

**BULL & BEAR GROUP, INC.  
1998 ANNUAL REPORT**

**“... a 48% increase in the  
Company’s book value  
per share...”**



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## MUTUAL FUNDS



- **Bull & Bear Dollar Reserves** A high quality money market fund investing in U.S. Government securities. Income is generally free from state taxes. Free, unlimited check writing with only a \$250 minimum per check.
- **Bull & Bear Gold Investors** Seeks long term capital appreciation in investments with the potential to provide a hedge against inflation and preserve the purchasing power of the dollar.
- **Bull & Bear Special Equities Fund** Invests aggressively for maximum capital appreciation.
- **Bull & Bear U.S. and Overseas Fund** Invests worldwide for the highest possible total return.



- **Midas Fund** Seeking capital appreciation and protection against inflation, with current income as a secondary goal. Approximately one quarter of the Fund's portfolio will generally be invested in developing mining companies. Call toll free 1-800-400-MIDAS.



- **Rockwood Fund** The Fund seeks its objective of long term capital appreciation by investing primarily in equity securities that, in the opinion of the Investment Manager, are available at prices less than their intrinsic value. Call toll free 1-888-ROCKWOOD.

Call our toll-free number for a prospectus containing more complete information, including charges and expenses. Please read it carefully before you invest.

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## CLOSED-END FUNDS LISTED ON THE AMERICAN STOCK EXCHANGE



- **Bull & Bear Global Income Fund** Investing for a high level of income from a global portfolio of primarily investment grade fixed income securities.
- **Bull & Bear Municipal Income Fund** Investing for the highest possible income exempt from Federal income tax that is consistent with preservation of principal.
- **Bull & Bear U.S. Government Securities Fund** Investing for a high level of current income, liquidity, and safety of principal.

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## DISCOUNT BROKERAGE SERVICES



- **Bull & Bear Securities, Inc.** Earn AmericanAirlines® AAdvantage® miles every time you trade, plus many other opportunities for bonus miles, plus a free cash management service with no minimum check writing!

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Call Toll Free 1-800-VIP-4200

March 15, 1999

Fellow Shareholders:

Net income for 1998 was \$511,415 or \$.35 per share, making last year the second most profitable in the past 10 years, exceeded only by 1997's \$625,725 and \$.43 per share. The Company's financial condition is strong, with no debt and shareholders' equity of \$4,959,016 at December 31, 1998, up from \$4,455,111 at December 31, 1997.

#### **Discount Brokerage**

We are pleased to report that the Company entered into an agreement to sell its wholly-owned discount brokerage subsidiary, Bull & Bear Securities, Inc., which incurred an operating loss during 1998 of \$235,414, to the Royal Bank of Canada for \$6 million cash or 12 times book value of \$500,000. The closing is expected to take place on March 31, 1999, following regulatory approvals in the U.S. and Canada. Upon closing, the proceeds of the sale less legal fees, closing bonuses and estimated federal and state taxes, when added to year-end shareholders' equity will result in a 48% increase in the Company's book value per share, from \$2.99 to \$4.42.

We have been advised by Royal Bank of Canada that it plans to retain all present employees of Bull & Bear Securities, and that Mark C. Winmill, who has headed up that company since 1987, has agreed to continue with it as Chief Operating Officer. Upon the effectiveness of the sale, he will resign as Co-President and Director of Bull & Bear Group as well as his positions with its other affiliated companies. As part of the agreement, Bull & Bear Group has agreed to transfer its rights to the Bull & Bear name. As a result, Bull & Bear Group will be renamed Winmill & Co. Incorporated and the Company's NASDAQ Class A stock symbol will be changed to WNMLA. In addition, the Company will continue to provide certain services to Bull & Bear Securities for an annual fee of \$200,000 for a period of three years following the sale. The Company intends to concentrate on its core business of investment management.

#### **Investment Management**

In the second quarter of 1999, the Company's group of mutual funds under the Bull & Bear and Rockwood names will become part of our well known Midas brand and be marketed as the Midas Funds.

