

The Becker and Warburg-Paribas Group Annual Report 1976



Cover: Adam Smith on the aspirations of economic man

"[Man is endowed with] a desire which comes with us from the womb, and never leaves us till we go into the grave. In the whole interval which separates those two moments, there is scarce, perhaps, a single instant in which any man is so perfectly and completely satisfied with his situation as to be without any wish of alteration or improvement of any kind."

1976 was the 200th anniversary of the publication of Adam Smith's *Wealth of Nations*, generally regarded as the most important book on economics ever written. Throughout this report are a number of quotations from that work which are as apt today as they were in the year of our nation's founding.

Born in Britain in 1723, Adam Smith worked for half a lifetime to develop his ideas on economics, philosophy, history and political theory. His masterpiece remains at the foundation of economic analysis as we know it today. Smith set forth the doctrine that labor is the sole source of value, that the welfare of a nation depends upon its production, and that the amount that is produced depends upon the division of labor and the level of specialization that an economy can support. He assumed a natural order whose "invisible hand" directs all individual strivings for self-interest to the social good. He maintained that the operation of a free market would regulate an economy so as to maximize the value of production. He believed that the best government is the government that governs least.

Adam Smith's insights are particularly appropriate to the continuing debate on the effectiveness of governmental efforts to stimulate, restrain, regulate or otherwise influence the economy. While the U.S. securities industry remains highly regulated, the Securities Acts Amendments of 1975 clearly recognized that competitive forces help maintain efficient securities markets. Adam Smith would undoubtedly applaud.

1976: A Good Year in a Changing Environment

The Becker and Warburg-Paribas Group finished fiscal 1976 with favorable financial results. Net income of over \$7.5 million exceeded last year's figure and was higher than any year since 1968.

Like other American securities firms, we were buffeted in 1976 by complex changes in our nation's equities markets. At the same time we took advantage of unexpectedly favorable credit securities markets and expanded our corporate and public finance services to a growing domestic and international clientele.

The Group and its predecessor firms have an unbroken record of profitability through periods of change and stress in the securities industry. We are proud of our history and look back with a sense of achievement. But new uncertainties lie ahead and will continue to test the fundamentals on which our growth has been based—a commitment to careful planning, a willingness to innovate, and an ability to adapt quickly to our clients' evolving needs. The key to our growth will always be the people we employ and the way they are motivated and managed. We will continue our policy of building interrelated teams of professionals with demonstrated intellectual capacity and strong motivation.

We were particularly gratified during 1976 by the new client relationships developed in cooperation with our financial and operating partners: S. G. Warburg & Co. Ltd., and Compagnie Financiere de Paris et des Pays-Bas (Paribas). As our clients and friends have become accustomed to our various corporate signatures and our holding company structure (see page two), they are also in many cases beginning to realize specific benefits from our international associations. We expect the future will bring greatly expanded opportunities for global service to our clients and to those of our overseas partners. As the chart illustrates, each of the Group's major lines of service is being carried out through one of our principal operating subsidiaries. Management reports summarizing operational developments in these companies appear in the pages which follow.

Looking ahead

The responsibilities of management include identifying and evaluating current phenomena affecting our business and our clients in the years ahead.

Major new forces from time to time emerge which speed up or redirect the normal and more or less predictable rate of change in a business environment. In this regard, two trends in the nation's financial markets are of particular interest.

A shift towards dealer markets in equity securities

The American equity securities markets are in a state of structural instability and are undergoing rapid change. We believe that the primary market for the equity securities of most major corporations will increasingly shift from stock exchanges to direct principal trading by a limited number of competing, well-capitalized firms. Government intervention could theoretically alter this trend, but we consider this unlikely in light of recent regulatory changes supporting more competitive markets, the weight of public opinion and the economic interests of the participants.

How have we arrived at this point? The stage was set in the late 1950's and early 1960's as the ownership of equity securities steadily shifted from individual investors to institutional fiduciaries. A loss of integrity in many of the industry's security processing systems and a steady erosion of equity values in 1969-1974 brought on wide-spread public and regulatory concern about the credibility and competence of brokerage firm managements.

The ultimate regulatory and congressional response was to abolish fixed commissions on listed stock transactions. Since May, 1975, but especially during 1976, reductions in commissions paid by institutional investors are causing major revisions in the structure of services built up over the years to meet institutional investor needs. To the objective analyst, by late 1975 it was clear that the industry faced two major questions: How valuable to investors were the industry's various services? What form of compensation would the industry receive for those types of service which were ultimately deemed valuable?

The steady stream of major pricing adjustments which was beginning to characterize equity securities transactions in late 1976 began to suggest answers to both questions. A "wringing out" process appears inevitable. Investment research services, sales and execution personnel, and related support and communications facilities will be much reduced before supply equals demand. Automation, efficiency, and cost management will become key factors in the securities industry.

