SIPC

SECURITIES INVESTOR PROTECTION CORPORATION

SIXTH ANNUAL REPORT 1976

Contents

SECURITIES INVESTOR PROTECTION CORPORATION
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March 21, 1977

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

Dear Chairman Hills:

On behalf of the Board of Directors I submit herewith the Sixth Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 7(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

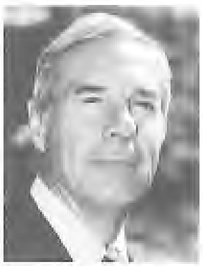
Hugh F. Owens

Hugh F. Owens
Chairman

SECURITIES INVESTOR PROTECTION CORPORATION

DIRECTORS

Hugh F. Owens
Chairman



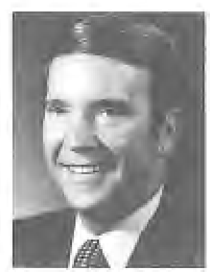
Jerome W. Van Gorkom
President, Trans Union Corporation
Chicago, Illinois
Vice Chairman

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

Glenn E. Anderson
President, Carolina Securities Corporation
Raleigh, North Carolina

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

Henry W. Meers
Vice Chairman, White, Weld & Co.
Chicago, Illinois



Jerry Thomas
Under Secretary, Department of the Treasury
Washington, D.C.

STAFF OFFICERS

Lloyd W. McChesney
Vice President—Finance

John B. Bourne
Assistant Vice President—Finance

Thomas R. Cassella
Assistant Vice President—Finance

Theodore H. Focht
General Counsel—Secretary

Wilfred R. Caron
Associate General Counsel

INTRODUCTION

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970 (1970 Act). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, to promote investor confidence in the nation's securities markets. Currently, the limits of protection are $50,000 per customer, except that claims for cash are limited to $20,000 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 full-time staff, numbering 37, is composed of the Finance Department, headed by a Vice-President, and the Legal Department headed by the General Counsel. Their functions include initiating the steps leading to the liquidation of a member, advising the trustee, his counsel and accountants; reviewing claims, auditing distributions of property, and other activities pertaining to the Corporation's purpose.

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

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

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

A booklet, "SIPC: A History and Explanation of Operations," is available from SIPC. It is a compilation of historical and explanatory material from previous annual reports and describes in some detail SIPC operations and the implementation of the 1970 Act.

* Section 3(a)(2) of the 1970 Act excludes persons whose business as a broker-dealer consists exclusively of:

a. the distribution of shares of registered open-end investment companies or unit investment trusts,
b. the sale of variable annuities,
c. the business of insurance, or
d. the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts.

A MESSAGE FROM THE CHAIRMAN

The downward trend in member failures continued in 1976 when only four companies were placed in SIPC liquidation. That is an all-time low, off significantly from eight in 1975 and 15 in 1974. It is a far cry from the high year, 1972, when trustees were appointed for 40 members.

Fewer liquidations is good news for everyone concerned—for the investing public whose confidence in our securities market is measured in part by the financial strength of the industry; for the regulatory organizations which see their reporting and surveillance policies working effectively; and certainly for SIPC members who benefit not only from improved public confidence, but also from a reduction in SIPC's expenses.

With the declining number of new cases, the cost of SIPC's operations has gone down significantly. Total expenditures were considerably lower in 1976 than in the previous year, $3 million compared with $8 million. That is a 62% decrease.

Most of that was due to a lower total of net advances to trustees. Less money was needed to satisfy a smaller number of claims in new cases and most of the claims in older cases have, of course, been satisfied for some time. Claims which remain unsatisfied are those contested by the trustee and they may become involved in litigation. The number of such claims is very small compared to the total received—only a few hundred out of over 100,000.

Besides a reduction in the amount advanced to trustees, the lower total expenditures in 1976 also reflect economies in the administration of SIPC itself. Expenditures were down to about what they were in 1973. Staff personnel was reduced 18% during the year from 45 full-time employees to 37. Five of the eight positions vacated were on the professional level. Savings were realized in many areas of the budget as shown in the six-year income and expense analysis on the last page of this report.

