

March 28, 1997

Fellow Shareholders:

**T**he Company made substantial progress in 1996 in growing its investment management and discount brokerage businesses. This was achieved by focusing our marketing efforts on the top performing Midas Fund and the AmericanAirlines® AAdvantage® Miles Incentive Program of Bull & Bear Securities.

#### INVESTMENT MANAGEMENT

Net assets under management moved up sharply from \$237 million to over \$400 million, a gain for the year of more than \$163 million, or 69%. Key to this dramatic growth was Midas Fund's excellent track record together with an aggressive public relations campaign.

As of December 31, 1996, Midas Fund scored a 12 month gain of +21.22% compared with +6.69% for the Morningstar Precious Metals Fund Average, and earned the #1 ranking among all precious metals funds for the past five years with an average annual compound rate of return of +20.46%. Mr. Kjeld Thygesen, the Fund's London-based portfolio manager, is managing director of the Fund's subadviser, Lion Resource Management Limited, a part of Lion Mining Group, which specializes in corporate finance and consulting for resource companies worldwide.

Not only did Midas' portfolio manager produce gratifying results, but the Company's public relations efforts were immensely successful. Midas Fund and Mr. Thygesen received widespread publicity over the past year in such publications as *Forbes*, *Kiplinger's*, *Fortune*, *The Wall Street Journal*, *Financial Planning*, *Individual Investor*, *Investors Business Daily*, *Barron's*, *Smart Money*, and *U.S.A. Today*. This favorable publicity paid off handsomely in Midas Fund asset growth not only through direct no-load sales, but also indirectly through investment firms nationwide. The Company's institutional marketing efforts included all major discount brokerage firms and many full cost brokerage firms, as well as numerous financial advisors. Through these efforts, Midas Fund shares became available not only for no-transaction-fee programs of discount brokerage firms, such as Charles Schwab & Co., Jack White & Co., and Fidelity Brokerage, but also for wrap fee programs, 401(k) retirement plans, and similar offerings of Smith Barney, Prudential Securities, and PaineWebber.

In other developments, during the second half of 1996 and early 1997, shareholders of three Bull & Bear Funds—Bull & Bear Global Income Fund, Bull & Bear Municipal Income Fund, and Bull & Bear U.S. Government Securities Fund—approved proposals of each Fund's board of directors to convert to closed-end status. The Funds are now listed and traded on the American Stock Exchange under the symbols BBZ, BBM, and BBG, respectively.

#### DISCOUNT BROKERAGE

Sparked by Bull & Bear Securities' low commission schedule, which is guaranteed 20% lower than Charles Schwab & Co. on every stock, bond, and option trade, free cash management services featuring unlimited check writing with no minimum per check, and our innovative AmericanAirlines AAdvantage Miles Incentive Program, the number of our discount brokerage customer accounts increased 15%, transactions increased 32%, gross commissions increased 31%, and customers' equity increased 29% in 1996.

Commencing May 1, 1997, under our new Bull & Bear Securities AAdvantage Miles Incentive Program, customers of Bull & Bear Securities will earn 200 AAdvantage miles every time they trade, double the 100 miles

previously earned. Adding further appeal are the many ways customers can earn bonus miles. These include 1,000 miles for opening a new account, one mile for every \$10 in account equity over \$25,000, up to 2,000 miles for full account transfers depending on the amount transferred, 500 miles for an account's first electronic trade through the Bull & Bear *OnLine Investment Center*<sup>SM</sup>, and 500 miles when a referred customer completes an initial trade.

Customers participating in the AAdvantage Miles Incentive Program also receive many other products and services to help them make sound, well informed investment decisions. These include the Bull & Bear *OnLine Investment Center* Internet site, [www.bullbear.com](http://www.bullbear.com), our newly introduced electronic upgrade for trading, account retrieval, and quotes, as well as free investment ideas and information. Through the Bull & Bear Internet Web site, investors may also open a new account, learn about earning AAdvantage Miles, receive instructions on trading via PC or touch tone telephone, access the Investor's Information Guide, see listings of available mutual funds, and more. Customers enjoy an additional 10% off Bull & Bear Securities' already low commissions when they place orders through the Bull & Bear *OnLine Investment Center*. Our Internet strategy is to produce a convenient hub for investors where they can manage their money as well as link to many other informational sites throughout the Internet.

#### REMINDER

Every Bull & Bear Securities customer who has at least 500 shares of Bull & Bear Group, Inc. (Nasdaq symbol: BNBGA) in a Bull & Bear Securities account will automatically receive an additional 5% commission discount off our already low commissions on every listed and Nasdaq stock transaction in that account. For those who have less than 500 shares but would like to increase their position to that level, Bull & Bear Securities will be happy to handle the transaction commission free. Please call 1-800-262-5800 for details.