Change will bring new challenges

The most important result of this process will likely be the establishment of competitive, dispersed dealer markets in the equity securities of major corporations. It will soon become more attractive for many securities firms serving institutions to pursue the chance for profit, while accepting the risk of dealing as principal, rather than executing orders as agent at

OWNERSHIP

Compagnie Financière de Paris et des Pays-Bas (Paribas)

A major French holding company whose principal subsidiary is the Banque de Paris et des Pays-Bas; other affiliated banking operations are principally in France, Switzerland, Belgium, Luxembourg and Holland. Serves clients throughout the world. Substantial holdings in industrial and commercial companies, particularly in France and Belgium. Assets, \$11.9 billion; capital, \$770 million.

S. G. Warburg & Co. Ltd.

A leading merchant bank headquartered in London with affiliated banks in Germany and Switzerland and associated companies in Australia, Belgium, Canada, France, Jersey and the Netherlands. Provides a full range of merchant banking and investment services to corporate and government clients in the United Kingdom, Europe, Asia and elsewhere. Total assets of Mercury Securities Ltd., its parent company, \$1 billion; capital, \$95 million.

Key Employees

As a matter of established policy, key employees of the Group and its subsidiaries provide a significant portion of the Group's capital through ownership of its common stock. Such ownership currently aggregates \$36.8 million.

HOLDING COMPANY

The Becker and Warburg-Paribas Group Incorporated

A holding company established in 1974 by the amalgamation of A. G. Becker & Co. Incorporated and Warburg-Paribas, Inc., which company then represented the U.S. interests of the Warburg and Paribas organizations.

The amalgamation substantially extended the resources of the predecessor firms by joining the international financing expertise and capital of two of Europe's leading financial organizations to a large diversified American securities business. Assets, \$1.4 billion; capital, \$65.8 million.

PRINCIPAL OPERATING SUBSIDIARIES

Credit Securities Market Services

A. G. Becker & Co. Incorporated

Major dealer and distributor in the U.S. money and bond markets. Conducts all the credit securities business for the Group including dealings in commercial paper, certificates of deposit, bankers' acceptances and other private sector money market instruments. Recognized U.S. government bond dealer; underwriter and distributor of U.S. government and agency securities; dealer in and distributor of corporate bonds.

Equity Securities Market Services

Becker Securities Corporation

Provides investment research, portfolio measurement and evaluation, and execution services for institutional and individual investors. Distributes securities underwritings. Provides execution, clearing and other services to various types of investment dealers. Member New York Stock Exchange and other principal exchanges.

Investment Banking Services

Warburg Paribas Becker Inc.

Provides general and specialized investment banking and financial services to U.S. and foreign corporations and governments: raising of capital through underwritten offerings or private placements of securities; the negotiation and execution of business combinations and divestitures; other corporate financial advisory services. Distribution of underwritten public offerings through A. G. Becker & Co. and Becker Securities Corporation.

OTHER SUBSIDIARIES & RELATED PARTNERSHIPS

A. G. Becker Municipal Securities Incorporated

Underwriter, dealer and distributor of tax exempt obligations.

A. G. Becker International Limited

Dealer in and distributor of Eurodollar certificates of deposit. (London)

Mid-Continent Capital, Inc.

Investment advisory and management services to individuals and family groups.

A. G. Becker (Canada) Limited

Portfolio measurement and evaluation services to Canadian institutional investors. (Toronto)

Becker Securities Corporation S.A.

Equity market services to European institutional investors. (Geneva)

Becker Communications Associates

Private investment partnership serving the CATV, radio and television broadcasting and equipment industries.

Becker Technological Associates

Private investment partnership serving technological companies in the developmental stage of growth.

commission rates which are at or below cost.

There is no reason to believe that competitive dealer markets will be less fair, orderly or efficient than the traditional agency-oriented markets. The role of stock exchanges in this new environment is not clear, but could remain significant in proportion to their ability to accommodate change.

Competing dealer markets will mean a new world for at least the upper tier of equity securities transactions. Some believe this will be bad for our economic system. We don't share that view. If the new market structure evolves out of natural competitive forces and an unfettered price environment encompassing independent and well-financed, carefully-managed organizations, it will by definition be efficient and orderly, like most other financial markets to which we have been long accustomed.

Many issues, of course, remain to be resolved, including how any new system will relate to securities of companies outside the first tier and how it will relate to the nation's capital formation process. But here, too, we have confidence that the answer can be best worked out through the operation of competitive market forces.

Foreign investment in the U.S.

A second major trend affecting the American economy and financial markets is the invigorated flow of foreign capital into the United States. This trend shows no sign of abatement and, indeed, may even speed up if our nation's rate of inflation remains relatively low and economic expansion continues. Despite some of our internal economic problems, foreign investors continue to view the United States

as the most stable and predictable of the world's economies. Our potential for sound growth and technological innovation is well recognized.

