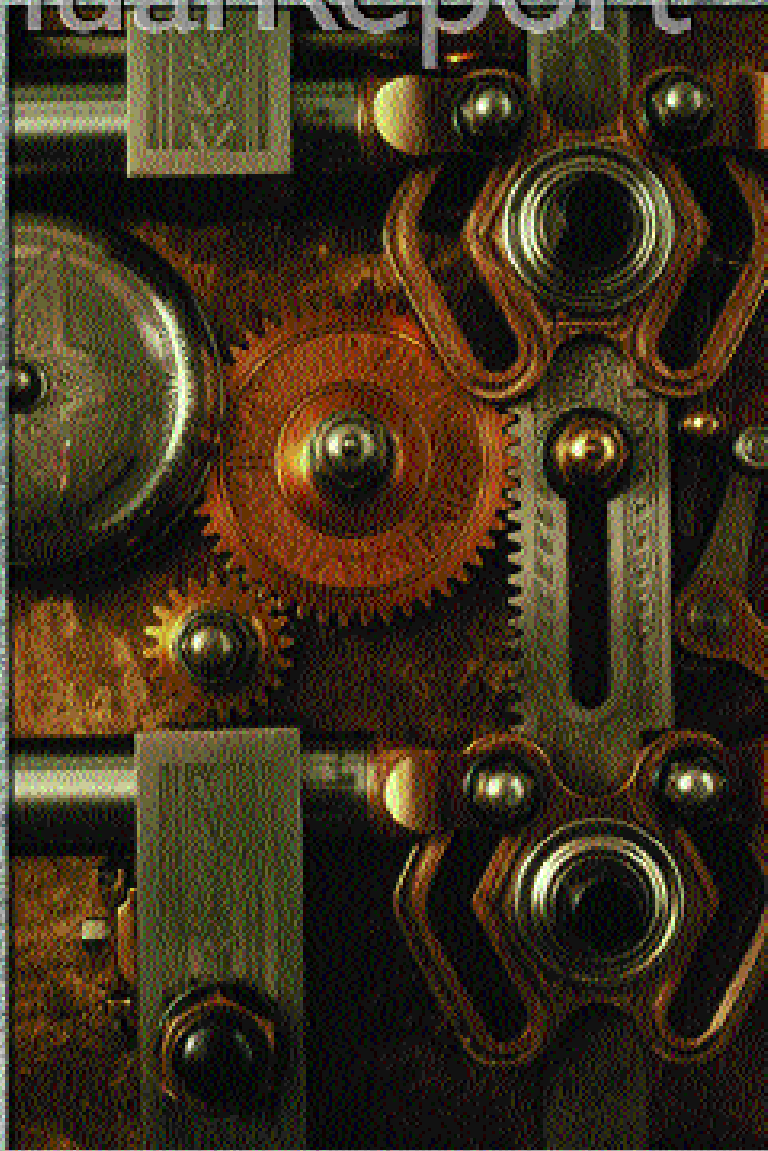


2008  
Annual Report



**SIPC**

SECURITIES INVESTOR PROTECTION CORPORATION





SECURITIES INVESTOR PROTECTION CORPORATION  
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WASHINGTON, D.C. 20005-2215  
(202) 371-8300 FAX (202) 371-6728  
WWW.SIPC.ORG

April 30, 1999

The Honorable Arthur Levitt  
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 Twenty-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.

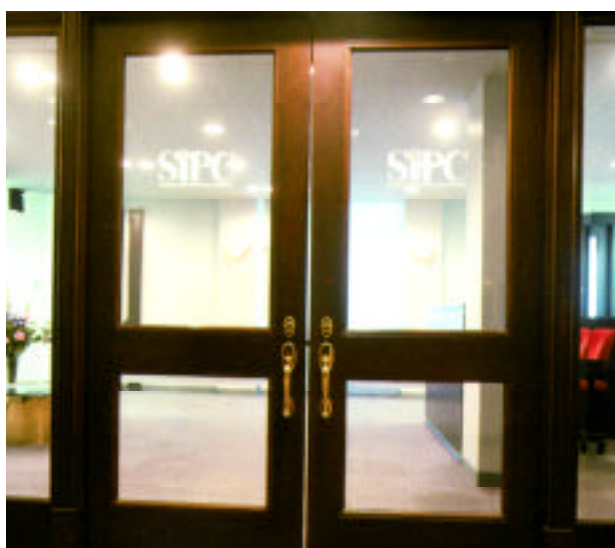
Respectfully,

A handwritten signature in cursive script that reads "Clifford Hudson".

Clifford Hudson  
Chairman

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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



**T**he Securities Investor Protection Corporation ("SIPC") has, for many years, achieved the objectives for which it was formed, and 1998 was no exception. SIPC initiated six customer protection proceedings during the year, consistent with its average of seven over the last ten years. Fortunately, each of these proceedings was relatively small, with a total of fewer than 1,500 claims.

We have had the opportunity to welcome a new Vice President-Operations and Finance and say thanks to his predecessor. Philip Carduck joined SIPC in April after an extended career in the accounting, investment banking and brokerage industries, most recently with Dillon Read & Co. Phil brings significant experience to SIPC, following the retirement of Joseph Marino. Joe made a tremendous contribution in his years with us, updating SIPC technologically by leading us through our accounting and operations systems conversions; monitoring the firm's Year 2000 compliance; revamping our investment strategies; and leading an effort earlier in the decade to develop the long-term financial methodology for SIPC to meet its original objectives for the foreseeable future. Joe has retired knowing he made a meaningful and lasting contribution to SIPC; Phil steps into his shoes with a strong skill set appropriate for the job and tools significantly sharpened by his predecessor.

In 1998, SIPC moved substantially toward the replacement of credit facilities (subsequently completed), still in the amount of \$1 billion, but on terms more favorable to SIPC, thus indicating the lenders' perception of our financial strength. We are pleased to have this process completed and SIPC's liquidity secured for the foreseeable future.

As noted last year, but a note which warrants repeating, SIPC's systems are year 2000 compliant. The compliance status of our member firms and, in turn, the position of the securities industry, is overseen by the Securities and Exchange Commission and the self-regulatory organizations. SIPC has been in ongoing contact and communication with

these organizations in an attempt to assess any associated industry risks.

Finally, I should mention the apparent utility of our new Web site. During 1998, [www.sipc.org](http://www.sipc.org) was "hit" 475,000 times by interested or curious web users. It is our view that this is a tool that allows many people to access information about SIPC on a quick and cost efficient basis, both for them and SIPC.

SIPC's operations continue on a healthy and productive pace. Its management team has caused SIPC to function for years in a manner consistent with its original statutory purpose and customers of member firms continue to receive the benefit intended them; 1998 was no exception and we offer this annual report in support of this perspective.

Sincerely,

A handwritten signature in cursive script that reads "Clifford Hudson". The ink is dark and the signature is fluid and legible.

Clifford Hudson  
Chairman

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, 15 U.S.C. § 78 aaa et seq. (SIPA). Its purpose is to afford certain protections against loss to customers resulting from broker-dealer failure 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 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 Securities and Exchange Commission (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 appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 29, 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.

