



SECURITIES INVESTOR PROTECTION CORPORATION

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EIGHTH  
ANNUAL REPORT  
1978

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SECURITIES INVESTOR PROTECTION CORPORATION  
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March 1, 1979

The Honorable Harold M. Williams  
Chairman  
Securities and Exchange Commission  
500 North Capitol Street, N.W.  
Washington, D. C. 20549

Dear Chairman Williams:

On behalf of the Board of Directors I submit herewith the Eighth Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 11(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

A handwritten signature in black ink that reads "Hugh F. Owens". The signature is written in a cursive, flowing style.

Hugh F. Owens  
Chairman

# SECURITIES INVESTOR PROTECTION CORPORATION

## DIRECTORS



Hugh F. Owens  
Chairman



Adolph P. Schuman  
President, Lilli Ann  
Corporation  
San Francisco, California  
Vice Chairman

Ralph D. DeNunzio  
President and Chairman,  
Executive Committee  
Kidder Peabody & Co., Inc.  
New York, New York



Brenton H. Ruppel  
President, Robert W.  
Baird & Co., Inc.  
Milwaukee, Wisconsin

James L. Kichline  
Director, Division of  
Research and Statistics,  
Board of Governors  
of the Federal Reserve  
System  
Washington, D.C.



Michael A. Taylor  
Senior Vice President,  
Paine, Webber,  
Jackson & Curtis,  
Incorporated  
New York, New York

Robert H. Mundheim  
General Counsel,  
Department of the  
Treasury  
Washington, D.C.



## STAFF OFFICERS

Lloyd W. McChesney  
Vice President—Finance

Theodore H. Focht  
General Counsel—Secretary

John B. Bourne  
Assistant Vice President—Finance

Wilfred R. Caron  
Associate General Counsel

J. H. Moelter  
Assistant Vice President—Finance



# INTRODUCTION

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The Securities Investor Protection Corporation (SIPC) has its origins in the difficult years of 1968-70, when the paperwork crunch, brought on by unexpectedly high trading volume, was followed by a very severe decline in stock prices. Hundreds of broker-dealers were merged, were acquired or simply went out of business. There were some which were unable to meet their obligations to customers and went bankrupt. Public confidence in our securities markets was in jeopardy.

Congress acted swiftly, passing the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, to promote investor confidence in the nation's securities markets. Currently, the limits of protection are \$100,000 per customer, except that claims for cash are limited to \$40,000 per customer.

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.\*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States, subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The SIPC staff, numbering 31, is composed of the Finance Department, headed by a Vice-President, and the Legal Department headed by the General Counsel. Their functions include initiating the steps leading to the liquidation of a member, advising the trustee, his counsel and accountants, reviewing claims, auditing distributions of property, and other activities pertaining to the Corporation's purpose. In some cases, SIPC employees have served as trustee.

The money required to protect customers beyond that which is available from the property in the possession of the failed broker-dealer is advanced by SIPC from a fund maintained for that purpose. The sources of money for the SIPC Fund are assessments on the securities business of SIPC members and interest on investments in United States Government securities. If the need arises, the Securities and Exchange Commission has the authority to lend SIPC up to \$1 billion, which it, in turn, would borrow from the United States Treasury.

The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc. (NASD)—and the SEC periodically report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to have the member placed in liquidation. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out the liquidation. Under certain circumstances, SIPC may pay customer claims directly.

In May, 1978, the Securities Investor Protection Act Amendments of 1978 were enacted. Those amendments raised the limits of protection to their current levels and made improvements in the customer protection proceedings.

*Further information about the provisions for customer account protection are contained in a booklet, "An Explanation of the Securities Investor Protection Act of 1970 as Amended in 1978", which is available from the Securities Industry Association, 20 Broad Street, New York, New York 10005, and from the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.*

\* Section 3(a)(2)(A) of SIPA excludes:

(i) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions; and

(ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts.





# A MESSAGE FROM THE CHAIRMAN

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On May 21, 1978, President Carter signed into law the Securities Investor Protection Act Amendments of 1978. This culminated a legislative project which began when I took office in November 1973. At that time, I named a task force to study the Securities Investor Protection Act of 1970 (SIPA) and make recommendations for changes to the Board of Directors. That was accomplished in 1974 and proposed legislation was sent to the Congress late that year.

The amendments are designed to overcome some of the rigidities of the original act by providing for speedier liquidation proceedings at reduced costs. The limits of protection were also raised to \$100,000 per customer, no more than \$40,000 of which may be for cash.

One provision of the amendments permits SIPC to avoid costly court-ordered and supervised liquidation proceedings in very small cases by giving SIPC authority to pay customers' claims directly. This is allowed when the claims

of all customers appear to aggregate less than \$250,000. Since the amendments were enacted, two cases have been instituted using this "direct payment" procedure.

## Four New Cases in 1978

Those two cases represent half of all new cases in 1978 when only four customer protection proceedings were initiated. That is a decline from a total of seven in 1977 and equals the previous historical low of four in 1976. As of the end of the year, SIPC protection proceedings totaled 132.

Incidentally, 1978 was the only year in which there was no new proceeding in New York City, where about a quarter of our members are located.

Looking back over eight years of SIPC operations, it is interesting to compare the first four years with the last four. In the period 1971-74, we experienced double-digit failure rates: 1971—24; 1972—40; 1973—30; 1974—15, for a total of 109 liquidations. That averages 27 a year.

In the past four years, failure rates were: 1975—8; 1976—4, 1977—7; 1978—4, for a total of 23—an average of 6 a year.

With this sharp decline it is not surprising that SIPC advances to satisfy customer claims and for administration expenses have declined sharply as well. In SIPC's first four years, total net advances aggregated \$44,688,909. In the past four years, the comparable figure was \$11,896,761.

## Staff, Costs Reduced

As the liquidation rate has declined, steps were taken to cut staff and reduce costs. From a high of 49 employees in 1974, the staff has been reduced to 31 as of the end of 1978. Administrative expenses—the cost of the day-to-day operations of the corporation other than advances to trustees—were down in 1978 for the fourth year in a row.

Total expenses for 1978—both advances to trustees and direct payments for customer protection proceedings, and administrative expenses



ses amounted to substantially less than interest earned on investments. This was the third year in a row that interest exceeded SIPC's total expenses.

Member assessments were suspended on July 1, following a 50% rate reduction in the first half of the year. Beginning January 1, 1979, a uniform member assessment of \$25 per annum went into effect.

One of the amendments to SIPA enacted in 1978 gave SIPC authority to require members to identify themselves as SIPC members at their offices and in their advertising. The Board adopted and the SEC approved such a bylaw; it went into effect January 1, 1979. The purpose of the requirement is to increase the investing public's awareness of SIPC and the protections the Corporation provides. The SIPC Board of Directors authorized a modest publicity program to enhance the effectiveness of the advertising bylaw.

### SIPC Case Goes To Supreme Court

The Supreme Court has agreed to hear an important case in which SIPC is involved. In the Weis Securities, Inc. liquidation, the United States Court of Appeals for the Second Circuit in reversing a District Court decision held that a broker-dealer's customers have a right of action against the broker-dealer's accountants for violations of the accountants' duties under section 17 of the Securities Exchange Act of 1934

which required the broker-dealer to file certified reports of its financial condition with the regulatory authorities. The court also held that the action can be brought against accountants by SIPC as the subrogee of the customers it has paid and by the broker-dealer's trustee as bailee for customers who have not been fully reimbursed by SIPC. *Redington v. Touche Ross & Co.*, Fed. Sec. L. Rep. (CCH) ¶ 96,404 (2d Cir., April 21, 1978).

In 1978, two major events occurred: The long-awaited amendments to SIPA were passed and the assessment burden borne for seven years by the membership was reduced to a minimum. The amendments give SIPC new flexibility to handle expeditiously cases of varying sizes and complexity, to speed up customer claim satisfaction and reduce costs, while increasing the limits of protection. The reduced assessments reflect the solid financial condition of the SIPC Fund which, absent an unforeseen and unexpected financial crisis, appears to be very adequate to meet future needs.