While costs were down, revenues rose. Income from assessments was up more than $7 million over 1975, and interest income rose a little over $1.2 million. Net growth of the SIPC Fund during the year was $34 million, resulting in a Fund balance of $116 million as of December 31, 1976. That is the largest annual increase in SIPC's history and is a healthy growth, indeed.

The principal source of SIPC Fund revenues is the assessments on members. The current rate of ½% on gross securities business revenues is mandated by the 1970 Act and must remain in effect until the Fund reaches $150,000,000, completing the build-up phase. At that time, which we estimate will be sometime in 1978, SIPC may change the assessment rate.

In September I named a special Task Force to consider the future assessment rate and structure, and to make recommendations to the Board of Directors. Chaired by Lloyd W. McChesney, SIPC Vice President—Finance, the Task Force is composed of representatives from the industry, the self-regulatory organizations, and government. They held their first session in October and have been meeting in committees since then. We will keep the membership informed of their progress in this important endeavor.

There was one disappointment in 1976. In spite of our intercession with the committees concerned, Congress did not act on the amendments to the 1970 Act which the Board has proposed. The changes we have suggested are, you will remember, based on the recommendations of a special task force and are designed to increase investor protection, speed up the liquidation process and cut costs. It is our earnest hope that the proposals will be considered in 1977 and enacted by the 95th Congress.

SIPC is in good shape after six years of operations. The Fund is growing. Improved regulatory procedures have been implemented by the self-regulatory organizations and the SEC. The number of broker-dealer failures resulting in SIPC liquidations continues to decline, making lower operating costs possible. In short, SIPC is meeting the purpose for which it was intended—to give greater protection to the investing public.

Hugh F. Owens

Hugh F. Owens
Chairman

LIQUIDATION PROCEEDINGS

Four members were placed in SIPC liquidation in 1976, bringing the total to 121. That is the smallest number of new cases since inception and continues the downward trend from 1972 when a high of 40 was reached.

The members placed in liquidation were:

Member	Date Trustee Appointed
J. S. Roberts & Co. Westfield, N.J.	2/11/76
Institutional Securities of Colorado, Inc. Denver, Col.	10/ 4/76
E. J. Albanese & Co., Inc. New York, N.Y.	11/ 4/76
Stilwell, Coker & Co., Inc. Charleston, S.C.	12/16/76

Of the four firms, Institutional Securities of Colorado, Inc., is by far the largest. Approximately 9,000 claim forms were mailed to customers and 1,737 were returned to the trustee, including 1,279 with claims for cash and/or securities, and 458 with no claims. By December 31, 875 claims had been fully satisfied, 311 partially satisfied, and 93 were still being processed.

SIPC staff members assisted the trustee extensively in this liquidation. Within 90 days of the date the trustee was appointed, securities having a value of $1.5 million and more than $725,000 advanced by SIPC to the trustee had been distributed to customers. That placed Institutional Securities of Colorado among the top 20 liquidations in terms of cost to SIPC.

J. S. Roberts & Co. was a small firm; only two claims were recognized as valid by the trustee and, with court approval, each has received the $50,000 maximum advanced from the SIPC fund.

In the other two new liquidations, both of which came late in the year, assets were being marshalled and claims were being processed. Those two, plus Institutional Investors of Colorado, were the only ones out of the total 121 which had not been completed or completed except for problem claims.

The value of cash and securities distributed for accounts of customers of the four liquidations begun in 1976 aggregated $2,292,087. That represents about 1% of the total of $273 million of cash and securities distributed in all liquidations to date. Of that total amount, approximately $228 million was from debtor estates and $45 million from SIPC advances.

Table I shows the net advances from the SIPC Fund in the 121 liquidations begun during the past six years. The largest amount advanced, $14.6 million, for Weis Securities, Inc., accounted for 28% of the total and was roughly equivalent to the amount advanced to the 101 smallest liquidations. Slightly more than half of the total was advanced to just nine firms—those receiving more than $1 million each from the SIPC Fund.

Claims Over the Limits

More than 103,000 customer claims had been satisfied as of the end of 1976. Out of that number, 144 were claims for cash or securities whose value was greater than the limits of protection provided by the 1970 Act—$50,000 per customer with a maximum of $20,000 for cash.