As part of the agreement with Royal Bank of Canada, the Company's money market fund, Dollar Reserves, will continue as Bull & Bear Securities' exclusive vehicle into which its customer cash balances will be swept on a daily basis for three years after the closing, subject to certain conditions, including performance levels. Since Royal Bank of Canada has announced that it has committed \$29 million for marketing and technical support for Bull & Bear Securities over the next three years, this potentially could result in an important stream of management fee income for the Company going forward.

We extend special thanks to all the people at the Company whose dedication, hard work, and support have contributed to another profitable and successful year.



Bassett S. Winmill  
Chairman

Sincerely,



Thomas B. Winmill  
President

**Bull & Bear Group, Inc.**

**CONSOLIDATED BALANCE SHEETS**

ASSETS	December 31,	
	<u>1998</u>	<u>1997</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$1,403,931	\$ 312,633
Marketable securities (Note 3)	353,385	1,846,028
Management, distribution and shareholder administration fees receivable	257,313	268,984
Interest, dividends and other receivables	205,786	187,954
Prepaid expenses and other current assets	<u>506,950</u>	<u>411,821</u>
<b>Total Current Assets</b>	<u><b>2,727,365</b></u>	<u><b>3,027,420</b></u>
Real estate held for investment, net	1,198,173	632,682
Equipment, furniture and fixtures, net	209,339	196,416
Excess of cost over net book value of subsidiaries, net	688,687	727,373
Deferred income taxes (Note 9)	215,400	—
Other assets	<u>276,183</u>	<u>243,183</u>
	<u><b>2,587,782</b></u>	<u><b>1,799,654</b></u>
<b>Total Assets</b>	<u><b>\$5,315,147</b></u>	<u><b>\$4,827,074</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 104,934	\$ 160,849
Accrued professional fees	143,025	93,335
Accrued payroll and other related costs	64,667	41,042
Accrued other expenses	28,920	45,225
Current portion of capitalized lease obligation (Note 4)	4,749	13,644
Other current liabilities	<u>9,836</u>	<u>10,408</u>
<b>Total Current Liabilities</b>	<u><b>356,131</b></u>	<u><b>364,503</b></u>
Capitalized lease obligation (Note 4)	<u>—</u>	<u>7,460</u>
Contingencies (Note 11)	—	—
<b>Shareholders' Equity (Notes 3, 5, 6, and 7)</b>		
Common Stock, \$.01 par value		
Class A, 10,000,000 shares authorized; 1,635,017 shares issued and outstanding	16,351	13,501
Class B, 20,000 shares authorized; 20,000 shares issued and outstanding	200	200
Additional paid-in capital	6,872,454	6,236,077
Retained earnings (deficit)	(1,325,338)	(1,836,753)
Notes receivable for common stock issued	(603,675)	—
Accumulated other comprehensive income	<u>(976)</u>	<u>42,086</u>
<b>Total Shareholders' Equity</b>	<u><b>4,959,016</b></u>	<u><b>4,455,111</b></u>
<b>Total Liabilities and Shareholders' Equity</b>	<u><b>\$5,315,147</b></u>	<u><b>\$4,827,074</b></u>

See accompanying notes to consolidated financial statements.

