

Operating results at A. G. Becker & Co. for its fiscal year ended October 31, 1971 were favorable, as indicated by the audited financial statements which follow. Net operating income reached a record level of \$3,929,000 and stockholders' equity exceeded \$25,000,000.

Net income, including net gain or loss on investment securities, was \$3,905,000. As indicated in the accompanying Ten-Year Financial Summary, net income was substantially less than realized in 1970 and 1968, years in which significant net gains were taken on investment securities.

Various areas of the business contributed to the year's good operating results. In particular the results of each phase of our credit securities operations, our expanding funds evaluation services, and our corporate underwriting business added nicely to profit. Important contributions were also made by certain of our exchange operations and market making activities, particularly those on the Midwest Stock Exchange.

Certain factors reduced our operating profit from what it might have been. Our commitment to organizational growth and to the improvement and innovation of client services and internal capabilities annually reduces current profits in the hope of developing future profit. We judge that some 20% of the operating profitability we would otherwise realize is devoted to the future through this form of investment.

In addition, however, we also experienced in 1971 more than expected net trading losses in our block positioning activities, and a net loss in our over-the-

counter market making business. In view of the changing character of the over-the-counter equity securities trading business, we are—at least for the foreseeable future—concentrating our efforts in these markets on the trading of corporate client securities and the execution of client orders.

Our operational condition throughout the year was excellent. As measured and analyzed against various statistical reports of the industry, our transactional processing status showed above-average performance. At fiscal yearend our net capital ratio, pursuant to the requirements of the New York and other Stock Exchanges, was just under 6:1.

Our business in 1971 and recent years did not escape without some impact from the rapid environmental changes which were taking place in the securities industry and markets during these periods. As indicated earlier in this report, rapid change is becoming more commonplace, and, on balance, we welcome the challenges it provides.

1972 should be a good year at A. G. Becker & Co. Our operating profitability is expected to reach a satisfactory level; first quarter results were favorable and somewhat ahead of plan. We also expect to see net gains in connection with our investment activities. And, finally, we hope through a number of programs to further increase our potential for future profit.

Looking further into the decade, we are optimistic about the growth in demand for professional financial services and the opportunity to gain a fair profit in rendering them. As we see it—as in other business—the future belongs to those who plan for it.

Statements of Income (000 omitted)

For the years ended October 31, 1971 and 1970

| | 1971 | 1970 |
|--|------------------|------------------|
| Revenues: | | |
| Commissions and floor brokerage | \$ 33,609 | \$ 24,492 |
| Trading profits and underwriting (Note 10) | 25,158 | 20,715 |
| Fees, interest, dividends and other | 5,329 | 4,724 |
| | <u>\$ 64,096</u> | <u>\$ 49,931</u> |
| Expenses: | | |
| Employee compensation and benefits | \$ 27,985 | \$ 22,349 |
| Interest (Note 10) | 6,335 | 8,483 |
| Floor brokerage and clearance fees | 8,669 | 6,554 |
| Other | 12,877 | 9,509 |
| | <u>\$ 55,866</u> | <u>\$ 46,895</u> |
| Income Before Taxes on Income and Gain (Loss) on Investment Securities | \$ 8,230 | \$ 3,036 |
| Taxes on Income (Note 11) | 4,301 | 1,356 |
| Income Before Gain (Loss) on Investment Securities | \$ 3,929 | \$ 1,680 |
| Gain (Loss) on Investment Securities, net of income taxes of \$15,000 in 1971 and \$1,308,000 in 1970 (Notes 2 and 11) | (24) | 5,523 |
| Net Income | <u>\$ 3,905</u> | <u>\$ 7,203</u> |
| Per Share of Common Stock (based upon the average number of shares outstanding during each of the periods): | | |
| Income before gain (loss) on investment securities | \$4.28 | \$1.73 |
| Gain (loss) on investment securities | (.03) | 5.69 |
| Net income | <u>\$4.25</u> | <u>\$7.42</u> |

Balance Sheets (000 omitted)