Those 144 claims represent only one-tenth of one percent of all claims, and the total of the unsatisfied portion amounted to $2.6 million. That is less than 1% of the value of all securities and cash distributed for the accounts of customers.

Table I
Net Advances from the SIPC Fund
As of December 31, 1976
121 Liquidations

Net Advances From	Net Advances To	Number of Liquidations	Amounts Advanced
$5,000,001	up	1	$14,616,662
2,000,001	$5,000,000	3	7,635,462
1,000,001	2,000,000	5	6,624,028
500,001	1,000,000	14	10,786,158
250,001	500,000	17	5,939,370
100,001	250,000	30	4,509,258
50,001	100,000	28	2,109,109
25,001	50,000	12	468,685
10,001	25,000	6	93,740
-0-	10,000	5	13,493
		121	$52,795,965

Closed Cases

Seventeen liquidations were completed in 1976, bringing the total of closed cases to 53.

Net advances from the SIPC Fund for those 53 cases was $9,305,000. Of that, $6,049,000 was used to satisfy customer claims, while $3,256,000 was applied to the costs of administration. An additional $2,637,000 in administration expenses was paid out of debtor estates. The administration expenses per claim in the 53 closed cases was $412, or 32% of the average claim, which was $1268.

This high cost of administration of liquidations is one target of the amendments to the 1970 Act the Board of Directors has proposed to Congress. Under the provisions of the proposed amendments, SIPC would be permitted to act as trustee in certain instances, and in small cases, to settle claims directly without judicially supervised procedures, changes which are designed to reduce costs.

In the liquidations closed to date, $18 million in cash and securities was distributed for the accounts of customers—about 7% of the total. Customer claims numbered 14,000 or 14% of the total.