A few years back, this incipient trend was one of the principal motivations for the amalgamation of the Becker, Warburg and Paribas interests. Today, the extensive capabilities of The Becker and Warburg-Paribas Group mean we can provide unusually comprehensive service to foreign investors—individual, family, corporate and fiduciary—seeking either marketable or permanent investments in the United States. We have already made significant progress in putting these capabilities to use.

As the world economy reacts to new sources of potential disruption such as the strategies of OPEC and other producer countries, environmental problems and new sociopolitical conflict, the American economy and securities markets will continue to respond and adjust. Such developments will influence and change our clients' needs for service in American securities markets.

In summary

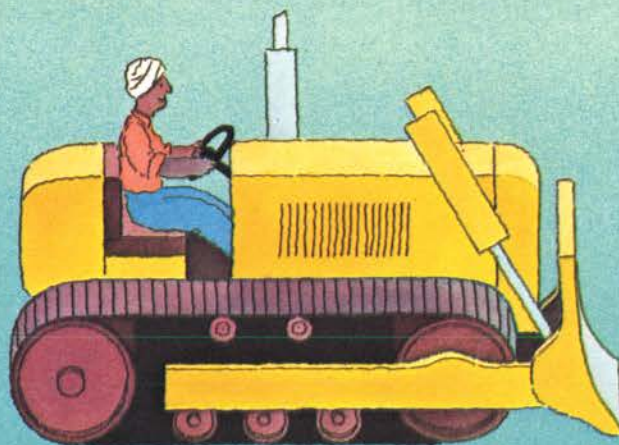
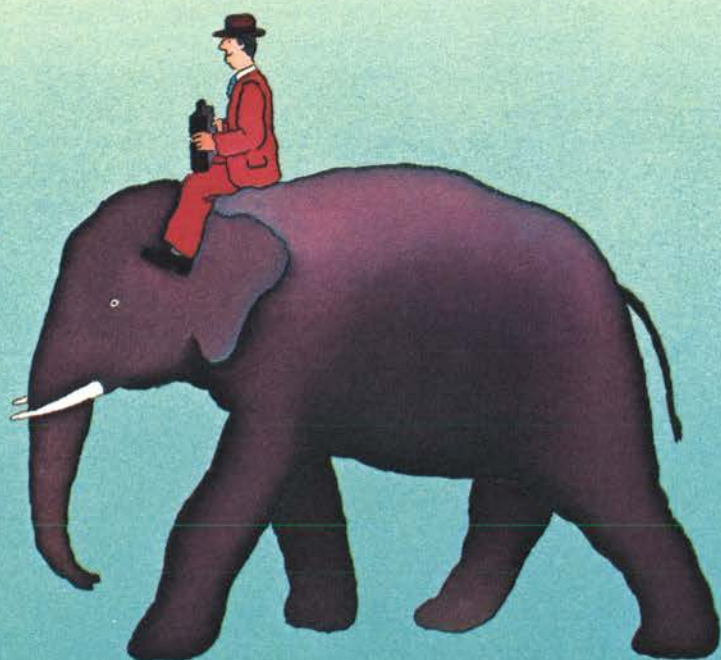
In order to anticipate new market conditions and service needs, we will continue to place a high value on the kind of independent thinking that often leads in new directions. Like Adam Smith in his time, we don't always follow the crowd. In once calling the company an "industry maverick," *The Wall Street Journal* pointed out our "fetish for planning, tight budgeting, market research and organization." We might not have put it quite that way, but it sums up a management approach that we hope sets us apart and better assures our ability to meet our clients' needs in a distinctive way.

Paul R. Judy
President
January 17, 1977



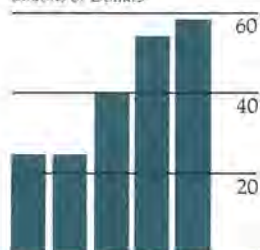
Adam Smith on human nature and trade

"This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom...but is the necessary consequence of a certain propensity in human nature...to truck, barter, and exchange one thing for another."

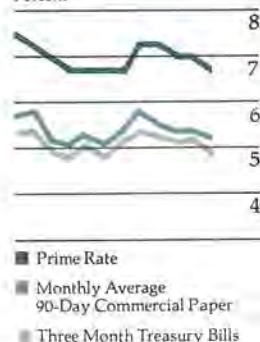


A.G. Becker

Volume of
Commercial Paper
Handled
Fiscal 1972-1976
Billions of Dollars



Key Short-Term
Interest Rates
Fiscal 1976
Percent



In fiscal 1976 A. G. Becker & Co. maintained its record of outstanding profitability and further strengthened its position as a leader in fixed income securities markets. The continued success of our broadly based, full-service approach to client needs was indicated by record volume in most sectors of activity. It was also a year for innovation as we successfully introduced new products and entered new markets. Few firms can match the breadth and depth of our services in fixed maturity and income based instruments.

