
**BULL & BEAR GROUP, INC.
1997 ANNUAL REPORT**

“1997 saw impressive gains in our discount brokerage business, with customer accounts, transactions, customers’ equity, fees and commissions, customer debit balances, and customer credit balances all achieving new all-time highs.”

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 potential to provide a hedge against inflation and preserve 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.



- **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 1-800-VIP-4200 or visit www.mutualfunds.net for a prospectus containing more complete information, including charges and expenses. Please read it carefully before you invest.

CLOSED-END FUNDS



- **Bull & Bear Global Income Fund**
Ticker Symbol BBZ. Investing for a high level of income from a global portfolio of primarily investment grade fixed income securities.
- **Bull & Bear Municipal Income Fund**
Ticker Symbol BBM. 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**
Ticker Symbol BBG. Investing for a high level of income, liquidity, and safety of principal.

DISCOUNT BROKERAGE SERVICES



- **Bull & Bear Securities, Inc.**
New flat rate Internet trading on our website, plus you'll earn American Airlines® AAdvantage® miles every time you trade, plus many other opportunities for bonus miles, plus a free account management service with no minimum check writing!
-

March 26, 1998

Fellow Shareholders:

We are very pleased to report net income for 1997 of \$625,725 or \$.43 per share, compared to a loss of \$320,525 last year or \$.23 per share. The Company's financial condition continues to be strong, with no debt and shareholders' equity of \$4,455,111 at December 31, 1997, up from \$3,917,886 a year earlier. Results for the past year also capped six consecutive quarters of uninterrupted profitable operations, which in turn reflects a significant contribution from our on-going program of cost control throughout the Company.

INVESTMENT MANAGEMENT

Midas Fund's solid following and popularity resulting from our focused marketing efforts is evident by Midas Fund's net sales of \$32.9 million for the year and \$13.2 million in first two months of 1998, in spite of the well publicized difficulties in the precious metals markets. At this writing, Midas Fund's net assets have increased approximately 16% year-to-date to \$115,822,000.

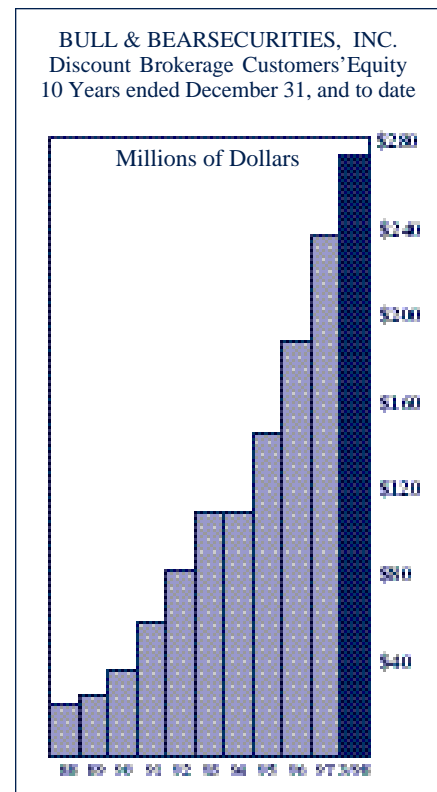
Shareholders of Bull & Bear Global Income Fund voted to convert the Fund to a closed-end investment company, effective February 7, 1997. Its shares are listed on the American Stock Exchange, together with Bull & Bear Municipal Income Fund and Bull & Bear U.S. Government Securities Fund, the latter two having converted to closed-end status in 1996. The Board of Directors of each of these Funds has adopted a managed distribution policy at an annual rate of 10% of net asset value for Global Income Fund, 8% for U.S. Government Securities Fund, and 6% for Municipal Income Fund. The policies, which are intended to provide shareholders with a stable cash flow and reduce or eliminate any market price discount to net asset value per share, have been well received. The American Stock Exchange symbols are BBZ, BBM and BBG, respectively.

Also, effective February 20, 1997, portfolio management of Bull & Bear Special Equities Fund and Bull & Bear U.S. and Overseas Fund was assumed by the Company's Investment Policy Committee. In each case, we are encouraged by the gains over the last three quarters of 1997, which have also carried forward into 1998. With the same performance objective, the Investment Policy Committee assumed responsibility for investment decisions for Bull & Bear Gold Investors on September 1, 1997, and for Rockwood Fund on February 2, 1998.

