

**SiPC**

*Securities Investor Protection Corporation  
Annual Report 1987*



SECURITIES INVESTOR PROTECTION CORPORATION  
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WASHINGTON, D.C. 20005-2207  
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April 30, 1988

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 Seventeenth Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 11(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

A handwritten signature in black ink, appearing to read "James G. Stearns". The signature is written in a cursive style with a long horizontal flourish at the end.

James G. Stearns  
Chairman

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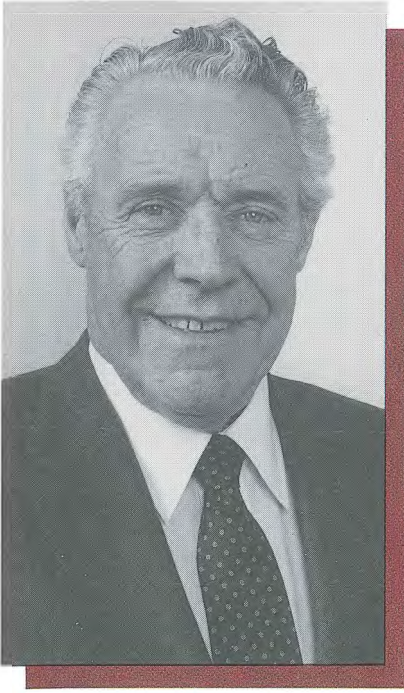
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*"SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers\* . . ."*

*—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



The year 1987 will stand out as special for all of us who are involved with the nation's securities markets. Certainly, it will be remembered by those of us at SIPC as a year of unique challenges.

The events of October, 1987, resulted in an increased public awareness of our work and in the protections afforded by our program. What is particularly notable, however, is the fact that we experienced only one new customer protection proceeding as a result of the October market activity. That was the liquidation of H. B. Shaine & Co., Inc., in Grand Rapids, Michigan. I am particularly pleased to report that the trustee, with SIPC's concurrence and assistance, was able to arrange a bulk transfer of virtually all of the customer accounts of Shaine within a week of his appointment. Although this required special efforts by the trustee and the SIPC staff, we are gratified that we were able to make arrangements to provide the customers of Shaine with access to their accounts in a short period of time.

Especially in light of the events of October, it is significant to note that 1987, with only four new customer protection proceedings, ties with two previous years for the fewest cases commenced in any one year. Indeed, it has been nine years since we experienced that small a number of new proceedings. It is also gratifying to note that two of the four customer protection proceedings commenced in 1987 had a total of only 31 customers' claims.

Another important event for SIPC in 1987 was its move into new offices, which also occurred in October. After fourteen years in our former offices it was an exciting undertaking for us to have space designed for our needs. This resulted in a healthy re-examination of our work and structure, and it provided a meaningful opportunity to make necessary enhancements to our equipment to meet our needs. Particularly, this resulted in an upgrading of our computer capability to continue to carry forward our program of maximizing the use of such technology in our work.

I want to take note of the extra efforts expended by our Directors and staff in dealing with the special needs created by the events of this year. I believe that once again the existence and structure of the SIPC program has proven to be a significant asset in the maintaining of investor confidence in our nation's securities markets. This, of course, was one of the principal reasons for the establishment of SIPC 17 years ago. It will continue to be our major goal for the future.

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

# Securities Investor Protection Corporation



**JAMES G. STEARNS**  
*Chairman*




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## *Directors*

**ROGER A. YURCHUCK, ESQUIRE**  
Vorys, Sater, Seymour & Pease  
Cincinnati, Ohio  
*Vice Chairman*

**FRANK G. ZARB**  
Senior Partner  
Lazard Freres and Company  
New York, New York

**DAVID F. GOLDBERG**  
Chairman of the Board  
Goldberg Securities, Inc.  
Chicago, Illinois

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## *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



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

**THOMAS J. HEALEY**  
Vice President  
Goldman Sachs & Co.  
New York, New York

**CHARLES O. SETHNESS**  
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 four SIPC members in 1987, bringing the total since SIPC's inception to 201 proceedings commenced under SIPA. The 201 members represent less than 1 percent of the approximately 24,300 broker-dealers that have been SIPC members during the last 17 years. Currently, SIPC has 12,076 members.

The four new cases compare with eight commenced in 1986. 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 and the other case

was a direct payment proceeding. SIPC members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	3/23/87
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	5/12/87
H. B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	10/20/87
Evans Trading Company, Inc. Naperville, Illinois (Direct Payment)	12/08/87*

\*Date notice published

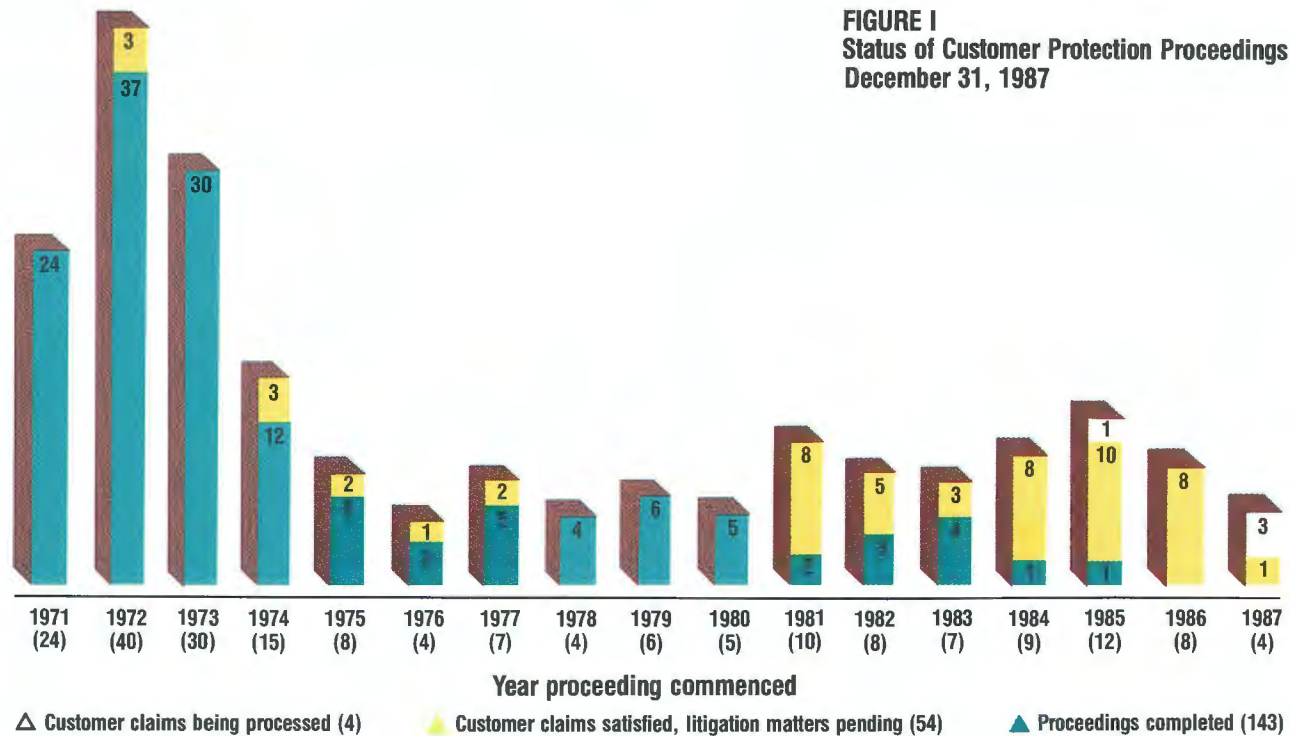
Of the 201 proceedings begun under SIPA to date, 143 have been completed, 54 involve pending litigation matters, and claims in 4 are being processed (See Figure I and Appendix I).