Hugh F. Owens  
Chairman

## CUSTOMER PROTECTIONS – LIQUIDATIONS AND DIRECT PAYMENT PROCEEDINGS

Protection proceedings for customers of four members were initiated in 1978—two with court-appointed trustees and two direct payment procedures. This was a decrease from 1977 when there were seven new cases. The four new proceedings in 1978 equals the all-time low in 1976 and brings the total since SIPC's inception to 132.

The members for which protection proceedings were begun are:

<u>Member</u>	<u>Date Trustee Appointed</u>
San Francisco Investment Corporation San Francisco, California	3/16/78
Douglas F. Brown Financial Services, Inc. Longview, Washington	7/18/78
Benchmark Securities, Inc. Los Angeles, California	9/22/78*
Harold E. Pray Lewisburg, Pennsylvania	10/19/78*

\* Publication date. (Direct payment case; no trustee was appointed).



The four members were relatively small companies and the number of claims received was, therefore, small as well. All valid claims of customers of San Francisco Investment Corporation have been satisfied, as has been the one validated claim in the Harold E. Pray case.

Satisfaction of claims of customers of Douglas F. Brown Financial Services, Inc. has been delayed due to the unusual nature of the claims and the structure of the business entities of the debtor. Satisfaction of claims in the Benchmark Securities, Inc. case is awaiting the receipt of documents to make determinations on the claims.

A member placed in liquidation late in 1977, I. E. S. Management Group, Inc. (I.E.S.) has become SIPC's third most costly case. A total of \$2,449,110 has been advanced to the trustee in that case to satisfy customer claims and for administration expenses. As of the end of the year, 195 customers had received \$2,274,722. Of those claims, 32 were for amounts over the limits of SIPC protection.

There were virtually no assets remaining in the company, so it has been necessary to satisfy customer claims entirely from the SIPC Fund. Many claims have been denied by the trustee

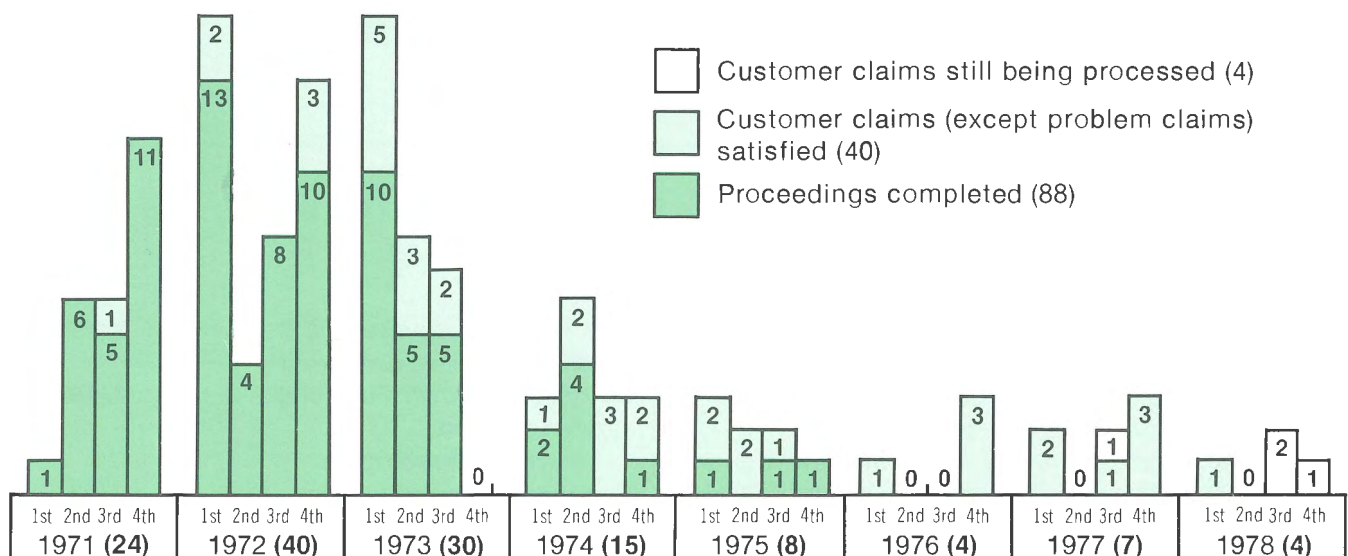
on the grounds that the customers had received the property they were claiming prior to the firm's failure.

I. E. S. was heavily involved in the sale of limited partnership interests which at the time of the firm's demise were considered to be securities regardless of whether they were registered under the 1933 Act. Under provisions of the 1978 amendments to SIPA, only limited partnerships so registered are considered to be securities and, therefore, protected by SIPC.

Of the 132 proceedings undertaken by SIPC to date, 88 have been completed, 40 involve problem claims and/or litigation, and claims in four are being processed. Three of the four cases were begun in 1978 and one, I. E. S., was begun in 1977.

Cash distributed for accounts of customers, or paid directly to customers, in the four proceedings begun in 1978 amounted to \$121,717. No securities were distributed in those cases. The total value of cash and securities distributed in all 132 cases aggregated approximately \$282 million. Of that amount, approximately \$235 million came from debtors' estates and \$47 million from the SIPC Fund. (See Appendix III)