Money market instruments

The total volume of our commercial paper activities increased for the year, exceeding \$58 billion as interest rates and market conditions remained generally favorable. Twelve new clients joined the major companies now borrowing in the commercial paper market through A. G. Becker. We believe that more top-rated issuers entering the market selected A. G. Becker in 1976 than any other dealer and that our net increase in issuing clients exceeded that of the rest of the dealer market combined. We were pleased to welcome the following who joined us during or shortly after our fiscal year:

Aetna Life & Casualty Company
Arkansas-Louisiana Gas Company
Avis Rent-A-Car System
Avnet, Inc.
BLC Corporation (Subsidiary of Southern Pacific Company)
Borg-Warner Equities Corporation
The Chase Manhattan Corporation
Chevron Pipeline Company
Continental Grain Company
The Diners' Club, Inc.
Eaton Credit Corporation
Interstate Power Company
Manufacturers Hanover Corporation
Outboard Marine Corporation
Rochester Gas & Electric Corporation
Sony Corporation of America
Standard Oil Company of California
West Penn Power Company
Weyerhaeuser Real Estate Company

Activities in bank related money market instruments were exceptional. The certificate of deposit market, in particular, was strong in the first half of the year; we believe that A. G. Becker is the leading dealer in these instruments as well as in bank holding company commercial paper. Particularly significant in fiscal 1976 was the initiation of private placement note programs for a number of leading bank holding companies.

Development of the Eurodollar certificate of de-

posit program continued through our London office, which is achieving wide-spread recognition and may be the foremost dealer in that market.

Corporate bonds

Our corporate bond underwriting and trading activities during fiscal 1976 were highlighted by an increase of more than 20% in the dollar volume of our underwriting participations. We are committed to the continued strengthening of our underwriting and trading capabilities in this area and were satisfied with the progress achieved in fiscal 1976.

Governments, government agencies and municipals

Trading results in government securities exceeded target levels during the year as activity expanded dramatically with continued record volume. A. G. Becker has been a primary reporting dealer in government securities for some five years and continues to gain recognition for its trading expertise in government issued instruments.

The GNMA business has grown dramatically since the pass-through note was instituted just six years ago. Overall industry transaction volume in these securities is approaching a billion dollars per day and total outstandings are now approximately \$35 billion. A. G. Becker & Co. maintains a leadership position in this business, which continues to show major growth potential. During fiscal 1976 the company managed or co-managed offerings which totalled more than \$2 billion in GNMA pass-through securities.

Municipal bond activities conducted through A. G. Becker & Co. Municipal Securities showed good progress during a year in which the environment for these securities remained generally favorable. Our underwriting participations more than doubled as industry volume grew to some \$32 billion a year.

New activities

New services evolving from research and systems work that was originally designed to support our own operations represent a small but rapidly growing segment of our business. Our objective is to make information relevant to fixed income markets and securities available to our clients in easily accessible form.

One of these services, BankData, was successfully introduced in 1976 to provide fundamental credit data on the country's 100 largest banks.

The Computer Bond Service, introduced a little more than a year ago, continued to provide institutional investors with significant on-line bond research capabilities. In the coming year we look forward to

providing new service options which will extend these services to a broader range of clients.

Another recent step with significant potential was our move to gain access to the futures market for Treasury Bills by purchasing a seat on the International Monetary Market. Through a limited trading operation we expect to be in a position to serve clients in this new market.

We were gratified by the Houston financial community's rapid acceptance of our new office there, which opened in January.

In conclusion

In fiscal 1976 A. G. Becker & Co. capitalized on strong, and for the most part favorable, markets. We

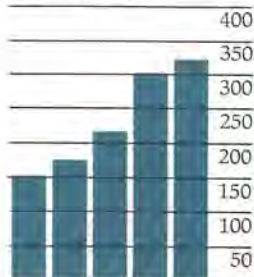
believe the excellent success that was achieved is principally attributable to our high standards of professionalism and client service.

John F. Donahue, Jr.
President
A. G. Becker & Co. Incorporated



Becker Securities

Volume of Equity
Shares Handled
Fiscal 1972-1976
Millions of Shares



In carrying forward that portion of the Group's business serving users of the nation's equities markets, Becker Securities Corporation provides a broad range of innovative services to institutions, corporations, investment dealers, and individual investors.

Operations were profitable in 1976 despite market conditions and regulatory action that created an environment of great uncertainty. Although competitive forces continued to reduce commission rates for equity transactions, overall operating revenues in each area of the business were higher this year than last. But to achieve this record, we had to increase both our production and our efficiency; we processed a disproportionately higher number of transactions, and margins were reduced from earlier years.