In 1997, our Investor Service Center rolled out a number of new services to provide faster and more convenient information to investors and shareholders alike. In the spring, our fax-on-demand service began providing prospectuses and applications for regular and IRA accounts for all Funds. Over the summer, we introduced our touch-tone telephone service to provide account balances and a wealth of other fund account information, as well as to perform transactions. By the fall, our website, www.mutualfunds.net, commenced operations providing both new investor information such as prospectuses and applications, and also almost all shareholder services. We look forward to introducing more technologically advantaged services in 1998 as well.

DISCOUNT BROKERAGE

1997 saw impressive gains in our discount brokerage business, with customer accounts, transactions, customers' equity, fees and commissions, customer debit balances, and customer credit balances all achieving new all-time highs. We anticipate these trends continuing in 1998 and beyond.



New Internet Trading Website Introduced

A very exciting and well-received new feature introduced in August 1997 was a low commission rate for listed and Nasdaq stocks of a flat \$19.95 for internet trades on Bull & Bear Securities' website, www.ebullbear.com, for the first 1,000 shares, and \$.02 per share thereafter. This low rate applies regardless of the price of the security, or type of trade, with no "add-on" charges that many other firms impose. **Of special interest, Charles Schwab's internet trading commission charges are 50% higher.**

In May of 1997, Bull & Bear Securities became an AAdvantage Participant with American Airlines, whereby Bull & Bear Securities' customers may earn AAdvantage miles for their investing activities: 1,000 miles for opening an account, 200 miles for every trade, up to 2,000 miles for each full account transfer, up to 5,000 miles per year for maintaining account equity at certain levels, 500 miles for the first electronic trade and 500 miles per customer referral.

In addition to efficiency, low commissions and AAdvantage miles, Bull & Bear Securities customers have available to them investment information to assist them in making informed decisions on over 6,000 companies, plus quotes, charts, market averages, and live market and business news through Reuters, one of the world's leading news and financial information companies. In addition, customers are provided with investment information from Standard & Poor's, also without charge, which includes *Market Month* and year-end *Stock Guide*, plus available on demand are Standard & Poor's *Stock Screens*, *Stock Reports*, *Industry Reports*, *The Outlook*, and *Emerging & Special Situations*.

For those who do not have access to a personal computer, automated quotes and trading services are also available from our new upgraded touch-tone telephone system, Bull & Bear *Market Touch* and, of course, by phone directly with one of our professional and courteous Investor Service Representatives.

Free Cash Management Service

Whether using our internet trading website, *Market Touch* or regular telephone calls, all customers have available to them a cash management service featuring unlimited check writing with ***no minimum per check***, plus a convenient and automatic sweep of all cash balances into Bull & Bear Dollar Reserves, a high quality, safety first U.S. Government money market fund.

Also introduced in 1997 was the waiving of all commissions on short sales, making it that much easier for our customers to profit from this type of investment strategy. And the Bull & Bear No-Fee IRA[®], which has no set-up fee, was made even more attractive on an on-going basis by eliminating the annual fiduciary fee for all IRAs, regardless of the value of the assets in an account.

Additional Automatic 5% Discount

Stockholders of Bull & Bear Group who are also customers of Bull & Bear Securities and have at least 500 shares of Bull & Bear Group (Symbol:BNBGA) in their 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 own less than 500 shares of BNBGA and 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-BULL-BEAR for details.

If you have any questions or would like information on any of the Funds, or on opening a discount brokerage account at Bull & Bear Securities, we would be pleased to hear from you. Simply call 1-800-VIP-4200 and an Investor Service Representative will be glad to assist you, as always, without any obligation on your part.

We feel the progress we made in 1997 has laid a sound base for future growth. In this regard, we extend special thanks to the people at Bull & Bear whose dedication, hard work and support have contributed to these results.

Sincerely,



Mark C. Winmill
Co-President



Thomas B. Winmill
Co-President

Bull & Bear Group, Inc.