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 revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the 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:

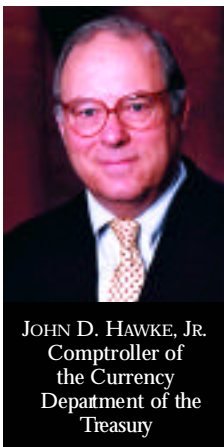
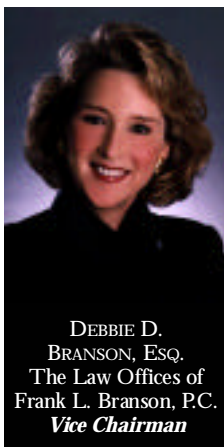
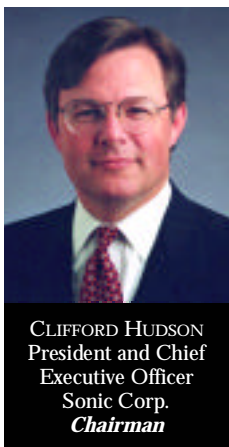
- (i) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions and
- (ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of 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.**

# DIRECTORS & OFFICERS

## Directors



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## Officers

MICHAEL E. DON  
President

STEPHEN P. HARBECK  
General Counsel & Secretary

PHILIP W. CARDUCK  
Vice President—  
Operations & Finance



# 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 six SIPC members in 1998, bringing the total since SIPC’s inception to 273 proceedings commenced under SIPA. The 273 members represent less than one percent of the approximately 34,000 broker-dealers that have been SIPC members during the last 28 years. Currently, SIPC has 7,542 members.

The six new cases compare with ten commenced in 1997. Over the last ten-year period, the annual average of new cases was seven.

Trustees other than SIPC were appointed in three of the cases commenced during the year. SIPC serves as trustee in two cases and the other case is a direct payment proceeding. Customer protection proceedings were initiated for the following SIPC members:

Member	Date Trustee Appointed
Primeline Securities Corporation Wichita, KS (Todd Connell, Esq.)	1/09/98
Chimneyville Investments Group, Inc. Jackson, MS (SIPC)	9/03/98
Euro-Atlantic Securities, Inc. New York, NY (Irving H. Picard, Esq.)	10/07/98
Nichols, Safina, Lerner & Co. New York, NY (Direct Payment)	10/30/98†
First National Equity Corp., f/k/a J. S. Securities, Inc. New York, NY (Lee S. Richards, III, Esq.)	11/04/98
Michael William Ribant, d/b/a Trinity Capital San Diego, CA (SIPC)	11/16/98

†Date notice published

Of the 273 proceedings begun under SIPA to date, 246 have been completed, 15 involve pending litigation matters, and claims in 12 are being processed (See Figure I and Appendix II).

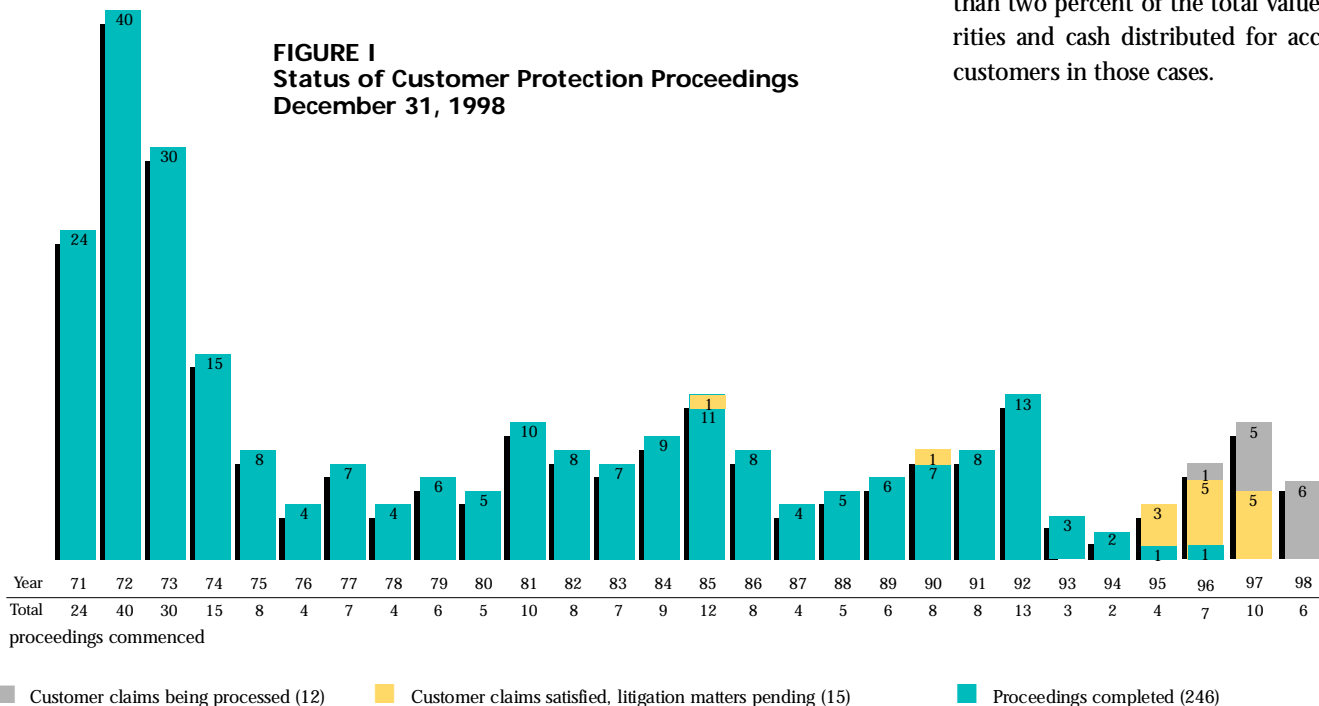
During SIPC’s 28-year history, cash and securities distributed for accounts of customers aggregated approximately \$2.87 billion. Of that amount, approximately \$2.67 billion came from debtors’ estates and \$194.4 million came from the SIPC Fund (See Appendix I).

## Claims over the Limits

Of the more than 426,500 claims satisfied in completed or substantially completed cases as of December 31, 1998, 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 increase of five during 1998, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$36.6 million, increased approximately \$18.3 million during 1998. These remaining claims are less than two percent of the total value of securities and cash distributed for accounts of customers in those cases.

**FIGURE I**  
**Status of Customer Protection Proceedings**  
**December 31, 1998**



## CUSTOMER PROTECTION PROCEEDINGS

### SIPC Fund Advances

Table I shows that the 57 debtors, for which net advances of more than \$1 million have been made from the SIPC Fund, accounted for 85 percent of the total advanced in all 273 customer protection proceedings. The largest net advance in a single liquidation is \$30.7 million for Bell & Beckwith. This exceeds the net advances in the 183 smallest proceedings combined.

In 17 proceedings SIPC advanced \$174.8 million, or 57 percent of net advances from the SIPC Fund for all proceedings.

**TABLE I**  
**Net Advances from the SIPC Fund**  
**December 31, 1998**  
**273 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	6	\$103,114,550
5,000,001	\$10,000,000	11	71,690,017
1,000,001	5,000,000	40	83,580,362
500,001	1,000,000	33	23,447,186
250,001	500,000	36	12,568,746
100,001	250,000	57	9,453,436
50,001	100,000	41	2,897,659
25,001	50,000	22	793,473
10,001	25,000	10	147,451
0	10,000	12	38,587
Net recovery		5	(2,297,133)*
			<u>\$305,434,334†</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 (\$194,385,089) and for administration expenses (\$11,049,245).