**Figure 2**  
**Status of Customer Protection Proceedings**  
**By Quarter**





**Figure 1**  
**Location of Customer Protection Proceedings**  
**1971-1978**

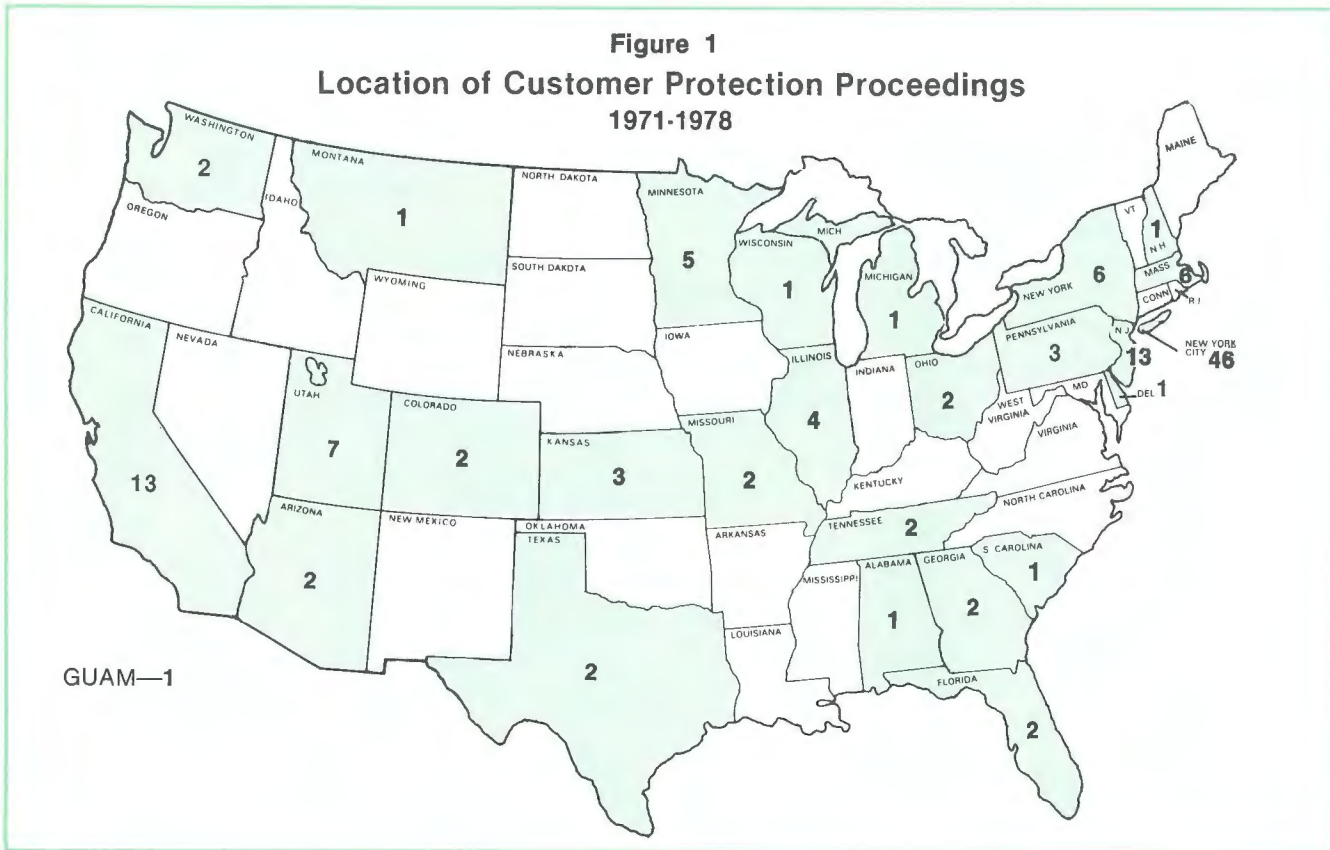


Table I shows that the 11 debtors for which advances from the SIPC Fund of more than \$1 million have been made accounted for more than half the total advanced in all 132 customer protection proceedings to date. The largest amount advanced to a single liquidation, \$13.7 million

for Weis Securities, Inc. was approximately 50% more than the advances in the 87 smallest proceedings.

The four costliest proceedings accounted for \$21.4 million, or 38% of the total advances from the SIPC Fund for all proceedings.

**Table I**  
**Net Advances from the SIPC Fund**  
**As of December 31, 1978**  
**132 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced*
From	To		
\$5,000,001	up	1	\$13,656,980
2,000,001	\$5,000,000	3	7,822,798
1,000,001	2,000,000	7	9,847,134
500,001	1,000,000	12	9,178,141
250,001	500,000	22	7,844,905
100,001	250,000	36	5,602,660
50,001	100,000	29	2,087,331
25,001	50,000	13	455,541
10,001	25,000	4	63,309
- 0 -	10,000	5	26,871
			<u>\$56,585,670</u>

\* Includes advances for customers' claims, \$47,509,755 and for administration expenses, \$9,075,915.

**Claims Over the Limits**

More than 100,000 claims had been satisfied as of December 31, 1978. Of that number, 216 were claims for cash or securities whose value was greater than the limits of protection provided by SIPA.

Those 216 claims, reflecting an increase of 47 during 1978, represent approximately two-tenths of one percent of all claims paid. The total of the unsatisfied portion amounted to \$4.2 million, which is an increase of \$900,000 over the balance at the end of 1977, and represents approximately 1½ percent of the value of securities and cash distributed for accounts of customers.

Of the 47 additional claims over the limits of SIPC protection, 32 were filed in the I.E.S. case, accounting for about half of the \$900,000 increase over 1977. The others were scattered among eight other proceedings.



# MEMBERSHIP, ASSESSMENTS AND THE SIPC FUND

## Membership

As of December 31, 1978, the membership totaled 5,670, a net increase of 258 during the year. Table II reflects the number of members and their affiliation for purposes of collection of SIPC assessments at the end of the year, as well as the changes during the year.

Persons certifying that they met the membership exclusion provisions of SIPA decreased by 46 to a total of 425 at year-end.

## Assessments

Revenues from member assessments aggregated \$8,235,672 for the first six months of 1978, when the rate was ¼% of gross revenues from the securities business. Assessments were suspended for the remainder of the year. This was a decrease of approximately \$22,601,000 from 1977 when the rate was ½% for the full year.

Assessment revenues for the period since inception (December 30, 1970) through December 31, 1978 aggregated approximately \$203,000,000. Assessment revenues classified by principal collection agents are shown in Table III.

**Table II**  
**SIPC Membership**  
**December 31, 1978**

Agent for Collection of SIPC Assessments	Number of SIPC Members		
	Added (a)	Terminated (a)	Total
National Association of Securities Dealers, Inc.	49	96	1,901
Chicago Board Options Exchange, Incorporated	30	13	1,144
SIPC (b)	652	450	905
New York Stock Exchange, Inc.	88	34	811
American Stock Exchange, Inc.	44	34	355
Midwest Stock Exchange, Inc.	17	14	212
Philadelphia Stock Exchange, Inc.	13	13	161
Pacific Stock Exchange, Inc.	27	6	120
Boston Stock Exchange, Inc.	5	5	52
Spokane Stock Exchange	—	2	7
Intermountain Stock Exchange	—	—	2
	<u>925</u>	<u>667</u>	<u>5,670</u>

**Notes:**

- Excluding transfers (1,016) of members to successor collection agents.
- SIPC is the collection agent and the SEC is the examining authority for brokers and dealers that are not members of any self-regulatory organization.

**Table III**

**SIPC Assessments (a)**

**SIPC Collection Agents to Whom Assessments Are Paid**

	NYSE	NASD	All other exchanges	SIPC (b)	Total
1971 .....	\$ 25,257,961	\$ 3,790,129	\$ 592,871	\$3,149,233	\$ 32,790,194(c)
1972 .....	27,725,356	3,780,945	542,660	283,195	32,332,156(d)
1973 .....	19,221,887	2,306,206	1,038,749	292,078	22,858,920
1974 .....	15,065,938	1,701,231	1,052,449	208,015	18,027,633
1975 .....	22,086,058	1,843,842	1,292,877	262,858	25,485,635
1976 .....	26,840,473	3,453,997	1,917,274	497,466	32,709,210
1977 .....	24,950,054	4,059,268	1,528,401	298,503	30,836,226
1978 .....	6,884,899	1,161,727	126,703	62,343	8,235,672
<b>Cumulative</b> .....	<u>\$168,032,626</u>	<u>\$22,097,345</u>	<u>\$8,091,984</u>	<u>\$5,053,691</u>	<u>\$203,275,646</u>

**Notes:**

- The revenues do not purport to reflect the volume of business conducted on the respective exchanges or in the over-the-counter market.
- Received from persons who are not members of any exchange or the NASD and includes \$3,011,925 contributed in 1971 from a special trust fund of the American Stock Exchange, Inc. Under a plan approved in 1974 and terminated in 1976, members used approximately \$1,800,000 in 1974; \$900,000 in 1975 and negligible amounts in 1976 to reduce their assessments otherwise due for those years.
- Includes \$5,669,180 initial assessments (based on 1969 gross revenues).
- Includes \$4,143,321 of 1971 revenues received in 1972 in excess of the December 31, 1971, accrual.





## Delinquencies

There were 223 SIPC members who were delinquent in filing reports and/or paying assessments as of December 31, 1978, and had received notices under Section 14(a).<sup>1</sup> Notices to 130 of these members were mailed in 1978 (48 in November), 48 in 1977, and 45 during the years 1973 through 1976. The SEC staff has advised that: (1) 103 of these members are no longer engaged in the securities business and it will recommend cancellation of their 1934 Act registration and (2) 19 have subsequently cured their delinquencies, 20 are subjects of administrative proceedings and 21 are otherwise not continuing to constitute a potential loss of SIPC assessments.

<sup>1</sup> 14(a) Failure To Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required

## SIPC Fund

The SIPC Fund, as defined by SIPA, consists of the aggregate of cash and investments in United States Government securities. At December 31, 1978, the SIPC Fund totaled \$175,652,867, a \$23,206,377 increase from the previous year-end.

pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, unless specifically authorized by the Commission, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the amount specified in such notice, it may after payment of the full amount so specified commence an action against SIPC in the appropriate United States district court to recover the amount it denies owing.

