



SIPC

*Securities Investor Protection Corporation
Annual Report 1988*



SECURITIES INVESTOR PROTECTION CORPORATION
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April 28, 1989

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 5th St., N.W.
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Eighteenth 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 dark ink, appearing to read "James G. Stearns". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James G. Stearns
Chairman

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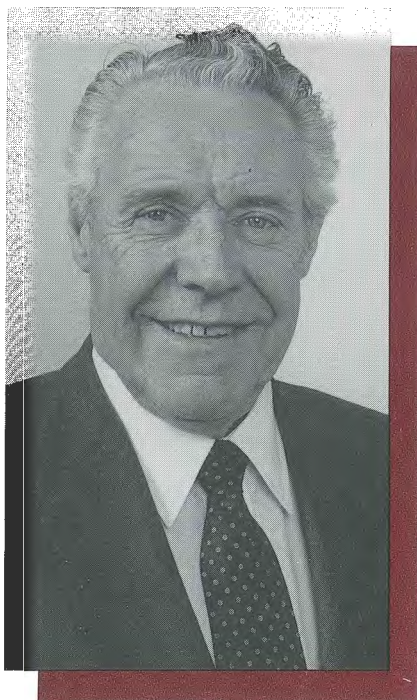
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“SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers . . .”*

*—Securities Investor Protection Act of 1970
Sec. 3(a)(1)(A) & (2)(A)*

*Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.

Message From The Chairman



I am pleased to report that in 1988, SIPC had a very low number of new customer protection proceedings. We started five new proceedings in 1988. This number, when added to the four proceedings commenced in 1987, gives us the lowest two-year period in our history and puts the average number of cases per year for the last ten years at seven. I am also pleased to report that as of December 31, 1988, the SIPC Fund stood at \$398.3 million—the highest level in SIPC's history.

Despite the present level of the SIPC Fund, the Board of Directors decided in June, 1988 to resume assessments based on a percentage of gross revenues from the securities business, effective January 1, 1989. The Board took this action after consultation with the staff of the Securities and Exchange Commission and with representatives of various self-regulatory and other industry organizations. While the SIPC Fund, coupled with SIPC's \$500 million line of credit with a consortium of banks, renewed through March, 1992, and its right to borrow up to \$1 billion from the Treasury through the Securities and Exchange Commission, appears, in light of SIPC's historical experience, to be sufficient to enable SIPC to carry out its anticipated responsibilities, the Board of Directors believed that it was appropriate to increase gradually SIPC's resources. There are many reasons for this action including the volatility of the securities markets demonstrated in 1987 and the changes which have taken place in the industry as well as in the SIPC program. The Board chose to recommence such assessments as of January 1, 1989, so as to give SIPC members ample time to plan for the added expenses and to give the collection agents time to prepare for the changes. It chose to set the assessment rate at $\frac{3}{16}$ ths of 1 percent per annum so as not to put too great a burden on the industry while, at the same time, adding substantially to the SIPC Fund over a reasonable period of time. The Board also decided to increase the minimum assessment from \$100 to \$150 in the belief that all registered broker-dealers benefited from the SIPC program and

should pay a reasonable amount to support it. The Board agreed to review formally both the assessment rate and the size of the SIPC Fund on an annual basis each June.

On September 9, 1988, the Securities and Exchange Commission approved the Board's actions on assessments, stating as follows:

The Commission believes that SIPC's proposed actions provide substantial protections for customers of broker-dealers liquidated under SIPA. The Commission believes that revenue based assessments will, over time, increase the size of the SIPC Fund and promote investor confidence. In this connection, the Commission believes that a gradual increase in the size of the SIPC Fund is prudent particularly in light of the large short-term allocation of funds which would likely be necessary in the unlikely event of a liquidation of a large broker-dealer. The \$150 minimum assessment will represent an increase of \$50 over the current minimum assessment and will apply to all SIPC members, including firms that do not carry customer accounts or hold customer funds and securities. The Commission believes, however, that all SIPC firms benefit from participation in the securities markets and should contribute to a fund which maintains investor confidence in the securities markets thus redounding to their benefit.

I want to thank all who have supported the SIPC program over the years with their money, talents, and energies. It is that support which enables us to report the present strength and health of the SIPC program.

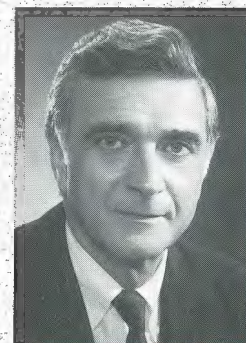
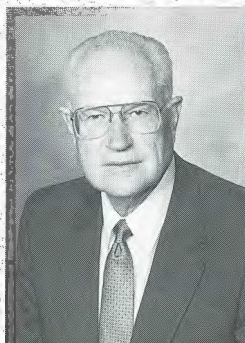
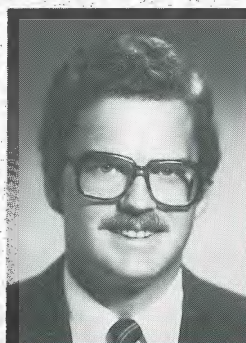
A handwritten signature in dark ink, appearing to read "James G. Stearns". The signature is fluid and cursive, with a long horizontal stroke at the end.

James G. Stearns
Chairman

Securities Investor Protection Corporation



JAMES G. STEARNS
Chairman



Directors

JESSE D. WINZENRIED
Vice Chairman

THOMAS J. HEALEY
Partner
Goldman Sachs & Co.
New York, New York

FRANK G. ZARB
Chairman & Chief Executive Officer
Smith, Barney, Harris Upham & Co., Inc.
New York, New York

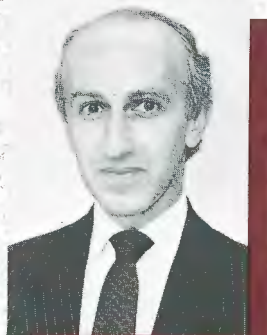
Officers

THEODORE H. FOCHT
President & General Counsel

JOHN B. BOURNE
Vice President—Finance

MICHAEL E. DON
Deputy General Counsel & Secretary

J. H. MOELTER
Vice President—Operations



FREDERICK N. KHEDOURI
Managing Director
Bear Stearns & Co., Inc.
Washington, D.C.

MICHAEL J. PRELL
Director, Division of Research and
Statistics
Board of Governors of the Federal
Reserve System
Washington, D.C.

DAVID W. MULLINS, JR.
Assistant Secretary for Domestic Finance
Department of the Treasury
Washington, D.C.



Customer Protection Proceedings

"An Act to provide greater protection for customers of registered brokers and dealers and members of national securities exchanges."

—Preamble to SIPA

Customer protection proceedings were initiated for five SIPC members in 1988, bringing the total since SIPC's inception to 206 proceedings commenced under SIPA. The 206 members represent less than 1 percent of the approximately 25,700 broker-dealers that have been SIPC members during the last 18 years. Currently, SIPC has 12,022 members.

The five new cases compare with four commenced in 1987. Over the last ten-year period, the annual average of new cases was seven. During SIPC's first five years, 1971 through 1975, new proceedings averaged 23 per year.

Trustees other than SIPC were appointed in three of the cases commenced during the year, SIPC serves as trustee in one and the other case was a direct payment proceeding. SIPC members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	3/21/88
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	5/25/88
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (David Newsome, Esq.)	6/28/88
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	9/08/88
Rothschild Equity Management Group, Inc. Ft. Lauderdale, Florida (Direct Payment)	12/09/88*

*Date notice published

Of the 206 proceedings begun under SIPA to date, 156 have been completed, 46 involve pending litigation matters, and claims in 4 are being processed (See Figure I and Appendix I).