#### LOOKING AHEAD

1996 revenues increased 40% to \$7,417,012. Expenses, however, increased 51% to \$7,710,289, resulting in a loss for the year after taxes of \$320,525 or \$0.22 per share. This compares with net income of \$156,376 or \$0.10 per share for 1995. The loss in 1996 was primarily related to the growth in the Company's businesses, as discussed above, including an increase of \$1,042,271 in marketing expenses in support of the launch of Midas Fund and promotion of the AAdvantage Miles Incentive Program. Based on the growth and momentum this provides, as well as the quality and dedication of the officers and staff at Bull & Bear, we are very optimistic about the Company's prospects in 1997 and beyond.

Sincerely,



Mark C. Winmill  
Co-President



Thomas B. Winmill  
Co-President

**Bull & Bear Group, Inc.**

**CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	December 31,	
	<u>1996</u>	<u>1995</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 747,444	\$1,467,674
Marketable securities (Note 3)	1,176,547	1,257,062
Management, distribution and shareholder administration fees receivable	207,944	179,209
Interest, dividends and other receivables	204,684	248,241
Prepaid expenses and other current assets	289,712	433,570
<b>Total Current Assets</b>	<u>2,626,331</u>	<u>3,585,756</u>
Real estate held for investment, net	438,187	308,799
Equipment, furniture and fixtures, net	237,851	207,194
Excess of cost over net book value of subsidiaries, net (Note 2)	765,665	735,368
Other	205,076	126,675
	<u>1,646,779</u>	<u>1,378,036</u>
<b>Total Assets</b>	<u>\$4,273,110</u>	<u>\$4,963,792</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 134,544	\$ 610,242
Accrued professional fees	81,285	111,486
Accrued payroll and other related costs	53,012	43,208
Accrued other expenses	40,388	15,381
Current portion of capitalized lease obligation (Note 4)	12,282	—
Other current liabilities	11,620	13,380
<b>Total Current Liabilities</b>	<u>333,131</u>	<u>793,697</u>
Capitalized lease obligation (Note 4)	22,093	—
Contingencies (Note 11)	—	—
<b>Shareholders' Equity (Notes 3, 5, 6, and 7)</b>		
Common Stock, \$.01 parvalue		
Class A, 10,000,000 shares authorized; 1,350,017 and 1,348,017 shares issued and outstanding	13,501	13,481
Class B, 20,000 shares authorized; 20,000 shares issued and outstanding	200	200
Additional paid-in capital	6,236,077	6,232,347
Retained earnings (deficit)	(2,462,478)	(2,141,953)
Unrealized gains on marketable securities	130,586	66,020
<b>Total Shareholders' Equity</b>	<u>3,917,886</u>	<u>4,170,095</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$4,273,110</u>	<u>\$4,963,792</u>

See accompanying notes to consolidated financial statements.

**Bull & Bear Group, Inc.**

**CONSOLIDATED STATEMENTS OF  
INCOME**

	Years Ended December 31,		
	<u>1996</u>	<u>1995</u>	<u>1994</u>
<b>Revenues</b>			
Management, distribution and shareholder administration fees	<b>\$4,922,945</b>	\$ 3,322,348	\$3,786,066
Brokerage commissions and fees	<b>2,351,983</b>	1,821,513	1,768,527
Dividends, interest and other	<b>142,084</b>	147,169	(7,378)
	<u><b>7,417,012</b></u>	<u>5,291,030</u>	<u>5,547,215</u>
<b>Expenses:</b>			
General and administrative (Note 10)	<b>4,040,219</b>	3,195,115	3,225,891
Marketing	<b>1,821,297</b>	779,026	1,361,155
Clearing and brokerage charges	<b>708,535</b>	576,096	532,832
Subadvisory fees	<b>705,248</b>	22,496	37,728
Professional fees	<b>296,874</b>	431,934	170,284
Amortization and depreciation	<b>138,116</b>	97,399	98,094
	<u><b>7,710,289</b></u>	<u>5,102,066</u>	<u>5,425,984</u>
<b>Income (loss) before income taxes</b>	<b>(293,277)</b>	188,964	121,231
<b>Income taxes (Note 9)</b>	<b>27,248</b>	32,588	37,771
<b>Net Income (loss)</b>	<b>\$ (320,525)</b>	\$ 156,376	\$ 83,460
<b>Per Share Data:</b>			
Primary and fully diluted Net income	<u><b>\$ (.22)</b></u>	<u>\$ .10</u>	<u>\$ .05</u>
<b>Average Shares Outstanding:</b>			
Primary	<u><b>1,463,279</b></u>	<u>1,549,815</u>	<u>1,610,443</u>
Fully diluted	<u><b>1,469,354</b></u>	<u>1,551,564</u>	<u>1,610,658</u>

See accompanying notes to consolidated financial statements.