During SIPC's seventeen 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 \$189 million came from the SIPC Fund (See Appendix III).

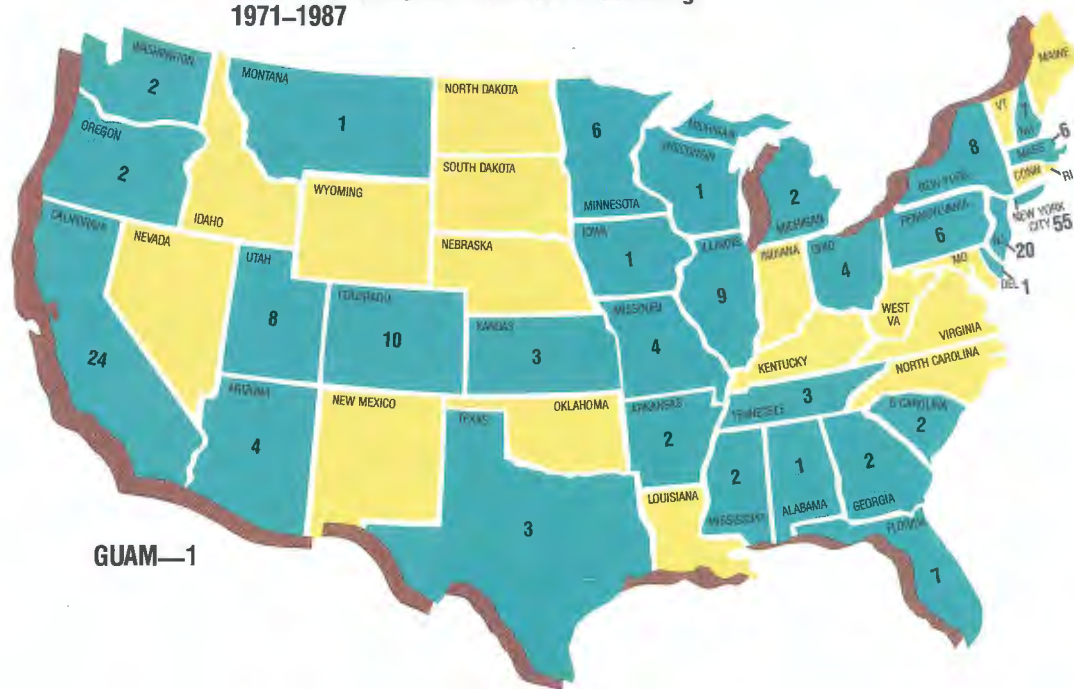
### SIPC Fund Advances

Table I shows that the 40 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for 85 percent of the total advanced in all 201 customer protection proceedings. The largest net advance in a single liquidation is \$39 million for Bell & Beckwith. This exceeds the net advances in the 161 smallest proceedings combined.

In eight proceedings SIPC advanced \$126 million, or 57 percent of net advances from the SIPC Fund for all proceedings.



**FIGURE 2**  
**Location of Customer Protection Proceedings**  
**1971-1987**



**TABLE I**  
**Net Advances from the SIPC Fund**  
**December 31, 1987**  
**201 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	4	\$ 95,401,613
5,000,001	\$10,000,000	4	30,626,546
1,000,001	5,000,000	32	63,354,875
500,001	1,000,000	20	14,364,667
250,001	500,000	24	8,209,473
100,001	250,000	45	7,332,052
50,001	100,000	34	2,468,147
25,001	50,000	20	750,018
10,001	25,000	6	96,051
0	10,000	9	27,712
Net recovery		3	(1,026,854)*
			<u>\$221,604,300†</u>

**Claims over the Limits**

Of the more than 222,000 claims satisfied as of December 31, 1987, a total of 320 were for cash and securities whose value was greater than the limits of protection afforded by SIPC.

The 320 claims, a net decrease of 3 during 1987, represent less than two-tenths of one percent of all claims satisfied. The unsatisfied portion of claims, \$50.8 million, decreased approximately \$29.1 million during 1987. These remaining claims approximate 4 percent of the total value of securities and cash distributed for accounts of customers.

\*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 (\$189,295,847) and for administration expenses (\$32,308,453).