# DISCIPLINARY AND CRIMINAL ACTIONS TAKEN AGAINST PRINCIPALS AND ASSOCIATES OF MEMBERS

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 14(b) of SIPA, the names of principals and others associated with members placed in liquidation under provisions of the Act. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by that organization. Trustees appointed to liquidate the member cooperate with SEC and law enforcement authorities in their investigations of possible violations of law.

As of December 31, 1978, administrative and/or criminal action had been initiated against principals or associated persons in 121 of the 132 SIPC proceedings commenced to that date.

Five individuals were barred from association with other members during 1978 as a result of action by self-regulatory organizations against persons associated with members in liquidation. The Commission barred 14 individuals from association with any broker or dealer and suspended two others.

Criminal indictments were returned by federal grand juries against six persons associated with members in liquidation; fourteen associated persons who had previously been indicted were convicted of criminal charges. Sentences imposed by the courts included confinement ranging from six months to three years and probation for up to five years. Seven of those convicted in the federal courts were also fined an aggregate of \$29,500.

## Summary of Criminal and Administrative Actions

Since enactment of SIPA in December, 1970, criminal action has been initiated in 44 of the 132 SIPC proceedings. A total of 115 indictments have been returned in federal courts resulting in 95 convictions to date. As of December 31, 1978, trial or sentencing was pending against 17 persons who had been indicted or convicted.

Administrative and/or criminal action in 121 of the 132 SIPC customer protection proceedings initiated through December 31, 1978 was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	33
2. Exclusive SEC Administrative Action	22
3. Exclusive Self-Regulatory Administrative Action	22
4. Criminal and Administrative Action	36
5. Criminal Action Only	8
<b>Total</b>	<b>121</b>

In the 113 proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

Sanction	SEC	Self-Regulatory Organizations
Suspension only	20	24
Bar from Association	219	138
Fines	Not Applicable	\$330,500

Suspensions by self-regulatory authorities



ranged from five days to a maximum of five years. Those imposed by the SEC ranged from 20 days to a maximum of one year.

Some associated persons were barred from the securities industry. Others were barred from

association in a principal or supervisory capacity.

The \$330,500 in fines assessed by self-regulatory authorities were levied against 36 associated persons and ranged from \$250 to \$50,000.

## REFERRAL OF MEMBERS IN OR APPROACHING FINANCIAL DIFFICULTY

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Section 5(a)(1) of SIPA requires the SEC or the self-regulatory organizations to notify SIPC immediately upon discovery of facts which indicate that a broker-dealer subject to their regulation is in or approaching financial difficulty. The Commission, the National Association of Securities Dealers (NASD) and the securities exchanges fulfill this requirement through regulatory procedures which integrate inspection and reporting programs with an early-warning procedure for notifying SIPC. The primary objective of those programs is the early identification of those members which are in or approaching financial or operational difficulty and the initiation of action necessary to protect the investing public.

In furtherance of the continuing effort by the self-regulatory organization to improve the effectiveness of the examination program and to reduce regulatory duplication, a previously announced agreement between the NASD and various regional securities exchanges was im-

plemented and NASD has assumed primary responsibility for examination of dually registered members of those exchanges for compliance with minimum financial responsibility rules.

### Summary of Members on Active Referral

SIPC maintained active files on 29 Section 5(a) referrals during the year 1978. Nineteen new referrals were received during the year and ten active referrals had been carried forward from prior years. Of the 29, twelve remained on active referral status at year-end.

In addition to referral of members under Section 5(a), SIPC received periodic reports from the Commission and from the self-regulatory organizations identifying those members which, although not considered to be in or approaching financial difficulty, were subject to closer-than-normal surveillance because of their failure to meet certain pre-established financial or operational standards.

## LITIGATION

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In 1978 litigation under the SIPA generated numerous judicial opinions. The following are those considered to be of particular interest and importance.

In the Weis Securities, Inc. liquidation the United States Supreme Court agreed to review the decision of the Court of Appeals for the Second Circuit which held that a broker-dealer's customers may sue its accountants for breaches of their duties under section 17 of the Securities Exchange Act of 1934. The court held further that the action may be brought by SIPC as the subrogee of the customers it has paid, and by the broker-dealer's trustee as bailee for cus-

tomers who have not been fully reimbursed by SIPC. *Redington v. Touche Ross & Co*, Fed. Sec. L. Rep. (CCH) ¶ 96,404 (2d Cir., April 21, 1978). The Supreme Court has not acted on cross-petitions filed by the trustee and SIPC.

### Subordinations Ruled Valid

Also in the Weis liquidation, the Court of Appeals for the Second Circuit held that subordinated lenders may not rescind their subordination agreements which were allegedly procured by Weis' fraud, even absent a showing that Weis' customers relied on them. *In re Weis Securities, Inc.*, No. 77-6034 (2d Cir., June 12, 1978). One





of the subordinated lenders has petitioned the United States Supreme Court to review this decision.

In the Securities Northwest, Inc. liquidation, the Court of Appeals for the Ninth Circuit held that an officer of the debtor, who had been personally assessed a civil penalty by the IRS for accrued federal withholding taxes owed by the debtor, lacked the requisite standing to appeal the order approving the trustee's final report and accounting. *SEC v. Securities Northwest, Inc.*, 573 F. 2d 622 (9th Cir. 1978).

In an action by the trustee of Investment Securities Corporation ("ISC") to set aside a preferential transfer to another broker-dealer, the Court of Appeals for the Eight Circuit reversed the lower court's finding that the other broker-dealer did not have reasonable cause to believe ISC was insolvent at the time it received securities from ISC as collateral for ISC's outstanding fail to receive. The court held that the circumstances should have incited a reasonably prudent broker-dealer to inquire further into ISC's affairs, and that the other broker-dealer would be charged with the knowledge it would have gained had the inquiry been made. *Green v.*

*A. G. Edwards & Co., Inc.*, 582 F. 2d 439 (8th Cir. 1978).

### Unlawful Transactions Not Protected

In the Provident Securities, Inc. liquidation, the United States District Court followed a line of cases which held that persons whose claims arise out of transactions in violation of the securities laws and margin regulations are not entitled to the special protections of SIPA. *SEC v. Provident Securities*, 425 F. Supp. 477 (S.D. N.Y. 1978).

In a Colorado case the bankruptcy judge held that the trustee can recover from an officer of the bankrupt broker-dealer the amount of customer funds which he converted to keep the broker-dealer in business. Certain other claims asserted against him by the trustee were not sustained. The court also held that, because of the officer's conversion, the officer's claim as a customer must be equitably subordinated to the claims of other customers and creditors of the debtor, and SIPC. *SIPC v. Institutional Securities of Colorado, Inc.*, Civ. Act. No. 76-M-961 (D. Colo., December 13, 1978). Appeals have been taken by the trustee and the bankrupt's officer.

## ADMINISTRATION

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### Directors

Following Senate confirmation of the appointment of Hugh F. Owens to a second term on the Board of Directors, President Carter designated Mr. Owens to be Chairman once again. The Senate also confirmed the reappointment to the Board of Ralph D. DeNunzio, President and Chairman of the Executive Committee of Kidder Peabody & Co., Inc., New York, New York, and the appointment of Brenton H. Ruppel, President, Robert W. Baird & Co., Inc. Milwaukee, Wisconsin, and Michael A. Taylor, Senior Vice President, Paine, Webber, Jackson & Curtis, Inc., New York, New York.

Adolph P. Schuman, President, Lilli Ann Corporation, San Francisco, California, was appointed to the Board by the President, confirmed by the Senate, and subsequently designated to be Vice Chairman.

### Staff Personnel

J. H. Moelter was named Assistant Vice Presi-

dent-Finance, replacing Thomas R. Cassella who left to assume a position with the NASD.

### SIPC Expenses

Expenses in 1978 were \$4,140,687, an increase of \$1,699,150 over 1977. Most of the increase was attributable to advances made to the trustee of I.E.S. Management Corporation, a liquidation which was begun in late 1977 and which has become SIPC's third most costly to date. Of the total, \$2,757,639 was for customer protection proceedings. Expenses of these proceedings during the year aggregated \$3,996,577; however, recoveries amounted to \$1,238,938.