During SIPC's eighteen year history, cash and securities distributed for accounts of customers aggregated approximately \$1.4 billion. Of that amount, approximately \$1.2 billion came from debtors' estates and \$187 million came from the SIPC Fund (See Appendix III).

SIPC Fund Advances

Table I shows that the 39 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for 84 percent of the total advanced in all 206 customer protection proceedings. The largest net advance in a single liquidation is \$39 million for Bell & Beckwith. This exceeds the net advances in the 167 smallest proceedings combined.

In nine proceedings SIPC advanced \$129 million, or 57 percent of net advances from the SIPC Fund for all proceedings.

Claims over the Limits

Of the more than 240,000 claims satisfied as of December 31, 1988, a total of 305 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 305 claims, a net decrease of 15 during 1988, represent less than two-tenths of one percent of all claims satisfied. The unsatisfied portion of claims, \$31.7 million, decreased approximately \$19.1 million during 1988. These remaining claims approximate 2 percent of the total value of securities and cash distributed for accounts of customers.

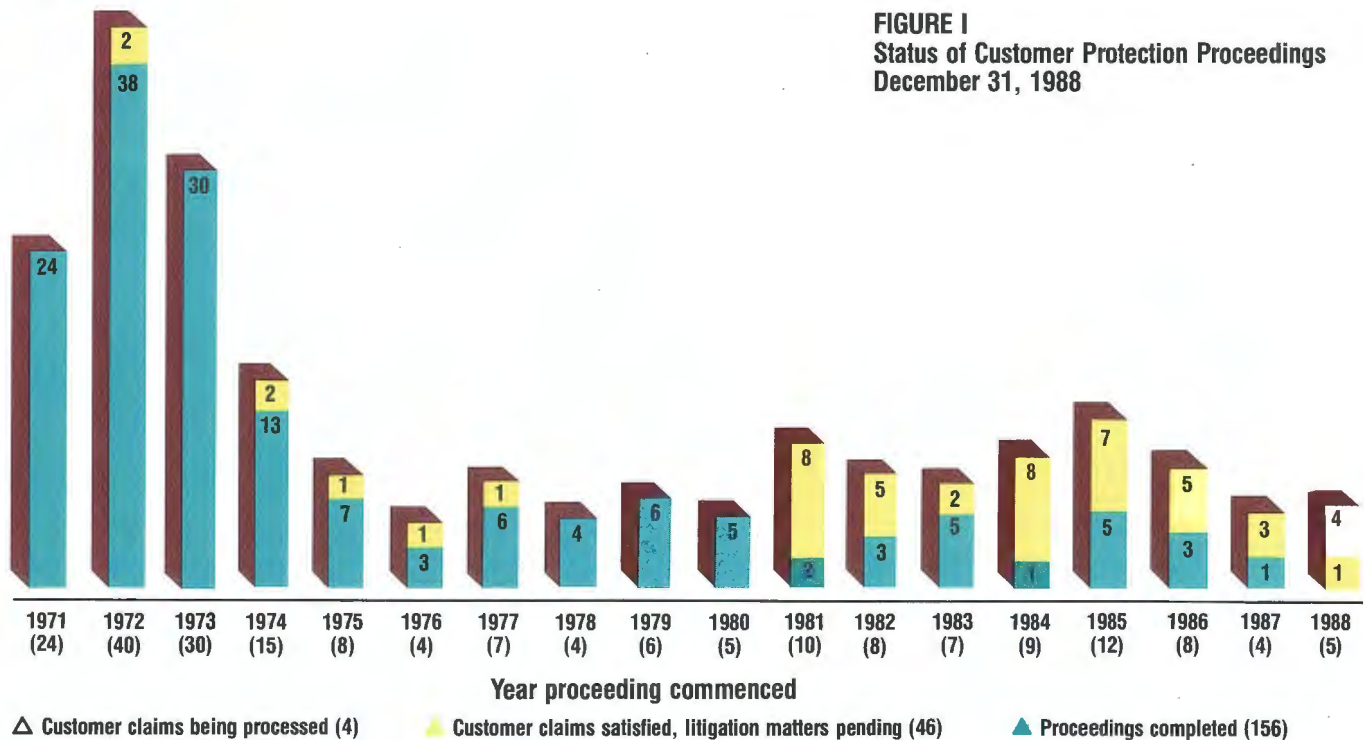


FIGURE 2
Location of Customer Protection Proceedings
1971-1988

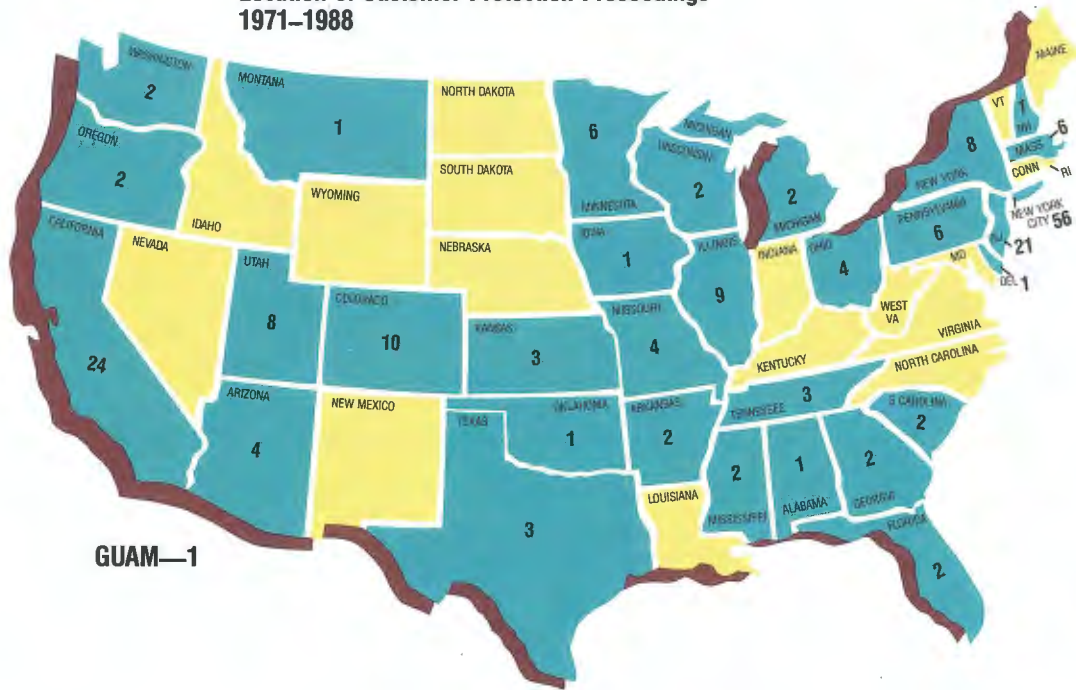


TABLE I
Net Advances from the SIPC Fund
December 31, 1988
206 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	4	\$ 93,322,552
5,000,001	\$10,000,000	5	35,227,119
1,000,001	5,000,000	30	60,825,482
500,001	1,000,000	23	16,873,591
250,001	500,000	27	9,160,243
100,001	250,000	43	7,096,148
50,001	100,000	38	2,726,794
25,001	50,000	19	709,239
10,001	25,000	6	88,490
0	10,000	7	25,162
Net recovery		4	(1,119,827)*
			<u>\$224,934,993[†]</u>

*Recovery of assets and appreciation of debtors' investments after the filing date enabled the trustee to repay SIPC its advances plus interest.