## 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

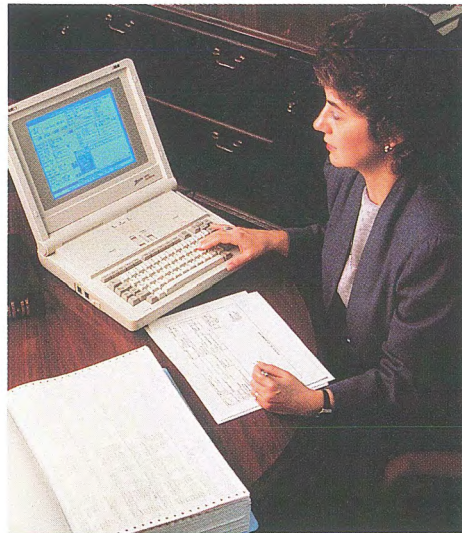
The net increase of 771 members during the year brought the total membership to 12,076 at December 31, 1987. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

**TABLE II**  
**SIPC Membership**  
**Year Ended December 31, 1987**

<u>Agents for Collection of SIPC Assessments</u>	<u>Added(a)</u>	<u>Terminated(a)</u>	<u>Total</u>
National			
Association of Securities Dealers, Inc.	486	399	5,804
SIPC(b)	789	517	2,446
Chicago Board Options Exchange Incorporated	276	33	1,931
New York Stock Exchange, Inc.	36	27	859
American Stock Exchange, Inc.	36	48	456
Pacific Stock Exchange, Inc.	60	9	273
Philadelphia Stock Exchange, Inc.	21	3	186
Midwest Stock Exchange, Inc.	6	1	94
Boston Stock Exchange, Inc.	—	—	27
	<u>1,710</u>	<u>1,037</u>	<u>12,076</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).<sup>1</sup> As of December 31, 1987, there were 1,228 members who were subjects of uncured notices, 560 of which were mailed during 1987, 296 during 1986 and 378 during the years 1979 through 1985. Subsequent filings and payments by 70 members left 1,158 notices uncured. SIPC has been advised by the SEC staff that: (a) 145 member registrations have been cancelled or are being withdrawn; (b) 696 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 172 are expected to cure their delinquencies; and (d) 145 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 \$379.1 million at year end, a decrease of \$3.6 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1987. The 1987 interest from investments was \$28.2 million and member assessments were \$.9 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, 1987.

<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.

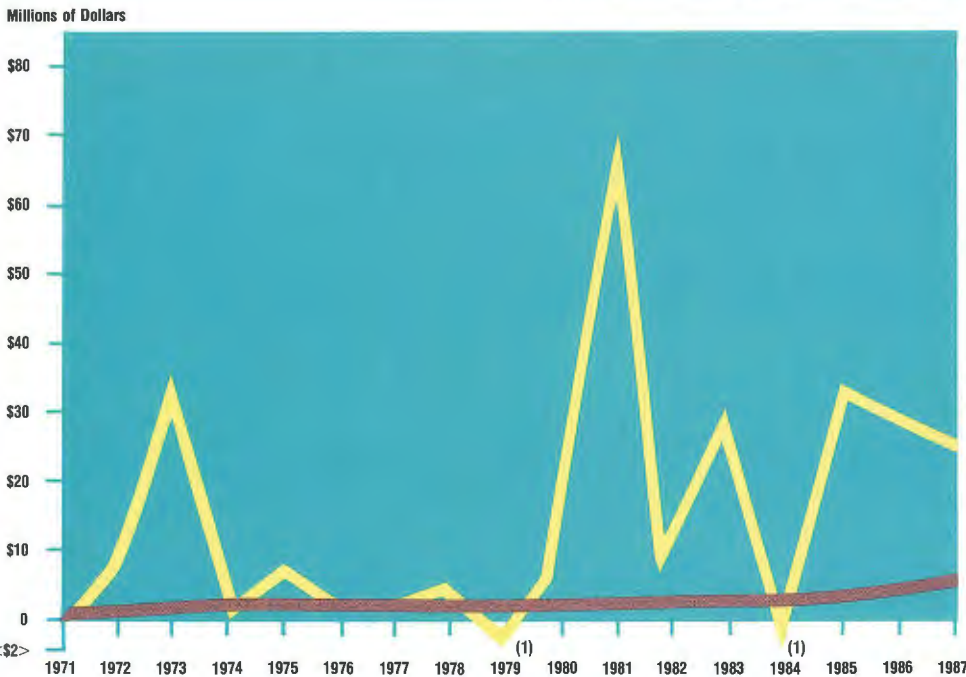
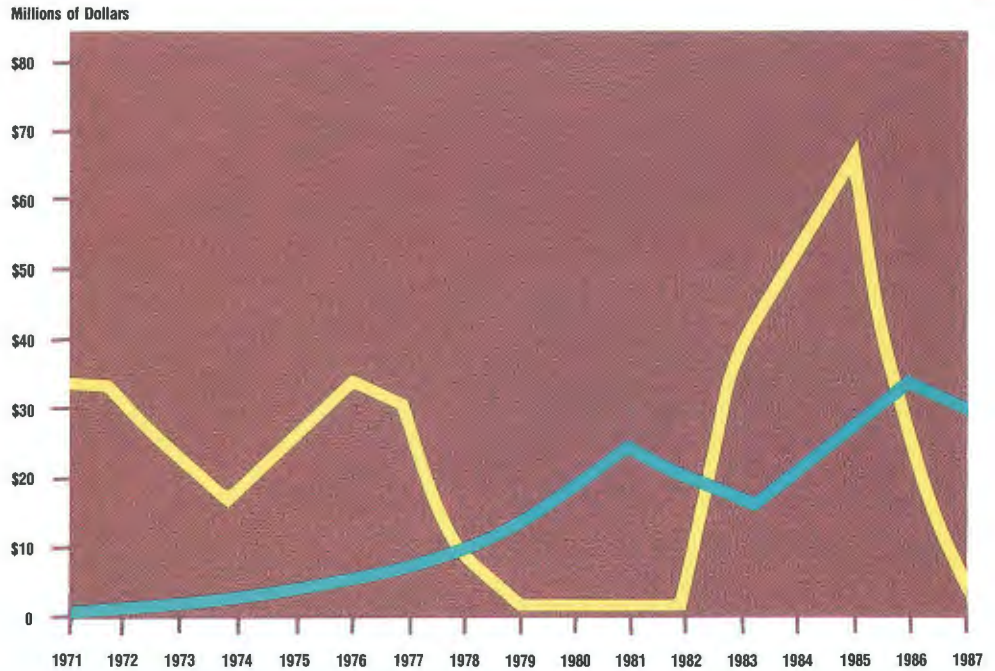
**TABLE III**  
**SIPC Revenues for the**  
**Seventeen Years Ended December 31, 1987**

	Member assessments and contributions: \$388,803,000
	Interest on U.S. Government securities: \$251,109,000

History of Member Assessments\*

1971: ½ of 1% plus an initial assessment of ⅓ 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 uniform annual assessment.  
 1983-March 31, 1986: ¼ of 1% effective May 1, 1983 (\$25 minimum).  
 1986-1987: \$100 annual assessment.