**Bull & Bear Group, Inc.**

**CONSOLIDATED STATEMENTS OF  
CHANGES IN SHAREHOLDERS' EQUITY**

	Years Ended December 31, 1996, 1995 and 1994								
	Number of Shares					Amount			
	Class A Common	Class B Common	Class A Common	Class B Common	Additional Paid-In Capital	Notes Receivable For Common Stock Issued	Retained Earnings (Deficit)	Unrealized Gains On Marketable Securities	Total Shareholders' Equity
<b>Balance, December 31, 1993</b>	1,498,152	20,000	\$14,982	\$200	\$6,491,596	\$(325,000)	\$(2,381,789)	\$ —	\$3,799,989
<b>Issuance of Class A common stock</b>									
<b>on exercise of stock options</b>	5,000	—	50	—	6,200	—	—	—	6,250
<b>Collection of note receivable</b>	—	—	—	—	—	20,000	—	—	20,000
<b>Net income</b>	—	—	—	—	—	—	83,460	—	83,460
<b>Balance, December 31, 1994</b>	1,503,152	20,000	15,032	200	6,497,796	(305,000)	(2,298,329)	—	3,909,699
<b>Voiding of 1993 exercise of stock options and cancellation of notes receivable (Note 7)</b>	(280,000)	—	(2,800)	—	(297,200)	300,000	—	—	—
<b>Issuance of Class A common stock</b>									
<b>on exercise of stock options</b>	274,020	—	2,740	—	291,280	—	—	—	294,020
<b>Received in exchange forexercise of stock options</b>	(149,155)	—	(1,491)	—	(259,529)	—	—	—	(261,020)
<b>Collection of note receivable</b>	—	—	—	—	—	5,000	—	—	5,000
<b>Net income</b>	—	—	—	—	—	—	156,376	—	156,376
<b>Unrealized gains on marketable securities</b>	—	—	—	—	—	—	—	66,020	66,020
<b>Balance, December 31, 1995</b>	1,348,017	20,000	13,481	200	6,232,347	—	(2,141,953)	66,020	4,170,095
<b>Issuance of Class A common stock</b>									
<b>on exercise of stock options</b>	2,000	—	20	—	3,730	—	—	—	3,750
<b>Net loss</b>	—	—	—	—	—	—	(320,525)	—	(320,525)
<b>Unrealized gains on marketable securities</b>	—	—	—	—	—	—	—	64,566	64,566
<b>Balance, December 31, 1996</b>	<u>1,350,017</u>	<u>20,000</u>	<u>\$13,501</u>	<u>\$200</u>	<u>\$6,236,077</u>	<u>\$ —</u>	<u>\$(2,462,478)</u>	<u>\$130,586</u>	<u>\$3,917,886</u>

See accompanying notes to consolidated financial statements.

**Bull & Bear Group, Inc.**

**CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

	Years Ended December 31,		
	<u>1996</u>	<u>1995</u>	<u>1994</u>
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ (320,525)	\$ 156,376	\$ 83,460
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	138,116	97,399	98,094
Increase in cash value of life insurance	(30,000)	(30,000)	(16,675)
Realized/unrealized (gain) loss on investments	(32,725)	(26,048)	97,774
(Increase) decrease in:			
Management, distribution and shareholder administration fees receivable	(28,735)	(18,642)	62,628
Interest, dividends and other receivables	43,557	(32,387)	(12,556)
Prepaid expenses and other current assets	143,858	(199,301)	(6,571)
Other assets	(48,401)	12,802	4,668
Increase (decrease) in:			
Accounts payable	(475,698)	412,719	(151,530)
Accrued expenses	4,610	51,156	(64,095)
Other current liabilities	(1,760)	(720)	(802)
<b>Total adjustments</b>	<b>(287,178)</b>	<b>266,978</b>	<b>10,935</b>
<b>Net cash provided by (used in) Operating Activities</b>	<b>(607,703)</b>	<b>423,354</b>	<b>94,395</b>
<b>Cash Flows from Investing Activities:</b>			
Improvement to real estate held for investment	(204,642)	(2,105)	(235,087)
Capital expenditures	(100,799)	(58,744)	(37,076)
Proceeds from sale of Properties	43,763	—	—
Proceeds from sales of investments	963,318	414,790	2,671,623
Purchases of investments	(785,512)	(1,396,250)	(1,281,644)
Acquisition of intangible assets	(66,780)	(267,411)	—
<b>Net cash provided by (used in) Investing Activities</b>	<b>(150,652)</b>	<b>(1,309,720)</b>	<b>1,117,816</b>
<b>Cash Flows from Financing Activities:</b>			
Collection of note receivable	—	5,000	20,000
Issuance of notes receivable	—	—	(80,000)
Increase in capitalized lease obligation	46,416	—	—
Repayments of capitalized lease obligation	(12,041)	—	—
Proceeds from issuance of Class A Common Stock	3,750	33,000	6,250
Redemption of Minority Interest	—	—	(364,480)
<b>Net cash provided by (used in) Financing Activities</b>	<b>38,125</b>	<b>38,000</b>	<b>(418,230)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(720,230)</b>	<b>(848,366)</b>	<b>793,981</b>
<b>Cash and cash equivalents:</b>			
Beginning of year	1,467,674	2,316,040	1,522,059
End of year	\$ 747,444	\$ 1,467,674	\$ 2,316,040