[†]Consists of advances for accounts of customers (\$187,417,905) and for administration expenses (\$37,517,088).

Administration

Four of SIPC's Directors left the Board during 1988. In March, Frank G. Zarb was appointed as an industry member of our Board, replacing James W. Fuller of San Francisco who had served on the Board since 1982. Mr. Zarb is currently Chairman and Chief Executive Officer of Smith Barney, Harris Upham & Co., Inc.

In April 1988, after Senate confirmation, Jesse D. Winzenried was appointed a SIPC Director and designated Vice Chairman of the Board by President Reagan. Mr. Winzenried, of Cody, Wyoming, is a retired executive from Crown Central Petroleum Corporation. He replaced Roger A. Yurchuck of Columbus, Ohio.

In December 1988, President Reagan made a recess appointment of Frederick N. Khedouri as a SIPC Director.

Mr. Khedouri, Managing Director of Bear Stearns & Co., Inc., is from Washington, D.C. He replaces David F. Goldberg of Chicago who had served as a Director of SIPC for over five years.

Additionally, in August 1988, Charles O. Sethness, Assistant Secretary for Domestic Finance, stepped down from his position on the SIPC Board at the time he resigned his position at the U.S. Treasury. On April 5, 1989, the Secretary of the Treasury designated David W. Mullins, Jr., Assistant Secretary for Domestic Finance, as Mr. Sethness' successor on the SIPC Board.

SIPC has benefitted greatly from the talents and expertise of Messrs. Fuller, Yurchuck, Goldberg and Sethness, and we thank them for their time and service on our Board.

Membership and the SIPC Fund

"SIPC shall . . . impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may deem necessary . . ."

—SIPA, Sec. 4(c)2

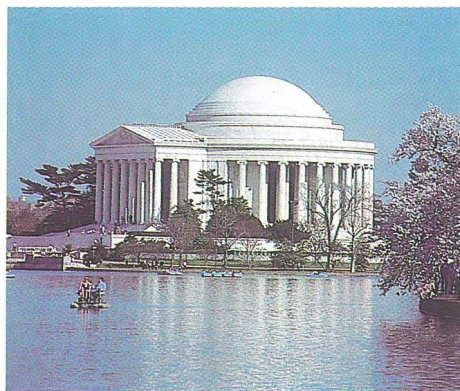
The net decrease of 54 members during the year brought the total membership to 12,022 at December 31, 1988. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

TABLE II
SIPC Membership
Year Ended December 31, 1988

Agents for Collection of SIPC Assessments	Added(a)	Terminated(a)	Total
National Association of Securities Dealers, Inc.	369	184	5,602
SIPC(b)	651	1,203	2,676
Chicago Board Options Exchange Incorporated	147	17	1,791
New York Stock Exchange, Inc.	49	10	844
American Stock Exchange, Inc.	52	13	490
Pacific Stock Exchange, Inc.	51	1	296
Philadelphia Stock Exchange, Inc.	30	7	201
Midwest Stock Exchange, Inc.	7	—	94
Boston Stock Exchange, Inc.	—	—	28
	<u>1,356</u>	<u>1,435</u>	<u>12,022</u>

Notes:

- Excluding transfers 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. The additions in this category reflect the temporary status of many broker-dealers between the date of their registrations under Section 15(b) of the 1934 Act and their becoming members of a securities exchange or association. The large number of terminations reflect the temporary status after broker-dealers terminate their memberships in these self-regulatory organizations and before their withdrawal of registrations as broker-dealers.



Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).¹ As of December 31, 1988, there were 1,638 members who were subjects of uncured notices, 634 of which were mailed during 1988, 430 during 1987 and 574 during the years 1979 through 1986. Subsequent filings and payments by 28 members left 1,610 notices uncured. SIPC has been advised by the SEC staff that: (a) 270 member registrations have been cancelled or are being withdrawn; (b) 993 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 11 are expected to cure their delinquencies; and (d) 336 are being contacted by its regional offices or the affected examining authorities.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities, amounted to \$398.3 million at year end, an increase of \$9.2 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1988. The 1988 interest from investments was \$28.7 million and member assessments were \$1.0 million. During the periods 1971 through 1977 and 1983 through 1985, member assessments were the principal source of revenues and they were based on a percentage of each member's gross revenue from the securities business.

Appendix II is an analysis of revenues and expenses for the five years ended December 31, 1988.

¹14(a) Failure to Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required 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, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the full amount so 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.

TABLE III
SIPC Revenues for the
Eighteen Years Ended December 31, 1988

- Member assessments and contributions: \$389,801,000
- Interest on U.S. Government securities: \$279,790,000

History of Member Assessments*

1971: 1/2 of 1% plus an initial assessment of 1/3 of 1% of 1969 revenues, \$150 minimum.
 1972-1977: 1/2 of 1%.
 January 1-June 30, 1978: 1/4 of 1%.
 July 1-December 31, 1978: None.
 1979-1982: \$25 uniform annual assessment.
 1983-March 31, 1986: 1/4 of 1% effective May 1, 1983 (\$25 minimum).
 1986-1988: \$100 annual assessment.

*Rates based on each member's gross revenues from the securities business.

Millions of Dollars

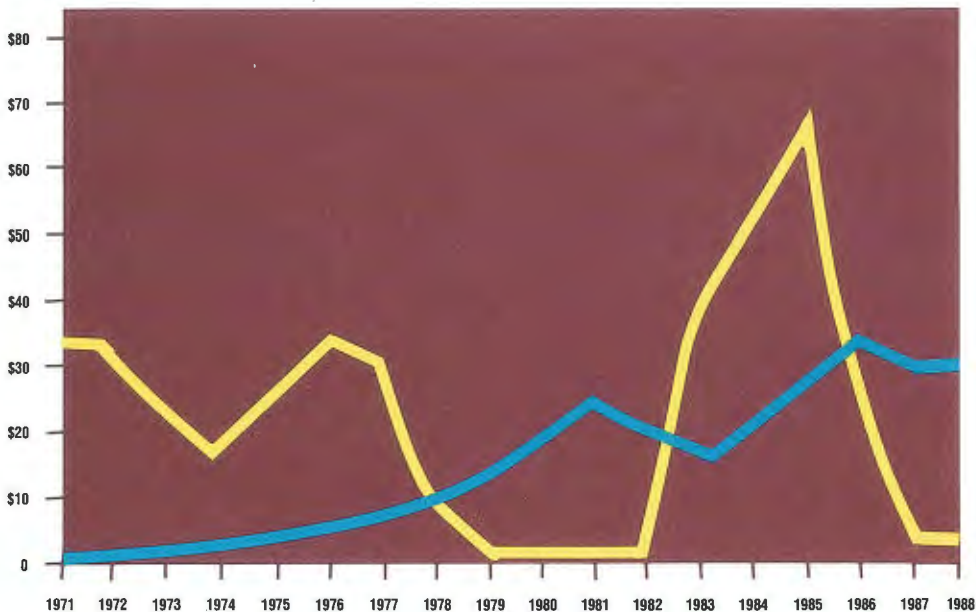
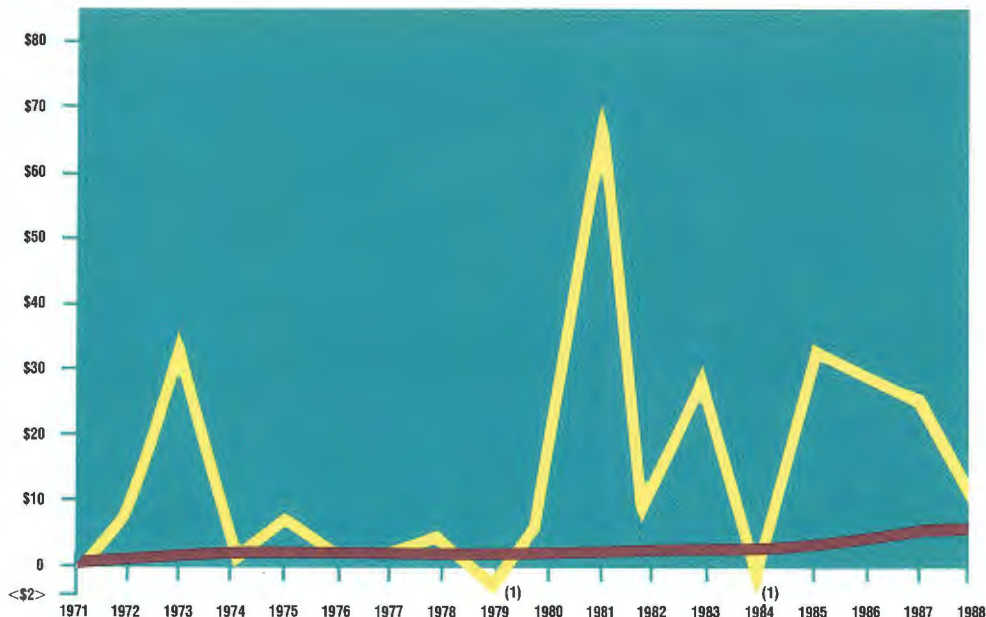