**Bull & Bear Group, Inc.**

**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>Revenues:</b>			
<b>Management, distribution and shareholder administration fees</b>	<b>\$3,373,046</b>	\$4,313,947	\$4,922,945
<b>Net realized gains from investments</b>	<b>62,783</b>	83,608	22,092
<b>Dividends, interest and other</b>	<b>102,844</b>	99,149	82,770
	<u><b>3,538,673</b></u>	<u>4,496,704</u>	<u>5,027,807</u>
<b>Expenses:</b>			
<b>General and administrative</b>	<b>1,912,927</b>	1,943,337	2,225,624
<b>Marketing</b>	<b>349,549</b>	708,495	1,191,639
<b>Expense reimbursements to the Funds (Note 10)</b>	<b>180,396</b>	615,743	535,902
<b>Subadvisory fees</b>	<b>230,954</b>	387,593	705,248
<b>Professional fees</b>	<b>177,376</b>	186,320	272,593
<b>Amortization and depreciation</b>	<b>118,186</b>	106,871	116,151
	<u><b>2,969,388</b></u>	<u>3,948,359</u>	<u>5,047,157</u>
<b>Income (loss) from continuing operations before income taxes</b>	<b>569,285</b>	548,345	(19,350)
<b>Income taxes (Note 9)</b>	<b>(82,544)</b>	(5,196)	91,248
<b>Income (loss) from continuing operations</b>	<u><b>651,829</b></u>	<u>553,541</u>	<u>(110,598)</u>
<b>Discontinued Operations:</b>			
<b>Income (loss) from discontinued operations (net of income taxes) (Note 2)</b>	<u><b>(140,414)</b></u>	<u>72,184</u>	<u>(209,927)</u>
<b>Net Income (loss)</b>	<u><b>\$ 511,415</b></u>	<u>\$ 625,725</u>	<u>\$ (320,525)</u>
<b>Per Share Data:</b>			
<b>Basic</b>			
<b>Income (loss) from continuing operations</b>	<b>\$ .47</b>	\$ .41	\$ (.08)
<b>Income (loss) from discontinued operations</b>	<u><b>(.10)</b></u>	<u>.05</u>	<u>(.15)</u>
<b>Net income</b>	<u><b>\$ (.37)</b></u>	<u>\$ .46</u>	<u>\$ (.23)</u>
<b>Diluted</b>			
<b>Income (loss) from continuing operations</b>	<b>\$ .45</b>	\$ .38	\$ (.08)
<b>Income (loss) from discontinued operations</b>	<u><b>(.10)</b></u>	<u>.05</u>	<u>(.15)</u>
<b>Net income</b>	<u><b>\$ .35</b></u>	<u>\$ .43</u>	<u>\$ (.23)</u>
<b>Average Shares Outstanding:</b>			
<b>Basic</b>	<u><b>1,391,940</b></u>	<u>1,370,017</u>	<u>1,369,555</u>
<b>Diluted</b>	<u><b>1,453,472</b></u>	<u>1,468,252</u>	<u>1,369,555</u>

See accompanying notes to consolidated financial statements.

**Bull & Bear Group, Inc.**

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

	Years Ended December 31, 1998, 1997 and 1996								
	Number of Shares				Dollar 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)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance, December 31, 1995</b>	1,348,017	20,000	\$13,481	\$200	\$6,232,347	\$ —	\$(2,141,953)	\$66,020	<u>\$4,170,095</u>
<b>Net loss</b>	—	—	—	—	—	—	(320,525)	—	<u>(320,525)</u>
<b>Other comprehensive income</b>									
<b>Unrealized gains on marketable securities</b>	—	—	—	—	—	—	—	64,566	<u>64,566</u>
<b>Comprehensive income (loss)</b>									<u>(255,959)</u>
<b>Issuance of Class A common stock</b>									
<b>on exercise of stock options</b>	<u>2,000</u>	<u>—</u>	<u>20</u>	<u>—</u>	<u>3,730</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,750</u>
<b>Balance, December 31, 1996</b>	1,350,017	20,000	13,501	200	6,236,077	—	(2,462,478)	130,586	<u>3,917,886</u>
<b>Net income</b>	—	—	—	—	—	—	625,725	—	<u>625,725</u>
<b>Other comprehensive income</b>									
<b>Unrealized losses on marketable securities</b>	—	—	—	—	—	—	—	(88,500)	<u>(88,500)</u>
<b>Comprehensive income</b>									<u>537,225</u>
<b>Balance, December 31, 1997</b>	1,350,017	20,000	13,501	200	6,236,077	—	(1,836,753)	42,086	<u>4,455,111</u>
<b>Net income</b>	—	—	—	—	—	—	511,415	—	<u>511,415</u>
<b>Other comprehensive income</b>									
<b>Unrealized losses on marketable securities</b>	—	—	—	—	—	—	—	(43,062)	<u>(43,062)</u>
<b>Comprehensive income</b>									<u>468,353</u>
<b>Issuance of Class A common stock</b>									
<b>on exercise of stock options</b>	<u>285,000</u>	<u>—</u>	<u>2,850</u>	<u>—</u>	<u>636,377</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>639,227</u>
<b>Issuance of notes receivable (Note 7)</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(603,675)</u>	<u>—</u>	<u>—</u>	<u>(603,675)</u>
<b>Balance, December 31, 1998</b>	<u>1,635,017</u>	<u>20,000</u>	<u>\$16,351</u>	<u>\$200</u>	<u>\$6,872,454</u>	<u>\$(603,675)</u>	<u>\$(1,325,338)</u>	<u>\$(976)</u>	<u>\$4,959,016</u>

See accompanying notes to consolidated financial statements.