Figure 1
Location of Members Placed in SIPC Liquidation
1971-1976

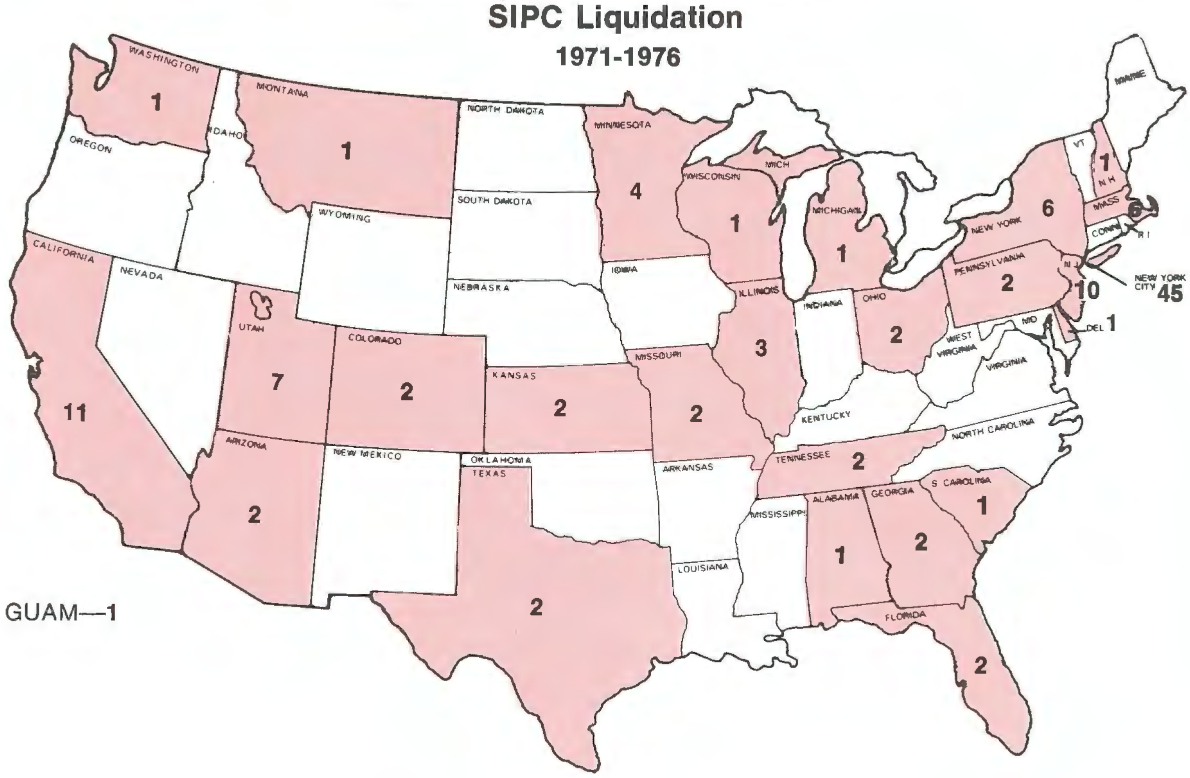
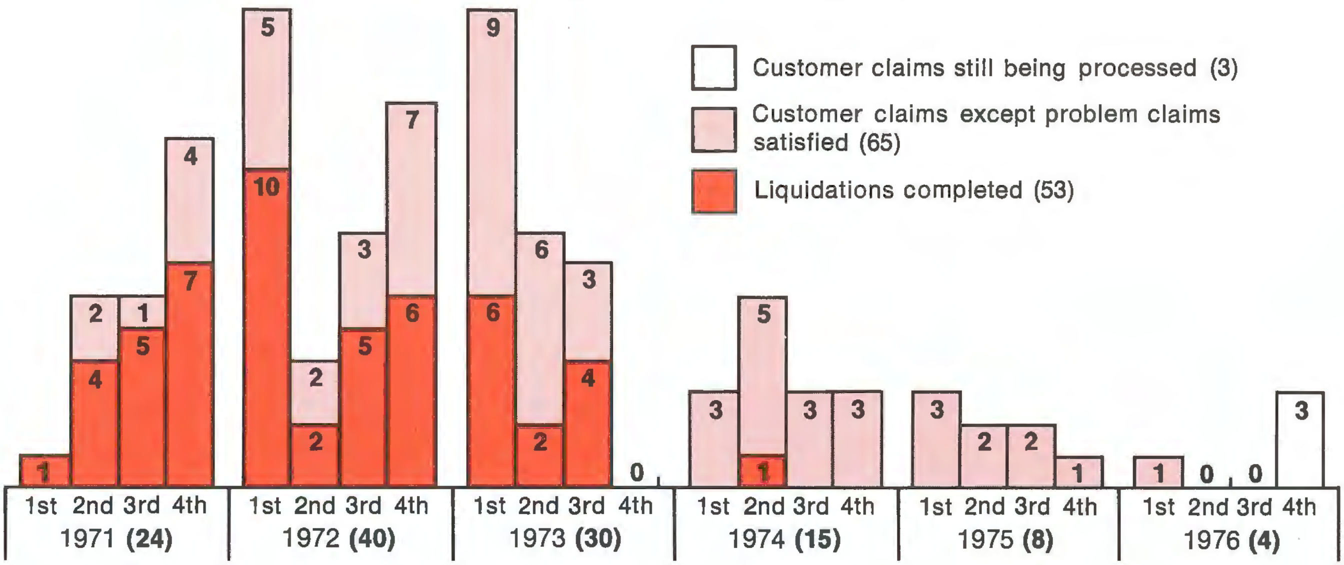


Figure 2

Trustees Appointed by Quarter and Status of Liquidation Proceedings



MEMBERSHIP, ASSESSMENTS AND THE SIPC FUND

Membership

As of December 31, 1976, the membership numbered 5,168, the highest it has ever been. Table II reflects the number of members and their affiliation for purposes of collection of SIPC assessments at the end of the year, as well as the changes during the year.

There was a net increase of 796 SIPC members in 1976. The collection agents realizing the largest net gains were SIPC, with 381 new members; the Midwest Stock Exchange, 117; and the Chicago Board Options Exchange, 108. Members for whom SIPC is the collection agent for assessments are those not affiliated with any exchange or the NASD. Dealers in stock options and recently registered persons contemplating such securities business activity comprised the major portion of the net increase. In addition, a number of municipal bond dealers became members in 1976.