TABLE IV
SIPC Expenses for the Eighteen Years
Ended December 31, 1988

- Customer protection proceedings: \$261,735,000
 (Includes net advances of \$224,935,000 less estimated future recoveries of \$7,200,000 and \$44,000,000 of estimated costs to complete proceedings.)
- Other expenses: \$46,944,000

Millions of Dollars



(1) Net recoveries.

During 1988, SIPC and SIPC trustees were actively involved in litigation at both the trial and appellate levels. The more significant decisions are summarized below.

In *In re Bell & Beckwith (McGraw v. Connelly)*, 838 F.2d 844 (6th Cir. 1988), an action by the trustee to avoid as fraudulent a conveyance of the Debtor's assets as a fee to an attorney representing the Debtor's managing partner against criminal charges, the court of appeals reversed the decision of the district court. The court of appeals held that, under Ohio law, the circumstances surrounding the payment of the fee and the property with which the attorney was paid should have "excited suspicion" in the attorney; that he was under a duty of inquiry as to the source of his fee; and that such an inquiry would have clearly revealed that his fee was derived from assets fraudulently obtained from the Debtor. The court of appeals remanded the case to the district court with instructions to enter judgment in favor of the trustee.

In *Insurance Company of North America v. Gibalco, Inc.*, 847 F.2d 530 (9th Cir. 1988), the court of appeals affirmed the decision of the district court that awarded a \$3.3 million judgment to the trustee under the Debtor's Broker's Blanket Bond for losses sustained as a result of employee dishonesty and forgery. INA had argued on appeal that if the wrongdoing employee engaged in trading at any point to further his dishonest scheme to defraud the Debtor and its customers, the bond's trading loss exclusion precluded coverage for the Debtor's losses. The court of appeals rejected INA's argument because it "would eviscerate the employee dishonesty coverage provisions of the Bond in every case where a trade might occur in the course of an employee's dishonest scheme." The court found that the Securities and Exchange Commission, in requiring brokers' bonds to provide coverage against losses from employee dishonesty, intended such bonds to cover the kind of dishonest and fraudulent activity in which the Debtor's employee engaged.

In *In re Brentwood Securities, Inc. (SIPC v. Pepperdine University)*, 87 B.R.

602 (9th Cir. BAP 1988), the Bankruptcy Appellate Panel affirmed the bankruptcy court's orders which determined that the claimants were customers under the provisions of SIPA. Although the claimants had drawn their checks to the issuer of the stock they wished to purchase and the issuer collected the proceeds of the checks, the BAP held that the claimants should be afforded the protections under SIPA because the claimants reasonably assumed they were investing with the Debtor. An appeal by the trustee to the United States Court of Appeals for the Ninth Circuit is pending (No. 88-6257).

In *In re Beville, Bresler & Schulman, Inc. (Hill v. Spencer Savings and Loan Association)*, Civ. A. No. 85-2224, Bkrcty No. 85-0180 (SIPA), Adv. No. 87-530 (D.N.J., February 8, 1988), an action by the trustee against an S&L to avoid transfers of securities, the district court held the S&L cannot utilize its claims against the Debtor as a set-off against amounts recovered by the trustee in the avoidance action, and that the S&L has no post-petition indemnity or pre-petition recoupment claims.

In another decision in *In re Beville, Bresler & Schulman (Hill v. Spencer Savings & Loan Association)*, 83 B.R. 880 (D.N.J. 1988), the district court held that the filing date under SIPA in this case is the date on which the SEC filed a complaint pursuant to which a receiver was appointed and that customer property is valued as of that date. The court also held that the SIPA customer fund distribution plan is not an unconstitutional taking of property in violation of the Fifth Amendment.

In *Netelkos v. Weinberg*, Civ. Action No. 87-1435 (D.N.J., May 20, 1988), an action by the convicted principal of the Debtor against the SIPA trustee, his counsel, and SIPC for fraud, misrepresentation, and mismanagement in connection with the liquidation of the Debtor, the district court dismissed the action and held that the SIPA trustee and his counsel have immunity because the acts complained of were undertaken as part of official duties in the SIPA liquidation proceeding and were carried out under the supervision of the district and bank-

ruptcy courts. The district court also held that there was no showing that SIPC did not act in good faith and thus is excused from tort liability pursuant to 15 U.S.C. §78kkk(c).

In *Netelkos v. Star Ledger*, Civil Action No. 87-773 (D.N.J., May 20, 1988), an action for libel for certain allegedly defamatory statements in a report prepared by the SIPA trustee's counsel and filed as part of the court record pursuant to court order, the district court held that the SIPA trustee and his counsel were immune from liability.

In *In re Brittenum & Associates, Inc. (Dowden v. Cross County Bank)*, 83 B.R. 574 (E.D. Ark. 1988), the district court affirmed the bankruptcy court's decision and held that a bank could not set off against a certificate of deposit and a savings account, both of which were entitled "Special Reserve Account for the Exclusive Benefit of Customers" pursuant to SEC Rule 15c3-3, 17 C.F.R. §240.15c3-3 (1987).

In *In re Government Securities Corporation*, 90 B.R. 539 (Bankr. S.D. Fla. 1988), the bankruptcy court held that a customer does not have a claim against the fund of customer property for the retail mark-up the Debtor had charged on the customer's purchase of fixed-rate securities. The court also held that the customer's claim for loss of use of funds is not allowable under SIPA, "no matter how long the delay in the trustee's payment of monies on a customer's claim."

SIPC v. Vigman, Case No. CV 83-4742-AWT (Tx), is an action wherein SIPC and trustees for two broker-dealers in liquidation under SIPA alleged numerous violations of the antifraud provisions of the securities laws and of the Racketeer Influenced and Corrupt Organizations Act ("RICO") by various individuals, corporate entities related to them, and seven issuers of securities in which the two broker-dealers made markets. In an order dated October 28, 1988, the district court granted the summary judgment motion of one of the defendants and held, among other things, that SIPC did not have standing to bring the action under RICO. An appeal to the United States Court of Appeals for the Ninth Circuit is pending (No. 89-55094).