Equity market services to institutions and individuals

The equity market environment was favorable in January and February, but for the balance of the year the market drifted sideways. The average New York Stock Exchange volume of 21 million shares was higher than 1975, but the continued appeal of fixed income investments discouraged individual investors from returning to the market. Nevertheless, listed transaction volume increased, business with medium and small institutions expanded, and institutional business with European firms also increased. Income from sales of corporate underwritings was up 49% over 1975 despite a decline in the total volume of corporate issues.

Investment research services were well received, and the number of subscribers for the two-year old *Industry Comments* series rose 50%. But increasing commission rate discounts for institutions and uncertainty about discounting for retail clients cloud the longer term outlook in this area.

Service to institutions and individuals in the western United States was further improved through the addition of 13 Registered Representatives to the Group's principal office in Los Angeles.

Block trading and specialist operations

Becker Securities Corporation is positioned to act as both a broker and dealer in equity securities. Because we recognize that major institutions need more liquidity, during 1976 we expanded our equity trading and block desk capability, and increased the volume of our capital committed to principal trading activities.

Equity trading as specialists on the AMEX and related activities were successful.

Correspondent services for investment dealers

Becker Securities continues to provide innovative services to investment dealers on an "unbundled" basis, which allows the client to select only those services which best suit his needs.

These services are available for transactions in stocks, listed stock options, or bonds, and include the following:

- Financing
- Clearing (fully disclosed)
- Clearing (non-disclosed)
- Execution
- Principal trading
- Fundamental research
- Technical research
- Computer-based research

Execution services

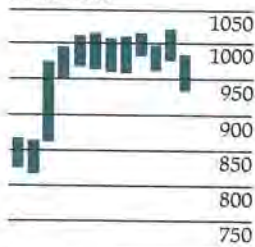
Supporting Becker's institutional and retail brokerage

Adam Smith on government price regulation

"When the government, in order to remedy the inconveniences of dearth, orders all the dealers to sell their corn at what it supposes a reasonable price, it either hinders them from bringing it to market, which may sometimes produce a famine even in the beginning of the season; or if they bring it thither, it enables the people, and thereby encourages them to consume it so fast, as must necessarily produce a famine before the end of the season. The unlimited, unrestrained freedom of the corn trade, as it is the only effectual preventative of the miseries of famine, so it is the best palliative of the inconveniences of a dearth; *for the inconveniences of a real scarcity cannot be remedied; they can only be palliated.*"

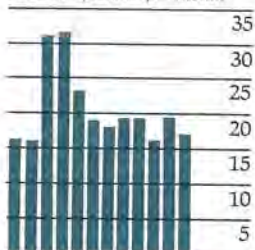


Dow Jones
Industrial Average
Fiscal 1976



Average Daily
NYSE Volume
Fiscal 1976

Millions of Shares per Month



business and the requirements of our investment dealer clients, our execution service centers handled stock, option and bond transactions with a total value of \$9.2 billion. Equity order executions alone involved 324 million shares, executed on six stock and option exchanges, an increase of 7.6% over fiscal 1975. In January, February and March operations handled an average of 13,000 trades each trading day.

Our floor execution capability is the most extensive in the industry and includes 11 floor brokers each on the NYSE and CBOE, five on the AMEX, six on the Midwest and two each on the Pacific and Philadelphia stock exchanges.

The BECKCO operation which provides transaction clearing services to registered broker dealers doing principal transactions on national and regional stock and option exchanges expanded from 129 to 183 accounts. Its base on the AMEX expanded by 25 new accounts. On the AMEX, BECKCO now clears 450 of the 1300 traded stocks, 25 of the 75 options traded and 3 of the 5 most active specialist books.

Funds Evaluation Services

These services maintained their leading market share in a difficult year. The dominating influence during this period was the continued transition in the method of payment for Funds Evaluation Services—including a sudden change in Canadian securities regulations which required the immediate conversion of all our Canadian clients to a cash payment basis.

On the positive side, our clients have increasingly recognized the value of our evaluation services in light of their obligations under the 1974 Employee Retirement Income Security Act (ERISA). The client base as a whole totalled 1,524 at year end, down 40 from 1975. During the year 184 new clients requested our service, and existing clients accounted for some 864 additional service subscriptions.

It appears that this period of adjustment for Becker's Funds Evaluation Services is now behind us, and we are prepared to resume expansion of these services at

a rate more characteristic of the years before the transition to competitive brokerage rates.

Our new Retirement Funds Planning Service completed its first full year, and results have been encouraging. Two new services announced in 1976 will be introduced in 1977: the Management Search service and the *Compendium of Investment Managers*. Both will assist fiduciaries in investment manager selection.

During 1976 we were retained by a major money center bank to develop the systems necessary to operate an index fund. In 1977 this activity will be expanded to make this investment technique available to all of our institutional clients.