Administrative expenses—the cost of the day-to-day operation of the Corporation—were down from the previous year for the fourth year in a row. Expenses in 1978 aggregated \$1,383,048, a reduction of \$26,423 from 1977. Appendix II presents an analysis of expenses.



# FINANCIAL STATEMENTS

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## ACCOUNTANTS' REPORT

To the Board of Directors  
Securities Investor Protection Corporation  
Washington, D. C.

We have examined the statement of financial condition of Securities Investor Protection Corporation as of December 31, 1978 and 1977, and the related statements of operations and fund balance and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Note 4 to the financial statements, the liquidation and direct payment costs to be incurred in subsequent years for customer protection proceedings not completed are not presently determinable; accordingly, no amounts have been provided therefor in the accompanying financial statements.

In our opinion, subject to the effect of the matter discussed above, the aforementioned financial statements present fairly the financial position of Securities Investor Protection Corporation at December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST  
(successors to the practice of  
S. D. Leidesdorf & Co.,  
certified public accountants)

New York, N.Y.  
January 16, 1979



# SECURITIES INVESTOR PROTECTION CORPORATION

## STATEMENT OF FINANCIAL CONDITION December 31, 1978 and 1977

### ASSETS

	1978	1977
Cash, operating and collection accounts .....	\$ 37,210	\$ 255,804
Estimated member assessments receivable (Note 3) .....	—	7,500,000
U.S. Government securities, at amortized cost and accrued interest receivable (1978 - \$4,310,241, 1977 - \$2,626,104); (approximate mar- ket 1978 - \$172,203,000, 1977 - \$151,196,000) .....	175,615,657	152,190,686
Advances to trustees, less allowance for possible losses (1978 - \$37,258,216, 1977 - \$38,181,843) (Note 4) .....	—	473,883
Furniture and equipment, at cost, less accumulated depreciation (1978 - \$68,212, 1977 - \$56,784), and leasehold improvements at amortized cost .....	50,391	61,024
Other .....	1,583	2,803
	\$175,704,841	\$160,484,200

### LIABILITIES AND FUND BALANCE

Advances to trustees - in process (Note 4) .....	\$ —	\$ 53,466
Accounts payable and accrued expenses .....	62,910	58,668
	62,910	112,134
Commitments (Note 4)		
Fund balance .....	175,641,931	160,372,066
	\$175,704,841	\$160,484,200

## STATEMENT OF OPERATIONS AND FUND BALANCE for the years ended December 31, 1978 and 1977

Revenues:		
Member assessments (Note 3) .....	\$ 8,235,672	\$ 30,836,226
Interest on U.S. Government securities .....	11,168,387	8,395,045
Interest on assessments .....	6,493	8,944
	19,410,552	39,240,215
Expenses:		
Administrative:		
Salaries and employee benefits .....	1,032,237	1,040,009
Legal and accounting fees .....	30,014	40,808
Rent .....	112,844	101,111
Other .....	207,953	227,543
	1,383,048	1,409,471
Customer protection proceedings (Note 4):		
Provision for possible losses on advances to trustees, net of recoveries (1978 - \$1,238,938, 1977 - \$2,589,673) .....	2,729,608	1,032,066
Direct payments .....	28,031	—
	2,757,639	1,032,066
	4,140,687	2,441,537
Excess revenues .....	15,269,865	36,798,678
Fund balance, beginning of year .....	160,372,066	123,573,388
Fund balance, end of year .....	\$175,641,931	\$160,372,066

The accompanying notes are an integral part of the financial statements.



**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
for the years ended December 31, 1978 and 1977

	1978	1977
Cash provided from (used in) operations:		
Provided:		
Member assessments .....	\$15,735,672	\$30,836,226
Interest on U.S. Government securities .....	10,511,852	7,568,594
Interest on assessments .....	6,493	8,944
	26,254,017	38,413,764
Used:		
Administrative expenses .....	(1,365,266)	(1,402,648)
Advances to trustees, net of recoveries (1978 - \$1,712,821, 1977 - \$2,115,790) .....	(2,309,191)	(1,542,847)
Direct payments .....	(28,031)	—
	(3,702,488)	(2,945,495)
	22,551,529	35,468,269
Other uses of cash:		
Purchases of U.S. Government securities, net .....	(22,768,436)	(35,903,393)
Miscellaneous .....	(1,687)	(2,408)
Decrease in cash .....	(218,594)	(437,532)
Cash, beginning of year .....	255,804	693,336
Cash, end of year .....	\$ 37,210	\$ 255,804

The accompanying notes are an integral part of the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**1. Organization**

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970 primarily for the purpose of providing protection to customers of its members. SIPC is a non-profit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange except for those persons excluded under SIPA.

**2. The "SIPC Fund"**

The "SIPC Fund," as defined by SIPA, consisted of the following at December 31, 1978 and 1977:

	1978	1977
Cash	\$ 37,210	\$ 255,804
U.S. Government securities	175,615,657	152,190,686
	\$175,652,867	\$152,446,490

In the event that the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed \$1,000,000,000.

**3. Estimated member assessments receivable and assessment revenues**

General assessments on gross revenues from the securities business, payable quarterly, were at the rate of ¼% for the period January 1 through June 30, 1978 and ½% for 1977. Assessments were suspended for the period July 1 through December 31, 1978. For 1979 each member will pay a \$25 annual general assessment.

**4. Customer protection proceedings and commitments**

Customer protection proceedings include liquidations conducted by court appointed trustees and direct payment procedures conducted by SIPC. Trustees had been appointed under SIPA





for 130 members placed in liquidation as of December 31, 1978, 2 of which were appointed during 1978 and 7 during 1977. Additionally, direct payment procedures, pursuant to amendments to SIPA effective May 21, 1978, were instituted in respect of 2 members during 1978. At year-end 88 cases had been completed, 14 in 1978 and 21 in 1977. Data presently available for customer protection proceedings not completed are inconclusive and no determination of the amounts which will be required to satisfy customer claims, or for the other costs which will be incurred in these cases, is possible at this time; accordingly, no provision has been made therefor in the accompanying financial statements.

Advances to trustees represent net amounts disbursed and amounts currently payable for liquidations not completed. SIPC provides a 100% allowance for all advances to trustees. Amounts of unexpended advances, as well as any ex-

pendent advances for which SIPC has subrogated rights, may be recovered by SIPC. Recoveries are applied as a reduction of the advances to trustees and the allowance for possible losses on advances. Amounts which subsequently may be returned are not presently determinable. The balance of \$473,883 shown as Advances to trustees at December 31, 1977 represents an amount recovered in 1978 pursuant to a court order entered December 21, 1977.

Customer payments and related expenses of direct payment procedures are recorded as expenses as they are incurred.

#### 5. Retirement Plan

SIPC has a non-contributory retirement plan covering all employees. SIPC's policy is to fund retirement expense accrued. Retirement expense was \$95,000 in 1978 and \$98,000 in 1977.