*"Congress enacted SIPA to . . . restore confidence in the capital markets, and upgrade the financial responsibility requirements for registered brokers and dealers. The Act ap-
portions responsibility for these tasks among the SEC, the securities industry self-regulatory organizations and the SIPC . . ."*

—Supreme Court Justice T. Marshall
May 19, 1975*

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with

the SEC and with law enforcement authorities in their investigations of possible violations of law.

As a result of SEC and self-regulatory action in 1988 six persons associated with members subject to SIPC proceedings were barred from association with any broker or dealer.

Criminal and Administrative Actions

Criminal action has been initiated in 71 of the 206 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December, 1970. A total of 192 indictments have been returned in federal or state courts, resulting in 158 convictions to date. As of December 31, 1988, trial or sentencing was pending against 2 persons who had been indicted or convicted.

Administrative and/or criminal action in 194 of the 206 SIPC customer protection proceedings initiated through December 31, 1988, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	53
2. Exclusive SEC Administrative Action	40
3. Exclusive Self-Regulatory Administrative Action	27
4. Criminal and Administrative Action	67
5. Criminal Action Only	7
Total	194

In the 187 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension ¹	97	85
Bar from Association	320	182
Fines	Not Applicable	\$806,000

Suspensions by self-regulatory authorities ranged from five days to a maximum of ten years. Those imposed by the SEC ranged from five days to a maximum of one year.

Bars against associated persons included exclusion from the securities business as well as bars from association in a principal or supervisory capacity.

The \$806,000 in fines assessed by self-regulatory authorities were levied against 67 associated persons and ranged from \$250 to \$100,000.

Members in or Approaching Financial Difficulty

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

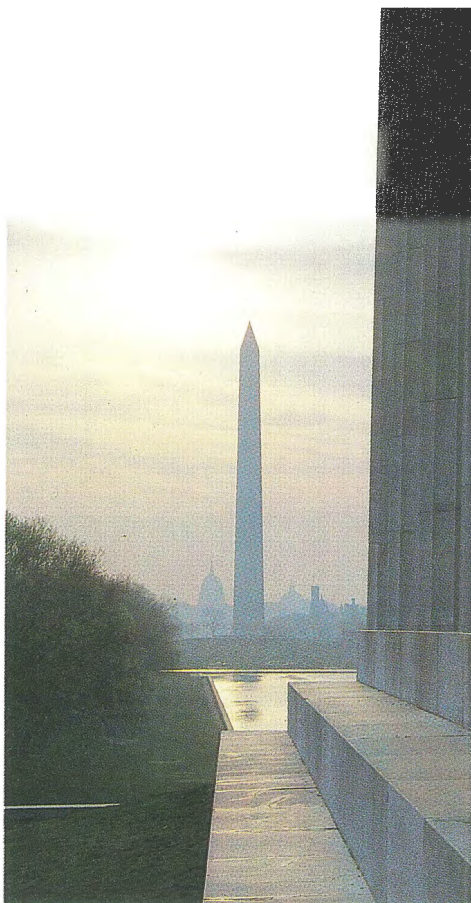
Members on Active Referral

SIPC maintained active files on 34 members referred under Section 5(a) during the calendar year 1988. Twenty-four new referrals were received during the year and 10 active referrals had been carried forward from prior years. Ten of the 34 remained on active referral at year-end.

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

*SIPC v. Barbour, 421 U.S., 415 (1975)

¹Notices of suspension include those issued in conjunction with subsequent bars from association.



Report of Independent Auditors

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

We have audited the accompanying statement of financial condition of Securities Investor Protection Corporation as of December 31, 1988 and the related statements of operations and fund balance and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation at December 31, 1988, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst & Whinney

Washington, D.C.
March 2, 1989



Securities Investor Protection Corporation

Statement of Financial Condition December 31, 1988

ASSETS	
Cash.....	\$ 418,918
U.S. Government securities, at amortized cost and accrued interest receivable (\$9,059,153); (approximate market \$395,000,000)	397,896,269
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$161,591,178) (Note 4)	7,200,000
Other	527,212
	<u>\$406,042,399</u>
LIABILITIES AND FUND BALANCE	
Advances to trustees—in process (Note 4)	\$ 205,171
Accounts payable and accrued expenses	925,246
Estimated costs to complete customer protection proceedings in progress (Note 4)	44,000,000
	45,130,417
Commitments (Note 6)	
Fund balance	360,911,982
	<u>\$406,042,399</u>

Statement of Operations and Fund Balance for the year ended December 31, 1988

Revenues:	
Interest on U.S. Government securities	\$ 28,691,120
Member assessments (Note 3)	988,079
	<u>29,679,199</u>
Expenses:	
Salaries and employee benefits (Note 7)	1,801,726
Legal and accounting fees (Note 4)	2,503,989
Credit agreement commitment fee (note 6)	1,300,009
Rent (Note 6)	418,644
Other	716,122
	6,740,490
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	10,230,693
	<u>16,971,183</u>
Excess revenues	12,708,016
Fund balance, beginning of year	348,203,966
Fund balance, end of year	<u>\$360,911,982</u>

See notes to financial statements.

Statement of Cash Flows for the year ended December 31, 1988

Operating activities:	
Interest received from U.S. Government securities	\$ 23,436,627
Member assessments received	465,579
Advances paid to trustees	(15,600,585)
Recoveries of advances	12,294,258
Salaries and other operating activities expenses paid	(6,557,906)
Net cash provided by operating activities	<u>14,037,973</u>
Investing activities:	
Proceeds from sales of U.S. Government securities	455,873,312
Purchases of U.S. Government securities	(469,565,577)
Purchases of furniture and equipment	(52,811)
Net cash used by investing activities	<u>(13,745,076)</u>
Increase in cash	292,897
Cash, beginning of year	<u>126,021</u>
Cash, end of year	<u>\$ 418,918</u>

See notes to 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 nonprofit 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 except for those persons excluded under SIPA.

2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$398,315,187.

In the event 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 Commis-

sion 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. Member assessments

For 1988 each member's assessment was \$100. Effective January 1, 1989, each member's assessment is at the rate of $\frac{3}{16}$ ths of 1% of gross revenues from the securities business or \$150, whichever is greater.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 50 proceedings in progress at December 31, 1988. Customer claims have been satisfied in 46 of these proceedings and in 4 proceedings customer claims and distributions are being processed.

Advances to trustees represent net amounts disbursed and amounts cur-

rently payable for proceedings in progress, less an allowance for possible losses.

Estimated costs to complete proceedings are accrued based upon the costs of completed cases of comparable size and complexity and other costs that can be reasonably estimated. Recoveries are estimated based upon the expected disposition of the debtors' estates.

The following table summarizes transactions during the year that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$ 9,300,000	(\$39,200,000)
Add:		
Estimated future recoveries	10,200,000	
Provision for estimated costs to complete proceedings		(20,430,693)
Less:		
Recoveries estimated previously	(12,300,000)	
Advances to trustees		15,630,693
Balance, end of year	<u>\$ 7,200,000</u>	<u>(\$44,000,000)</u>

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

Legal and accounting fees include fees and expenses of litigation related to proceedings.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

5. Reconciliation of net revenues with net cash provided by operating activities:

Net revenues	\$12,708,016
Net increase in estimated costs to complete customer protection proceedings	4,800,000
Decrease in amortized premium on U.S. Government securities	(3,014,836)
Increase in interest receivable	(2,239,657)
Net decrease in estimated recoveries of advances to trustees	2,100,000
Decrease in member assessments received in advance	(522,500)
Increase in payables	107,706
Other reconciling items	99,244
Net cash provided by operating activities	<u>\$14,037,973</u>

6. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1987, at the rate of \$404,730 for the first five years and \$472,185 thereafter, total \$3,845,000. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease. Rent expense for 1988 totalled \$418,644.