In summary

1976 has been a difficult year of transition for the stock brokerage business; we expect 1977 and 1978 to be the same. As we move through this period of restructuring in our industry, we are confident that our capacity to anticipate change and develop innovative solutions will permit us to become even stronger and more responsive to our clients' needs. As always, the key to our ability to do so will be the continued thoughtful and enthusiastic commitment of our entire organization to this objective.

John A. Wing
President
Becker Securities
Corporation

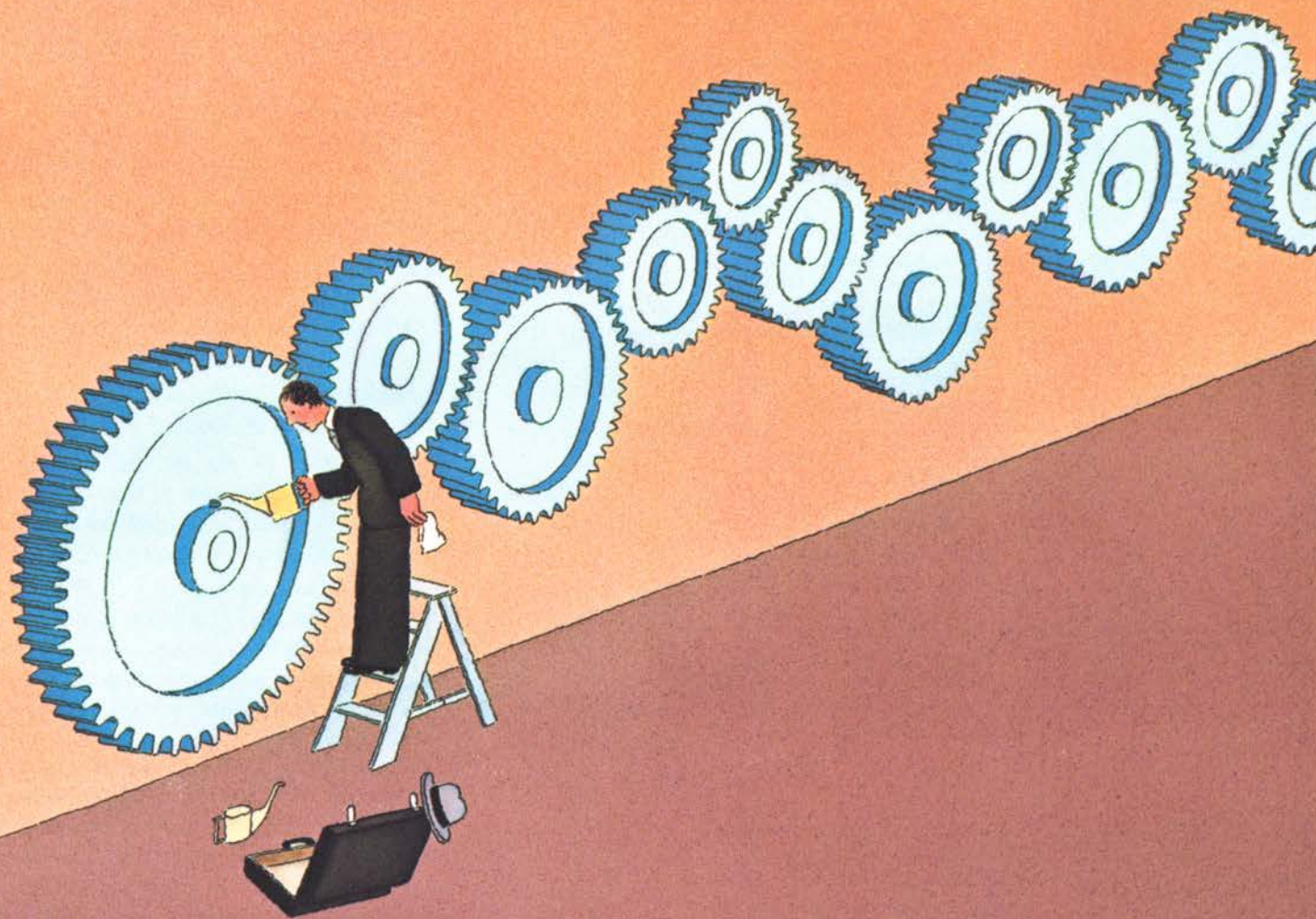


Frederick Moss
Chairman of the Board
Becker Securities
Corporation



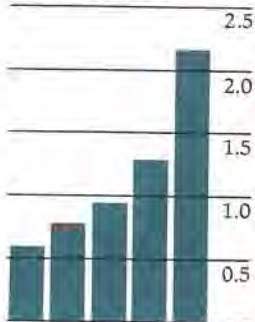
Adam Smith on finance

"Houses yield no fruits or increase, nor will some arable grounds yield any without great labour. Labour employed in managing money in trade or manufactures will make it as fruitful as anything. Were interest prohibited, none would lend except in charity; and many industrious hands who are not objects of charity would be excluded from making large gains in a way very advantageous to the public."