**Bull & Bear Group, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	<u>\$ 511,415</u>	<u>\$ 625,725</u>	<u>\$ (320,525)</u>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	169,008	131,992	138,116
Deferred income taxes	(215,400)	—	—
Increase in cash value of life insurance	(33,000)	(32,333)	(30,000)
Realized/unrealized (gain) loss on investments	(40,330)	(83,608)	(32,725)
(Increase) decrease in:			
Management, distribution and shareholder administration fees receivable	11,671	(61,040)	(28,735)
Interest, dividends and other receivables	(17,832)	16,730	43,557
Prepaid expenses and other current assets	(95,129)	(122,109)	143,858
Other assets	—	(5,774)	(48,401)
Increase (decrease) in:			
Accounts payable	(55,915)	26,305	(475,698)
Accrued expenses	57,010	4,917	4,610
Other current liabilities	(572)	(1,212)	(1,760)
Total adjustments	<u>(220,489)</u>	<u>(126,132)</u>	<u>(287,178)</u>
Net cash provided by (used in) Operating Activities	<u>290,926</u>	<u>499,593</u>	<u>(607,703)</u>
<b>Cash Flows from Investing Activities:</b>			
Improvement to real estate held for investment	\$(606,296)	\$(218,956)	\$(204,642)
Capital expenditures	(102,440)	(27,804)	(100,799)
Proceeds from sale of Bull & Bear Properties, Inc.	—	—	43,763
Proceeds from sales of investments	1,748,467	556,831	963,318
Purchases of investments	(258,556)	(1,231,204)	(785,512)
Acquisition of intangible assets	—	—	(66,780)
Net cash provided by (used in) Investing Activities	<u>781,175</u>	<u>(921,133)</u>	<u>(150,652)</u>
<b>Cash Flows from Financing Activities:</b>			
Issuance of note receivable	(603,675)	—	—
Increase in capitalized lease obligation	—	—	46,416
Repayments of capitalized lease obligation	(16,355)	(13,271)	(12,041)
Proceeds from issuance of Class A Common Stock	639,227	—	3,750
Net cash provided by (used in) Financing Activities	<u>19,197</u>	<u>(13,271)</u>	<u>38,125</u>
Net increase (decrease) in cash and cash equivalents	<u>1,091,298</u>	<u>(434,811)</u>	<u>(720,230)</u>
<b>Cash and cash equivalents:</b>			
Beginning of year	<u>312,633</u>	<u>747,444</u>	<u>1,467,674</u>
End of year	<u>\$1,403,931</u>	<u>\$312,633</u>	<u>\$747,444</u>

Supplemental disclosure: The Company paid \$9,346 in Federal income taxes in 1998.  
The Company did not pay Federal income taxes in 1997 and 1996.  
The Company paid \$864, \$916 and \$1,309 in interest in 1998, 1997 and 1996, respectively

See accompanying notes to consolidated financial statements.

## Bull & Bear Group, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998, 1997 and 1996

#### **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 the Company 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, 1998 and 1997, the Company and subsidiaries had invested approximately \$1,378,700 and \$260,300, respectively, in Bull & Bear Dollar Reserves, an affiliated money market fund investing exclusively in U.S. government securities.

**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 as "accumulated other comprehensive income." 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, 1998 and 1997, accumulated depreciation amounted to approximately \$92,400 and \$51,600, 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, 1998 and 1997, accumulated depreciation amounted to approximately \$908,400 and \$818,900, 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, 1998 and 1997, accumulated amortization amounted to approximately \$662,100 and \$623,400, 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.