A credit agreement effective March 31, 1986 with a consortium of banks provides SIPC with a \$500,000,000 revolving line of credit for a three-year period to and including March 31, 1989. Any outstanding borrowing by SIPC at the end of March 1989 must be repaid at a minimum in equal quarterly installments over the succeeding five years. A fee of ¼ of 1% per annum on the unused portion of the commitment is payable quarterly to the banks.

7. Retirement Plan

SIPC has a non-contributory retirement plan and a contributory savings plan covering all employees.

As of January 1, 1989, the most recent actuarial valuation date, the market value of retirement plan assets was \$2,924,468, and the present value of accumulated plan benefits based on an assumed interest rate of 8 percent per annum, calculated in accordance with Statement No. 35 of the Financial Accounting Standards Board, was as follows:

Vested:

Retired members and survivors currently receiving payments	\$ 498,312
Other members	<u>1,254,731</u>
	1,753,043
Non-vested	<u>229,762</u>
	<u>\$1,982,805</u>

APPENDIX I *Customer Protection Proceedings*

PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (David Newsome, Esq.)	12/18/63	6/28/88	6/28/88	52,219	20,000
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	7/ 8/85	9/ 8/88	9/ 8/88	16,500	384
Rothschild Equity Management Group, Inc. Ft. Lauderdale, Florida (Direct Payment)	3/19/82		12/ 9/88 [†]	1,024	6
TOTAL 4 MEMBERS: PART A				<u>70,843</u>	<u>20,798</u>

[†]Date notice published

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$1,517,581	\$324,258			\$1,193,323	209
\$8,354,966	37,300	5,466,354			\$5,466,354		
		55,630	55,630				
		4,579	4,579				
<u>\$8,354,966</u>	<u>37,300</u>	<u>\$7,044,144</u>	<u>\$384,467</u>		<u>\$5,466,354</u>	<u>\$1,193,323</u>	<u>209</u>

APPENDIX I *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
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
Christian-Paine & Co., Inc. Carlton Cambridge & 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
Llorens Associates, Inc. New York, New York (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93
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
Institutional Securities of Colorado, Inc. Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,780
Swift, Henke & Co., Inc. Chicago, Illinois (J. William Holland, Esq.)	5/30/65	3/14/77	3/15/77	1,350	186
Dennis Lee Mirus Lake Forest, Illinois (Robert Dunn Glick, Esq.)	1/11/79	10/10/80	3/17/81	19	15
The Investment Bankers, Inc. Denver, Colorado (James H. Turner, Esq.)	10/23/80	7/10/81	7/15/81	2,500	1,939
First State Securities Corp. North Miami, Florida (Lawrence A. Shroeder, esq.)	6/19/75	7/24/81	7/24/81 7/17/85*	3,064	936
Joseph Sebag, Incorporated Los Angeles, California (Eugene W. Bell, Esq.)	3/ 7/68	7/27/81	7/27/81	8,000	4,279
John Muir & Co. New York, New York (Harvey R. Miller, Esq.)	10/28/37	8/16/81	8/16/81	54,500	10,000 (Estimated)
M.S. Wien & Co., Inc. Jersey City, New Jersey (Michael R. Griffinger, Esq.)	11/15/74	9/10/81	9/10/81	45,000	9,726

*Successor Trustee.

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 131,585	45	\$ 80,849	\$ 383	\$ 27,605	\$ 16,034	\$ 36,827	33
814,261	491	541,729	311,746	40,044	16,368	173,571	233
776,386	12,572	4,047,860	1,741,478	3,125	2,044,056	259,201	6,571
31,174	40	175,894	119,661	214	17,814	38,205	30
2,271,501	1,219	2,367,644	272,166	30,535	1,449,655	615,288	1,341
3,728,930	1,296	256,371	156,000		62,591	37,780	484
2,896,742	194	(92,974)	(92,974)				
		400,483	86,331		53,452	260,700	13
2,128,941	883	3,667,484				3,667,484	1,189
6,458,025	260	4,427,849	3,625,377	60,804	329,980	411,688	778
27,218,033	2,417	12,447,952	3,719,330		2,292,438	6,436,184	1,328
25,964,581	16,000 (Estimated)	2			2		
24,989,564	6,231	6,868,765	50,000	281,936	3,444,215	3,092,614	3,495

APPENDIX I *Customer Protection Proceedings*
PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers^(a) To Whom Notices and Claim Forms Were Mailed	Responses^(a) Received
Langheinrich & Fender, Inc. Salt Lake City, Utah (Hershel J. Saperstein, Esq.)	2/ 2/78	9/14/81	9/22/81	4,330	2,750
Stix & Co., Inc. St. Louis, Missouri (Harry O. Moline, Jr., Esq.)	3/12/70	11/ 5/81	11/ 9/81	5,200	1,092
T.E. Slanker Co., Inc. Portland, Oregon (Douglas M. Thompson, Esq.)	8/20/69	2/ 4/82	2/24/82	9,000	2,100
International Securities, Inc. Denver, Colorado (William D. Scheid, Esq.)	1/ 6/76	2/25/82	2/25/82	5,000	1,262
G.S. Omni Corporation Denver Colorado (James H. Turner, Esq.)	2/25/80	2/24/82	3/ 8/82	8,500	3,347
G.V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/ 8/82	4/15/82	600	50
OTC Net Inc. Denver, Colorado (Glen E. Keller, Jr., Esq.)	8/10/78	6/ 3/82	6/ 9/82	38,500	15,796
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/ 5/83	2/10/83	10,500	6,888
Hanover Square Securities Group, Inc. New York, New York (James W. Giddens, Esq.)	7/21/77	12/ 8/83	12/15/83	29,500	294
California Municipal Investors, Inc. Los Angeles, California (Theodore B. Stolman, Esq.)	1/ 9/76	1/31/84	1/31/84	16,000	1,752
Gattini & Co. New York, New York (William J. Rochelle, III, Esq.)	9/25/81	2/ 1/84	2/ 1/84	3,200	1,800
Southeast Securities of Florida, Inc. Hoboken, New Jersey (David J. Sheehan, Esq.)	11/16/81	1/31/84	2/13/84	20,000	11,653
MV Securities, Inc., a/k/a Multi-Vest Securities, Inc. New York, New York (Lee S. Richards, III, Esq.)	4/ 8/76	3/14/84	3/14/84	8,246	1,338

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,601,387	2,267	\$ 831,871	\$ 202,786		\$ 180,768	\$ 448,317	1,307
7,256,636	5,000 (Estimated)	17,336,724			7,252,311	10,084,413	841
		274,976	146,980		127,996		2,000
926,940	1,100	251,621	224,766		10,479	16,376	29
3,707,691	2,447						
16,227	4	1,373,021	775,378		391,049	206,594	23
15,575,600	12,858	(26,053)	(26,053)				
80,755,000	2,300	39,320,945				39,320,945	6,523
1,666,660	228	3,015,086	547,611		1,617,475	850,000	2,700
37,153,288	1,500	(1)	(1)				
972,617	1,560	1,562,046	646,558		556,070	359,418	328
27,098,007	11,543	2,644,585	1,266,104		420,523	957,958	1,590
19,312,222	1,104	1,045,513	10,000	\$130,000	476,569	428,944	63