**APPENDIX I**

**CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA**

**PART A: Customer Claims and Distributions Being Processed by Trustees**

Member and Trustee By Date of Appointment	Date Regis- tered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
<b>THIRD QUARTER 1977</b>					
I.E.S. Management Group, Inc., Irvington, New Jersey (Michael R. Griffinger, Esq.)	6/17/70	6/ 9/77	9/27/77	3,900	1,651
<b>THIRD QUARTER 1978</b>					
Douglas F. Brown Financial Services, Inc. Longview, Washington (James E. Newton, Esq.)	7/15/77	6/14/78	7/18/78	419	38
<b>TOTAL 2 MEMBERS: PART A</b>				<u>4,319</u>	<u>1,689</u>

**PART B: Customer Claims (Except Problem Claims) Have Been Satisfied**

**THIRD QUARTER 1971**

Security Planners Ltd., Inc., Boston, Massachusetts (William C. Foehl, Esq.)	2/12/68	3/18/71	8/ 6/71	300	150
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**FIRST QUARTER 1972**

JNT Investors, Inc., New York, New York (Jerry B. Klein)	6/17/70	2/15/72	2/15/72	1,572	938
C. H. Wagner & Co., Inc., Boston, Massachusetts (Thomas J. Carens, Esq.)	6/23/69	2/22/72	2/28/72	14,000	839

**FOURTH QUARTER 1972**

Equitable Equities, Inc., New York, New York (Robert E. Smith, Esq.)	2/ 4/70	10/13/72	10/13/72 2/15/78*	134	69
Havener Securities Corp., New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	900	533
C. I. Oren & Co., Inc., New York, New York (Martin R. Gold, Esq.)	11/10/68	10/13/72	10/26/72	345	61

**FIRST QUARTER 1973**

Provident Securities, Inc., New York, New York (Harvey R. Miller, Esq.)	3/16/69	1/23/73	2/ 2/73 9/10/75*	2,100	850
Custodian Security Brokerage Corp., New York, New York (Lyonel E. Zunz, Esq.)	4/25/71	3/ 6/73	3/ 7/73	673	67
Morgan Kennedy & Co., Inc., New York, New York (Eugene L. Bondy, Jr., Esq.)	1/19/66	3/ 9/73	3/13/73	3,114	1,446

\* Successor Trustee



Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund		Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
Value	Number Customers	Value	Number Customers						
				\$2,449,110	\$ 174,388			\$2,274,722	195
				3,707	3,707				
				<u>\$2,452,817</u>	<u>\$ 178,095</u>			<u>\$2,274,722</u>	<u>195</u>
\$	516	2		\$ 212,103	\$ 13,000		\$ 164,428	\$ 34,675	147
1,805,662	927	\$ 150,979	140	374,235	140,433	\$ 19,863	22,994	190,945	146
54,889	8			1,140,300	69,312	9,886	72,847	988,255	253
128,362	45			80,465		27,604	16,034	36,827	33
293,394	86	520,867	326	416,399	202,416	24,044	16,368	173,571	233
1,800	1			319,442	183,237	59,071	33,710	43,424	45
229,976	742			915,776	283,176		304,753	327,847	665
1,219	3			134,272	81,634		29,927	22,711	17
1,664,435	1,642			946,006	491,964	23,085	211,380	219,577	688



**APPENDIX I**

**CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA**

**PART B: Customer Claims (Except Problem Claims) Have Been Satisfied**

Member and Trustee By Date of Appointment	Date Regis- tered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
<b>FIRST QUARTER 1973 (Cont'd)</b>					
Lexington Capital Corp., New York, New York (Peter H. Morrison, Esq.)	11/19/69	3/21/73	3/26/73	1,918	628
Pacific Western Securities, Inc., Los Angeles, California (Edwin M. Lamb)	8/ 7/66	3/26/73	3/28/73	3,023	521
<b>SECOND QUARTER 1973</b>					
J. Shapiro Co., Minneapolis, Minnesota (William T. Dolan, Esq.)	7/31/68	4/13/73	4/13/73	32,730	11,820
Weis Securities, Inc., New York, New York (Edward S. Redington, Esq.)	8/ 1/65	5/24/73	5/30/73	55,026	34,000
† In the administration of the estate, funds used to pay customers' free credit balances or cash in lieu of securities were not segregated as to source.					
Smith & Medford, Inc., Atlanta, Georgia (William Green, Esq.)	9/ 2/70	5/31/73	6/ 1/73	1,705	525
<b>THIRD QUARTER 1973</b>					
Associated Underwriters, Inc., Salt Lake City, Utah (Richard L. Blanck, Esq.)	7/ 8/70	9/11/73	9/11/73 10/23/73*	150	45
Busec Securities Corp., Buena Park, California (Harold L. Orchid, Esq.)	8/10/69	9/13/73	9/14/73	575	65
<b>FIRST QUARTER 1974</b>					
Parker Jackson & Co., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	5/24/63	2/ 7/74	2/14/74	2,400	1,103
<b>SECOND QUARTER 1974</b>					
Memme & Co., Inc., New York, New York (Edward Farman, Esq.)	8/ 6/65	8/ 6/73	4/15/74	300	29
Christian-Paine & Co., Inc. Carlton Cambrige & Co., Inc. Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	7,884
<b>THIRD QUARTER 1974</b>					
Llorens Associates, Inc., New York, New York (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93

\* Successor Trustee





Distributions of Properties Held by Trustees

Specifically Identifiable		Single and Separate Fund		SIPC Advances to Trustees					
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances	Number of Customers
\$ 378,558	432			\$ 317,733	\$ 100,700	\$ 48,314	\$ 50,886	\$ 117,833	159
280,827	158	\$ 79,179	118	1,416,229	294,388	18,163	980,075	123,603	360
17,212,512	10,357	176,283	3,600	1,878,608			1,257,581	621,027	3,626
145,995,088	34,000 (Estimated)	30,078,893	34,000 (Estimated)	13,656,980			13,655,630†	1,350†	33,500 (Estimated)
150,798	298			275,968	72,576	25,685	172,458	5,249	272
12,575	10			110,154	64,843		10,650	34,661	32
5,975	4			124,822	30,428		94,282	112	75
42,899	417			127,285	75,649	963	26,929	23,744	154
70	6			69,056	37,753	7,562	4,300	19,441	14
763,856	12,561	16	3	3,252,679	946,297	3,125	2,044,056	259,201	6,571
31,174	40			70,816	14,574	214	17,823	38,205	30



**APPENDIX I**

**CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA**

**PART B: Customer Claims (Except Problem Claims) Have Been Satisfied**

Member and Trustee By Date of Appointment	Date Regis- tered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
<b>THIRD QUARTER 1974 (Cont'd)</b>					
Investment Securities Corp., Clayton, Missouri (Martin M. Green, Esq.)	11/ 8/69	7/ 8/74	7/ 8/74	1,400	490
Financial House, Inc., Detroit, Michigan (David Robb, Esq.)	3/ 9/55	9/17/74	9/18/74	1,958	708
<b>FOURTH QUARTER 1974</b>					
Henry C. Atkeison, Jr., d/b/a Ambassador Church Finance Development Group, Inc.; d/b/a Atalbe Christian Credit Association, Inc., Brentwood, Tennessee (Fred D. Bryan)	4/18/70	11/ 7/74	12/17/74	531	115
Universal Underwriting Service, Inc., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	8/28/71	11/25/74	12/26/74	5,500	1,100
<b>FIRST QUARTER 1975</b>					
Executive Securities Corp., New York, New York (Cameron F. MacRae III, Esq.)	11/ 8/67	2/14/75	2/14/75	8,740	2,757
G. H. Sheppard & Co., Inc., New York, New York (Jerome M. Selvers, Esq.)	4/ 4/73	3/ 4/75	3/25/75	175	27
<b>SECOND QUARTER 1975</b>					
Saxon Securities Corp., New York, New York (Joseph O. Barton)	11/27/68	1/24/75	4/ 1/75	685	81
Horvat, Maniscalco & Co., Bergenfield, New Jersey (Lawrence E. Jaffe, Esq.)	9/ 5/71	4/25/75	4/25/75	1,093	221
<b>THIRD QUARTER 1975</b>					
Investors Security Corp., Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	5/ 8/66	9/15/75	9/15/75	4,300	244
<b>FIRST QUARTER 1976</b>					
J. S. Roberts & Co., Westfield, New Jersey (Michael M. Marx)	8/26/70	2/ 2/76	2/11/76	696	74