During the year there was a net decrease of 67 in the number of persons certifying that they met the membership exclusion provisions of the 1970 Act. This brought the total exclusions to 543 at year end, reflecting a diversification by broker-dealers that had previously been engaged solely in excluded business activities.

TABLE II
SIPC MEMBERSHIP
December 31, 1976

Agent for Collection of SIPC Assessments	Number of SIPC Members — Added (a)	Terminated (a)	Total
National Association of Securities Dealers, Inc.	93	47	1,672
Chicago Board Options Exchange, Incorporated	138	30	1,156
New York Stock Exchange, Inc.	71	7	741
SIPC (b)	480	99	664
Midwest Stock Exchange, Inc.	128	11	280
American Stock Exchange, Inc.	30	—	229
Philadelphia Stock Exchange, Inc.	12	19	204
Pacific Stock Exchange, Inc.	63	2	132
Boston Stock Exchange, Inc.	4	6	79
Spokane Stock Exchange	—	1	9
Intermountain Stock Exchange	—	—	2
Detroit Stock Exchange (c)	—	1	—
	1,019	223	5,168

Notes:

a. Excluding transfers (686) of persons to a successor collection agent.

b. 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.

c. The Detroit Stock Exchange terminated its registration with the SEC as a registered securities exchange effective October 12, 1976.

Assessments

Revenues from member assessments aggregated $32,709,210 in 1976, an increase of approximately $7,200,000 from the previous year. Contributing to the increase was higher trading volume on principal exchanges and NASDAQ, up 15% over the previous year. The principal categories of business generating higher revenues were commissions, up 10%, trading, up 47%, and underwriting profits, up 9%. The amount of assessment revenue was virtually the same as the all-time high received in 1971. In that year, SIPC's first, initial assessments of $5.7 million were collected in addition to the annual general assessments.

Assessment revenues for the period since inception (December 30, 1970) through December 31, 1976 aggregated $164,000,000. Assessment revenues classified by principal collection agents are shown in Table III.

Delinquencies

There were 221 persons subject to the 1970 Act who were delinquent in filing reports and/or paying assessments as of December 31, 1976, and had received notices under Section 10(a).[1] The SEC has indicated that it will cancel or revoke the registration of such broker-dealers, subject to any pending administrative proceedings. Past experience indicates that the majority of the broker-dealers who fail to correct their filing or payment deficiencies have ceased operations.

The SIPC Fund

The SIPC Fund, as defined by the Act, consists of the aggregate of cash, investments in United States Government securities and confirmed lines of credit. At December 31, 1976, the Fund, consisting of cash and securities, totaled $116,154,178, a $34,475,000 increase from December 31, 1975.

[1] Section 10(a) states, in part, "—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 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 . . ."

DISCIPLINARY AND CRIMINAL ACTIONS TAKEN AGAINST PRINCIPALS AND ASSOCIATES OF MEMBERS PLACED IN LIQUIDATION

SIPC routinely forwards to the SEC, for possible action under Section 10(b) of the 1970 Act, the names of principals and others associated with members placed in liquidation under provisions of the Securities Investor Protection Act.[2] Those individuals are also reported to the self-regulatory body exercising primary examining authority for appropriate action by that body. Trustees appointed to liquidate the member cooperate with SEC and law enforcement authorities in their investigations of possible violations of law.

As of December 31, 1976, administrative and/or criminal action had been initiated against principals or associated persons in 106 of the 121 SIPC liquidations commenced to that date.

Thirteen Individuals Barred

In 1976, thirteen individuals were barred from association with members as a result of action by self-regulatory bodies against persons associated with members in liquidation. The Securities and Exchange Commission suspended 3 individuals and barred 30 from association with any broker or dealer. Criminal indictments were returned against 15 persons associated with

[2] Section 10(b) of the Act provides as follows: "Engaging in Business After Appointment of Trustee.—It shall be unlawful for any broker or dealer for whom a trustee has been appointed pursuant to this Act to engage thereafter in business as a broker or dealer, unless the Commission otherwise determines in the public interest. The Commission may by order bar or suspend for any period, any officer, director, general partner, owner of 10 per centum or more of the voting securities, or controlling person of any broker or dealer for whom a trustee has been appointed pursuant to this Act from being or becoming associated with a broker or dealer, if after appropriate notice and opportunity for hearing, the Commission shall determine such bar or suspension to be in the public interest."