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



(1) Net recoveries.

**TABLE IV**  
**SIPC Expenses for the Seventeen Years**  
**Ended December 31, 1987**

	Customer protection proceedings: \$251,504,000 (Includes net advances of \$221,604,000 less estimated future recoveries of \$9,300,000 and \$39,200,000 of estimated costs to complete proceedings.)
	Other expenses: \$40,204,000

## Administration

There were two changes in SIPC's Directors during 1987. In April, 1987, Stephen L. Hammerman, Executive Vice President, Chief Administrative Officer and General Counsel of Merrill Lynch & Co., Inc., completed his service on our Board. Mr. Hammerman's knowledge and experience were valuable assets to the corporation's program during his tenure on the Board. His successor is Thomas J. Healey, Vice President, Goldman Sachs & Co.

In July, 1987, James L. Kichline, Director, Division of Research and Statistics of the Board of Governors of the Federal Reserve System, resigned from his position at the Federal Reserve Board. Since Mr. Kichline was the Federal Reserve Board's designee to the SIPC Board of Directors, his resignation from the Federal Reserve Board resulted in the termination of his services on the SIPC Board as well. Mr. Kichline had served on SIPC's Board for over 11 years. We will miss the benefit of his expertise and long years of familiarity with the SIPC program. The Federal Reserve Board has designated Michael J. Prell, Director, Division of Research and Statistics, as Mr. Kichline's successor on the SIPC Board.

During 1987, SIPC was actively involved in litigation at both the trial and appellate levels. The more significant court decisions are summarized below.

In *Murray v. McGraw (In re Bell & Beckwith)*, 821 F.2d 333 (6th Cir. 1987), the court of appeals reversed the decisions of the bankruptcy and district courts and held that a customer who had ordered his securities sold had a claim for cash rather than for the return of the securities even though the debtor broker-dealer had neither transferred the securities to, nor received payment from, the purchasing broker-dealers. The court of appeals held that, under SIPA, all trades ordered by customers of a debtor and actually executed before the filing date should be treated, as to those customers, as if subsequently completed by the debtor.

In *McGraw v. Allen (In re Bell & Beckwith)*, No. 86-4015 (6th Cir., October 5, 1987), the court of appeals affirmed the decision of the district court dismissing, for lack of jurisdiction, the appeal of the defendants from a \$1.7 million judgment. The defendants had filed a notice of appeal but the trustee filed a subsequent motion to amend the judgment. The trustee's motion was denied. The defendants, however, did not refile their notice of appeal. The court of appeals held that the defendants were required to file a new notice of appeal after the trustee's motion was decided.

In *Turner v. United States (In re G.S. Omni Corporation)*, 835 F.2d 1317 (10th Cir. 1987), the Tenth Circuit held that the United States government, a creditor, was not required to file a proof of claim in the G.S. Omni liquidation proceeding as a prerequisite to asserting a right of setoff pursuant to section 553 of the Bankruptcy Code. The court held that as long as the tax debt owed to the government continued to exist, the government had a right to set off its claim to the extent of the money due from the government to the debtor on its tax returns.

As reported in the 1986 Litigation section, in *Cohen v. Army Moral Support Fund (In re Beville, Bresler & Schulman*

*Asset Management Corporation)*, 67 B.R. 557 (D.N.J. 1986), the district court held that repurchase and reverse repurchase agreements were contracts for the sale and resale of securities and that the participants in the repurchase and reverse repurchase transactions are "customers" entitled to SIPC protection. In *SEC v. BBS Government Securities Group, Inc.*, Civil Nos. 85-1728 (DRD) and 85-2224 (DRD) (D.N.J., November 19, 1987), the district court approved the settlement of many aspects of these proceedings, including those involved in *Cohen*. No final order was ever entered in *Cohen* and hence no appeal was taken.

In *In re Bell & Beckwith*, No. C87-7536 (N.D. Ohio, December 8, 1987), the district court affirmed the bankruptcy court's approval, over several objections, of the trustee's settlement of an action against the debtor's pre-liquidation accountants. The court found that the most important reason for approval of the settlement was that the accountants' assets and insurance coverage were limited and insufficient to cover its potential liabilities in the Bell & Beckwith trustee's suit as well as a similar suit by the trustee in another SIPA proceeding. The district court approved the trustee's settlement in the latter proceeding. *Hill v. Frederick S. Todman & Company (In re Beville, Bresler & Schulman, Inc.)*, Civil Action No. 86-2738 (D.N.J., July 21, 1987). Both trustees had brought actions against the accountants for, among other things, breach of contract and negligence in auditing and certifying the respective debtors' financial statements.

In *Mishkin v. Peat, Marwick, Mitchell & Co.*, 658 F.Supp. 271 (S.D.N.Y. 1987), an action brought by the trustee against the debtor's pre-liquidation accountant for, among other things, its reckless conduct in its audit and certification of the debtor's financial statements, the district court denied the accountant's motion to dismiss, holding that the complaint adequately alleged the necessary elements to state a claim against the accountant for aiding and abetting liability under the securities laws.

Also, in another decision in *Mishkin*, 86 Civ. 4301 (EW) (S.D.N.Y., May 16, 1987), the district court denied the defendant accountant's motion to compel the testimony of the trustee's accountants. The court held that the defendant is not entitled to work produced on the trustee's behalf, in preparation for litigation, which represents a synthesis and analysis of the relevant facts, where the defendant is no less capable of reviewing and analyzing the relevant documents and testimony of witnesses.