October 31, 1971 and 1970

| ASSETS | 1971 | 1970 |
|--|------------------|------------------|
| Current Assets: | | |
| Cash | \$ 7,727 | \$ 1,392 |
| Trading securities, at quoted market— | | |
| Commercial paper | \$335,081 | \$338,016 |
| U.S. Government obligations | 92,950 | 37,681 |
| Certificates of deposit | 38,552 | 74,300 |
| Corporate securities | 12,059 | 12,160 |
| Municipal bonds | 5,205 | 3,366 |
| | <u>\$483,847</u> | <u>\$465,523</u> |
| Receivables from customers less reserve (Note 3) | \$ 35,441 | \$ 44,851 |
| Receivables from brokers and dealers | 44,665 | 22,317 |
| Other current assets | 4,928 | 5,400 |
| Total current assets | <u>\$576,608</u> | <u>\$539,483</u> |

| | | |
|--|-------|-------|
| Securities in Accounts Under Subordination Agreements, at quoted market (Note 5) | 162 | 134 |
| Investment Securities, at cost (estimated fair value—\$3,559,000 in 1971 and \$3,971,000 in 1970) (Note 2) | 2,487 | 2,745 |
| Exchange Memberships, at cost (market \$1,674,000 in 1971 and \$1,661,000 in 1970) | 1,943 | 2,048 |
| Office Equipment and Leasehold Improvements, at cost, less accumulated depreciation and amortization of \$2,070,000 in 1971 and \$1,598,000 in 1970 (Note 4) | 1,604 | 1,621 |
| Deferred Tax Benefits | 1,419 | 1,381 |
| Other Assets | 189 | 306 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | 1971 | 1970 |
|--|------------------|------------------|
| Current Liabilities: | | |
| Collateral loans— | | |
| Secured by commercial paper, U.S. Government obligations and certificates of deposit under repurchase agreements | \$394,622 | \$285,060 |
| Secured by firm securities | 75,869 | 164,755 |
| Secured by customer securities | 600 | 200 |
| | <u>\$471,091</u> | <u>\$450,015</u> |
| Securities sold, not yet purchased, at quoted market | 3,661 | 1,969 |
| Payables to customers | 33,906 | 37,802 |
| Payables to brokers and dealers | 32,779 | 22,272 |
| Accounts payable and accrued liabilities | 14,668 | 12,023 |
| Accrued income taxes | 1,430 | 1,664 |
| Total current liabilities | <u>\$557,535</u> | <u>\$525,745</u> |
| Liabilities Subordinated to the Claims of General Creditors (Note 5) | \$ 1,510 | \$ 728 |

| | | |
|--|------------------|------------------|
| Stockholders' Equity: | | |
| Common stock, voting, \$.20 par value; authorized 2,000,000 shares; issued 1,128,655 shares; outstanding 888,160 shares in 1971 and 870,620 shares in 1970 (Note 6) | \$ 226 | \$ 226 |
| Class A nonvoting common stock, \$.20 par value; authorized 500,000 shares; issued 38,254 shares in 1971 and 35,657 shares in 1970; outstanding 37,954 shares in 1971 and 34,515 shares in 1970 (Note 6) | 8 | 7 |
| Additional paid-in capital | 1,236 | 1,166 |
| Retained earnings (Note 8) | 32,535 | 28,826 |
| | <u>\$ 34,005</u> | <u>\$ 30,225</u> |
| Less— | | |
| Treasury stock, at cost (Note 7) | 6,292 | 6,956 |
| Notes due from stockholders (Note 6) | 2,346 | 2,024 |

Statements of Additional Paid-In Capital and Retained Earnings (000 omitted)