**Comprehensive Income.** For 1998, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income." SFAS 130 establishes the disclosure requirements for reporting comprehensive income in an entity's financial statements. Total comprehensive income includes net income and unrealized gains and losses on marketable securities. Accumulated other comprehensive income, a component of stockholder's equity, was formerly reported as unrealized gains and losses on marketable securities. There was no impact on previously reported net income from the adoption of SFAS 130.

## Bull & Bear Group, Inc.

**Segment Information.** Statement of Financial Accounting Standards No. 131 ("SFAS 131") "Disclosures About Segments of an Enterprise and Related Information" was adopted by the Company in 1998. SFAS 131 requires companies to present segment information using the management approach. The management approach is based on operating decisions and assessing performance. The Company's operating segments are organized around services provided and are classified into two groups - investment management and discount brokerage. Due to the pending sale of Bull & Bear Securities, Inc. ("BBSI"), the discount brokerage business is classified as "income from discontinued operations" on the financial statements (see Note 2). The Company's remaining business is in one industry segment.

**Earnings Per Share.** The Company applies Statement of Financial Accounting Standards No. 128 "Earnings Per Share". Basic earnings per share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock.

The following table sets forth the computation of basic and diluted earnings per share:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Numerator for basic and diluted earnings per share:			
Net income (loss)	\$511,415	\$625,725	\$(320,525)
Denominator:			
Denominator for basic earnings per share - weighted-average shares	1,391,940	1,370,017	1,369,555
Effect of dilutive securities: Employee stock options	<u>61,532</u>	<u>98,235</u>	<u>      </u>
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	<u>1,453,472</u>	<u>1,468,252</u>	<u>1,369,555</u>

**Reclassifications.** Certain reclassifications of the 1997 and 1996 financial statements have been made to conform to the 1998 presentation.

## 2 DISCONTINUED OPERATIONS

On December 17, 1998, the Company signed an agreement to sell the outstanding stock of BBSI, the discount brokerage business, to a subsidiary of Royal Bank of Canada. The transaction, which is subject to the approval of regulatory authorities in Canada and the United States, is valued at approximately \$6 million. The sale is expected to close in the first quarter of 1999. In connection with the sale, the rights of the name "Bull & Bear" will be transferred to Royal Bank of Canada, and the Company and certain of its subsidiaries will subsequently change their names. Accordingly, results from the discount brokerage segment are shown as discontinued operations with prior years restated. Summarized financial information for the discontinued operations was as follows:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenues	\$2,379,506	\$2,490,713	\$2,389,205
Expenses	<u>2,614,920</u>	<u>2,378,629</u>	<u>2,663,132</u>
Income (loss) before taxes	(235,414)	112,084	(273,927)
Income tax expense (benefit)	<u>(95,000)</u>	<u>39,900</u>	<u>(64,000)</u>
Income (loss) from discontinued operations, net of income taxes	<u>\$ (140,414)</u>	<u>\$ 72,184</u>	<u>\$ (209,927)</u>

**Bull & Bear Group, Inc.**

	<u>1998</u>	<u>1997</u>
Current assets	\$1,025,704	\$1,008,371
Total assets	\$1,114,667	\$1,083,227
Current liabilities	\$420,641	\$248,787
Total liabilities	\$420,641	\$248,787
Net assets of discontinued operations	\$694,026	\$834,440

Of the total net assets of the discontinued business segment, as of December 31, 1998, the pending agreement of sale provides that the business shall have net assets of at least \$500,000 at closing.