Supplemental disclosure: The Company did not pay any Federal income taxes in 1996, 1995, or 1994.  
The Company paid \$1,309 in interest in 1996 and no interest in 1995, or 1994.  
Common stock received and retired in exchange for exercise of stock options was \$261,020 in 1995.  
See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 1996, 1995 and 1994

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business.** Bull & Bear Group, Inc. ("Company") is a holding company. Its subsidiaries' business consists of providing investment management, distribution and shareholder administration services for the Bull & Bear Funds, Midas Fund and Rockwood Fund ("Funds") and discount brokerage services.

**Basis of Presentation.** The consolidated financial statements include the accounts of Bull & Bear Group, Inc. and all of its subsidiaries. Substantially all intercompany accounts and transactions have been eliminated.

**Accounting Estimates.** In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Fair Value of Financial Instruments.** The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses and other liabilities approximate fair value because of the short maturity of these items. Marketable securities are recorded at market value which represents the fair value of the securities.

**Cash and Cash Equivalents.** Investments in money market funds are considered to be cash equivalents. At December 31, 1996 and 1995, the Company and subsidiaries had invested approximately \$657,500 and \$1,196,300, respectively, in an affiliated money market fund.

**Marketable Securities.** The Company and its non-broker/dealer subsidiaries' marketable securities are considered to be "available-for-sale" and recorded at market value, with the unrealized gain or loss included in stockholders' equity. Marketable securities for the broker/dealer subsidiaries are valued at market with unrealized gains and losses included in earnings.

**Financial Instruments with Off-Balance-Sheet Risk.** In the normal course of business, the Company's customer activities involve the execution and settlement of customer transactions. These activities may expose the Company to risk of loss in the event the customer is unable to fulfill its contracted obligations, in which case the Company may have to purchase or sell financial instruments at prevailing market prices. Any loss from such transactions is not expected to have a material effect on the Company's financial statements.

**Brokerage Income and Expenses.** Brokerage commission and fee income and clearing and brokerage expenses are recorded on a settlement date basis. The difference between recording such income and expenses on a settlement date basis as opposed to trade date, as required by generally accepted accounting principles, is not material to the consolidated financial statements.

**Income Taxes.** The Company and its wholly-owned subsidiaries file consolidated income tax returns. The Company's method of accounting for income taxes conforms to Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes." This method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities.

**Real Estate Held For Investment and Equipment.** Real estate held for investment is recorded at cost and is depreciated on the straight-line basis over its estimated useful life. At December 31, 1996 and 1995, accumulated depreciation amounted to approximately \$27,400 and \$123,100, respectively. Equipment, furniture and fixtures are recorded at cost and are depreciated on the straight-line basis over their estimated useful lives, 3 to 10 years. At December 31, 1996 and 1995, accumulated depreciation amounted to approximately \$749,300 and \$680,000, respectively.

**Excess of Cost Over Net Book Value of Subsidiaries.** The excess of cost over net book value of subsidiaries is capitalized and amortized over fifteen and forty years using the straight-line method. At December 31, 1996 and 1995, accumulated amortization amounted to approximately \$585,100 and \$548,700, respectively. Periodically, the Company reviews its intangible assets for events or changes in circumstances that may indicate that the carrying amounts of the assets are not recoverable.

**Earnings Per Share.** Primary and fully diluted earnings per share for the years ended December 31, 1996, 1995 and 1994 are determined by dividing net income by the weighted average number of common shares outstanding after giving effect for common stock equivalents arising from stock options assumed converted to common stock.