## ADMINISTRATION

The SIPC Web site on the Internet, [www.sipc.org](http://www.sipc.org), was activated in 1998. This Annual Report is included on that Web site and can be downloaded. While a copy of the Annual Report is mailed to the headquarters address of each SIPC member, the practice of mailing to the branch offices has been discontinued.

The year 2000 presents problems for many computer systems that are programmed to deal only with two digit references to years. Those programs assume that all references to years begin with the digits 19 and therefore can produce unexpected results when comparative calculations are performed with other dates. Four years ago SIPC began a project to update, upgrade, and migrate all internal applications off of a mini computer and onto a

more modern platform which is a year 2000 compliant Intel based LAN with a Microsoft Windows NT Server operating system. All SIPC hardware and internal applications are currently year 2000 compliant. Since these automation migration projects represent previously planned enhancements, there were no material costs to SIPC directly related to the year 2000, and there are no additional material costs anticipated as a result of year 2000. Relevant SIPC vendors have provided written assurance of their compliance by the year 2000.

As noted in the Message From The Chairman (page 3), Joseph F. Marino retired after serving nearly ten years as Vice President-Operations & Finance. He has been replaced by Philip W. Carduck.

"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 32 members during the year brought the total membership to 7,542 at December 31, 1998. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

### Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).<sup>1</sup> As of December 31, 1998, there were 57 members who were subjects of uncured notices, 36 of which were mailed during 1998, 20 during 1997 and 1996, and one during 1993. Subsequent filings and payments by two members left 55 notices uncured. SIPC has been advised by the SEC staff that: (a) 33 member registrations have been canceled or are being withdrawn; (b) 22 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

### SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to \$1.197 billion at year end, an increase of \$88 million during 1998.

Tables III and IV present principal revenues and expenses for the years 1971 through 1998. The 1998 member assessments were \$1.19 million and interest from investments was \$69.8 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1995, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995) from the securities business.

Appendix III is an analysis of revenues and expenses for the five years ended December 31, 1998.

**TABLE II**  
**SIPC Membership**  
**Year Ended December 31, 1998**

<u>Agents for Collection of SIPC Assessments</u>	<u>Total</u>	<u>Added(a)</u>	<u>Terminated(a)</u>
National Association of Securities Dealers, Inc.	4,761	421	274
SIPC(b)	309	—	382(c)
Chicago Board Options Exchange Incorporated	1,061	134	34
New York Stock Exchange, Inc.	519	27	19
NASDAQ-AMEX	380	64	27
Pacific Stock Exchange, Inc.	234	34	5
Philadelphia Stock Exchange, Inc.	142	26	9
Chicago Stock Exchange, Incorporated	126	15	3
Boston Stock Exchange, Inc.	10	—	—
	<u>7,542</u>	<u>721</u>	<u>753</u>

Notes:

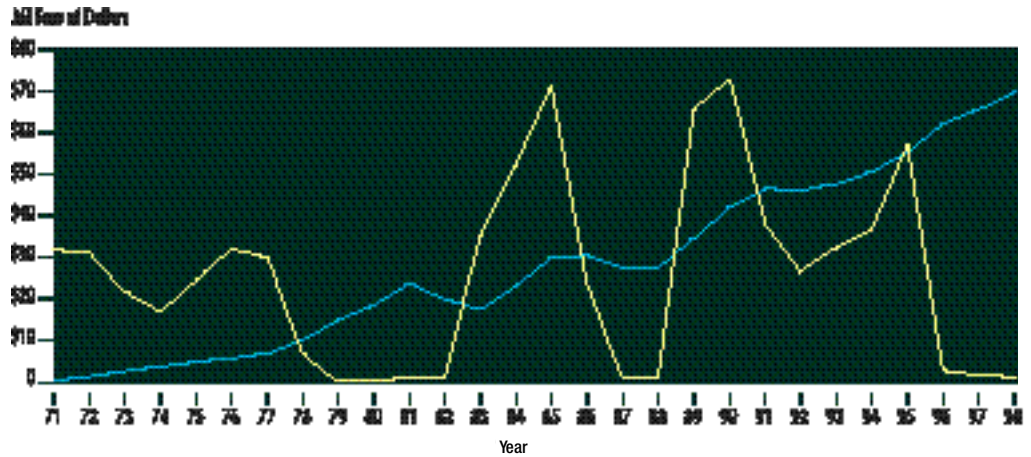
- The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1998.
- SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization.  
The "SIPC" designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.
- This number reflects the temporary status of broker-dealers between the termination of membership in a self-regulatory organization and the effective date of the withdrawal or cancellation of registration under section 15(b) of the 1934 Act.

<sup>1</sup>14(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, 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 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.

# MEMBERSHIP AND THE SIPC FUND

**TABLE III**  
**SIPC Revenues for the**  
**Twenty-eight Years Ended**  
**December 31, 1998**

- Member assessments and contributions: \$726,982,553
- Interest on U.S. Government securities: \$805,524,015



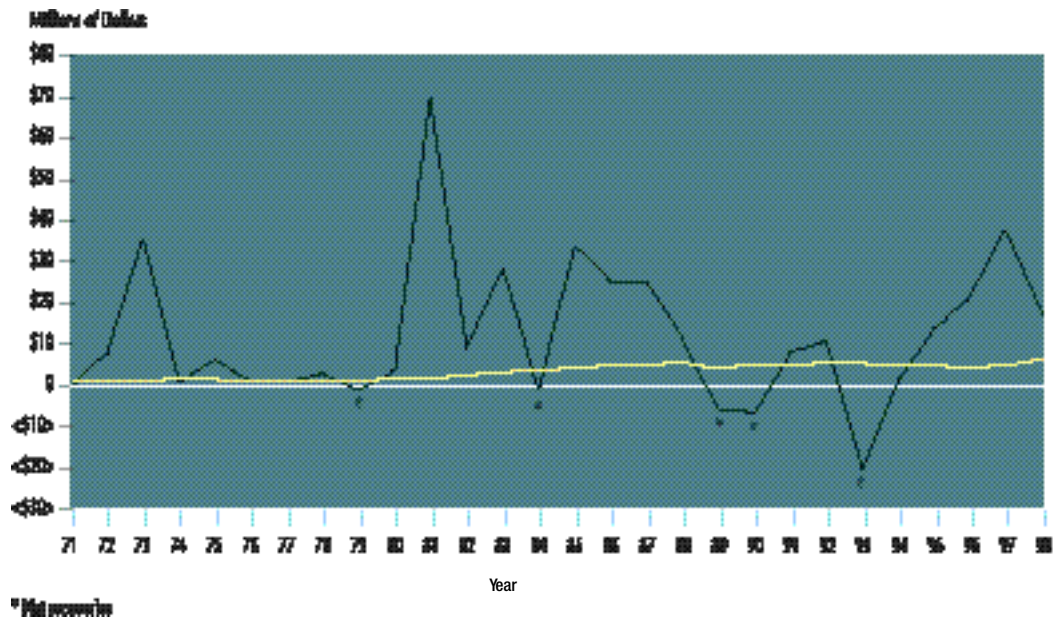
History of Member Assessments\*

- 1971: ½ of 1% plus an initial assessment of ¼ of 1% of 1969 revenues (\$150 minimum).
- 1972-1977: ½ of 1%.
- January 1-June 30, 1978: ¼ of 1%.
- July 1-December 31, 1978: None.
- 1979-1982: \$25 annual assessment.
- 1983-March 31, 1986: ¼ of 1% effective May 1, 1983 (\$25 minimum).
- 1986-1988: \$100 annual assessment.
- 1989-1990: ⅜ of 1% (\$150 minimum).
- 1991: .065% of members' net operating revenues (\$150 minimum).
- 1992: .057% of members' net operating revenues (\$150 minimum).
- 1993: .054% of members' net operating revenues (\$150 minimum).
- 1994: .073% of members' net operating revenues (\$150 minimum).
- 1995: .095% of members' net operating revenues (\$150 minimum).
- 1996-1998: \$150 annual assessment.