For the years ended October 31, 1971 and 1970

| ADDITIONAL PAID-IN CAPITAL | 1971 | 1970 |
|---|------------------|------------------|
| Balance, Beginning of Year | \$ 1,166 | \$ 1,142 |
| Excess of selling price over par value of Class A common stock issued (2,597 shares in 1971 and 933 shares in 1970) | 70 | 24 |
| Balance, End of Year | <u>\$ 1,236</u> | <u>\$ 1,166</u> |
| RETAINED EARNINGS | | |
| Balance, Beginning of Year | \$ 28,826 | \$ 21,651 |
| Net income | 3,905 | 7,203 |
| Excess of cost over proceeds of treasury stock sold (Note 7)— | | |
| Common | (190) | (4) |
| Class A common | (6) | (24) |
| Balance, End of Year (Note 8) | <u>\$ 32,535</u> | <u>\$ 28,826</u> |

Statements of Changes in Financial Position (000 omitted)

For the years ended October 31, 1971 and 1970

| Funds Provided By: | 1971 | 1970 |
|--|------------------|------------------|
| Net income | \$ 3,905 | \$ 7,203 |
| Expenses not requiring the outlay of funds— | | |
| Depreciation and amortization | 539 | 475 |
| Provision for doubtful accounts | 40 | 80 |
| Provided from operations | <u>\$ 4,484</u> | <u>\$ 7,758</u> |
| Sales of treasury stock | 2,385 | 2,381 |
| Issuance of Class A common stock | 70 | 24 |
| Decrease in receivables from customers | 9,370 | 16,301 |
| Increase (decrease) in— | | |
| Loans under repurchase agreements | 109,562 | 163,025 |
| Bank loans (firm and customer) | (88,486) | 63,477 |
| Payables to brokers and dealers | 10,507 | (17,490) |
| Securities sold, not yet purchased | 1,692 | (44) |
| Subordinated liabilities | 754 | 125 |
| Accounts payable and accrued liabilities | 2,645 | 1,682 |
| Other changes | 245 | — |
| Total funds provided | <u>\$ 53,228</u> | <u>\$237,239</u> |

| Funds Applied To: | 1971 | 1970 |
|--|-------------|-------------|
| Purchases of treasury stock | \$ 1,721 | \$ 9,015 |
| Purchases of office equipment and leasehold improvements | 595 | 388 |
| Decrease in payables to customers | 3,896 | 4,189 |
| Decrease (increase) in accrued income taxes | 234 | (1,375) |
| Increase (decrease) in— | | |
| Trading inventory | 18,324 | 250,978 |
| Investment securities | (258) | 484 |
| Receivables from brokers and dealers | 22,348 | (20,455) |
| Other current assets | (472) | 2,749 |
| Cash | 6,335 | (9,410) |

Notes to Financial Statements

October 31, 1971 and 1970

(1) ACCOUNTING PRACTICES:

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

In prior periods, in the preparation of its financial statements for use in connection with special purpose reports to regulatory agencies and for other related special purposes, the Company valued investment securities at estimated fair value and stock exchange memberships at market.

(2) INVESTMENT SECURITIES:

Investment securities generally represent long-term investments in securities which, at the time the investments are made, are restricted or nonmarketable. Although these securities may subsequently become marketable, they remain classified as investment securities. These securities are carried at cost. Changes in the value of investment securities, other than adjustments to reflect permanent impairment in value, are not reflected in periodic net income until such time as the securities are liquidated and a gain or loss is realized.

In order to provide a consistent method of determining the price to be used in capital stock transactions with stockholders, it has been necessary for management to periodically determine the fair value of these investments. In the determination of estimated fair value, the following guidelines are observed:

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

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

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

(4) DEPRECIATION AND AMORTIZATION:

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. Depreciation and amortization charged to expense during the fiscal years ended October 31, 1971 and 1970, were \$474,000 and \$428,000, respectively.

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

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

| | October 31 | |
|--|----------------|--------------|
| | 1971 | 1970 |
| Amounts payable under deferred compensation agreements | \$1,348 | \$594 |
| Securities, at quoted market | 162 | 134 |
| | <u>\$1,510</u> | <u>\$728</u> |

Under the terms of the various agreements these liabilities are subordinated to the claims of general creditors and are available to the Company in computing net capital under New York Stock Exchange, Inc. rules (see Note 8). These liabilities bear interest at rates varying from 6% to 8½%.