Distributions of Properties Held by Trustees

Specifically Identifiable		Single and Separate Fund		SIPC Advances to Trustees					
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
\$ 515,614	388			\$ 351,519	\$ 5,000	\$ 81,078	\$ 181,751	\$ 83,690	162
431,422	226			916,970	231,454	38	568,250	117,228	284
6,860	11			89,917	65,507		22,243	2,167	17
109,816	574			169,213	62,272	14,620	31,130	61,191	164
2,268,426	1,218			2,121,009	25,531	30,535	1,449,655	615,288	1,341
11,071	6			154,456	60,436	8,950	26,866	58,204	15
19,226	40			19,040	9,874		4,463	4,703	11
910	2			802,901	33,430		726,052	43,419	250
800	1			320,732	89,627		115,857	115,248	17
		\$ 141,947	2	65,862			65,862		2



**APPENDIX I**

**CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA**

**PART B: Customer Claims (Except Problem Claims) Have Been Satisfied**

Member and Trustee By Date of Appointment	Date Regis- tered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
<b>FOURTH QUARTER 1976</b>					
Institutional Securities of Colorado, Inc., Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,760
E. J. Albanese & Co., Inc., New York, New York (Joseph O. Barton)	10/29/75	10/28/76	11/ 4/76	750	43
Stilwell, Coker & Co., Inc., Charleston, South Carolina (Norman W. Stevenson, Esq.)	10/ 9/73	12/16/76	12/16/76	539	77
<b>FIRST QUARTER 1977</b>					
A. H. Speer Co., Wichita, Kansas (Thomas R. Brunner)	12/12/75	1/24/77	2/ 1/77	1,500	202
Swift, Henke & Co., Inc., Chicago, Illinois (J. William Holland, Esq.)	5/30/65	3/14/77	3/15/77	1,350	186
<b>THIRD QUARTER 1977</b>					
Crystal Securities Corporation, Mendham, New Jersey (Bernard Hellring, Esq.)	1/ 6/60	9/16/77	9/16/77	55	25
<b>FOURTH QUARTER 1977</b>					
James A. Finan & Co., Inc., Jersey City, New Jersey (Bruce I. Goldstein, Esq.)	2/ 2/76	8/10/77	11/ 2/77	200	5
Willis E. Burnside & Co., Inc., New York, New York (Thomas Ungerland, Esq.)	10/13/46	12/20/77	12/21/77	986	222
Brokers Trading, Inc., Minneapolis, Minnesota (Timothy M. Heaney, Esq.)	12/23/76	12/16/77	12/22/77	1,343	147
<b>FIRST QUARTER 1978</b>					
San Francisco Investment Corporation, San Francisco, California (Patrick A. Murphy, Esq.)	5/28/65	3/16/78	3/16/78	514	15

**TOTAL 40 MEMBERS: PART B**





Distributions of Properties Held by Trustees

Specifically Identifiable		Single and Separate Fund		SIPC Advances to Trustees					
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
\$ 1,828,251	882	\$ 337,706	29	\$ 1,042,150		\$ 3,826	\$ 660,816	\$ 377,508	484
3,694	18	913	7	67,609			35,237	32,372	15
120,453	28	7,863	8	333,391	\$ 5,408		274,318	53,665	53
				936,115			8,750	927,365	117
2,092,090	75	44,949	11	696,350			336,509	359,841	103
5,103	4	4,240	2	151,527			38,024	113,503	24
				40,000				40,000	2
2,454	9			469,465	18,079	29,788	228,534	193,064	197
73,772	85			121,129	23,044	36,089	39,819	22,177	69
				96,717			30,000	66,717	6
<u>176,544,547</u>	<u>65,306</u>	<u>\$31,543,835</u>	<u>38,246</u>	<u>\$34,805,400</u>	<u>\$3,732,042</u>	<u>\$472,503</u>	<u>\$24,031,247</u>	<u>\$6,569,608</u>	<u>50,353</u>



APPENDIX I

CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA

PART C: Direct Payment Proceedings

Member	Date Regis- tered as Broker-Dealer	Date Notice Published	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
<b>THIRD QUARTER 1978</b>				
Benchmark Securities, Inc., Los Angeles, California	5/31/67	9/22/78	1,500	41
<b>FOURTH QUARTER 1978</b>				
Harold E. Pray Lewisburg, Pennsylvania	9/26/58	10/19/78	106	11
<b>TOTAL 2 MEMBERS: PART C</b>			<u>1,606</u>	<u>52</u>



Direct Payments

Total	Administration Expenses	Cash In Lieu of Securities	Free Credit Balances	Number of Customers
\$ 2,583	\$ 2,583			
25,448	448		\$ 25,000	1
<u>\$28,031</u>	<u>\$ 3,031</u>		<u>\$ 25,000</u>	<u>1</u>



**APPENDIX I**

**CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA**

**PART D: Liquidations Completed**

1978 Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Securities Northwest, Inc., Seattle, Washington (George W. McBroom, Esq.)	12/ 7/71	72	\$ 148,245
White & Co., Inc., St. Louis, Missouri (Hugh S. Hauck)	3/30/72	34	56,045
John E. Samuel & Co., White Plains, New York (Henry J. Smith, Esq.)	5/30/72	71	289,332
Kenneth Bove & Co., Inc., New York, New York (William W. Golub, Esq.)	8/17/72	6,242	4,601,109
Albert & Maguire Securities Co., Inc., Philadelphia, Pennsylvania (Donald M. Collins, Esq.)	10/19/72	1,402	2,914,256
First Eastern Investment Corp., Red Bank, New Jersey (Burton Peskin, Esq.)	12/11/72	46	87,311
Frank & Drake, Inc., New York, New York (Daniel F. Callahan, Esq.)	2/22/73	224	431,860
Oxford Securities, Ltd., New York, New York (Lewis Kruger, Esq.)	4/17/73 3/ 3/76*	135	51,444
P & H Associates, New York, New York (Edward Brodsky, Esq.)	4/17/73	643	491,539
R. S. Emerson Co., Agana, Guam (Hyman B. Rosenzweig**)	6/22/73	64	45,578
Duvest Corporation, Jersey City, New Jersey (Ralph M. Lowenbach, Esq.)	9/ 4/73	181	78,279
R. L. Whitney Securities, Inc., New York, New York (Thomas Ungerland, Esq.)	2/ 6/75	306	1,009,387
Ben Campo, d/b/a Campo & Co., Phoenix, Arizona (Ronald E. Warnicke, Esq.)	7/11/75	7	3,056
Westco Financial Corp., Denver, Colorado (William J. Fisher)	11/12/75	5	9,038
<b>TOTAL 14 MEMBERS 1978</b>		<u>9,432</u>	<u>10,216,479</u>
<b>TOTAL 74 MEMBERS 1973-1977<sup>(b)</sup></b>		<u>23,057</u>	<u>24,006,266</u>
<b>TOTAL 88 MEMBERS 1973-1978</b>		<u>32,489</u>	<u>\$34,222,745</u>

\* Successor Trustee  
\*\* Deceased



## Distributions of Properties Held by Trustees

Customers' Specifically Identifiable	Single and Separate Fund and General Estate		SIPC Advances to Trustees				
	Customers and Others	Administration Expenses	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances
\$ 67,575	\$ 39,254	\$ 41,416	\$ 54,198		\$ 19,165	\$ 1,875	\$ 33,158
8,775	100	47,170	573,571	\$ 142,319		385,031	46,221
	178,762	110,570	206,944	54,464	103,562	36,955	11,963
2,524,223	1,020,261	1,056,625	967,458	44,383	11,298	201,041	710,736
806,669	1,502,587	605,000	602,002			512,537	89,465
21,095	31,831	34,385	61,247			18,376	42,871
373,946		57,914	217,164	148,769		35,544	32,851
7,283	30,710	13,451	62,166	22,706	333	24,330	14,797
215,654	176,207	99,678	329,616	72,713	15,337	69,416	172,150
20,648	1,077	23,853	208,786	34,912		162,879	10,995
59,580	515	18,184	73,485	47,706		9,661	16,118
239,675	540,589	229,123	243,596			226,790	16,806
		3,056	70,025	22,784		42,237	5,004
2,624		6,414	16,687	14,839		1,848	
<u>4,347,747</u>	<u>3,521,893</u>	<u>2,346,839</u>	<u>3,686,945</u>	<u>605,595</u>	<u>149,695</u>	<u>1,728,520</u>	<u>1,203,135</u>
<u>14,171,895</u>	<u>4,986,506</u>	<u>4,847,865</u>	<u>15,612,477</u>	<u>4,557,152</u>	<u>523,342</u>	<u>6,380,615</u>	<u>4,151,368</u>
<u>\$18,519,642</u>	<u>\$8,508,399<sup>(c)</sup></u>	<u>\$7,194,704</u>	<u>\$19,299,422</u>	<u>\$5,162,747</u>	<u>\$673,037</u>	<u>\$8,109,135</u>	<u>\$5,354,503</u>