\* Rates based on each member's gross revenues (net operating revenues for 1991-1995) from the securities business.

**TABLE IV**  
**SIPC Expenses for the**  
**Twenty-eight Years Ended**  
**December 31, 1998**

- Customer protection proceedings: \$343,034,334 (Includes net advances of \$305,434,334 less estimated future recoveries of \$2,000,000 and \$39,600,000 of estimated costs to complete proceedings.)
- Other expenses: \$102,510,238



During 1998, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below.

In *Keller v. Blinder (In re Blinder, Robinson & Co., Inc.)* Adv. Pro. No. 97-1284 CEM (Bankr. D. Colo., February 2, 1998), an action by a SIPA trustee to enforce a default under provisions of a prior settlement agreement with the debtor's principal, his spouse, and her trust, the bankruptcy court granted the trustee's motion for summary judgment and entered judgment in favor of the trustee. The defendants appealed but the district court dismissed the appeal because the notice was jurisdictionally deficient. *Keller v. Blinder* Civil Action No. 98-AP-578 (D. Colo., May 9, 1998). The appeal to the Tenth Circuit (98-1220) was withdrawn when the parties reached a settlement.

In *Federal Insurance Co. v. Sheldon (In re Donald Sheldon & Co., Inc.)*, 222 B.R. 690 (S.D.N.Y. 1998), on the trustee's claims against an insurance company on a broker-dealer's directors and officers policy, the district court affirmed the order of the bankruptcy court which had granted the trustee the policy's \$7.3 million remaining limit of liability as well as an award of prejudgment interest of more than \$3.2 million. The district court held that the insurer was not entitled to relief from judgment to reopen discovery, that allegedly newly discovered evidence did not provide a basis for relief, and that the insurer's most current theory is at least in part contrary to the law of the case. The insurer has appealed to the Second Circuit (98-5040).

In *In re Adler Coleman Clearing Corp.* 21 B.R. 321 (S.D.N.Y. 1998), the court held that an investment advisor, acting on behalf of its clients, could not pay for certain securities purchases after the statutory period for doing so under SIPA had expired. The securities had appreciated in value, but the investment advisor had not submitted payment for the securities to the trustee within 60 days of the publication of notice of the liquidation proceeding as provided in SIPA and by court order. The district court upheld the decision of the bankruptcy court that (i) the fact the accounts were structured to comply with ERISA and the Internal Revenue Code does not create a conflict between ERISA and SIPA; (ii) the investment advisor could have protected itself by covering the transactions; (iii) the investment advisor failed to remit payment with the filing of the customer claims before the court-specified date; and (iv) the investment advisor cannot recover for market losses suffered during the pendency of the SIPA liquidation proceeding.

In *Haber v. SIPC*, CV 98-0274 RSWL (BQRx) (C.D. Cal., October 2, 1998), the dis-

trict court dismissed a complaint for malicious prosecution against SIPC's former counsel because the plaintiff "cannot allege facts to show that the prior action terminated in his favor." Subsequently, the complaint was also dismissed as to SIPC and two former SIPA trustees and counsel.

In *Mishkin v. Ageloff* 1998 WL 651065 (S.D.N.Y., September 23, 1998), a suit by a trustee against various individuals who allegedly caused harm to the debtor, the district court denied all but one of the defendants' motions to dismiss and, as to that defendant, granted the trustee leave to file an amended complaint.

In *Snyder v. Rounds (SIPC v. Consolidated Investment Services, Inc.)* Case No. 95-1645 CEM (SIPA) (Bankr. D. Colo., December 11, 1998), the bankruptcy court found the debtor's former principal had violated the automatic stay set forth in 11 U.S.C. §362(a)(3) and in the order which commenced the SIPA proceeding. The former principal attempted to disrupt a settlement among the SIPA trustee, the malpractice insurance carrier for the debtor's former attorneys, and a group of the debtor's creditors by sending a letter and a draft complaint to the creditors which threatened legal action against the trustee and the creditors. The settlement was approved by the bankruptcy court.

In *Schober v. Department of Labor, et al.*, 1998 WL 682276 (S.D.N.Y., September 30, 1998), the district court granted SIPC's motion to dismiss the pro se complaint because it did not allege any facts that would trigger an obligation by SIPC to the pro se plaintiff.

In *In re Old Naples Securities, Inc.* 118 B.R. 981 (Bankr. M.D. Fla. 1998), the bankruptcy court rejected the Trustee's Determinations of Claim which had denied the claims on the grounds (i) that the cash claimed was deposited not with the debtor but with an affiliate of the debtor, and (ii) that the cash claimed was not deposited for the purchase of a security but was loaned to the debtor for a fixed period of time with interest ranging from 10% to 18% per month. The court held that the claimants were customers entitled to the full protection of SIPA. The court found that the claimants (i) deposited money with the debtor because they believed the affiliate of the debtor and the debtor were "one and the same," and (ii) had no intention of loaning their monies to the debtor or its principal. The Court found their claims to be claims for cash for which the maximum advance from SIPC is \$100,000 per customer. The District Court affirmed the decision. *Focht v. Heebne* 230 B.R. 441 (M.D. Fla. 1999). SIPC and the Trustee have appealed to

the Eleventh Circuit.

In *In re Adler, Coleman Clearing Corp.* 16 B.R. 719 (Bankr. S.D.N.Y. 1998), the bankruptcy court upheld the SIPA trustee's determination that an introducing broker-dealer did not have a preferred customer account where the introducing broker-dealer's claim was for commissions and other fees credited to its clearing account.

In *Kusch v. Mishkin (In re Adler, Coleman Clearing Corp.)*, 1998 WL 551972 (Bankr. S.D.N.Y., August 24, 1998), an individual sued SIPC, a SIPA trustee for a failed clearing broker-dealer, and the National Securities Clearing Corp., for damages allegedly caused as a result of failure to release securities to the individual immediately on demand, and for causing a buy-in of certain securities she had sold through a separate brokerage firm. The bankruptcy court granted summary judgment to the trustee, SIPC, and the NSCC, and found that "the trustee acted legally, properly, and within the scope of his discretion and authority, as conferred on him by SIPA and this court, in refusing to release the...securities [to plaintiff] and...in effecting the buy-in." The court further held that the trustee's duty to the debtor's estate as a whole "clearly prevails over the interests of a single customer." Kusch has appealed the decision to the district court.

In *In re A.R. Baron Co., Inc.* 226 B.R. 790 (Bankr. S.D.N.Y. 1998), the bankruptcy court held that claims arising from debtor's failure to sell securities per claimant's instructions were not "customer" claims entitled to protection under SIPA, but merely general unsecured breach of contract claims.