Either the Company or the lender may terminate the agreement upon giving six months' prior written notice; however, the agreements generally may not be terminated prior to one year from the effective date. As of October 31, 1971, six months' notice had been given with respect to \$224,000 of subordinated liabilities.

(6) 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

governing the regular sale of the Company's stock, provide for payment of 10% in cash and a 15-year note. At October 31, 1971, there were \$2,277,921 of these notes outstanding arising from the purchase of 148,830 shares of common stock. These notes bear interest at rates varying from 5% to 8% and mature in varying amounts in the years 1979-1980 and 1982-1985. In addition, there are other notes aggregating \$68,084 in connection with 12,077 shares of common stock. These notes, which mature in 1972, arose from the Company's acceleration in the maturities of management share notes.

(7) TREASURY STOCK TRANSACTIONS:

Treasury stock transactions for the two years ended October 31, 1971, were as follows:

| | Common Stock | | Class A Common Stock | |
|-------------------|----------------|----------------|----------------------|-------------|
| | Shares | Amount* | Shares | Amount* |
| Balance, | | | | |
| October 31, 1969 | 11,660 | \$ 277 | 1,700 | \$ 45 |
| Purchases | 319,825 | 8,620 | 14,931 | 395 |
| Sales | (73,450) | (1,968) | (15,489) | (413) |
| Balance, | | | | |
| October 31, 1970 | 258,035 | \$6,929 | 1,142 | \$ 27 |
| Purchases | 53,500 | 1,411 | 11,751 | 310 |
| Sales | (71,040) | (2,057) | (12,593) | (328) |
| Balance, | | | | |
| October 31, 1971 | <u>240,495</u> | <u>\$6,283</u> | <u>300</u> | <u>\$ 9</u> |

*In thousands of dollars.

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

(8) RESTRICTION ON RETAINED EARNINGS:

The Company is required to comply with a New York Stock Exchange, Inc. rule which provides that the ratio of aggregate indebtedness to net capital, as defined, must not exceed 15 to 1. Such ratio was approximately 6 to 1 as of October 31, 1971.

(9) PENSION PLAN:

The Company has a noncontributory pension plan covering substantially all of its employees. Total pension expense for the fiscal years ended October 31, 1971 and 1970, was \$809,181 and \$758,268, respectively, which includes amortization of past-service costs over 40 years. The Company's general policy is to fund pension costs accrued; however, the fiscal 1970 accrual has not been funded and is included in accounts payable and accrued liabilities in the accompanying financial statements.

The net assets of the pension fund exceeded the actuarially computed value of the vested benefits at the end of both fiscal years.

(10) INTEREST ON REPURCHASE TRANSACTIONS:

Gross trading profits from the purchase and sale of money market instruments are included in "trading profits and underwriting." The discount interest costs associated with repurchase transactions in these instruments are offset against such gross trading profits. The Company's records for periods prior to March 1, 1971, do not facilitate identification of the amount of such discount interest costs. Discount interest on these transactions for the eight months ended October 31, 1971, was \$9,864,000.

(11) INCOME TAXES:

Taxes on income include Federal, state and local income taxes.

The Company provides deferred income taxes on items which are recorded for tax and accounting purposes in different periods. The amounts of current and deferred tax provisions (benefits) in each of the two years were as follows (in thousands of dollars):

| Fiscal Year Ended |
|-------------------|
| October 31 |
| 1971 1970 |

(12) COMMITMENTS:

The aggregate annual rentals under lease commitments are approximately \$2,000,000 to 1989.

In the normal course of business the Company enters into underwriting commitments. Open underwriting commitments as of October 31, 1971, were approximately \$45,000,000.

The Company has entered into "matched repurchase" agreements at contract amounts aggregating \$132,860,000. These contracts are collateralized by securities with a quoted market value of \$136,804,000. A matched repurchase consists of: (a) a purchase of U.S. Government obligations or certificates of deposit with an agreement to resell at a specific future date, and (b) a simultaneous sale of the same instrument with an agreement to repurchase at the same future date. The contracts for purchase-resale and sale-repurchase are all equal in amount.