### **3 MARKETABLE SECURITIES**

At December 31, 1998, marketable securities consisted of:

Broker/dealer securities—at market	
Affiliated mutual funds (cost—\$159,882)	\$ 128,945
Other companies	
Available-for-sale securities—at market	
Unaffiliated mutual funds	38,820
Affiliated mutual funds	2,268
Equity securities	<u>183,352</u>
Total available-for-sale securities (cost—\$225,416)	<u>224,440</u>
	<u>\$ 353,385</u>

At December 31, 1997, marketable securities consisted of:

Broker/dealer securities—at market	
U.S. Treasury Notes, due 6/30/99-9/30/00 (cost - \$1,260,380)	\$1,265,943
Other companies	
Available-for-sale securities—at market	
Unaffiliated mutual funds	36,324
Affiliated mutual funds	3,157
Equity securities	186,884
U.S. Treasury Notes, due 9/30/00	353,720
Total available-for-sale securities (cost—\$537,999)	<u>580,085</u>
	<u>\$1,846,028</u>

At December 31, 1998 and 1997, the Company had \$(976) and \$42,086, respectively, of unrealized gains (losses) on “available-for-sale securities” which is reported as a separate component of consolidated shareholders’ equity.

## **4 LEASE COMMITMENTS**

### **AS LESSEE**

The Company has a lease for approximately 11,400 square feet of office space. The rent is approximately \$207,000 per annum plus \$32,550 per annum for electricity. The lease expires December 31, 1999 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 2,000 square feet. The rent is approximately \$55,000 per annum and expires on August 30, 1999.

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, 1998. Depreciation expense of \$44,194 has been recognized on this property as of December 31, 1998. Future annual minimum lease payments under the capital leases together with the present value of the net minimum lease payments are as follows:

#### **Years Ending December 31,**

1999	\$ 4,787
Less amount representing interest and executory costs	<u>38</u>
Present value of minimum lease payments	<u>\$ 4,749</u>

### **AS LESSOR**

The Company owns an office building which is leased to various tenants. Future minimum lease payment receivables under noncancellable leasing arrangements as of December 31, 1998 are as follows:

#### **Year Ending December 31,**

1999	\$ 152,300
2000	172,400
2001	189,800
2002	176,000
2003	154,600
2004 - 2008	<u>797,000</u>
Net minimum future lease receipts	<u>\$1,642,100</u>

## **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, 1998 and 1997, 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, 1998, these subsidiaries had net capital of approximately \$410,600 and \$676,800; net capital requirements of \$250,000 and \$25,000; excess net capital of approximately \$160,600 and \$651,800; and the ratios of aggregate indebtedness to net capital were approximately 1.02 to 1 and 0.13 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 and October 29, 1997 increasing the maximum number of options

## Bull & Bear Group, Inc.

to 450,000. With respect to non-employee directors, only grants of non-qualified stock options and awards of restricted shares are available. Two of the non-employee directors were granted 10,000 options each on December 6, 1995 and 5,000 options each on October 29, 1997. The new non-employee director was granted 10,000 options on September 8, 1998. 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 who owns 10% or more of the Class B shares, in which case 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 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 pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period.

The Company's proforma information follows:

		<u>Years Ended December 31,</u>		
		<u>1998</u>	<u>1997</u>	<u>1996</u>
Net income (loss):	As reported	\$511,415	\$625,725	\$(320,525)
	Proforma	\$465,641	\$246,394	\$(463,738)
Earnings per share:				
	Basic			
	As reported	\$.37	\$.46	\$(.23)
	Proforma	\$.33	\$.18	\$(.34)
Diluted				
	As reported	\$.35	\$.43	\$(.23)
	Proforma	\$.32	\$.17	\$(.34)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively: expected volatility of 73.95%, 92.83% and 93.82%, risk-free interest rate of 5.11%, 5.85% and 5.29% and expected life of three years, three years and five years.

A summary of the status of the Company's stock option plans as of December 31, 1998, 1997 and 1996, and changes during the years ending on those dates is presented below:

<u>Stock Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 1995	69,000	\$1.76
Granted	229,000	\$2.04
Exercised	(2,000)	\$1.88
Canceled	<u>(27,000)</u>	\$1.91
Outstanding at December 31, 1996	269,000	\$1.98
Granted	177,000	\$2.52
Canceled	<u>(34,000)</u>	\$1.97
Outstanding at December 31, 1997	412,000	\$2.21
Granted	12,000	\$1.81
Exercised	(285,000)	\$2.25
Canceled	<u>(20,000)</u>	\$2.64
Outstanding at December 31, 1998	<u>119,000</u>	\$2.05

## Bull & Bear Group, Inc.

There were 97,000 and 176,000 options exercisable at December 31, 1998 and 1997 with a weighted-average exercise price of \$1.99 and \$2.29, respectively. There were no options exercisable at December 31, 1996. The weighted-average fair value of options granted was \$0.94, \$1.41 and \$1.42 for the years ended December 31, 1998, 1997 and 1996, respectively.