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31,	
	<u>1997</u>	<u>1996</u>
Current Assets:		
Cash and cash equivalents	\$ 312,633	\$ 747,444
Marketable securities (Note 3)	1,846,028	1,176,547
Management, distribution and shareholder administration fees receivable	268,984	207,944
Interest, dividends and other receivables	187,954	204,684
Prepaid expenses and other current assets	<u>411,821</u>	<u>289,712</u>
Total Current Assets	<u>3,027,420</u>	<u>2,626,331</u>
Real estate held for investment, net	632,682	438,187
Equipment, furniture and fixtures, net	196,416	237,851
Excess of cost over net book value of subsidiaries, net (Note 2)	727,373	765,665
Other	<u>243,183</u>	<u>205,076</u>
	<u>1,799,654</u>	<u>1,646,779</u>
Total Assets	<u>\$4,827,074</u>	<u>\$4,273,110</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 160,849	\$ 134,544
Accrued professional fees	93,335	81,285
Accrued other expenses	45,225	40,388
Accrued payroll and other related costs	41,042	53,012
Current portion of capitalized lease obligation (Note 4)	13,644	12,282
Other current liabilities	<u>10,408</u>	<u>11,620</u>
Total Current Liabilities	<u>364,503</u>	<u>333,131</u>
Capitalized lease obligation (Note 4)	<u>7,460</u>	<u>22,093</u>
Contingencies (Note 11)	—	—
Shareholders' Equity (Notes 3, 5, 6, and 7)		
Common Stock, \$.01 par value		
Class A, 10,000,000 shares authorized;		
1,350,017 shares issued and outstanding	13,501	13,501
Class B, 20,000 shares authorized;		
20,000 shares issued and outstanding	200	200
Additional paid-in capital	6,236,077	6,236,077
Retained earnings (deficit)	(1,836,753)	(2,462,478)
Unrealized gains on marketable securities	<u>42,086</u>	<u>130,586</u>
Total Shareholders' Equity	<u>4,455,111</u>	<u>3,917,886</u>
Total Liabilities and Shareholders' Equity	<u>\$4,827,074</u>	<u>\$4,273,110</u>

See accompanying notes to consolidated financial statements.

Bull & Bear Group, Inc.**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
Revenues:			
Management, distribution and shareholder administration fees	\$4,313,947	\$4,922,945	\$3,322,348
Brokerage commissions and fees	2,452,272	2,351,983	1,821,513
Realized gains from investments	83,608	22,092	—
Dividends, interest and other	137,590	119,992	147,169
	<u>6,987,417</u>	<u>7,417,012</u>	<u>5,291,030</u>
Expenses:			
General and administrative (Note 10)	3,287,781	3,504,317	2,924,882
Marketing	1,081,050	1,821,297	779,026
Clearing and brokerage charges	621,412	708,535	576,096
Expense reimbursements to the Funds (Note 10)	615,743	535,902	270,233
Subadvisory fees	387,593	705,248	22,496
Professional fees	201,417	296,874	431,934
Amortization and depreciation	131,992	138,116	97,399
	<u>6,326,988</u>	<u>7,710,289</u>	<u>5,102,066</u>
Income (loss) before income taxes	660,429	(293,277)	188,964
Income taxes (Note 9)	34,704	27,248	32,588
Net Income (loss)	<u>\$ 625,725</u>	<u>\$ (320,525)</u>	<u>\$ 156,376</u>
Per Share Data:			
Basic	<u>\$.46</u>	<u>\$ (.23)</u>	<u>\$.10</u>
Diluted	<u>\$.43</u>	<u>\$ (.23)</u>	<u>\$.10</u>
Average Shares Outstanding:			
Basic	<u>1,370,017</u>	<u>1,369,555</u>	<u>1,499,516</u>
Diluted	<u>1,468,252</u>	<u>1,369,555</u>	<u>1,549,815</u>

See accompanying notes to consolidated financial statements.

Bull & Bear Group, Inc.