**APPENDIX I**

**CUSTOMER PROTECTION PROCEEDINGS UNDER SIPA**

**PART E: Summary**

	Responses Received/ Customers Receiving Distributions	Total
Part A: 2 Members—Customer Claims and Distributions Being Processed by Trustees	1,689 <sup>(a)</sup>	
Part B: 40 Members—Customer Claims (Except Problem Claims) Have Been Satisfied	70,165 <sup>(a)</sup>	\$208,088,382
Part C: 2 Members—Direct Payment Proceedings	52 <sup>(a)</sup>	
Sub-Total	<u>71,906</u>	<u>208,088,382</u>
Part D: 88 Members—Liquidations Completed	32,489 <sup>(d)</sup>	34,222,745
<b>TOTAL</b>	<u><u>104,395</u></u>	<u><u>\$242,311,127</u></u>

Notes:

- (a) Notices and claim forms are commonly sent to all persons who, from the debtor's records, may have been customers. This is done so that potential claimants may be advised of the proceeding.
- (b) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.
- (c) Includes \$304,814 for open contractual commitments and \$307,717 paid to general creditors other than SIPC.
- (d) Number of customers receiving securities and/or cash.
- (e) To be reported at completion of liquidation.



Distributions of Properties Held by Trustees

Customers' Specifically Identifiable	Single and Separate Fund and General Estate		SIPC Advances to Trustees and Direct Payments				
	Customers And Others	Administration Expenses	Total	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances
		(e)	\$ 2,452,817	\$ 178,095			\$ 2,274,722
\$176,544,547	\$31,543,835	(e)	34,805,400	3,732,042	\$ 472,503	\$24,031,247	6,569,608
			28,031	3,031			25,000
<u>176,544,547</u>	<u>31,543,835</u>		<u>37,286,248</u>	<u>3,913,168</u>	<u>472,503</u>	<u>24,031,247</u>	<u>8,869,330</u>
<u>18,519,642</u>	<u>8,508,399</u>	<u>\$7,194,704</u>	<u>19,299,422</u>	<u>5,162,747</u>	<u>673,037</u>	<u>8,109,135</u>	<u>5,354,503</u>
<u>\$195,064,189</u>	<u>\$40,052,234</u>	<u>\$7,194,704</u>	<u>\$56,585,670</u>	<u>\$9,075,915</u>	<u>\$1,145,540</u>	<u>\$32,140,382</u>	<u>\$14,223,833</u>



APPENDIX II

Analysis of SIPC Revenues and Expenses

	1978
Revenues:	
Member assessments and contributions	\$ 8,235,672
Interest:	
U.S. Government securities	11,168,387
Assessments	6,493
	<u>19,410,552</u>
Expenses:	
Administrative:	
Salaries and employee benefits:	
Salaries	854,828
FICA taxes	31,472
D.C. and Federal unemployment tax	7,507
Group health and life insurance	32,472
Contribution to Employees' Retirement Trust	95,000
Other employee benefits	10,958
	<u>1,032,237</u>
Assessment collection direct costs	4,800
Credit agreement commitment fee	—
Legal fees	22,814
Accounting fees	7,200
Other:	
Printing and mailing annual and interim reports	11,505
Directors fees and expenses	2,517
Travel and subsistence	37,281
Personnel recruitment	1,855
Rent - office space	112,844
Depreciation and amortization	12,320
Insurance	7,615
Postage	7,763
Office supplies and expense	56,842
Telephone and telegraph	22,783
Custodian fees	14,230
Miscellaneous	28,442
	<u>315,997</u>
	<u>1,383,048</u>
Customer protection proceedings:	
Provision for possible losses on advances to trustees:	
For completion of open contractual commitments (net recoveries)	(128,449)
Cash in lieu of securities (net recoveries)	75,688
Free credit balances	2,545,722
	<u>2,492,961</u>
Administration expenses	236,647
	<u>2,729,608</u>
Direct payments:	
Free credit balances	25,000
Administration expenses	3,031
	<u>28,031</u>
	<u>2,757,639</u>
	<u>4,140,687</u>
Excess revenues	<u>\$15,269,865</u>



## for the Five Years Ended December 31, 1978

1977	1976	1975	1974
\$30,836,226	\$32,709,210	\$25,485,635	\$18,027,633
8,395,045	6,350,313	5,126,165	3,914,782
8,944	7,262	24,982	16,311
<u>39,240,215</u>	<u>39,066,785</u>	<u>30,636,782</u>	<u>21,958,726</u>
859,938	946,255	965,631	900,858
30,521	34,514	34,083	32,511
6,335	6,892	7,046	8,597
32,828	32,809	31,324	18,387
98,000	96,000	71,000	35,900
12,387	14,124	13,794	10,828
<u>1,040,009</u>	<u>1,130,594</u>	<u>1,122,878</u>	<u>1,007,081</u>
8,760	9,439	10,035	11,124
—	—	103,472	189,931
<u>26,808</u>	<u>22,624</u>	<u>6,256</u>	<u>86,991</u>
<u>14,000</u>	<u>12,900</u>	<u>8,800</u>	<u>21,520</u>
11,513	11,926	15,529	13,076
2,610	3,200	5,678	8,260
53,625	49,745	66,119	62,320
4,202	4,896	21,830	15,131
101,111	103,974	92,955	91,903
12,664	13,278	13,362	12,093
7,270	6,176	4,299	4,452
6,690	6,567	4,430	5,221
55,255	54,153	47,549	65,667
25,694	28,964	28,147	32,906
16,521	14,812	17,610	18,691
22,739	21,557	13,293	26,071
<u>319,894</u>	<u>319,248</u>	<u>330,801</u>	<u>355,791</u>
<u>1,409,471</u>	<u>1,494,805</u>	<u>1,582,242</u>	<u>1,672,438</u>
29,544	(26,574)	223,250	167,769
(888,179)	565,401	3,129,514	(2,273,231)
<u>1,112,270</u>	<u>224,966</u>	<u>1,393,839</u>	<u>1,883,472</u>
253,635	763,793	4,746,603	(221,990)
778,431	797,745	1,798,915	864,867
<u>1,032,066</u>	<u>1,561,538</u>	<u>6,545,518</u>	<u>642,877</u>
—	—	—	—
—	—	—	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>1,032,066</u>	<u>1,561,538</u>	<u>6,545,518</u>	<u>642,877</u>
<u>2,441,537</u>	<u>3,056,343</u>	<u>8,127,760</u>	<u>2,315,315</u>
<u>\$36,798,678</u>	<u>\$36,010,442</u>	<u>\$22,509,022</u>	<u>\$19,643,411</u>



APPENDIX III

## Distributions for Accounts of Customers For the Eight Years Ended December 31, 1978

(In Thousands of Dollars)

	From Debtors' Estates (Includ- ing Securities)	From SIPC	Total
1971	\$ 271	\$ 401	\$ 672
1972	9,300	7,343	16,643
1973	170,672	31,706	202,378
1974	21,582	(222)*	21,360
1975	6,379	4,746	11,125
1976	19,901	764	20,665
1977	5,462	254	5,716
1978	1,242	2,518	3,760
	\$234,809	\$47,510	\$282,319

\* Net recoveries