Similarly, in *SIPC v. Stratton Oakmont* 229 B.R. 273 (Bankr. S.D.N.Y. 1999), the bankruptcy court held that claims arising from debtor's failure to execute sell orders are not "customer" claims and hence not compensable under SIPA. The court further held that a failure to execute does not constitute a claim for conversion. The claimants have appealed to the district court.

In *In re First Intergional Equity Corp.* 227 B.R. 358 (Bankr. D.N.J. 1998), the bankruptcy court granted a claimant's motion and approved the propriety of a class claim in the SIPA liquidation proceeding for more than 2,000 claimants who filed proofs of claim with the SIPA trustee alleging certain losses.

In the Adler liquidation proceeding, there were four related decisions in an action by a SIPA trustee for a failed clearing broker-dealer to deny claims of claimants who seek to benefit from fraudulent transfers engineered by an introducing broker-dealer through phantom trades allegedly executed in the last days of operation of both broker-dealers.

In *Mishkin v. Ensminger (In re Adler, Coleman Clearing Corp.)*, 218 B.R. 689 (Bankr.

## LITIGATION

S.D.N.Y. 1998), the bankruptcy court denied the claimants' motion to dismiss because, inter alia, the allegations in the trustee's complaint satisfied the conditions of section 548(a)(1) of the Bankruptcy Code where it alleged (i) that the introducing broker-dealer intended to defraud the clearing broker-dealer's creditors or SIPC, (ii) that the introducing broker-dealer dominated or controlled the clearing broker-dealer's disposition of its property, and (iii) that claimants can be held responsible under applicable law for the introducing broker-dealer's fraudulent acts as the ultimate beneficiaries of the phantom trades.

In *Mishkin v. Ensminger* (In re Adler, Coleman Clearing Corp.), 218 B.R. 13 (Bankr.

S.D.N.Y. 1998), on the SIPA trustee's cross-motion to uphold his determinations on claims of former customers of one of the debtor's introducing broker-dealers, the bankruptcy court found that the claimants did not have customer claims for particular securities positions where they received no confirmations regarding executed trades for those securities.

In two related evidentiary decisions in the same case, *Mishkin v. Ensminger* (In re Adler, Coleman Clearing Corp.), 1998 WL 160036 (Bankr. S.D.N.Y. 1998) and 1998 WL 182808 (Bankr. S.D.N.Y., April 17, 1998), on motions by the claimants to exclude certain of the trustee's exhibits from evidence, the bank-

ruptcy court admitted into evidence most of the trustee's proffered exhibits, which bear directly on the truthfulness of the brokers at the introducing broker-dealer. The court excluded from evidence SEC and NASD consent decrees because the affected brokers neither admitted nor denied the findings made therein. On motions to exclude evidence that the brokers invoked the Fifth Amendment, the court ruled, in all but two instances (where the deponent was not a key figure in the litigation), that an adverse inference can be used against claims of claimants where their broker invoked the Fifth Amendment.

## DISCIPLINARY AND CRIMINAL ACTIONS

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 1998, two 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 101 of the 273 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 236 indictments have been returned in federal or state courts, resulting in 199 convictions to date.

Administrative and/or criminal action in 243 of the 273 SIPC customer protection proceedings initiated through December 31, 1998, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	59
Exclusive SEC Administrative Action	37
Exclusive Self-Regulatory Administrative Action	46
Criminal and Administrative Action	89
Criminal Action Only	12
	---
	Total 243
	===

In the 231 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 <sup>1</sup>	114	111
Bar from Association	345	216
Fines	Not Applicable	\$9,579,714

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 \$9,579,714 in fines assessed by self-regulatory authorities were levied against 127 associated persons and ranged from \$250 to \$1,500,000.

### 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

During the calendar year 1998 SIPC maintained active files on four members referred under Section 5(a). Two referrals were received during the year and two active referrals had been carried forward from prior years. Two of the four remained on active referral at year-end.

In addition to formal referrals 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.

<sup>1</sup>Notices of suspension include those issued in conjunction with subsequent bars from association.

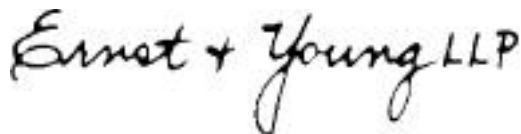
## Report of Ernst & Young LLP Independent Auditors

Board of Directors  
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation as of December 31, 1998, and the related statements of activities and 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 as of December 31, 1998, and the changes in its net assets and its cash flows for the year then ended, in conformity with generally accepted accounting principles.



Washington, D.C.  
March 31, 1999

# Securities Investor Protection Corporation

## Statement of Financial Position December 31, 1998

### ASSETS

Cash	\$	783,275
U.S. Government securities, at fair value and accrued interest receivable (\$16,643,418); (amortized cost \$1,105,173,919) (Note 6)		1,195,911,965
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$74,963,895) (Note 4)		2,000,000
Other		348,277
		<b>\$1,199,043,517</b>

### LIABILITIES AND NET ASSETS

Advances to trustees – in process (Note 4)	\$	307,925
Accounts payable and accrued expenses (Note 8)		1,507,298
Estimated costs to complete customer protection proceedings in progress (Note 4)		39,600,000
Member assessments received in advance (Note 3)		180,000
		41,595,223
Net assets		1,157,448,294
		<b>\$1,199,043,517</b>

## Statement of Activities for the year ended December 31, 1998

Revenues:		
Interest on U.S. Government securities	\$	69,844,413
Member assessments (Note 3)		1,186,279
		<b>71,030,692</b>
Expenses:		
Salaries and employee benefits (Note 8)		2,890,318
Legal and accounting fees (Note 4)		298,839
Credit agreement commitment fee (Note 5)		1,251,315
Rent (Note 5)		430,743
Other		1,085,086
		<b>5,956,301</b>
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)		20,979,807
		<b>26,936,108</b>
Total net revenues		44,094,584
Realized and unrealized gain on U.S. Government securities (Note 6)		38,094,997
Increase in net assets		82,189,581
Net assets, beginning of year		1,075,258,713
Net assets, end of year		<b>\$1,157,448,294</b>

See notes to financial statements.

# Securities Investor Protection Corporation

## Statement of Cash Flows for the year ended December 31, 1998

Operating activities:	
Interest received from U.S. Government securities	\$ 69,222,865
Member assessments received	1,066,430
Advances paid to trustees	(17,605,579)
Recoveries of advances	1,609,695
Salaries and other operating activities expenses paid	(5,676,805)
Net cash provided by operating activities	48,616,606
Investing activities:	
Proceeds from sales of U.S. Government securities	106,045,869
Purchases of U.S. Government securities	(154,755,759)
Purchases of furniture and equipment	(88,224)
Net cash used in investing activities	(48,798,114)
Decrease in cash	(181,508)
Cash, beginning of year	964,783
Cash, end of year	\$ 783,275

See notes to financial statements.

## Notes to Financial Statements

### 1. Organization and general

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.

SIPC is exempt from income taxes under 15 U.S.C. § 78 kkk(e) of SIPA. Accordingly, no provision for income taxes is required.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### 2. The "SIPC Fund" and SIPC's resources

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$1,196,695,240.

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 Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount

not to exceed \$1 billion. In addition, SIPC maintains a \$1 billion revolving line of credit with a consortium of banks.

### 3. Member assessments

For calendar year 1998 each member's assessment is \$150. Assessments received in advance will be applied to future assessments, or refunded to the member after it fulfills certain requirements.