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

	Years Ended December 31, 1997, 1996 and 1995									
	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)	Unrealized Gains On Marketable Securities	Total Shareholders' Equity	
Balance, December 31, 1994	1,503,152	20,000	\$15,032	\$200	\$6,497,796	\$(305,000)	\$(2,298,329)	\$ —	\$3,909,699	
Voiding of 1993 exercise of stock options and cancellation of notes receivable (Note 7)	(280,000)	—	(2,800)	—	(297,200)	300,000	—	—	—	
Issuance of Class A common stock on exercise of stock options	274,020	—	2,740	—	291,280	—	—	—	294,020	
Received in exchange for exercise of stock options	(149,155)	—	(1,491)	—	(259,529)	—	—	—	(261,020)	
Collection of note receivable	—	—	—	—	—	5,000	—	—	5,000	
Net income	—	—	—	—	—	—	156,376	—	156,376	
Unrealized gains on marketable securities	—	—	—	—	—	—	—	66,020	66,020	
Balance, December 31, 1995	1,348,017	20,000	13,481	200	6,232,347	—	(2,141,953)	66,020	4,170,095	
Issuance of Class A common stock on exercise of stock options	2,000	—	20	—	3,730	—	—	—	3,750	
Net loss	—	—	—	—	—	—	(320,525)	—	(320,525)	
Unrealized gains on marketable securities	—	—	—	—	—	—	—	64,566	64,566	
Balance, December 31, 1996	1,350,017	20,000	13,501	200	6,236,077	—	(2,462,478)	130,586	3,917,886	
Net income	—	—	—	—	—	—	625,725	—	625,725	
Unrealized losses on marketable securities	—	—	—	—	—	—	—	(88,500)	(88,500)	
Balance, December 31, 1997	1,350,017	20,000	\$13,501	\$200	\$6,236,077	\$ —	\$(1,836,753)	\$42,086	\$4,455,111	

See accompanying notes to consolidated financial statements.

Bull & Bear Group, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	1997	1996	1995
Cash Flows from Operating Activities:			
Net income (loss)	<u>\$ 625,725</u>	<u>\$ (320,525)</u>	<u>\$ 156,376</u>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	131,992	138,116	97,399
Increase in cash value of life insurance	(32,333)	(30,000)	(30,000)
Realized/unrealized (gain) loss on investments	(83,608)	(32,725)	(26,048)
(Increase) decrease in:			
Management, distribution and shareholder administration fees receivable	(61,040)	(28,735)	(18,642)
Interest, dividends and other receivables	16,730	43,557	(32,387)
Prepaid expenses and other current assets	(122,109)	143,858	(199,301)
Other assets	(5,774)	(48,401)	12,802
Increase (decrease) in:			
Accounts payable	26,305	(475,698)	412,719
Accrued expenses	4,917	4,610	51,156
Other current liabilities	(1,212)	(1,760)	(720)
Total adjustments	<u>(126,132)</u>	<u>(287,178)</u>	<u>266,978</u>
Net cash provided by (used in) Operating Activities	<u>499,593</u>	<u>(607,703)</u>	<u>423,354</u>
Cash Flows from Investing Activities:			
Improvement to real estate held for investment	(218,956)	(204,642)	(2,105)
Capital expenditures	(27,804)	(100,799)	(58,744)
Proceeds from sale of properties	—	43,763	—
Proceeds from sales of investments	556,831	963,318	414,790
Purchases of investments	(1,231,204)	(785,512)	(1,396,250)
Acquisition of intangible assets	—	(66,780)	(267,411)
Net cash used in Investing Activities	<u>(921,133)</u>	<u>(150,652)</u>	<u>(1,309,720)</u>
Cash Flows from Financing Activities:			
Collection of note receivable	—	—	5,000
Increase in capitalized lease obligation	—	46,416	—
Repayments of capitalized lease obligation	(13,271)	(12,041)	—
Proceeds from issuance of Class A Common Stock	—	3,750	33,000
Net cash provided by (used in) Financing Activities	<u>(13,271)</u>	<u>38,125</u>	<u>38,000</u>
Net decrease in cash and cash equivalents	<u>(434,811)</u>	<u>(720,230)</u>	<u>(848,366)</u>
Cash and cash equivalents:			
Beginning of year	<u>747,444</u>	<u>1,467,674</u>	<u>2,316,040</u>
End of year	<u>\$ 312,633</u>	<u>\$ 747,444</u>	<u>\$ 1,467,674</u>

Supplemental disclosure: The Company did not pay any Federal income taxes in 1997, 1996, or 1995.
The Company paid \$916 and \$1,309 in interest in 1997 and 1996 and no interest in 1995.
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, 1997, 1996 and 1995

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, 1997 and 1996, the Company and subsidiaries had invested approximately \$260,300 and \$657,500, 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, 1997 and 1996, accumulated depreciation amounted to approximately \$51,600 and \$27,400, 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, 1997 and 1996, accumulated depreciation amounted to approximately \$818,900 and \$749,300, 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, 1997 and 1996, accumulated amortization amounted to approximately \$623,400 and \$585,100, 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. The Company adopted Statement of Financial Accounting Standards No. 128 in 1997. The earnings per share for 1996 and 1995 have been restated to conform to the provisions of this statement. 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.