(13) CONTINGENT LIABILITIES:

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

At October 31, 1971, the Company was contingently liable on security drafts deposited for immediate credit of approximately \$6,577,000.

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

We have examined the balance sheets of A. G. BECKER & CO. INCORPORATED (a Delaware corporation) as of October 31, 1971, and October 31, 1970, and the related statements of income, additional paid-in capital and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of A. G. Becker & Co. Incorporated as of October 31, 1971, and October 31, 1970, the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
December 24, 1971.

Ten Year Financial Summary (000 omitted)

| | FISCAL YEAR ENDED OCTOBER 31, | | | FISCAL YEAR ENDED OCTOBER 31, | | | | FISCAL YEAR ENDED DECEMBER 31, | | |
|---|----------------------------------|----------|----------|----------------------------------|----------|----------|-----------|-----------------------------------|----------|----------|
| | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 |
| | Audited | | | | | | Unaudited | | | |
| Revenues: | | | | | | | | | | |
| Commissions and Floor Brokerage | \$33,609 | \$24,492 | \$23,965 | \$25,202 | \$17,075 | | | | | |
| Trading Profits and Underwritings | 25,158 | 20,715 | 19,194 | 16,251 | 12,158 | | | See Explanatory Notes | | |
| Fees, Interest, Dividends and Other | 5,329 | 4,724 | 5,538 | 4,509 | 3,485 | | | | | |
| Revenues | \$64,096 | \$49,931 | \$48,697 | \$45,962 | \$32,718 | \$21,301 | \$16,646 | \$12,610 | \$11,789 | \$11,216 |
| Expenses: | | | | | | | | | | |
| Employee Compensation and Benefits | \$27,985 | \$22,349 | \$22,344 | \$18,584 | \$13,386 | | | | | |
| Interest | 6,335 | 8,483 | 8,708 | 6,964 | 5,743 | | | See Explanatory Notes | | |
| Floor Brokerage and Clearance Fees | 8,669 | 6,554 | 6,014 | 7,215 | 5,282 | | | | | |
| Other | 12,877 | 9,509 | 9,449 | 6,429 | 4,823 | | | | | |
| Expenses | \$55,866 | \$46,895 | \$46,515 | \$39,192 | \$29,234 | \$20,072 | \$15,098 | \$11,496 | \$10,553 | \$ 9,974 |
| Operating Income before Taxes | \$ 8,230 | \$ 3,036 | \$ 2,182 | \$ 6,770 | \$ 3,484 | \$ 1,229 | \$ 1,548 | \$ 1,114 | \$ 1,236 | \$ 1,242 |
| Provision for Taxes | 4,301 | 1,356 | 1,173 | 3,560 | 1,914 | 470 | 702 | 542 | 642 | 633 |
| Net Operating Income | \$ 3,929 | \$ 1,680 | \$ 1,009 | \$ 3,210 | \$ 1,570 | \$ 759 | \$ 846 | \$ 572 | \$ 594 | \$ 609 |
| Net Gain (Loss) on Investment Securities | (24) | 5,523 | 251 | 8,823 | 2,742 | (3) | 161 | (52) | 8 | 64 |
| Net Income | \$ 3,905 | \$ 7,203 | \$ 1,260 | \$12,033 | \$ 4,312 | \$ 756 | \$ 1,007 | \$ 520 | \$ 602 | \$ 673 |
| Net Worth at Fiscal Year End | \$25,367 | \$21,245 | \$20,683 | \$16,720 | \$12,167 | \$ 8,946 | \$ 6,343 | \$ 7,791 | \$ 7,650 | \$ 7,172 |

EXPLANATORY NOTES:

1. The Company changed its fiscal year end from December 31 to October 31 as of October 31, 1967. 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.

2. The data in the above Financial Summary for the fiscal years ended October 31, 1967-1971 have been prepared on a consistent basis. The data for the years 1969-1971 have been examined by independent public accountants; the data for 1967 and 1968 were prepared by the company's management and are unaudited.