**Reclassifications.** Certain reclassifications of the 1995 and 1994 financial statements have been made to conform to the 1996

presentation.

**2 ACQUISITION**

During the year ended December 31, 1996, the Company acquired the management of Rockwood Fund for approximately \$31,300. This amount capitalized as part of excess of cost over net book value and is being amortized over 15 years using the straight-line method.

During the year ended December 31, 1995, the Company purchased the assets relating to the management of Midas Fund, Inc. for \$182,500, plus related costs of approximately \$84,900. In addition, the Company expended approximately \$35,500 in connection with this purchase in 1996. This purchase was capitalized as part of excess of cost over net book value and is being amortized over 15 years using the straight-line method.

**3 MARKETABLE SECURITIES**

At December 31, 1996, marketable securities consisted of:

Broker/dealer securities—at market	
U.S. Treasury Notes, due 5/15/97—6/30/99 (cost—\$956,925)	<b>\$ 961,000</b>
Other companies	
Available-for-sale securities—at market	
Unaffiliated mutual funds	37,251
Affiliated mutual funds	7,662
Equity securities	170,634
Total available-for-sale securities (cost—\$84,961)	<u>215,547</u>
	<b>\$1,176,547</b>

At December 31, 1995, marketable securities consisted of:

Broker/dealer securities—at market	
U.S. Treasury Note, due 7/31/97	\$ 200,876
Affiliated mutual funds	62,494
Total broker/dealer securities (cost—\$264,104)	<u>263,370</u>
Other companies	
Available-for-sale securities—at market	
Unaffiliated mutual funds	29,024
Affiliated mutual funds	6,220
Equity securities	181,413
U.S. Treasury Notes, due 5/15/97—6/30/99	777,035
Total available-for-sale securities (cost—\$927,672)	<u>993,692</u>
	<b>\$1,257,062</b>

At December 31, 1996 and 1995, the Company had \$130,586 and \$66,020, respectively, of unrealized gains on “available-for-sale securities” which is reported as a separate component of consolidated shareholders’ equity.

**4 LEASE COMMITMENTS**

The Company has a lease for approximately 11,400 square feet of office space. The rent is approximately \$144,000 per annum plus \$32,550 per annum for electricity. The lease expires December 31, 1998 and is cancelable at the option of the Company on three months’ notice. In addition, the Company’s discount broker/dealer has a branch office in Boca Raton, Florida consisting of approximately 1,000 square feet. The rent is approximately \$22,200 per annum and is cancelable at the option of the Company on six months’ notice.

The Company leases office equipment under capital leases expiring in 1999. The related property is included in furniture and equipment at a cost of \$45,457 at December 31, 1996. Depreciation expense of \$13,889 has been recognized on this property as of December 31, 1996. Future annual minimum lease payments under the capital leases together with the present value of the net minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
1997	\$13,201
1998	15,173
1999	7,586
Total minimum lease payments	<u>35,960</u>
Less amount representing interest and executory costs	<u>1,585</u>

Present value of minimum lease payments

\$34,375

## 5 SHAREHOLDERS' EQUITY

The Class A and Class B Common Stock are identical in all respects except for voting rights, which are vested solely in the Class B Common Stock. The Company also has 1,000,000 shares of Preferred Stock, \$.01 par value, authorized. As of December 31, 1996 and 1995, none of the Preferred Stock was issued.

## 6 NET CAPITAL REQUIREMENTS

The Company's broker/dealer subsidiaries are member firms of the National Association of Securities Dealers, Inc. and are registered with the Securities and Exchange Commission as broker/dealers. Under the Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), a broker/dealer must maintain minimum net capital, as defined, of not less than (a) \$250,000 or, when engaged solely in the sale of redeemable shares of registered investment companies, \$25,000, or (b) 6-2/3% of aggregate indebtedness, whichever is greater; and a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1. At December 31, 1996, these subsidiaries had net capital of approximately \$566,900 and \$605,800; net capital requirements of \$250,000 and \$25,000; excess net capital of approximately \$316,900 and \$580,800; and the ratios of aggregate indebtedness to net capital were approximately .30 to 1 and .48 to 1, respectively.