In *Miller v. Austin (In re John Muir & Co.)*, 72 B.R. 893 (S.D.N.Y. 1987), the district court, in reversing the decision of the bankruptcy court, held that a late-filed claim could not be considered a customer claim entitled to preferred treatment under SIPA.

In *In re R.H. Stewart & Co., Inc.; In re T.K. Securities, Inc.*, 85-02216-BKC-AJC and 85-02261-BKC-AJC (Bankr. S.D. Fla., February 17, 1987), the bankruptcy court held claimants who seek preferred treatment accorded customers under SIPA must shoulder the burdens of proof and persuasion throughout the case as to the status and nature of their claims.

In *Dowden v. Cross County Bank (In re Brittenum & Associates, Inc.)*, No. AP 86-155M (Bankr. E.D. Ark., August 27, 1987), the bankruptcy court 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 Brittenum & Associates, Inc.*, No. AP 86-50M (Bankr. E.D. Ark., June 24, 1987), the bankruptcy court held claimants had loaned their securities to the debtor through its sole shareholder for a fixed return as an investment in the debtor and thus were not entitled to customer protection under SIPA. The court found that no customer accounts were created on the debtor's records concerning these transactions.

“Congress enacted SIPA to . . . restore confidence in the capital markets, and upgrade the financial responsibility requirements for registered brokers and dealers. The Act apportions 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 1987 thirteen 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 70 of the 201 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December, 1970. A total of 190 indictments have been returned in federal or state courts, resulting in 157 convictions to date. As of December 31, 1987, trial or sentencing was pending against 1 person who had been indicted or convicted.



Administrative and/or criminal action in 190 of the 201 SIPC customer protection proceedings initiated through December 31, 1987, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	53
2. Exclusive SEC Administrative Action	42
3. Exclusive Self-Regulatory Administrative Action	25
4. Criminal and Administrative Action	63
5. Criminal Action Only	7
<b>Total</b>	<b>190</b>

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

In the 183 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>	95	78
Bar from Association	318	178
Fines	Not Applicable	\$793,500

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 \$793,500 in fines assessed by self-regulatory authorities were levied against 65 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 35 members referred under Section 5(a) during the calendar year 1987. Twenty-seven new referrals were received during the year and 8 active referrals had been carried forward from prior years. Ten of the 35 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.

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

*Accountants' Report*

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

We have examined the statement of financial condition of Securities Investor Protection Corporation as of December 31, 1987, and the related statements of operations and fund balance and of cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Securities Investor Protection Corporation at December 31, 1987, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & WHINNEY

Washington, D.C.  
March 7, 1988



# Securities Investor Protection Corporation

## Statement of Financial Condition December 31, 1987

### ASSETS

Cash .....	\$ 126,021
U.S. Government securities, at amortized cost and accrued interest receivable (\$7,278,699); (approximate market \$379,400,000) .....	378,949,511
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$168,315,119) (Note 4) .....	9,300,000
Other .....	573,645
	<u>\$388,949,177</u>

### LIABILITIES AND FUND BALANCE

Advances to trustees—in process (Note 4) .....	\$ 184,904
Accounts payable and accrued expenses .....	837,807
Member assessments received in advance (Note 3) .....	522,500
Estimated costs to complete customer protection proceedings in progress (Note 4) .....	39,200,000
	<u>40,745,211</u>
Commitments (Note 6)	
Fund balance .....	348,203,966
	<u>\$388,949,177</u>

## Statement of Operations and Fund Balance for the year ended December 31, 1987

Revenues:	
Interest on U.S. Government securities .....	\$ 28,181,761
Member assessments (Note 3) .....	935,368
	<u>29,117,129</u>
Expenses:	
Salaries and employee benefits (Note 7) .....	1,652,073
Legal and accounting fees (Note 4) .....	1,974,631
Credit agreement commitment fee (Note 6) .....	1,300,000
Rent (Note 6) .....	377,291
Other .....	687,253
	<u>5,991,248</u>
Provision for estimated costs to complete customer protection proceedings in progress (Note 4) ...	25,478,173
	<u>31,469,421</u>
Excess expenses .....	(2,352,292)
Fund balance, beginning of year .....	350,556,258
Fund balance, end of year .....	<u>\$348,203,966</u>

See notes to financial statements.

## Statement of Cash Flows for the year ended December 31, 1987

Operating activities:	
Interest received from U.S. Government securities .....	\$ 29,584,375
Member assessments received .....	1,457,868
Advances paid to trustees .....	(30,415,537)
Recoveries of advances .....	3,103,658
Salaries and other operating activities expenses paid .....	(5,696,964)
Net cash used by operating activities .....	<u>(1,966,600)</u>
Investing activities:	
Proceeds from sales of U.S. Government securities .....	429,860,157
Purchases of U.S. Government securities .....	(428,379,073)
Purchases of furniture and equipment .....	(250,080)
Net cash provided by investing activities .....	<u>1,231,004</u>
Decrease in cash .....	(735,596)
Cash, beginning of year .....	861,617
Cash, end of year .....	<u><u>\$ 126,021</u></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 \$379,075,532.

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

Each member's assessment is \$100 per annum. At December 31, 1987, member assessments received in advance for 1988 totalled \$522,500.

#### 4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 58 proceedings in progress at December 31, 1987. Customer claims have been satisfied in 54 of these proceedings and in 4 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.

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

	<u>Customer Protection Proceedings</u>	
	<u>Advances to trustees, less allowance for possible losses</u>	<u>Estimated costs to complete</u>
Balance, beginning of year.....	\$5,800,000	(\$37,700,000)
Add:		
Estimated future recoveries .....	6,600,000	
Provision for estimated costs to complete proceedings .....		(32,078,173)
Less:		
Recoveries estimated previously .....	(3,100,000)	
Advances to trustees.....		<u>30,578,173</u>
Balance, end of year.....	<u>\$9,300,000</u>	<u>(\$39,200,000)</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 expenses with net cash used by operating activities:

Net expenses	(\$2,352,292)
Net increase in estimated costs to complete customer protection proceedings	1,500,000
Net increase in estimated recoveries of advances to trustees	(3,500,000)
Decrease in interest receivable	1,494,108
Increase in payables	467,864
Member assessments received in advance	522,500
Other reconciling items (net)	<u>(98,780)</u>
Net cash used by operating activities	<u>(\$1,966,600)</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 \$4,385,000. 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 1987 totalled \$377,291.