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$1.50 - \$1.8125	35,000	2.5 years	\$1.68
\$1.875 - \$2.475	64,000	2.7 years	\$2.00
\$ 2.75 - \$3.00	20,000	2.9 years	\$2.88

In connection with the exercise of the options, the Company received from certain officers notes with an interest rate of 4.47% per annum payable December 15, 2003. The balance of the notes at December 31, 1998 was \$603,675, which was classified as "notes receivable for common stock issued."

## 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, 1998, 1997 and 1996 was approximately \$44,700, \$44,800 and \$39,900, respectively.

## 9 INCOME TAXES

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

	1998	1997	1996
Current			
State and local	\$ 28,510	\$34,704	\$27,248
Federal	(206,054)	—	—
	<u>\$(177,544)</u>	<u>\$34,704</u>	<u>\$27,248</u>

Deferred tax assets (liabilities) are comprised of the following at December 31, 1998 and 1997:

	1998	1997
Unrealized appreciation on investments	\$ 12,400	\$ (16,200)
Accrued expenses	40,000	—
Depreciation	10,000	—
Net operating loss carryforwards	<u>153,000</u>	<u>277,100</u>
Net deferred tax assets	215,400	260,900
Deferred tax asset valuation allowance	<u>—</u>	<u>(260,900)</u>
Net deferred tax assets	<u>\$ 215,400</u>	<u>\$ —</u>

In 1997, 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. However, due to recent income of the Company and the pending sale of BBSI (See Note 2) it is expected that the net operating loss carryforwards will be fully realized in 1999. As a result, the valuation allowance was reversed in 1998.

For the year ended December 31, 1998, 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 and the reversal of the valuation allowance account.

At December 31, 1998, the Company had net operating loss carryforwards for Federal income tax purposes of approximately \$382,400, of which \$53,800, \$62,700, and \$265,900 expire in 2005, 2006, and 2011, respectively.

## **10 RELATED PARTIES**

All management and distribution fees are a result of services provided to the Funds. All such services are provided 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 \$314,100, \$286,100 and \$249,700 for the years ended December 31, 1998, 1997, and 1996, respectively. During the years ended December 31, 1998 and 1997, the Funds paid approximately \$182,000 and \$63,700, respectively, for co-transfer agent services to ISC, which paid such amounts to certain brokers for performing such services. These reimbursements for co-transfer agent services were recorded as a reduction to marketing expenses.

In connection with investment management services, the Company's investment managers waived management fees from the Funds in the amount of approximately \$180,400, \$615,700, and \$539,900 for the years ended December 31, 1998, 1997, and 1996, respectively.

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

Commencing August 1992, the Company has 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, 1998, the policy had a cash surrender value of approximately \$142,000 and is included in other assets in the balance sheet.

The Company's discount broker/dealer received brokerage commissions of approximately \$101,100, \$259,400, and \$179,500 from the Funds for the years ended December 31, 1998, 1997, and 1996, respectively.

## **11 CONTINGENCIES**

A group called Karpus Investment Management ("KIM") at the 1997 annual meeting of Bull & Bear U.S. Government Securities Fund, Inc. ("BBG") sought to elect its slate of nominees in opposition to management and at the 1998 annual meeting of BBG made a counter-solicitation on all management proposals and a solicitation to terminate the investment management agreement. On February 19, 1998, KIM filed a lawsuit against BBG in the Circuit Court for Baltimore City, Maryland, Case No. 9805005, which was dismissed with prejudice on October 1, 1998. On February 19, 1998, BBG filed a lawsuit against KIM in the United States District Court for the Southern District of New York, 98 Civ. 1190. On December 22, 1998, KIM filed a lawsuit against BBG in the United States District Court for the District of Maryland Court, 98-CV-4161 and BBG has made counterclaims. KIM has submitted a proposal to BBG for inclusion in proxy material at the next meeting of shareholders to terminate the investment management contract of BBAI with BBG. The outcome of these matters and their effect on the Company or BBAI's management agreement with BBG cannot be predicted with certainty. BBG's net assets at December 31, 1998 amounted to approximately \$10.9 million.