## 7 STOCK OPTIONS

On December 6, 1995, the Company adopted a Long-Term Incentive Plan which provides for the granting of a maximum of 300,000 options to purchase Class A Common Stock to directors, officers and key employees of the Company or its subsidiaries. The plan was amended on February 5, 1996. With respect to non-employee directors, only automatic grants of stock options of 10,000 are available on the date the non-employee director is elected, except for the current two non-employee directors who were granted 10,000 options each on December 6, 1995. The option price per share may not be less than the fair value of such shares on the date the option is granted, and the maximum term of an option may not exceed ten years except as to non-employee directors for which the maximum term is five years. If the recipient of any option owns 10% or more of the Class B shares, the option price must be at least 110% of the fair market value and the option must be exercised within five years of the date the option is granted. The plan also provides for reload options in which non-qualified options may be granted to officers and key employees when payment of the option price of the original outstanding options is with previously owned shares of the Company. These reload options have to be equal to the number of shares surrendered in payment of the option price of the original options, have an option price equal to the fair market value of such shares on the date the reload option is granted, and have the same expiration date as the original option.

The 1990 Incentive Stock Option Plan provided for the granting of a maximum of 500,000 options to purchase Class A Common Stock to directors, officers and key employees of the Company. The option price per share may not be less than the greater of 100% of the fair market value or the par value of such shares on the date the option is granted, and the maximum term of an option may not exceed ten years. If the recipient of any option owns 10% or more of the total combined voting power of all classes of stock, the option price must be at least 110% of the fair market value and the option must be exercised within five years of the date the option is granted.

The Company applied APB Opinion 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for its stock option plans. Proforma compensation cost for the Company's plans is required by Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation (SFAS 123)" and has been determined based on the fair value at the grant dates for awards under these plans consistent with the method of SFAS 123. For purposes of proforma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's proforma information follows:

		Years Ended December 31,	
		1996	1995
Net income (loss):	As reported	<b>\$(320,525)</b>	\$156,376
	Proforma	<b>\$(463,738)</b>	\$149,218
Earnings per share			
	Primary and fully diluted:		
	As reported	<b>\$(.22)</b>	\$.10
	Proforma	<b>\$(.32)</b>	\$.10

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the

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**Bull & Bear Group, Inc.**

following weighted average assumptions used for grants in 1996 and 1995, respectively: expected volatility of 93.82% and 95.90%, risk-free interest rate of 5.30% and 5.90% and expected life of five years for all grants.

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A summary of the status of the Company's stock option plans as of December 31, 1996 and 1995, and changes during the years ending on those dates is presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1994	146,000	\$1.12
Voided exercise of previously issued stock options (see below)	280,000	\$1.07
Granted	29,000	\$1.91
Exercised	(268,020)	\$1.07
Canceled	(137,980)	\$1.05
Outstanding at December 31, 1995	49,000	\$1.76
Granted	229,000	\$1.95
Exercised	(2,000)	\$1.88
Canceled	(27,000)	\$1.91
Outstanding at December 31, 1996	249,000	\$1.92

There were no options exercisable at December 31, 1996 and 1995. The weighted-average fair value of options granted were \$1.42 and \$1.45 for the years ended December 31, 1996 and 1995, respectively.

The following table summarizes information about stock options outstanding at December 31, 1996:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$1.50 - \$1.625	20,000	3.2 years	\$1.54
\$1.875 - \$2.75	229,000	4.1 years	\$1.95

In addition, there were 20,000 non-qualified stock options with an exercise price of \$1.75 outstanding as of December 31, 1996.

The Company's Board of Directors determined, at a meeting of the board held on November 6, 1995, that the 1993 exercise of the 280,000 incentive stock options by certain officers be voided and the 4.86% promissory notes given in consideration ("1993 Notes") and Class A shares issued therefor ("1993 Shares") be canceled. As a result, the stock options were restored to their previous outstanding status. Further, on November 6, 1995, 241,020 of these stock options were exercised. In December 1995, an additional 7,000 of these stock options were exercised. The Company received \$7,000 in cash and 149,155 shares of Class A shares in payment for the exercise of these options. The shares acquired by the Company were canceled and retired. The cancellation of the 1993 Notes resulted in a reduction of interest income of \$29,768 in 1995.

## 8 PENSION PLAN

The Company has a 401(k) retirement plan for substantially all of its qualified employees. Contributions to this are based upon a percentage of earnings of eligible employees and are accrued and funded on a current basis. Total pension expense for the years ended December 31, 1996, 1995 and 1994 was approximately \$39,900, \$31,100 and \$27,500, respectively.

## 9 INCOME TAXES

The provision for income taxes charged to operations was as follows:

	1996	1995	1994
Current			
State and local	\$27,248	\$32,588	\$37,771
Federal	—	—	—
	\$27,248	\$32,588	\$37,771

**Bull & Bear Group, Inc.**

Deferred tax assets (liabilities) are comprised of the following at December 31, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
Unrealized appreciation on investments	\$ (45,800)	\$ (29,400)
Net operating loss carryforwards	509,500	436,600
Net deferred tax assets	463,700	407,200
Deferred tax asset valuation allowance	(463,700)	(407,200)
Net deferred tax assets	\$ —	\$ —

The full amount of the deferred tax asset was offset by a valuation allowance due to uncertainties associated with the ultimate realization of the net operating loss carryforwards. The change in the valuation allowance for the year ended December 31, 1996 was the result of the net operating loss for the year and the increase in the unrealized appreciation on investments.