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, 1988, the most recent actuarial valuation date, the market value of retirement plan assets was \$2,581,976, 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. 36 of the Financial Accounting Standards Board, was as follows:

Vested:	
Retired members and survivors currently receiving payments ....	\$ 495,817
Other members .....	<u>953,163</u>
	1,448,980
Non-vested .....	<u>196,615</u>
	<u>\$1,645,595</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 <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/ 1/75	4/ 8/85	5/ 8/85	23,800	4,700
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28
H.B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/ 8/57	10/20/87	10/20/87	18,000	5,242
Evans Trading Company, Inc. Naperville, Illinois (Direct Payment)	9/12/82		12/ 8/87 <sup>+</sup>	28	3
<b>TOTAL 4 MEMBERS: PART A</b>				<b><u>42,778</u></b>	<b><u>9,973</u></b>

<sup>+</sup>Date notice published

December 31, 1987

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$397,836,433	3,300	\$24,137,811	\$4,309,031	\$1,107	\$ 7,367,597	\$12,460,076	3,601
		39,214	17,734			21,480	7
106,204,000	5,183	3,409,850	25,000		3,384,850		3,340
		359	359				
<u>\$504,040,433</u>	<u>8,483</u>	<u>\$27,587,234</u>	<u>\$4,352,124</u>	<u>\$1,107</u>	<u>\$10,752,447</u>	<u>\$12,481,556</u>	<u>6,948</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 <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> 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
C.I. Oren & Co., Inc. New York, New York (Martin R. Gold, Esq.)	11/10/68	10/13/72	10/26/72	345	61
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
Henry C. Atkeison, Jr., d/b/a Ambassador Church Finance Development Group, Inc.; d/b/a Atalbe Christian Credit Association, Inc. Brentwood, Tennessee (Fred D. Bryan)	4/18/70	11/ 7/74	12/17/74	531	115
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
Investors Security Corp. Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	5/ 8/66	9/15/75	9/15/75	4,300	244
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
I.E.S. Management Group, Inc. Irvington, New Jersey (Michael R. Griffinger, Esq.)	6/17/70	6/ 9/77	9/27/77	3,600	1,682

\*Successor Trustee.

December 31, 1987

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
1,800	1	319,826	183,621	59,071	33,710	43,424	45
776,386	12,572	4,047,860	1,741,478	3,125	2,044,056	259,201	6,571
31,174	40	175,939	119,697	214	17,823	38,205	30
6,860	11	380,433	65,507		210,609	104,317	18
2,271,501	1,219	2,367,644	272,166	30,535	1,449,655	615,288	1,341
800	1	1,758,463	444,724		326,971	986,768	161
3,728,930	1,296	104,215			66,435	37,780	484
2,896,742	194						
17,250	467	5,138,242				5,138,242	533

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

<b>Member and Trustee By Date of Appointment</b>	<b>Date Registered as Broker-Dealer</b>	<b>Filing Date</b>	<b>Trustee Appointed</b>	<b>Customers<sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed</b>	<b>Responses<sup>(a)</sup> Received</b>
Dennis Lee Mirus Lake Forest, Illinois (Robert D. 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. Schroeder, 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
Langheinrich & Fender, Inc. Salt Lake City, Utah (Herschel 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

\*Successor Trustee.

December 31, 1987

Distributions From Debtor's Estates		SIPC Advances					Number of Customers
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	
		\$ 400,483	\$ 86,331		\$ 53,452	\$ 260,700	6
\$ 2,128,941	883	3,667,484				3,667,484	1,189
6,458,025	260	2,444,751	1,642,279	\$ 60,804	329,980	411,688	778
27,218,033	2,417	9,915,964	1,187,341		2,292,439	6,436,184	1,328
25,964,581	16,000 (Estimated)	2			2		16,000 (Estimated)
6,271,715	2,053	6,868,765	50,000	281,936	3,444,215	3,092,614	3,495
1,531,773	2,267	1,110,871	447,035	3,558	180,768	479,510	1,307
7,256,636		20,332,905			10,153,089	10,179,816	841
		255,916	127,921		127,995		2,000

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

<b>Member and Trustee By Date of Appointment</b>	<b>Date Registered as Broker-Dealer</b>	<b>Filing Date</b>	<b>Trustee Appointed</b>	<b>Customers<sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed</b>	<b>Responses<sup>(a)</sup> Received</b>
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
Gibralco, Inc. Santa Monica, California (Alexander C. McGilvray, Jr., Esq.)	1/26/75	6/21/83	6/22/83	7,000	681
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
American Western Securities, Inc. Denver, Colorado (SIPC)	9/ 1/72	4/10/84	4/24/84	20,000	131

December 31, 1987

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,700		\$ 156,106	\$ 129,251		\$ 10,479	\$ 16,376	29
3,707,691	2,447	1,336,214	664,569		12,024	659,621	526
16,227	4	1,279,720	622,684		391,048	265,988	23
15,575,600	12,858	(26,053)	(26,053)				
80,755,000	2,300	39,320,945				39,320,945	6,523
877,376	637	1,946,872	490,000		1,266,872	190,000	811
1,617,475	228	2,642,475	175,000		1,617,475	850,000	2,700
37,153,288	1,500	(1)	(1)				
972,617	1,560	1,556,546	641,058		556,070	359,418	328
27,098,007	11,543	2,644,585	1,266,104		420,523	957,958	1,590
18,550,791	1,200	1,045,513	10,000	\$130,000	476,569	428,944	63
		37,810	27,535		2,788	7,487	5



## 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 <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
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
Marsan Securities Company, Inc. New York, New York (Direct Payment)	10/27/78		4/ 8/85 <sup>†</sup>	12	11
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/ 3/85	5/ 3/85	1,650	365
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
R.H. Stewart & Company, Inc. Ft. Lauderdale, Florida (John R. Camp, Jr., Esq.)	7/27/83	9/27/85	9/30/85	2,868	923
TK Securities, Inc. Ft. Lauderdale, Florida (Samuel A. Brodnax, Jr., Esq.)	10/27/82	10/ 4/85	10/ 4/85	564	389