### 4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 27 proceedings in progress at December 31, 1998. Customer claims have been satisfied in 15 of these proceedings and in 12 proceedings customer claims and distributions are being processed.

Advances to trustees represent net amounts disbursed and amounts currently 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.

SIPC has advanced \$77.1 million for proceedings in progress (including direct payment proceedings of \$.1 million) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$75.1 million is not expected to be recovered.

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

	<b>Customer Protection Proceedings</b>	
	<b>Advances to trustees, less allowance for possible losses</b>	<b>Estimated costs to complete</b>
Balance, beginning of year	\$4,000,000	\$36,900,000
Add:		
Provision for current year recoveries	600,000	
Provision for estimated costs to complete proceedings		20,600,000
Less:		
Recoveries	1,600,000	
Reduction in estimated recoveries	1,000,000	
Advances to trustees		17,900,000
<b>Balance, end of year</b>	<b>\$2,000,000</b>	<b>\$39,600,000</b>

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. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1995, at the rate of \$410,136 for the first five years and \$437,628 thereafter, total \$2,871,700. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease.

A credit agreement with a consortium of banks, which terminated March 30, 1999, provided SIPC with a \$1 billion revolving line of credit. A commitment fee, payable quarterly on the unused portion of the commitment, was increased from .09% per annum to .11% per annum during 1998. Effective March 31, 1999, a new \$1 billion credit agreement with a consortium of banks was entered into by SIPC, consisting of (i) a \$250 million 364-day revolving credit facility with a commitment fee of .09% per year, and (ii) a \$750 million 5-year revolving credit facility at .11% per year.

## 6. Fair value of securities

Fair value of U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 1998.

U.S. Government securities as of December 31, 1998, included gross unrealized gains of \$74,101,104 and gross unrealized losses of \$6,476.

## 7. Reconciliation of increase in net assets with net cash provided by operating activities:

Increase in net assets	\$82,189,581
Increase in realized and unrealized gains on U.S. Government securities	(38,094,997)
Net increase in estimated cost to complete customer protection proceedings	2,700,000
Net decrease in estimated recoveries of advances to trustees	2,000,000
Increase in accrued interest receivable on U.S. Government securities	(1,136,628)
Decrease in amortized premium on U.S. Government securities	515,532
Increase in payables	344,550
Other reconciling items	98,568
<b>Net cash provided by operating activities</b>	<b>\$48,616,606</b>

## 8. Pensions and Other Postretirement Benefits

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. SIPC also has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement

health care plan is contributory, with retiree contributions adjusted annually; the life insurance plan is noncontributory.

Information regarding these plans is provided in accordance with the Financial Accounting Standards Board Statement No. 132, Employers' Disclosure about Pensions and Other Postretirement Benefits

	Pension Benefits	Other Postretirement Benefits
<b>CHANGE IN BENEFIT OBLIGATION</b>		
Benefit obligation at beginning of year	\$8,387,236	\$1,456,731
Service cost	284,288	71,811
Interest cost	575,802	101,128
Actuarial loss	639,879	321,012
Benefits paid	(287,476)	(23,022)
Benefit obligation at end of year	\$9,599,729	\$1,927,660
<b>CHANGE IN PLAN ASSETS</b>		
Fair value of plan assets at beginning of year	\$8,983,291	-
Actual return on plan assets	843,486	-
SIPC contributions	-	-
Benefits paid	(287,476)	-
Fair value of plan assets at end of year	\$9,539,301	-
Funded status	\$ (60,428)	\$(1,927,660)
Unrecognized asset	(35,013)	-
Unrecognized actuarial loss	892,663	4,699
Unrecognized prior service credit	(61,072)	-
Prepaid (accrued) benefit cost	\$736,150	\$(1,922,961)
<b>WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31, 1998</b>		
Discount rate	6.50%	6.50%
Expected return on assets	9.00%	
Rate of compensation increase	5.00%	

For measurement purposes, 8.5%/7.0% (non-Medicare/Medicare) annual rates of increase in the per capita cost of covered health care benefits were assumed for 1998. These rates were assumed to decrease gradually to 5% for 2003 and remain at that level thereafter.

### COMPONENTS OF NET PERIODIC BENEFIT COST

Service cost	\$ 284,288	\$ 71,811
Interest cost	575,802	101,128
Amortization of unrecognized asset	(35,014)	-
Amortization of unrecognized actuarial gain	-	(14,583)
Amortization of prior service credit	(7,634)	-
Expected return on assets	(793,961)	-
Benefit cost	\$ 23,481	\$158,356

### DEFINED CONTRIBUTION PLAN

SIPC contributions (60% of employee contributions, up to 3.6% of salary)	\$ 75,656
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The assumed health care cost trend rate has a significant effect on the amounts reported.

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components in 1998	\$52,000	\$(47,000)
Effect on postretirement benefit obligation as of December 31, 1998	\$420,000	\$(340,000)

APPENDIX I **Distributions for Accounts of Customers  
for the Twenty-Eight Years Ended December 31, 1998**  
(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC		Net	Total
		Advances*	Recoveries*		
1971	\$ 271	\$ 401		\$ 401	\$ 672
1972	9,300	7,347	\$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
	<b><u>\$2,672,277</u></b>	<b><u>\$333,403</u></b>	<b><u>\$(139,018)</u></b>	<b><u>\$194,385</u></b>	<b><u>\$2,866,662</u></b>

\* Advances and recoveries not limited to cases initiated this year.

† Reflects adjustments to customer distributions in the John Muir & Co. customer protection proceeding based upon Trustee's final report.

## APPENDIX II Customer Protection Proceedings

### PART A: Customer Claims and Distributions Being Processed <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	136	20
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,368	9
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	9/03/77	3/06/97	3/10/97	11,097	5,413	3,771
Selheimer & Co. Ambler, PA (Direct Payment)	9/17/67		9/08/97†	84	11	1
M. Rimson & Co., Inc. New York, NY (Gilbert Backenroth, Esq.)	6/03/70	9/08/97	9/11/97	11,064	628	16
Chicago Partnership Board, Inc. Chicago, IL (J. William Holland, Esq.)	5/06/88	12/05/97	12/15/97	6,472	1,672	644
Primeline Securities Corporation Wichita, KS (Todd Connell, Esq.)	12/20/84	1/09/98	1/09/98	4,700	251	21
Chimneyville Investments Group, Inc. Jackson, MS (SIPC)	1/25/95	9/01/98	9/03/98	168	31	
Euro-Atlantic Securities, Inc. New York, NY (Irving H. Picard, Esq.)	12/24/87	10/02/98	10/07/98	21,500	397	
Nichols, Safina, Lerner & Co. New York, NY (Direct Payment)	11/17/93		10/30/98†	19,090	148	

†Date notice published

December 31, 1998

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 472,856	\$ 9,298	\$ 463,558	\$ 2,074,094	\$ 25,000		\$1,156,548	\$ 892,546
893,805		893,805	4,038,490	3,644,594		138,663	255,233
285,434,087	282,881,607	2,552,480	5,555,655	5,377,761			177,894
			67,472	3,509			63,963
			528,299	330,907		190,652	6,740
3,922,824	3,285,616	637,208	705,692	420,000		96,337	189,355
52,860		52,860	702,499	315,363			387,136
5,975		5,975	2,500	2,500			
			195,054	195,054			
			31,510	31,510			