Warburg Paribas Becker

Managed and
Co-managed
Financings
Fiscal 1972-1976
Billions of Dollars



1976 was an excellent year for Warburg Paribas Becker. Our investment banking business was expanded in every area, in some cases dramatically so. During the year, we managed or co-managed financings totalling more than \$2 billion—a 50% increase over 1975. We were particularly gratified to have accomplished this growth in an environment in which total financings declined some 15%, indicating increased market share for the company.

Major financings

Among the borrowers for whom we arranged public or private financings were the following:

European Coal and Steel Community	\$498,000,000	Notes and Bonds
National Power Corporation (Philippines)	\$367,200,000	Serial and Sinking Fund Bonds
First Chicago Corporation	\$125,000,000	Notes
Colt Industries Inc	\$115,000,000	Senior Promissory Notes
Cyprus Mines Corporation	\$100,000,000	Sinking Fund Debentures
Clark Equipment Credit Corporation	\$95,000,000	Notes and Senior Subordinated Notes
Cargill, Incorporated	\$80,000,000	Senior Debentures
Aetna Business Credit, Inc.	\$62,500,000	Senior and Senior Subordinated Notes
Gambles Credit Corporation	\$60,000,000	Senior Notes
American Credit Corporation	\$50,000,000	Senior Notes
FMC Finance Corporation	\$50,000,000	Notes
Fraser Companies, Limited	\$43,250,000	Debentures
General Telephone Company of Ohio	\$40,000,000	First Mortgage Bonds
Trans Union Leasing Corporation	\$40,000,000	Senior Notes
Pacific Far East Line, Inc.	\$39,651,000	Serial and Sinking Fund Bonds
Crowley Maritime Corporation	\$33,000,000	Sinking Fund Bonds
Kentucky Utilities Company	\$30,000,000	First Mortgage Bonds
Capital Financial Services Inc.	\$25,000,000	Senior Notes
Marriott Corporation	\$22,968,750	Common Stock
Marine Leasing Company	\$22,800,000	Serial and Sinking Fund Bonds
Cone Mills Corporation	\$20,000,000	Senior Notes
Continental Grain Company	\$20,000,000	Notes
Southwestern Investment Company	\$20,000,000	Senior Notes

GATX Leasing Corporation	\$18,000,000	Senior Notes
El Paso Electric Company	\$15,000,000	First Mortgage Bonds
National Can Corporation	\$15,000,000	Convertible Subordinated Debentures
Mississippi Chemical Corporation	\$13,835,000	Lease Financing
Saga Corporation	\$12,000,000	Senior Promissory Notes

In other underwriting activities our participation in 445 public offerings raised a total of \$469 million for domestic and international issuers and brought increased recognition to our debt and equity distribution abilities.

Business combinations

Business combinations and related activities also continued to increase, particularly with respect to foreign investment in the United States. Our role in these transactions took a wide variety of forms:

Management of a public tender offer for Hawker Siddeley Group Limited (United Kingdom) to acquire a 36% interest in Onan Corporation, a subsidiary of Studebaker-Worthington, Inc.

Financial advice to Duncan Electric Company, Inc. in its acquisition by Landis & Gyr AG (Switzerland).

Representative of Societe des Ciments Francais (France) in the acquisition of Coplay Cement Manufacturing Company and agent for the \$55 million financing to be used to modernize Coplay's facilities.

Other financing activity

As can be seen in the list of the major financings we arranged during this year, continued progress has been achieved in the firm's program of providing specialized services for finance companies, captive finance subsidiaries, and bank and other financial holding companies. The services we provide these companies range from financial planning to raising capital.

During the year we maintained a leadership position as agent for private placements and as managing underwriter for Title XI vessel financing. In addition, we extended our corporate real estate finance services, and maintained our expertise in lease financing.

Warburg Paribas Becker also played a leading role in initiating new procedures under which foreign borrowers can obtain major financing in U.S. capital markets under guarantees of the Export Import Bank of the United States. The \$367.2 million financing for the National Power Corporation (Philippines), in which we were a co-manager, was accomplished under this program.

In summary

Our outlook for 1977 is excellent. We expect our market recognition to continue to grow as major U.S. companies and foreign corporations, governments and government agencies become more aware of our approach to financing alternatives. There is also increasing awareness of the special resources available to our clients as a result of our unique affiliations—with the S. G. Warburg and Paribas organizations in international transactions, and with A. G. Becker & Co. and Becker Securities Corporation in commercial paper and in public debt and equity underwritings. Our combined organizations give us

capabilities unusual for an investment banking firm, and we are pledged to their further expansion.

Edward F. Dugan

President, Warburg Paribas Becker Inc.



Other Developments This Year

Private Investment Services

Continued staff support services were provided for two investment partnerships in which we have an indirect investment interest and for selected direct investment programs.