<sup>†</sup>Date notice published

\*Successor Trustee

December 31, 1987

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$ 1,574,316	\$ 1,099,007	\$ 63,175	\$ 410,349	\$ 1,785	3,401
\$ 5,302,067	6,140	719,233	270,000		190,240	258,993	139
17,775,018	10,400	1,437,533	913,744		127,378	396,411	280
		893,178	349,149			544,029	61
		30,560	650		16,314	13,596	11
1,288,590	314	1,220,000	20,000		1,200,000		325
		3,034,833			3,020,000	14,833	5
6,026,832	2,362	8,703,576	1,285,900		7,013,546	404,130	213
34,039,017	34						
16,779	4	1,506,084	439,153		807,824	259,107	161
133,373	31	453,897	347,730		73,024	33,143	75

## 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 <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received
C. Harvey and Associates Securities, Inc., Phoenix, Arizona (Direct Payment)	3/16/83		12/ 4/85 <sup>†</sup>	5	4
DMR Securities, Inc., Tucson, Arizona (Direct Payment)	5/30/70		12/ 4/85 <sup>†</sup>	12	7
Bartel Securities, Inc., Langhorne, Pennsylvania (SIPC)	8/19/80	1/27/86	1/27/86	149	21
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
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
Norbay Securities, Inc., Bayside, New York (Irving H. Picard, Esq.)	10/28/70	10/14/86	10/14/86	8,000	7,091
John Franklin & Associates, Inc., East Meadow, New York (SIPC)	12/ 4/84	11/ 5/86	11/ 5/86	550	18
Cambridge Capital Corporation (Formerly I.R.A. Financial Investment Corp.) Los Angeles, California (Alexander C. McGilvray, Jr., Esq.)	2/15/84	11/19/86	12/22/86	600	235
Government Securities Corp., Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,325
<b>TOTAL 54 MEMBERS: PART B</b>				<b><u>431,256</u></b>	<b><u>124,000</u></b>

<sup>†</sup>Date notice published.

December 31, 1987

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$ 40,531	\$ 611		\$ 33,995	\$ 5,925	4
\$ 3,965	1	6,850	5,936		312	602	4
		105,126	500		31,898	72,728	13
18,304,797	87	31,037	31,037				
		810,099	620,494		163,250	26,355	34
		2,633,054	508,713			2,124,341	68
10,512	2	814,517	335,931		115,588	362,998	53
3,668,690	3,650	1,606,496	1,051,134		459,258	96,104	5,193
359,721	1	19,520	7,361			12,159	2
		1,002,668	84,000			918,668	230
32,735,697	2,403	11,609,953	488,317		6,178,104	4,943,532	862
<u>\$393,497,823</u>	<u>99,923</u>	<u>\$150,106,134</u>	<u>\$18,539,743</u>	<u>\$700,067</u>	<u>\$45,358,529</u>	<u>\$85,507,795</u>	<u>60,125</u>

# APPENDIX I *Customer Protection Proceedings*

## PART C: Proceedings Completed in 1987

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Perry, Adams & Lewis Securities, Inc. Kansas City, Missouri (George H. Clay, Esq.)	4/11/80	15	\$ 1,013,948
Morton Paul Kominsky North Bergen, New Jersey (Richard D. Shapiro, Esq.)	12/18/81	60	6,472
Stalvey & Associates, Inc. Jackson, Mississippi (Henry E. Chatham, Jr., Esq.)	2/18/82	52	132,890
Western Pacific Securities, Inc. Newport Beach, California (Richard M. Neiter, Esq.)	7/11/83	68	1,620,615
Apex Financial Planners Corp. Los Altos, California (SIPC)	6/ 4/85	32	12,460
<b>TOTAL 5 MEMBERS 1987</b>		227	2,786,385
<b>TOTAL 138 MEMBERS 1973-1986 <sup>(b)</sup></b>		89,357	289,132,301
<b>TOTAL 143 MEMBERS 1973-1987</b>		<u>89,584</u>	<u>\$ 291,918,686</u>

### PART D: Summary

	Responses Received/ Customers Receiving Distributions	
<b>Part A:</b> 4 Members—Customer Claims and Distributions Being Processed	9,973	\$ 504,040,433
<b>Part B:</b> 54 Members—Customer Claims Satisfied, Litigation Matters Pending	124,000	393,497,823
Sub-Total	133,973	897,538,256
<b>Part C:</b> 143 Members—Proceedings Completed	89,584 <sup>(c)</sup>	291,918,686
<b>TOTAL</b>	<u>223,557</u>	<u>\$1,189,456,942</u>

#### Notes:

- (a) Notices and claim forms are commonly sent to all persons who, from the debtor's records, may have been customers. This is done so that potential claimants may be advised of the proceeding.
- (b) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.
- (c) Number of customers receiving securities and/or cash.
- (d) To be reported at completion of liquidation.

December 31, 1987

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 217,993	\$ 795,955	\$ 505,839	\$ 92,516		\$ 408,123	\$ 5,200
	6,472	170,075	98,916		33,847	37,312
96,339	36,551	1,679,521	72,308		1,239,049	368,164
1,332,241	288,374	708,681	70,264		623,925	14,492
5,149	7,311	286,561	163,720			122,841
<u>1,651,722</u>	<u>1,134,663</u>	<u>3,350,677</u>	<u>497,724</u>		<u>2,304,944</u>	<u>548,009</u>
<u>264,531,368</u>	<u>24,600,933</u>	<u>40,560,255</u>	<u>8,918,862</u>	<u>\$ 845,800</u>	<u>19,607,087</u>	<u>11,188,506</u>
<u>\$ 266,183,090</u>	<u>\$25,735,596</u>	<u>\$ 43,910,932</u>	<u>\$ 9,416,586</u>	<u>\$ 845,800</u>	<u>\$21,912,031</u>	<u>\$ 11,736,515</u>
\$ 504,040,433	(d)	\$ 27,587,234	\$ 4,352,124	\$ 1,107	\$10,752,447	\$ 12,481,556
393,497,823	(d)	150,106,134	18,539,743	700,067	45,358,529	85,507,795
897,538,256		177,693,368	22,891,867	701,174	56,110,976	97,989,351
266,183,090	25,735,596	43,910,932	9,416,586	845,800	21,912,031	11,736,515
<u>\$1,163,721,346</u>	<u>\$25,735,596</u>	<u>\$221,604,300</u>	<u>\$32,308,453</u>	<u>\$1,546,974</u>	<u>\$78,023,007</u>	<u>\$109,725,866</u>