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, 1998, 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.

**Bull & Bear Group, Inc.**

**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, 1998 and 1997, 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, 1998. 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, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

TAIT, WELLER & BAKER

Philadelphia, Pennsylvania  
February 12, 1999

**PRICE RANGE OF  
COMMON STOCK**

On April 1, 1999, the Company will change its name to Winmill & Co. Incorporated and the Company's Class A Common Stock will trade on the Nasdaq SmallCap Market tier of the Nasdaq Stock Market under the symbol WNMLA. The high and low sales prices of the Class A Common Stock during each quarterly period over the last two years were as follows:

	1998		1997	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$3 <sup>1</sup> / <sub>8</sub>	\$2 <sup>1</sup> / <sub>8</sub>	\$4 <sup>3</sup> / <sub>8</sub>	\$2 <sup>3</sup> / <sub>4</sub>
Second Quarter	\$3 <sup>1</sup> / <sub>4</sub>	\$2 <sup>3</sup> / <sub>16</sub>	\$4 <sup>3</sup> / <sub>8</sub>	\$2 <sup>7</sup> / <sub>8</sub>
Third Quarter	\$3 <sup>1</sup> / <sub>2</sub>	\$1 <sup>13</sup> / <sub>16</sub>	\$3 <sup>1</sup> / <sub>8</sub>	\$2 <sup>5</sup> / <sub>8</sub>
Fourth Quarter	\$3 <sup>1</sup> / <sub>8</sub>	\$1 <sup>5</sup> / <sub>8</sub>	\$3 <sup>5</sup> / <sub>16</sub>	\$2 <sup>1</sup> / <sub>4</sub>

## **DIRECTORS**

**BASSETT S. WINMILL**  
Chairman

**ROBERT D. ANDERSON**  
Vice Chairman

**THOMAS B. WINMILL**  
President

**CHARLES A. CARROLL**  
Private Investor

**MARK C. JONES**  
Managing Director,  
Western Javelin, L.C.

**EDWARD G. WEBB, JR.**  
President  
Webb Associates Ltd.

## **OFFICERS AND STAFF**

**BASSETT S. WINMILL**  
Chairman

**ROBERT D. ANDERSON**  
Vice Chairman

**THOMAS B. WINMILL**  
President

**STEVEN A. LANDIS**  
Senior Vice President

**JOSEPH LEUNG, CPA**  
Vice President, Treasurer

**DEBORAH ANN SULLIVAN**  
Vice President, Secretary

**HEIDI KEATING**  
Vice President

**MINJA FLEER**  
Assistant Treasurer

**LEONA LEUNG**  
Assistant Vice President

**KATHERINE M. MORRIS**  
Assistant Vice President

**RAYMOND L. BURKE, JR.**  
Director of Institutional Sales

**EMINE POSMA**  
Assistant Marketing Director

**JACOB M. GRAMM**  
Compliance Assistant

**ANNE M. CHI**  
Administrative Assistant

**LAUREN MANNINO**  
Administrative Assistant

## **CORPORATE INFORMATION**

### **EXECUTIVE OFFICES**

Winmill & Co. Incorporated  
11 Hanover Square  
New York, NY 10005  
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Toll-Free: 1-800-472-4160

### **INVESTMENT MANAGEMENT Information**

1-888-503-FUND  
[www.mutualfunds.net](http://www.mutualfunds.net)  
Investor Service Center, Inc.  
11 Hanover Square  
New York, NY 10005

### **INDEPENDENT AUDITORS**

Tait, Weller & Baker  
Eight Penn Center Plaza  
Philadelphia, Pennsylvania 19103

### **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 WNMLA

### **INTERNET**

<http://www.winmillco.com>

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

Treasurer  
Winmill & Co. Incorporated  
11 Hanover Square  
New York, NY 10005