APPENDIX I *Customer Protection Proceedings*
PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
American Western Securities, Inc. Denver, Colorado (SIPC)	9/ 1/72	4/10/84	4/24/84	20,000	131
June S. Jones Co. Portland, Oregon (Robert H. Huntington, Esq.)	2/ 1/59	6/ 4/84	6/ 6/84	3,200	836
First Interwest Securities Corp. Denver, Colorado (Glen E. Keller, Jr., Esq.)	4/25/83	6/ 7/84	6/ 7/84	6,785	2,621
Vantage Securities of Colorado, Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/ 1/81	11/30/84	11/30/84	20,000	10,667
Brentwood Securities, Inc. Los Angeles, California (SIPC)	7/18/77	8/31/84	2/ 7/85	754	135
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/ 3/85	5/ 3/85	1,650	365
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/ 1/75	4/ 8/85	5/ 8/85	23,800	4,700
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/ 6/85	5/17/85	1,350	63
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/ 1/75	7/30/85	8/13/85 2/17/87*	8,300	2,469
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/ 4/85	272	78
TK Securities, Inc. Ft. Lauderdale, Florida (Samuel A. Brodnax, Jr., Esq.)	10/27/82	10/ 4/85	10/ 4/85	564	397
Brittenum & Associates, Inc. Little Rock, Arkansas (James Dowden, Esq.)	12/ 4/75	1/28/86	1/30/86	2,100	212
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/ 2/81	7/23/85	3/26/86	23,000	1,047

*Successor Trustee.

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 13,938	29	\$ 50,573	\$ 40,298		\$ 2,788	\$ 7,487	6
		1,669,249	1,191,440	\$ 63,175	412,849	1,785	3,401
5,302,067	6,140	719,233	270,000		190,240	258,993	139
14,920,198	10,672	1,325,088	801,299		127,378	396,411	280
		1,012,869	448,841			564,028	61
1,288,590	314	1,220,000	20,000		1,200,000		325
397,836,433	3,300	24,216,931	4,557,409	1,107	7,483,186	12,175,229	3,601
771,571	7	2,760,215			2,760,215		5
6,027,008	2,362	8,703,576	1,285,900		7,013,546	404,130	213
828,071	26	851,228			750,768	100,460	23
133,373	31	457,297	351,130		73,024	33,143	75
23,015,263	87	31,037	31,037				
		965,151	734,739		176,748	53,664	34

APPENDIX I *Customer Protection Proceedings*
PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers^(a) To Whom Notices and Claim Forms Were Mailed	Responses^(a) Received
Beacon Securities, Inc. Hilton Head, South Carolina (William G. Hays)	4/15/83	10/29/85	5/ 2/86	74	70
Cusack, Light & Company West Orange, New Jersey (Frederick B. Lacey, Esq.)	3/22/83	6/25/86	6/25/86	1,404	180
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	12/ 4/84	11/ 5/86	11/ 5/86	550	18
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,325
H.B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/ 8/57	10/20/87	10/20/87	18,000	5,242
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	1/ 5/83	3/21/88	3/21/88	2,885	176
TOTAL 46 MEMBERS: PART B				<u>449,539</u>	<u>123,079</u>

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 335,000	25	\$ 2,570,010	\$ 656,139			\$ 1,913,871	68
434,885	260	864,517	385,931		\$ 115,588	362,998	53
359,721	1	531,838	7,360		410,770	113,708	2
		62,358	40,878			21,480	7
32,735,697	2,403	9,109,953	488,317		6,178,105	2,443,531	862
106,204,000	5,158	1,409,850	25,000		1,384,850		3,340
		400,401	32,236		364,850	3,315	41
<u>\$908,647,377</u>	<u>114,374</u>	<u>\$161,751,616</u>	<u>\$25,151,581</u>	<u>\$638,545</u>	<u>\$49,404,750</u>	<u>\$86,556,740</u>	<u>43,435</u>

APPENDIX I *Customer Protection Proceedings*

PART C: Proceedings Completed in 1988

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
C.I. Oren & Co., Inc. New York, New York (Martin R. Gold, Esq.)	10/26/72	32	\$ 370,360
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)	12/17/74	36	245,807
Investors Security Corp. Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	9/15/75	142	124,884
I.E.S. Management Group, Inc. Irvington, New Jersey (Michael R. Griffinger, Esq.)	9/27/77	519	1,779,402
Gibraltar, Inc. Santa Monica, California (Alexander C. McGilvray, Jr., Esq.)	6/22/83	713	30,232,998
Marsan Securities Company, Inc. New York, New York (Direct Payment)	4/ 8/85 [†]	11	
R.H. Stewart & Company, Inc. Ft. Lauderdale, Florida (John R. Camp, Jr., Esq.)	9/30/85	226	112,100
C. Harvey and Associates Securities, Inc. Phoenix, Arizona (Direct Payment)	12/ 4/85 [†]	4	
DMR Securities, Inc. Tucson, Arizona (Direct Payment)	12/ 4/85 [†]	5	
Bartel Securities, Inc. Langhorne, Pennsylvania (SIPC)	1/27/86	13	20,439
Norbay Securities, Inc. Bayside, New York (Irving H. Picard, Esq.)	10/14/86	9,103	16,435,832

[†]Date notice published.

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 16,640	\$ 353,720	\$ 397,803	\$ 261,598	\$ 59,071	\$ 33,710	\$ 43,424
7,208	238,599	320,304	5,379		210,609	104,316
56,867	68,017	1,756,598	442,858		326,971	986,769
364,617	1,414,785	5,078,472				5,078,472
28,818,476	1,414,522	90,090			90,090	
		30,560	650		16,314	13,596
91,380	20,710	1,497,240	430,309		807,824	259,107
		40,531	611		33,995	5,925
		12,039	11,125		312	602
99	20,340	129,070	27,297		31,898	69,875
15,976,625	459,207	1,857,924	1,302,562		459,258	96,104

APPENDIX I *Customer Protection Proceedings*

PART C: Proceedings Completed in 1988

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Cambridge Capital Corporation (Formerly I.R.A. Financial Investment Corp.) Los Angeles, California (Alexander C. McGilvray, Jr., Esq.)	12/22/86	230	
Evans Trading Company, Inc. Naperville, Illinois (Direct Payment)	12/ 8/87 [†]	2	
TOTAL 13 MEMBERS 1988		11,036	\$ 49,321,812
TOTAL 143 MEMBERS 1973–1987^(b)		89,584	291,933,370
TOTAL 156 MEMBERS 1973–1988		100,620	\$341,255,182

[†]Date notice published.

PART D: Summary

	Responses Received/ Customers Receiving Distributions	
Part A: 4 Members—Customer Claims and Distributions Being Processed	20,798	\$ 8,354,966
Part B: 46 Members—Customer Claims Satisfied, Litigation Matters Pending	123,079	908,647,377
Sub-Total	143,877	917,002,343
Part C: 156 Members—Proceedings Completed	100,620 ^(c)	341,255,182
TOTAL	244,497	\$1,258,257,525

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) Number of customers receiving securities and/or cash.
- (d) To be reported at completion of liquidation.