For the year ended December 31, 1996, the provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. statutory federal tax rates to pre-tax income as a result of utilization of net operating loss carryforwards.

At December 31, 1996, the Company had net operating loss carryforwards for Federal income tax purposes of approximately \$1,498,600, of which \$1,033,100, \$187,800, \$62,700 and \$215,000 expire in 2004, 2005, 2006 and 2011, respectively.

**10 RELATED PARTIES**

Management and distribution fees are earned in consideration for services provided to the Funds pursuant to agreements that set forth the fees to be charged for these services. These agreements are subject to annual review and approval by each Fund's Board of Directors and a majority of the Fund's non-interested directors. Shareholder administration fees represent reimbursement of costs incurred by subsidiaries of the Company on behalf of the open-end Funds. Such reimbursement amounted to approximately \$249,700, \$363,200 and \$466,800 for the years ended December 31, 1996, 1995, and 1994, respectively.

In connection with investment management services, the Company's investment managers waived management fees from the Funds in the amount of approximately \$535,900, \$270,200, and \$256,900 for the years ended December 31, 1996, 1995, and 1994, respectively, and are included in general and administrative expenses in the Statement of Income.

Certain officers of the Company also serve as officers and/or directors of the Funds.

Since August 1992, the Company has had a key man life insurance policy on the life of the Company's Chairman which provides for the payment of \$1,000,000 to the Company upon his death. As of December 31, 1996, the policy had a cash surrender value of approximately \$76,700 and is included in other assets in the balance sheet.

The Company's discount broker/dealer received brokerage commissions of approximately \$179,500, \$153,200, and \$108,100 from the Funds for the years ended December 31, 1996, 1995, and 1994, respectively.

**11 CONTINGENCIES**

The Company and its directors are defendants in a lawsuit brought on April 24, 1995 by Maxus Investment Group, Maxus Capital Partners, Maxus Asset Management, Inc., and Maxus Securities Corp. (collectively "Maxus"), which now claim to collectively own or control 144,000 shares, or approximately 10.7% of the Class A Common stock of the Company. The action, seeking declaratory and injunctive relief, was filed in the federal district court for the Southern District of New York and purports to be brought on the plaintiffs' own behalf and derivatively on behalf of the Company. On April 11, 1996, the district court dismissed as a matter of law all claims brought by the plaintiffs except those relating to the voiding of 1993 exercises, the exercise of certain 1990 stock options and plaintiffs' request for attorneys' fees from the Company. Defendants thereafter filed answers denying liability. The Company believes that the lawsuit is without merit and intends to continue defending the remaining claims vigorously.

From time to time, the Company and/or its subsidiaries are threatened or named as defendants in litigation arising in the normal course of business. As of December 31, 1996, neither the Company nor any of its subsidiaries was involved in any other litigation that, in the opinion of management, would have a material adverse impact on the consolidated financial statements.

In July 1994, the Company entered into a Death Benefit Agreement ("Agreement") with the Company's Chairman. Following his death, the Agreement provides for annual payments equal to 80% of his average annual salary for the three year period prior to his death subject to certain adjustments to his wife until her death. The Company's obligations under the Agreement are not secured and will terminate if he leaves the Company's employ under certain conditions.

**REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors and Shareholders of  
Bull & Bear Group, Inc.:

We have audited the accompanying consolidated balance sheets of Bull & Bear Group, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bull & Bear Group, Inc. and subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

TAIT, WELLER & BAKER

Philadelphia, Pennsylvania  
February 7, 1997

**PRICE RANGE OF  
COMMON STOCK**

The Company's Class A Common Stock is traded under the Nasdaq symbol BNBGA. The high and low closing bid prices of the Class A Common Stock for each quarterly period over the last two years were as follows.