## APPENDIX II Customer Protection Proceedings

### PART A: Customer Claims and Distributions Being Processed <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
First National Equity Corp., f/k/a J.S. Securities, Inc. New York, NY (Lee S. Richards, III, Esq.)	9/07/94	10/30/98	11/04/98	4,484	48	
Michael William Ribant, d/b/a Trinity Capital San Diego, CA (SIPC)	10/26/92	11/16/98	11/16/98	82	2	
<b>TOTAL 12 MEMBERS: PART A</b>				<b><u>103,438</u></b>	<b><u>12,105</u></b>	<b><u>4,482</u></b>

### PART B: Customer Claims Satisfied, Litigation Matters Pending <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Donald Sheldon & Co., Inc. New York, NY (Don L. Horwitz, Esq.)	12/01/75	7/30/85	8/13/85 2/17/87*	8,300	2,469	2,362
Blinder, Robinson & Co., Inc. Englewood, CO (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/01/90	215,000	64,770	61,334
Adler, Coleman Clearing Corp. New York, NY (Edwin B. Mishkin, Esq.)	12/27/84	2/27/95	2/27/95	102,000	19,841	59,650

\*Successor Trustee

December 31, 1998

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$ 10,000	\$ 10,000			
<u>\$290,782,407</u>	<u>\$286,176,521</u>	<u>\$4,605,886</u>	<u>\$ 13,911,265</u>	<u>\$10,356,198</u>		<u>\$ 1,582,200</u>	<u>\$1,972,867</u>

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 9,476,135	\$ 5,504,957	\$ 3,971,178	\$14,440,602	\$ 7,022,926		\$ 7,013,546	\$ 404,130
108,980,902	88,186,351	20,794,551					
575,318,599	560,000,000	15,318,599	8,000,000	8,000,000			

## APPENDIX II Customer Protection Proceedings

### PART B: Customer Claims Satisfied, Litigation Matters Pending <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Harrington Securities Corp. Williamsville, NY (SIPC)	6/30/87	8/10/95	8/14/95	4,220	117	13
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	7/16/81	10/16/95	10/17/95	2,866	139	20
Pinnacle Financial Inc./ H.L. Camp & Co., Inc. Nashville, TN (SIPC)	11/21/85	2/29/96	3/01/96	635	111	18
Hanover, Sterling & Company Ltd. New York, NY (Irving H. Picard, Esq.)	8/21/84	4/02/96	4/16/96	15,536	1,170	148
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	797	49	33
A. R. Baron & Co., Inc. New York, NY (James W. Giddens, Esq.)	11/04/91	7/03/96	7/11/96	7,826	555	50
AmeriNational Financial Services, Inc. Santa Monica, CA (SIPC)	9/14/93	6/04/96	7/29/96	3,189	75	5
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	153	66
W.S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	6/26/91	3/07/97	3/12/97	25,600	6,658	22,726
Cygnnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/30/91	8/26/97	8/26/97	348	60	12

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$ 128,757	\$ 77,805			\$ 50,952
\$ 8	\$ 86,852	\$ 8	\$ 86,852	3,408,040	6	2,599,402	3
641,268	\$ 624,057	17,211	698,947	111,161		587,786	8
			3,370,406	1,386,037		607,129	1,377,240
1,442,151	739,669	702,482	8,930,452	249,374		7,438,470	1,242,608
1,135,436		1,135,436	7,435,781	5,192,149		979,554	1,264,078
230		230	713,851	63,476		520,375	130,000
8,802	8,663	139	316,852	30,022		168,020	118,810
30,607,367	26,032,717	4,574,650	10,955,031	610,000		10,345,031	
			2,623,451	204,244		1,583,171	836,036

## APPENDIX II

## Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Chase Global Securities, Inc. Cleveland, OH (SIPC)	4/30/93	9/22/97	9/22/97	294	7	1
Cressida Capital, Inc./ Norfolk Securities Corp. New York, NY (Elizabeth Page Smith, Esq.)	6/16/93	11/04/97	11/07/97	4,032	521	217
<b>TOTAL 15 MEMBERS: PART B</b>				<b><u>392,382</u></b>	<b><u>96,695</u></b>	<b><u>146,655</u></b>

PART C: Proceedings Completed in 1998 <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Total Customer Claims Satisfied
Portfolio Asset Management/ USA Financial Group, Inc. El Paso, TX (SIPC)	12/23/92	7/26/93	8/17/93	16,119	949	17
First Lauderdale Securities Ft. Lauderdale, FL (SIPC)	6/04/84	11/29/94	11/29/94	1,255	124	49
U.S. Equity Management Corp. New York, NY (Irving H. Picard, Esq.)	9/14/93	6/09/95	9/22/95	50	18	15
Barrett Day Securities, Inc. New York, NY (Direct Payment)	3/31/86		6/26/96†	8,700	303	20
<b>TOTAL 4 MEMBERS 1998</b>				<b>26,124</b>	<b>1,394</b>	<b>101</b>
<b>TOTAL 242 MEMBERS 1973 - 1997(d)</b>				<b><u>1,044,886</u></b>	<b><u>282,295</u></b>	<b><u>279,794</u></b>
<b>TOTAL 246 MEMBERS 1973 - 1998</b>				<b><u>1,071,010</u></b>	<b><u>283,689</u></b>	<b><u>279,895</u></b>

†Date notice published

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 108,731		\$ 108,731	\$ 712,110	\$ 612,110			\$ 100,000
			1,417,334	745,687		\$ 394,045	277,602
<u>\$ 727,806,473</u>	<u>\$681,096,414</u>	<u>\$ 46,710,059</u>	<u>\$ 63,151,614</u>	<u>\$26,904,393</u>		<u>\$30,445,765</u>	<u>\$ 5,801,456</u>

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 634,988	\$ 26,427	\$ 608,561	\$ 648,227	\$ 60,523		\$ 134,465	\$ 453,239
304,145	232,770	71,375	2,361,125	86,108		1,814,662	460,355
349,510	349,510		907,677	260,842		5,775	641,060
			203,093	18,445		56,876	127,772
1,288,643	608,707	679,936	4,120,122	425,918		2,011,778	1,682,426
<u>1,843,076,191</u>	<u>1,704,394,896</u>	<u>138,681,295</u>	<u>224,251,333</u>	<u>73,362,736</u>	<u>\$1,392,776</u>	<u>59,649,050</u>	<u>89,846,771</u>
<u>\$1,844,364,834</u>	<u>\$1,705,003,603</u>	<u>\$139,361,231</u>	<u>\$228,371,455</u>	<u>\$73,788,654</u>	<u>\$1,392,776</u>	<u>\$61,660,828</u>	<u>\$91,529,197</u>

## APPENDIX II Customer Protection Proceedings

### PART D: Summary

		Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Part A:	12 Members — Customer Claims and Distributions Being Processed	103,438	12,105	4,482
Part B:	15 Members — Customer Claims Satisfied, Litigation Matters Pending	<u>392,382</u>	<u>96,695</u>	<u>146,655</u>
	Sub-Total	495,820	108,800	151,137
Part C:	246 Members — Proceedings Completed	<u>1,071,010</u>	<u>283,689</u>	<u>279,895</u>
	<b>TOTAL</b>	<b><u>1,566,830</u></b>	<b><u>392,489</u></b>	<b><u>431,032</u></b>

Notes:

- (a) Based upon information available at year-end and subject to adjustments until the case is closed.
- (b) SIPA requires notice to be mailed to each person who appears to have been a customer of the debtor with an open account within the past twelve months. In order to be sure that all potential claimants have been advised of the liquidation proceeding, trustees commonly mail notice and claim forms to all persons listed on the debtor's records, even if it appears that their accounts have been closed. As a result, many more claim forms are mailed than are received. Responses Received usually exceeds Customers Receiving Distributions because responses are commonly received from customers whose accounts were previously delivered to another broker or to the customer. Responses are also received from persons who make no claim against the estate, or whose accounts net to a deficit, or who file late, incorrect, or invalid claims. The number of Customers Receiving Distributions can exceed Responses Received when the trustee transfers accounts in bulk to other brokers before claims are filed.
- (c) Includes assets marshalled by Trustee after filing date and does not include payments to general creditors.
- (d) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.