December 31, 1988

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
		\$ 993,492	\$ 84,000			\$ 909,492
		36,245	745			35,500
<u>\$ 45,331,912</u>	<u>\$ 3,989,900</u>	<u>12,240,368</u>	<u>2,567,134</u>	<u>\$ 59,071</u>	<u>\$ 2,010,981</u>	<u>7,603,182</u>
<u>266,192,477</u>	<u>25,740,893</u>	<u>43,898,865</u>	<u>9,413,906</u>	<u>845,800</u>	<u>21,905,753</u>	<u>11,733,406</u>
<u>\$311,524,389</u>	<u>\$29,730,793</u>	<u>\$56,139,233</u>	<u>\$11,981,040</u>	<u>\$904,871</u>	<u>\$23,916,734</u>	<u>\$19,336,588</u>
\$ 8,354,966	(d)	\$ 7,044,144	\$ 384,467		\$ 5,466,354	\$ 1,193,323
<u>908,647,377</u>	(d)	<u>161,751,616</u>	<u>25,151,581</u>	<u>\$ 638,545</u>	<u>49,404,750</u>	<u>86,556,740</u>
<u>917,002,343</u>		<u>168,795,760</u>	<u>25,536,048</u>	<u>638,545</u>	<u>54,871,104</u>	<u>87,750,063</u>
<u>311,524,389</u>	<u>\$29,730,793</u>	<u>56,139,233</u>	<u>11,981,040</u>	<u>904,871</u>	<u>23,916,734</u>	<u>19,336,588</u>
<u>\$1,228,526,732</u>	<u>\$29,730,793</u>	<u>\$224,934,993</u>	<u>\$37,517,088</u>	<u>\$1,543,416</u>	<u>\$78,787,838</u>	<u>\$107,086,651</u>

APPENDIX II *Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1988*

	1988	1987	1986	1985	1984
Revenues:					
Interest on U.S. Government securities	\$28,680,924	\$28,161,228	\$31,702,230	\$ 30,608,790	\$22,945,089
Member assessments and contributions	988,079	935,368	23,067,147	71,027,532	52,293,859
Interest on assessments	10,196	20,533	368,474	101,662	88,702
	<u>29,679,199</u>	<u>29,117,129</u>	<u>55,137,851</u>	<u>101,737,984</u>	<u>75,327,650</u>
Expenses:					
Salaries and employee benefits	1,801,726	1,652,073	1,717,296	1,564,250	1,533,851
Legal fees	2,484,989	1,959,731	1,648,246	1,343,102	935,128
Accounting fees*	19,000	14,900	9,285	18,063	152,894
Credit agreement commitment fee	1,300,009	1,300,000	1,305,478	—	—
Professional fees—automation	48,151	26,199	52,564	217,394	—
Other:					
Assessment collection direct cost	19,741	2,230	16,468	14,543	19,730
Custodian fees	27,735	33,215	16,795	15,237	12,331
Depreciation and amortization	119,459	103,299	83,639	66,340	17,832
Directors fees and expenses	10,830	7,698	5,359	14,758	10,798
Insurance	21,401	15,217	12,682	11,341	8,634
Office supplies and expenses	163,652	163,694	194,224	170,937	121,845
Postage	15,777	15,534	19,579	20,983	18,753
Printing and mailing annual report	58,587	26,231	30,279	23,397	27,216
Publications and reference services	45,643	47,617	47,856	42,805	39,342
Rent—office space	418,644	377,291	322,786	343,695	311,748
Telephone and telegraph	14,308	14,063	20,426	20,011	20,925
Travel and subsistence	141,625	190,169	108,890	154,740	163,159
Miscellaneous	29,213	42,087	36,678	38,223	129,636
	<u>1,086,615</u>	<u>1,038,345</u>	<u>915,661</u>	<u>937,010</u>	<u>901,949</u>
	<u>6,740,490</u>	<u>5,991,248</u>	<u>5,648,530</u>	<u>4,079,819</u>	<u>3,523,822</u>
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	(3,558)	—	16,000	44,975	63,356
Securities	726,878	9,795,412	4,278,504	256,798	28,776
Cash	(3,166,227)	8,108,976	5,787,319	7,178,900	(2,272,483)
	<u>(2,442,907)</u>	<u>17,904,388</u>	<u>10,081,823</u>	<u>7,480,673</u>	<u>(2,180,351)</u>
Administration expenses	5,001,525	9,264,713	2,340,366	2,350,497	1,555,161
	<u>2,558,618</u>	<u>27,169,101</u>	<u>12,422,189</u>	<u>9,831,170</u>	<u>(625,190)</u>
Net change in estimated future recoveries	2,100,000	(3,500,000)	2,500,000	6,300,000	1,600,000
	<u>4,658,618</u>	<u>23,669,101</u>	<u>14,922,189</u>	<u>16,131,170</u>	<u>974,810</u>
SIPC as Trustee:					
Securities	412,318	—	27,461	5,407	(173,839)
Cash	117,147	62,060	505,881	109,651	362,394
	<u>529,465</u>	<u>62,060</u>	<u>533,342</u>	<u>115,058</u>	<u>188,555</u>
Administration expenses	196,956	241,012	253,509	40,206	31,071
	<u>726,421</u>	<u>303,072</u>	<u>786,851</u>	<u>155,264</u>	<u>219,626</u>
Net change in estimated future recoveries	—	—	—	100,000	100,000
	<u>726,421</u>	<u>303,072</u>	<u>786,851</u>	<u>255,264</u>	<u>319,626</u>
Direct payments:					
Securities	—	—	34,307	16,313	—
Cash	35,500	—	6,526	62,596	—
	<u>35,500</u>	<u>—</u>	<u>40,833</u>	<u>78,909</u>	<u>—</u>
Administration expenses	10,154	6,000	906	650	—
	<u>45,654</u>	<u>6,000</u>	<u>41,739</u>	<u>79,559</u>	<u>—</u>
Net change in estimated costs to complete proceedings					
	<u>4,800,000</u>	<u>1,500,000</u>	<u>10,800,000</u>	<u>17,300,000</u>	<u>(2,400,000)</u>
	<u>10,230,693</u>	<u>25,478,173</u>	<u>26,550,779</u>	<u>33,765,993</u>	<u>(1,105,564)</u>
	<u>16,971,183</u>	<u>31,469,421</u>	<u>32,199,309</u>	<u>37,845,812</u>	<u>2,418,258</u>
Excess revenues (expenses)	<u>\$12,708,016</u>	<u>(\$ 2,352,292)</u>	<u>\$22,938,542</u>	<u>\$ 63,892,172</u>	<u>\$72,909,392</u>

*Includes fees and expenses of litigation related to proceedings (1985-\$3,363; 1984-\$127,709).

APPENDIX III *Distributions for Accounts of Customers
for the Eighteen Years Ended December 31, 1988*
(In Thousands of Dollars)

	From Debtor's Estates (Including Securities) As Reported By Trustees	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
1979	9,561	(4,779)*	4,782
1980	10,163	2,848	13,011
1981	36,738	63,238	99,976
1982	28,442	9,359	37,801
1983	21,901	37,138	59,039
1984	184,910	(1,992)*	182,918
1985	180,973 [†]	7,674	188,647 [†]
1986	28,570	10,472	39,042
1987	394,443	17,828	412,271
1988	98,017	(1,878)*	96,139
	<u>\$1,228,527</u>	<u>\$187,418</u>	<u>\$1,415,945</u>

*Net recoveries.

[†]Restated to reflect correction.

Overview of SIPC

The Securities Investor Protection Corporation (SIPC) had 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, acquired or simply went out of business. Some 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, promote investor confidence in the nation's securities markets. Currently, the limits of protection are \$500,000 per customer, except that claims for cash are limited to \$100,000 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 self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc.—and the SEC 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 commence a customer protection proceeding. This requires that SIPC apply

to a Federal District Court for the appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 35, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities to the courts having jurisdiction.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. As a supplement to the SIPC Fund, a \$500 million revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the Securities and Exchange Commission (SEC) has the authority to lend SIPC up to \$1 billion, which it, in turn, would borrow from the United States Treasury.

*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.

Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.



Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry Association, 120 Broadway, New York, NY 10271, and from the National Association of Securities Dealers, Inc., Book Order Department, P.O. Box 9403, Gaithersburg, MD 20898-9403.