Becker Technological Associates during the year elected to terminate by the end of 1977 its program of furnishing investment capital to technological companies. Consequently, a program of liquidation was adopted. However, The Becker and Warburg-Paribas Group continues its interest in attractive private investment opportunities.

Becker Communications Associates reaffirmed its investment objectives and made or participated with other lenders in eight loan commitments to new or existing clients in CATV and other communications related businesses totalling \$10.2 million.

Management decentralization and development

All of the companies in the Group have experienced rapid expansion during the past few years. To ensure that we will retain the entrepreneurial vigor and innovative temperament which have made this dynamic growth possible, our organizational structure is being increasingly decentralized to permit a wide variety of initiatives and decisions by management teams operating close to our various markets and in touch with our clients' needs. Strong central direction of overall policies and programs coupled with effective teamwork in carrying out activities involving all operating groups—such as underwriting distribution and trading of corporate securities—gives our organization the flexibility to meet changing business conditions.

A number of changes were made during the year in progressing toward greater decentralization and to further strengthen our management group. Rudolph A. Peterson, former President of the Bank of America, joined us as Chairman of the Policy Committee of The Becker and Warburg-Paribas Group and Chairman of

Warburg Paribas Becker Inc.

Within Warburg Paribas Becker the title Managing Director was adopted for senior managers and professionals. Barry S. Friedberg, Daniel J. Good and Charles H. Symington, formerly senior vice presidents, assumed the Managing Director title, and Robert L. Henkle, Robert S. Karlblom, Laurent Michel, Robert A. Nau, Howard Sodokoff and Milton J. Walters, formerly vice presidents were elected Managing Directors. Late in the year, Sangwoo Ahn, formerly a senior officer of another major investment banking firm, joined us as a Managing Director.

Within A. G. Becker & Co. management of our corporate bond distribution and trading activity was assumed by William W. Leddy, who joined us mid-year. Also, management assignments within Becker Securities Corporation were altered and John S. Levy, senior vice president, assumed responsibility for International Institutional, General Accounts and Investment Research activities, while William M. Smith, vice president, took on management responsibilities for Correspondent and Execution Services.

The Becker and Warburg-Paribas Group remains committed to further expansion of its service capabilities through both internal growth and the addition of appropriate senior professionals.

Additional changes

It is with regret that we report the early retirement of Burton J. Weiss, senior vice president, a member of the Board of Directors and an employee of 22 years. We are deeply grateful for his service to the organization.

As a result of changes in duties within the Paribas organization, Herve Pinet withdrew from the Executive Committee and as Vice Chairman of Warburg Paribas Becker Inc., and Pierre Haas assumed these duties. Both remain members of the Group's Board of Directors.

1976 Financial Review

During fiscal 1976 operational results were maintained near the record levels established in 1975. Revenues were \$135 million, essentially unchanged from 1975. The Group's pre-tax operating income totalled \$14.3 million, slightly lower than the \$15.5 million reported in fiscal 1975. However, the year's net income of \$7.5 million showed an increase of 7% above 1975 results; only fiscal 1968's net income—due to substantial gains on investments—exceeded this amount. Considering the regulatory and structural changes in the securities industry during 1976, these results were quite satisfactory.

Commission and floor brokerage revenues in 1976 decreased \$11 million (17%) from 1975. This was largely offset by a reduction of \$9 million (46%) for floor brokerage and clearance fee expense. The decline in commission and floor brokerage revenues was principally the result of the industry-wide change from fixed to negotiated commission rates in May, 1975. Increased volume, however, lessened the total impact of this pricing change.

Trading profits and underwriting revenues surpassed 1975 record levels. Improved fixed income and equity trading results along with an increase in the

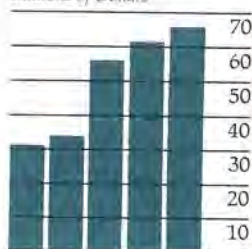
number of underwriting participations, both as an originator and syndicate member, contributed to this increase.

Employee compensation and benefits expense was \$8 million (18%) more than the comparable expense experienced in fiscal 1975. The net addition of 200 employees and an overall higher base compensation are the principal reasons for this increase. Interest expense was \$3 million less (11%) than that expended in 1975, primarily due to the reduced cost of financing money market positions. Overall, total expenses increased less than one-half of one percent from their 1975 levels.

In general, all activities performed profitably during 1976 with particularly strong results in municipal bond, equity, and money market trading activities. The diversified character of the Group's business was an important factor in achieving these results.

Stockholders' equity increased approximately \$8 million to \$41.7 million at October 29, 1976 from \$34.2 million a year earlier, primarily due to operating results. The Group's long-term capital funds increased from \$60.7 million at October 31, 1975, to \$65.8 million at October 29, 1976.

Long Term
Capital Funds
Fiscal 1972-1976
Millions of Dollars



Group Revenues
Fiscal 1972-1976
Millions of Dollars