Bull & Bear Group, Inc.

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

	1997	1996	1995
Numerator for basic and diluted earnings per share:			
Net income(loss)	\$625,725	\$(320,525)	\$156,376
Denominator:			
Denominator for basic earnings per share - weighted average shares	1,370,017	1,369,555	1,499,516
Effect of dilutive securities: Employee stock options	98,235	—	50,299
Denominator for diluted earnings per share - adjusted weighted shares and assumed conversions	1,468,252	1,369,555	1,549,815

Reclassifications. Certain reclassifications of the 1996 and 1995 financial statements have been made to conform to the 1997 presentation.

2 ACQUISITION

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

3 MARKETABLE SECURITIES

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)	580,085
	<u>\$ 1,846,028</u>

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)	\$ 961,000
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)	215,547
	<u>\$ 1,176,547</u>

At December 31, 1997 and 1996, the Company had \$42,086 and \$130,586, 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 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

Bull & Bear Group, Inc.

equipment at a cost of \$45,457 at December 31, 1997. Depreciation expense of \$29,042 has been recognized on this property as of December 31, 1997. 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>	
1998	\$14,188
1999	<u>7,586</u>
Total minimum lease payments	21,774
Less amount representing interest and executory costs	<u>670</u>
Present value of minimum lease payments	<u>\$21,104</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, 1997 and 1996, 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, 1997, these subsidiaries had net capital of approximately \$553,700 and \$614,900; net capital requirements of \$250,000 and \$25,000; excess net capital of approximately \$303,700 and \$589,900; and the ratios of aggregate indebtedness to net capital were approximately .45 to 1 and .28 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 to 450,000. 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 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 pro forma information follows:

		<u>Years Ended December 31,</u>	
		<u>1997</u>	<u>1996</u>
Net income (loss):	As reported	\$625,725	\$(320,525)
Earnings per share:	Pro forma	\$246,394	\$(463,738)
Basic	As reported	\$.46	\$(.23)
	Pro forma	\$.18	\$(.34)
Diluted	As reported	\$.43	\$(.23)
	Pro forma	\$.17	\$(.34)

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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 1997 and 1996, respectively: expected volatility of 92.83% and 93.82%, risk-free interest rate of 5.85% and 5.29% and expected life of three years and five years.

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

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 1995	49,000	\$1.76
Granted	229,000	\$2.04
Exercised	(2,000)	\$1.88
Canceled	<u>(27,000)</u>	\$1.91
Outstanding at December 31, 1996	249,000	\$2.00
Granted	167,000	\$2.53
Canceled	<u>(34,000)</u>	\$1.97
Outstanding at December 31, 1997	<u>382,000</u>	\$2.23

There were 146,000 options exercisable at December 31, 1997 with a weighted average exercise price of \$2.37 and there were no options exercisable at December 31, 1996. The weighted-average fair value of options granted was \$1.41 and \$1.42 for the years ended December 31, 1997 and 1996, respectively.

The following table summarizes information about stock options outstanding at December 31, 1997:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>		
	<u>Number Outstanding</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>
\$1.50 - \$1.625	15,000	2.0 years	\$1.52
\$1.875 - \$2.475	334,000	3.8 years	\$2.20
\$2.75 - \$3.00	33,000	4.0 years	\$2.92

In addition, there were 30,000 non-qualified stock options with a range of exercise prices of \$1.75-\$2.25 outstanding and exercisable as of December 31, 1997.

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, 1997, 1996 and 1995 was approximately \$44,800, \$39,900 and \$31,100, respectively.