	<u>1996</u>		<u>1995</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$6 <sup>3</sup> / <sub>4</sub>	\$1 <sup>5</sup> / <sub>8</sub>	\$1 <sup>3</sup> / <sub>4</sub>	\$1 <sup>1</sup> / <sub>4</sub>
Second Quarter	\$5 <sup>3</sup> / <sub>8</sub>	\$3 <sup>1</sup> / <sub>4</sub>	\$2 <sup>5</sup> / <sub>8</sub>	\$1 <sup>1</sup> / <sub>4</sub>
Third Quarter	\$4	\$2 <sup>1</sup> / <sub>2</sub>	\$1 <sup>15</sup> / <sub>16</sub>	\$1 <sup>37</sup> / <sub>64</sub>
Fourth Quarter	\$3 <sup>1</sup> / <sub>4</sub>	\$2 <sup>7</sup> / <sub>8</sub>	\$2 <sup>1</sup> / <sub>8</sub>	\$1 <sup>3</sup> / <sub>4</sub>

**Bull & Bear Group, Inc.**

**MANAGEMENT AND  
CORPORATE INFORMATION**

**DIRECTORS**

BASSETT S. WINMILL  
Chairman

ROBERT D. ANDERSON  
Vice Chairman

MARK C. WINMILL  
Co-President

THOMAS B. WINMILL, ESQ.  
Co-President

CHARLES A. CARROLL  
Private Investor

EDWARD G. WEBB, JR.  
Investment Director, Affiliates  
Trygg-Hansa AB

**OFFICERS AND STAFF**

BASSETT S. WINMILL  
Chairman

ROBERT D. ANDERSON  
Vice Chairman

MARK C. WINMILL  
Co-President

THOMAS B. WINMILL, ESQ.  
Co-President

STEVEN A. LANDIS  
Senior Vice President

JAMES R. MITCHELL  
Senior Vice President

JOSEPH LEUNG, CPA  
Vice President, Treasurer

WILLIAM J. MAYNARD, ESQ.  
Vice President, Secretary

KATHLEEN B. FLIEGAUF  
Vice President, Assistant Treasurer

HEIDI KEATING  
Vice President

EDWARD M. KISS  
Vice President

ANTHONYA. KOLENS  
Vice President

THOMAS E. KRAEMER  
Vice President

MICHAEL J. McMANUS  
Vice President

KEITH A. MORESE  
Vice President

DOMINICK P. BONANNO  
Assistant Vice President

TIMOTHYE. COFFEY  
Assistant Vice President

HEATHER J. DAHILL  
Assistant Vice President

KERRI A. HLAVACEK  
Assistant Vice President

SUZANNE G. KLOTZ  
Assistant Vice President

LEONALEUNG  
Assistant Vice President

MICHAELA. RAINER  
Assistant Vice President

THOMAS W. RILEY  
Assistant Vice President

JOHN W. ROGERS, JR.  
Assistant Vice President

MARIETTA R. SHELDON  
Assistant Vice President

JAMES P. VIGOTTY  
Assistant Vice President

ANDREAM. BEYER  
Assistant Marketing Director

TERESAL. ROGERS  
Assistant Marketing Director

FRANCESCAM. DeCARO  
Administrative Assistant

YAJAIRACEDENO  
Administrative Assistant

ISABELLE McMANUS  
Administrative Assistant

ANDAI. SAMUELS  
Administrative Assistant

PATRICIA TOMITZ  
Administrative Assistant

THOMAS I. HARTE  
Assistant Representative

**INVESTMENT POLICY COMMITTEE**

STEVEN A. LANDIS

MARK C. WINMILL

THOMAS B. WINMILL, ESQ.

**CORPORATE INFORMATION**

**EXECUTIVE OFFICES**

Bull & Bear Group, Inc.  
11 Hanover Square  
New York, NY 10005  
1-212-785-0900

**INVESTMENT MANAGEMENT**

Information  
1-888-503-FUND  
www.mutualfunds.net  
Investor Service Center  
11 Hanover Square  
New York, NY 10005

**DISCOUNT BROKERAGE**

Information  
1-800-BULL-BEAR  
www.bullbear.com  
Bull & Bear Securities, Inc.  
11 Hanover Square  
New York, NY 10005

395 East Palmetto Park Road  
Boca Raton, Florida 33432  
1-800-551-4220

**INDEPENDENT AUDITORS**

Tait, Weller & Baker  
Two Penn Center  
Philadelphia, Pennsylvania 19102

**LEGAL COUNSEL**

Stroock & Stroock & Lavan LLP  
180 Maiden Lane  
New York, NY 10038

**TRANSFER AGENT**

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, New Jersey 07016

**STOCK LISTING**

The Company's shares are traded on  
Nasdaq with the Symbol of BNBGA

**SUPPLEMENTAL INFORMATION**

Copies of Form 10-K, filed with the  
Securities and Exchange Commission,  
are available without charge by writing:

Treasurer  
Bull & Bear Group, Inc.  
11 Hanover Square  
New York, NY 10005