## APPENDIX II Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1987

	1987	1986	1985	1984	1983
<b>Revenues:</b>					
Interest on U.S. Government securities	\$28,161,228	\$31,702,230	\$ 30,608,790	\$22,945,089	\$18,147,989
Member assessments and contributions	935,368	23,067,147	71,027,532	52,293,859	36,763,866
Interest on assessments	20,533	368,474	101,662	88,702	8,407
	<u>29,117,129</u>	<u>55,137,851</u>	<u>101,737,984</u>	<u>75,327,650</u>	<u>54,920,262</u>
<b>Expenses:</b>					
Salaries and employee benefits	1,652,073	1,717,296	1,564,250	1,533,851	1,296,849
Legal fees	1,959,731	1,648,246	1,343,102	935,128	1,057,907
Accounting fees*	14,900	9,285	18,063	152,894	89,463
Credit agreement commitment fee	1,300,000	1,305,478	—	—	—
Professional fees—automation	26,199	52,564	217,394	—	—
<b>Other:</b>					
Assessment collection direct cost	2,230	16,468	14,543	19,730	16,089
Custodian fees	33,215	16,795	15,237	12,331	9,540
Depreciation and amortization	103,299	83,639	66,340	17,832	15,879
Directors fees and expenses	7,698	5,359	14,758	10,798	15,369
Insurance	15,217	12,682	11,341	8,634	9,297
Office supplies and expenses	163,694	194,224	170,937	121,845	85,334
Postage	15,534	19,579	20,983	18,753	15,384
Printing and mailing annual report	26,231	30,279	23,397	27,216	20,663
Publications and reference services	47,617	47,856	42,805	39,342	32,701
Rent—office space	377,291	322,786	343,695	311,748	306,300
Telephone and telegraph	14,063	20,426	20,011	20,925	20,268
Travel and subsistence	190,169	108,890	154,740	163,159	104,323
Miscellaneous	42,087	36,678	38,223	129,636	132,047
	<u>1,038,345</u>	<u>915,661</u>	<u>937,010</u>	<u>901,949</u>	<u>783,194</u>
	<u>5,991,248</u>	<u>5,648,530</u>	<u>4,079,819</u>	<u>3,523,822</u>	<u>3,227,413</u>
<b>Customer protection proceedings:</b>					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	—	16,000	44,975	63,356	(116)
Securities	9,795,412	4,278,504	256,798	28,776	(7,830,648)
Cash	8,108,976	5,787,319	7,178,900	(2,272,483)	43,986,859
	<u>17,904,388</u>	<u>10,081,823</u>	<u>7,480,673</u>	<u>(2,180,351)</u>	<u>36,156,095</u>
Administration expenses	9,264,713	2,340,366	2,350,497	1,555,161	787,407
	<u>27,169,101</u>	<u>12,422,189</u>	<u>9,831,170</u>	<u>(625,190)</u>	<u>36,943,502</u>
Net change in estimated future recoveries	(3,500,000)	2,500,000	6,300,000	1,600,000	(8,200,000)
	<u>23,669,101</u>	<u>14,922,189</u>	<u>16,131,170</u>	<u>974,810</u>	<u>28,743,502</u>
SIPC as Trustee:					
Securities	—	27,461	5,407	(173,839)	1,740
Cash	62,060	505,881	109,651	362,394	907,228
	<u>62,060</u>	<u>533,342</u>	<u>115,058</u>	<u>188,555</u>	<u>908,968</u>
Administration expenses	241,012	253,509	40,206	31,071	91,738
	<u>303,072</u>	<u>786,851</u>	<u>155,264</u>	<u>219,626</u>	<u>1,000,706</u>
Net change in estimated future recoveries	—	—	100,000	100,000	(200,000)
	<u>303,072</u>	<u>786,851</u>	<u>255,264</u>	<u>319,626</u>	<u>800,706</u>
<b>Direct payments:</b>					
Securities	—	34,307	16,313	—	41,921
Cash (net recoveries)	—	6,526	62,596	—	30,823
	<u>—</u>	<u>40,833</u>	<u>78,909</u>	<u>—</u>	<u>72,744</u>
Administration expenses	6,000	906	650	—	68
	<u>6,000</u>	<u>41,739</u>	<u>79,559</u>	<u>—</u>	<u>72,812</u>
Net change in estimated costs to complete proceedings	1,500,000	10,800,000	17,300,000	(2,400,000)	(800,000)
	<u>25,478,173</u>	<u>26,550,779</u>	<u>33,765,993</u>	<u>(1,105,564)</u>	<u>28,817,020</u>
	<u>31,469,421</u>	<u>32,199,309</u>	<u>37,845,812</u>	<u>2,418,258</u>	<u>32,044,433</u>
<b>Excess revenues (expenses)</b>	<b>(\$ 2,352,292)</b>	<b>\$22,938,542</b>	<b>\$ 63,892,172</b>	<b>\$72,909,392</b>	<b>\$22,875,829</b>

\*Includes fees and expenses of litigation related to proceedings (1985-\$3,363; 1984-\$127,709; 1983-\$77,763).

APPENDIX III *Distributions for Accounts of Customers  
for the Seventeen Years Ended December 31, 1987*

(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	214,184 <sup>†</sup>	7,674	221,858 <sup>†</sup>
1986	28,570	10,492	39,062
1987	394,443	17,828	412,271
	<u>\$1,163,721</u>	<u>\$189,296</u>	<u>\$1,353,017</u>

\*Net recoveries.

<sup>†</sup>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 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, three-year revolving line of credit was obtained March 31, 1986, 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.

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.

\*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.*