
Money market instruments and trading securities, at market (Notes 2, 3 and 6)	1,735,381
Money market instruments and trading securities purchased under agreements to resell (Notes 3 and 7)	2,089,774
Receivables from customers (Note 6)	427,206
Receivables from brokers and dealers	331,967
Other receivables (Note 6)	122,575
Investment securities, at market	4,626
Other assets	5,291
	$5,007,903

Liabilities and Stockholder's Equity

Liabilities—	
Money market instruments and trading securities sold under agreements to repurchase (Note 7)	$3,222,224
Bank loans (Note 3)	285,699
Money market instruments and trading securities sold, not yet purchased, at market	167,218
Payables to customers	438,767
Payables to brokers and dealers	485,749
Accounts payable and accrued liabilities (Note 6)	302,758
	$4,902,415
Subordinated debt (Note 4)	$ 22,000
Stockholder's equity (Note 5)—	
Common stock, no par value; authorized 10,000 shares, issued and outstanding 1,000 shares	$ 10,000
Additional paid-in capital	39,181
Retained earnings	34,307
	$ 83,488
	$5,007,903

The accompanying notes are an integral part of this statement.

NOTES:

(1) Significant Accounting Policies:
The Company is beneficially owned by A. G. Becker Holdings Incorporated (AGBH) and is an indirect subsidiary of A. G. Becker-Warburg Paribas Becker Inc. (AGB-WPBI).

The consolidated statement of financial condition includes the accounts of A. G. Becker Incorporated and its subsidiaries (the Company). All material intercompany accounts and transactions are eliminated.

Gains or losses on equity securities, commodities and contractual commitments are recorded in the accounts on trade date. Money market instrument and fixed income transactions and related revenues and expenses are recorded on settlement date. Revenues and expenses for transactions executed but not settled do not have a material effect on the consolidated financial position of the Company.

Repurchase and resale agreements are collateralized financing transactions and are carried at the contract amounts at which the securities will be subsequently repurchased or resold.

(2) Money Market Instruments and Trading Securities:
Money market instruments and trading securities at October 31, 1981, consist of the following (000's omitted):

U. S. Government obligations	$ 674,944
Commercial paper	640,039
Certificates of deposit	248,523
Corporate securities	100,066
Bankers' acceptances	59,876
Municipal securities	11,933
	$1,735,381

The Company enters into financial futures contracts to hedge money market instruments and commitments from adverse market fluctuations.

(3) Bank Loans:
Bank loans are short-term borrowings payable on demand which are made at the interest rate granted to brokers and dealers and are collateralized by money market instruments and trading securities owned by the Company and by others.

(4) Subordinated Debt:
The subordinated debt includes $5 million of term loans payable to banks and $17 million of junior subordinated debentures. Under the terms of the various agreements, these liabilities are subordinated to the claims of general creditors and are thus included in net capital under the Uniform Net Capital Rule of the Securities and Exchange Commission.

The term loans bear interest at 1¾% above the lending banks' prime rate, are senior to all other subordinated borrowings and are payable in eight equal semi-annual installments of $370,000 beginning December 31, 1981, through June 30, 1985, and additional payments of $1,000,000 and $1,040,000 on December 31, 1985, and June 30, 1986, respectively.

The junior subordinated debentures are payable to AGB-WPB Incorporated (AGB-WPB), an affiliated entity. $10 million of these debentures bear interest at 2% above the prime rate of a major bank. The remaining debentures bear interest at 130% of the prime rate plus ⅜ of 1%. These debentures mature on December 31, 1982, and are payable prior to maturity with the approval of the New York Stock Exchange, Inc.

(5) Net Capital and Stockholder's Equity Requirements:
The Company is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission and has elected to comply with the alternative capital computation provided in the rule. This rule requires the Company to maintain "net capital" equal to 4% of "aggregate debit items" (as those terms are defined by the rule). At October 31, 1981, the Company's net capital was $57.1 million and the minimum net capital requirement based upon 4% of aggregate debit items was $18.0 million.

As a member of the New York Stock Exchange, Inc., the Company is subject to the Exchange's Growth and Business Reduction Capital Requirements.

AGB-WPB has entered into debt agreements that require the Company to maintain certain regulatory and financial ratios. Under the most restrictive of these requirements, unrestricted retained earnings were $13.5 million at October 31, 1981.

(6) Transactions with Related Parties:
During the normal course of business, the Company enters into retail brokerage transactions with entities (or affiliates thereof) representing an overall ownership interest of 40% in AGB-WPBI. In addition, the Company pledges certain of its money market instruments and trading securities to collateralize demand borrowings of AGBH. These activities are consummated under terms and conditions that are considered to be arm's length and are not material to the consolidated financial position of the Company.

As of October 31, 1981, the Company had intercompany receivables of $23.7 million included in other receivables and $2.8 million included in receivables from customers and intercompany payables of $104.5 million included in accounts payable and accrued liabilities.

Refer to Note 4 for the details of the Company's subordinated borrowings from AGB-WPB.

(7) Commitments:
In the normal course of business, the Company enters into underwriting and delayed delivery commitments and forward commitments involving the purchase and sale of mortgage-backed securities (primarily GNMA). At October 31, 1981, open purchase and sale forward commitments were $1,280 million and $1,339 million, respectively. In management's opinion, these commitments will settle without a material adverse effect on the consolidated financial position of the Company.

At October 31, 1981, the Company had entered into "matched repurchase" agreements at contract amounts aggregating $897 million which are not reflected in the accompanying consolidated statement of financial condition. A matched repurchase agreement consists of a purchase of a money market instrument or trading security with an agreement to resell at a specific future date and a sale of the same instrument or security, for an equivalent contract amount, with an agreement to repurchase at the same future date.

The Company leases office space and certain data processing equipment under noncancelable operating lease agreements expiring at various dates through fiscal 1992. Certain leases on office space contain escalation clauses providing for increased rentals. Minimum rental commitments, which have been reduced by minimum sublease rentals under noncancelable sublease arrangements, are listed below (000's omitted):

Fiscal year ending—	
1982	$ 4,295
1983	4,454
1984	4,267
1985	4,011
1986	3,357
Subsequent to 1986	6,369
	$26,753

(8) Contingent Liabilities:
There are various lawsuits pending against the Company which, in the opinion of management and counsel, will be resolved with no material adverse effect on its consolidated financial position.

The Company was contingently liable as of October 31, 1981, in the amount of $320 million under irrevocable letter of credit agreements used in conjunction with margin deposits and securities borrowed transactions. These agreements are generally made for periods of three months to one year and bear interest at a rate of ¼% per annum.

ARTHUR ANDERSEN & CO.

To A. G. Becker Incorporated:

We have examined the consolidated statement of financial condition of A. G. BECKER INCORPORATED (a Delaware corporation and an indirect subsidiary of A. G. Becker-Warburg Paribas Becker Inc.) AND SUBSIDIARIES as of October 31, 1981. 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.

In our opinion, the statement of financial condition referred to above presents fairly the financial position of A. G. Becker Incorporated and subsidiaries as of October 31, 1981, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.
New York, N.Y.,
December 21, 1981.

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