9 INCOME TAXES

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

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Current			
State and local	\$34,704	\$27,248	\$32,588
Federal	—	—	—
	<u>\$34,704</u>	<u>\$27,248</u>	<u>\$32,588</u>

Deferred tax assets (liabilities) are comprised of the following at December 31, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Unrealized appreciation on investments	\$ (16,200)	\$ (45,800)
Net operating loss carryforwards	<u>277,100</u>	<u>509,500</u>
Net deferred tax assets	260,900	463,700
Deferred tax asset valuation allowance	<u>(260,900)</u>	<u>(463,700)</u>
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

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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, 1997 was the result of the net income for the year and the decrease in the unrealized appreciation on investments.

For the year ended December 31, 1997, 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, 1997, the Company had net operating loss carryforwards for Federal income tax purposes of approximately \$815,000, of which \$298,600, \$187,800, \$62,700 and \$265,900 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 \$286,100, \$249,700 and \$363,200 for the years ended December 31, 1997, 1996, and 1995, respectively.

In connection with investment management services, the Company's investment managers waived management fees from the Funds in the amount of approximately \$615,700, \$535,900, and \$270,200 for the years ended December 31, 1997, 1996, and 1995, respectively.

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, 1997, the policy had a cash surrender value of approximately \$109,000 and is included in other assets in the balance sheet.

The Company's discount broker/dealer received brokerage commissions of approximately \$259,400, \$179,500, and \$153,200 from the Funds for the years ended December 31, 1997, 1996, and 1995, 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 of stock options, 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, 1997, 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.

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**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, 1997 and 1996, 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, 1997. 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, 1997 and 1996, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

TAIT, WELLER & BAKER

Philadelphia, Pennsylvania
February 13, 1998

**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.

	1997		1996	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$4 ³ / ₈	\$2 ³ / ₄	\$6 ³ / ₄	\$1 ⁵ / ₈
Second Quarter	\$4 ³ / ₈	\$2 ⁷ / ₈	\$5 ³ / ₈	\$3 ¹ / ₄
Third Quarter	\$3 ¹ / ₈	\$2 ⁵ / ₈	\$4	\$2 ¹ / ₂
Fourth Quarter	\$3 ⁵ / ₁₆	\$2 ¹ / ₄	\$3 ¹ / ₄	\$2 ⁷ / ₈

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.
President
Webb Associates Ltd.

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 II
Senior Vice President

JOSEPH LEUNG, CPA
Vice President, Treasurer

DEBORAH ANN SULLIVAN
Vice President, Secretary

KERRI A. HLAVACEK
Vice President

HEIDI KEATING
Vice President

EDWARD M. KISS
Vice President

SUZANNE G. KLOTZ
Vice President

ANTHONY K. KOLENS
Vice President

THOMAS E. KRAEMER
Vice President

KEITH A. MORESE
Vice President

MICHAEL A. RAINER
Vice President

JOHN W. ROGERS, JR.
Vice President

TERESA L. ROGERS
Vice President

JAMES P. VIGOTTY
Vice President

V. JAMES GIOVINAZZO
Assistant Vice President

THOMAS I. HARTE
Assistant Vice President

LEONA LEUNG
Assistant Vice President

STEVEN J. LEE
Assistant Vice President

THOMAS W. RILEY
Assistant Vice President

SUSAN ANDERSEN
Assistant Marketing Director

LISABARONE
Administrative Assistant

ISABEL A. McMANUS
Administrative Assistant

DANIELLE R. NICHOLAS
Administrative Assistant

ANDA I. SAMUELS
Administrative Assistant

PATRICIA TOMITZ
Administrative Assistant

INVESTMENT POLICY COMMITTEE

STEVEN A. LANDIS
MARK C. WINMILL
THOMAS B. WINMILL, ESQ.

CORPORATE INFORMATION

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INVESTMENT MANAGEMENT Information

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www.mutualfunds.net
Investor Service Center
11 Hanover Square
New York, NY 10005

DISCOUNT BROKERAGE Information

1-800-BULL-BEAR
www.bullbear.com
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TRANSFER AGENT

Registrar and Transfer Company
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STOCK LISTING

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

INTERNET

<http://www.bullandbeargroup.com>

SUPPLEMENTAL INFORMATION

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

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Nasdaq Small Cap Symbol: BNBGA