December 31, 1998

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 290,782,407	\$ 286,176,521	\$ 4,605,886	\$ 13,911,265	\$ 10,356,198		\$ 1,582,200	\$ 1,972,867
<u>727,806,473</u>	<u>681,096,414</u>	<u>46,710,059</u>	<u>63,151,614</u>	<u>26,904,393</u>		<u>30,445,765</u>	<u>5,801,456</u>
1,018,588,880	967,272,935	51,315,945	77,062,879	37,260,591		32,027,965	7,774,323
<u>1,844,364,834</u>	<u>1,705,003,603</u>	<u>139,361,231</u>	<u>228,371,455</u>	<u>73,788,654</u>	<u>\$1,392,776</u>	<u>61,660,828</u>	<u>91,529,197</u>
<b><u>\$2,862,953,714</u></b>	<b><u>\$2,672,276,538</u></b>	<b><u>\$190,677,176</u></b>	<b><u>\$305,434,334</u></b>	<b><u>\$111,049,245</u></b>	<b><u>\$1,392,776</u></b>	<b><u>\$93,688,793</u></b>	<b><u>\$99,303,520</u></b>

**APPENDIX III**
**Analysis of SIPC Revenues and Expenses  
for the Five Years Ended December 31, 1998**

	1998	1997	1996	1995	1994
<b>Revenues:</b>					
Interest on U.S. Government securities	\$69,839,676	\$66,656,807	\$61,280,052	\$ 56,715,607	\$50,829,178
Member assessments and contributions	1,186,279	1,339,584	2,639,822	57,831,365	37,115,454
Interest on assessments	4,737	5,948	22,486	51,024	23,332
	<u>71,030,692</u>	<u>68,002,339</u>	<u>63,942,360</u>	<u>114,597,996</u>	<u>87,967,964</u>
<b>Expenses:</b>					
Salaries and employee benefits	2,890,318	2,629,970	2,611,595	2,511,153	2,654,204
Legal fees	274,539	66,469	108,638	235,305	133,664
Accounting fees	24,300	22,900	22,000	31,400	20,400
Credit agreement commitment fee	1,251,315	1,017,332	1,160,862	1,408,174	1,925,112
Professional fees—other	350,562	81,109	75,520	62,196	92,418
<b>Other:</b>					
Assessment collection cost	11,149	7,589	16,522	15,764	13,729
Bank fees	(1,235)	2,329	7,929	5,414	7,532
Depreciation and amortization	109,986	119,341	107,485	93,146	65,278
Directors fees and expenses	31,414	15,754	16,913	15,171	16,183
Insurance	19,414	17,385	18,405	17,796	14,837
Office supplies and expense	229,010	172,689	109,685	147,243	110,465
Postage	16,332	12,962	16,758	11,625	16,060
Printing & mailing annual report	37,934	91,526	95,578	93,302	85,197
Publications and reference services	85,661	95,383	92,601	71,734	77,269
Rent—office space	430,743	419,905	412,668	512,026	577,489
Telephone	26,101	23,313	22,098	18,152	16,070
Travel and subsistence	155,820	215,075	116,097	118,602	56,637
Miscellaneous	12,938	23,088	6,695	16,690	10,023
	<u>1,165,267</u>	<u>1,216,339</u>	<u>1,039,434</u>	<u>1,136,665</u>	<u>1,066,769</u>
	<u>5,956,301</u>	<u>5,034,119</u>	<u>5,018,049</u>	<u>5,384,893</u>	<u>5,892,567</u>
<b>Customer protection proceedings:</b>					
<b>Net advances to (recoveries from):</b>					
<b>Trustees other than SIPC:</b>					
Contractual commitments			(19)	100,344	
Securities	2,284,516	16,994,249	(4,620,035)	7,836,701	(2,135,933)
Cash	719,902	(171,914)	(8,315,111)	2,865,643	(2,582,615)
	<u>3,004,418</u>	<u>16,822,335</u>	<u>(12,935,165)</u>	<u>10,802,688</u>	<u>(4,718,548)</u>
Administration expenses	12,784,379	11,663,353	6,411,562	2,033,094	5,565,095
	<u>15,788,797</u>	<u>28,485,688</u>	<u>(6,523,603)</u>	<u>12,835,782</u>	<u>846,547</u>
Net change in estimated future recoveries	2,000,000	1,500,000	3,500,000	1,500,000	1,100,000
	<u>17,788,797</u>	<u>29,985,688</u>	<u>(3,023,603)</u>	<u>14,335,782</u>	<u>1,946,547</u>
<b>SIPC as Trustee:</b>					
Securities	(208,428)	585,813	633,791	1,864,465	(1,125)
Cash	75,962	197,712	184,912	994,274	(467,608)
	<u>(132,466)</u>	<u>783,525</u>	<u>818,703</u>	<u>2,858,739</u>	<u>(468,733)</u>
Administration expenses	583,148	22,043	192,225	486,797	294,383
	<u>450,682</u>	<u>805,568</u>	<u>1,010,928</u>	<u>3,345,536</u>	<u>(174,350)</u>
<b>Direct payments:</b>					
Securities	7,912	49,505		(2,402)	435
Cash	7,370	183,822		(5,476)	74,712
	<u>15,282</u>	<u>233,327</u>		<u>(7,878)</u>	<u>75,147</u>
Administration expenses	25,046	9,972	18,445	(464)	29,854
	<u>40,328</u>	<u>243,299</u>	<u>18,445</u>	<u>(8,342)</u>	<u>105,001</u>
<b>Net change in estimated cost to complete proceedings</b>					
	<u>2,700,000</u>	<u>7,300,000</u>	<u>22,600,000</u>	<u>(3,400,000)</u>	<u>(600,000)</u>
	<u>20,979,807</u>	<u>38,334,555</u>	<u>20,605,770</u>	<u>14,272,976</u>	<u>1,277,198</u>
	<u>26,936,108</u>	<u>43,368,674</u>	<u>25,623,819</u>	<u>19,657,869</u>	<u>7,169,765</u>
Total net revenues	44,094,584	24,633,665	38,318,541	94,940,127	80,798,199
<b>Realized and unrealized gain or loss on U.S. Government securities*</b>					
	<u>38,094,997</u>	<u>29,026,426</u>	<u>(16,451,399)</u>	<u>48,441,195</u>	<u>(51,362,906)</u>
Increase in net assets*	<b><u>\$82,189,581</u></b>	<b><u>\$53,660,091</u></b>	<b><u>\$21,867,142</u></b>	<b><u>\$143,381,322</u></b>	<b><u>\$29,435,293</u></b>

\*1994 and 1995 have been restated to reflect the adoption of FAS 124.

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