TABLE III

SIPC ASSESSMENTS(a)

SIPC Collection Agents to Whom Assessments Are Paid	1971(b)	1972(c)	1973	1974	1975	1976	Total
NYSE	$25,257,961	$27,725,356	$19,221,887	$15,065,938	$22,086,058	$26,840,473	$136,197,673
NASD	3,790,129	3,780,945	2,306,206	1,701,231	1,843,842	3,453,997	16,876,350
All other exchanges	592,871	542,660	1,038,749	1,052,449	1,292,877	1,917,274	6,436,880
SIPC(d)	3,149,233	283,195	292,078	208,015	262,858	497,466	4,692,845
	$32,790,194	$32,332,156	$22,858,920	$18,027,633	$25,485,635	$32,709,210	$164,203,748

Notes:
a. The revenues do not purport to reflect the volume of business conducted on the respective exchanges or in the over-the-counter market.
b. Includes $5,669,180 initial assessments (based on 1969 gross revenues).
c. Includes $4,143,321 of 1971 revenues received in 1972 in excess of the December 31, 1971, accrual.
d. Received from persons who are not members of any exchange or the NASD and includes $3,011,925 contributed in 1971 from a special trust fund of the American Stock Exchange, Inc. (See Note 5 to the Financial Statements)

members in liquidation; 14 associated persons were convicted of criminal charges and received sentences ranging from 70 days to 12 years imprisonment. Five of those who received prison sentences were also fined an aggregate of $66,500.

The most significant criminal convictions in 1976 were those of two principals and an employee of White & Company, Inc., a St. Louis member placed in liquidation in 1972.

The president was convicted on 14 counts charging him with securities fraud, mail fraud, wire fraud and record-keeping violations. He was sentenced to 12 years' imprisonment, with five years' probation, which was to run concurrently with a seven-year sentence for an earlier conviction involving fraud and perjury. He was also fined $10,000 in the earlier case.

The chairman of the board was convicted of 10 counts of fraud and record-keeping violations. The bookkeeper-cashier was convicted of nine counts of fraud and record-keeping violations. Each was sentenced to five years' imprisonment.

Criminal Actions Taken

Since enactment of the Securities Investor Protection Act in December, 1970, criminal action has been initiated in 31 of the 121 SIPC liquidations. Sixty-eight indictments have been returned in federal courts and 10 in state courts. Forty-nine persons associated with members in liquidation have been convicted in federal courts and 7 in the state courts. As of December 31, 1976, trial or sentencing was pending against 25 associated persons who had been indicted or convicted.

Administrative and/or criminal action in 106 of the 121 SIPC liquidations initiated through December 31, 1976, was accomplished as follows:

Action Initiated	Number of Liquidations
1. Joint SEC/Self-Regulatory Administrative Action	32
2. Exclusive SEC Administrative Action	23
3. Exclusive Self-Regulatory Administrative Action	20
4. Criminal and Administrative Action	24
5. Criminal Action Only	7

In the 99 liquidations in which administrative action has been effected, the following sanctions have been imposed against associated persons:

Sanction	SEC	Self-Regulatory Body
Suspension Only	8	13
Bar from Association	189	111
Fines	Not Applicable	$233,000

Suspensions by self-regulatory authorities ranged from 7 days to a maximum of 5 years. Those imposed by SEC ranged from 30 days to a maximum of one year.

Those barred from association with securities firms included statutory bars as well as bars from association in a principal or supervisory capacity. The $233,000 in fines assessed by self-regulatory authorities was levied against 31 associated persons and ranged from $250 to $50,000.

REFERRAL OF MEMBERS IN OR APPROACHING FINANCIAL DIFFICULTY

Section 5(a)(1) of the 1970 Act requires the SEC or the self-regulatory organizations to notify SIPC immediately upon discovery of facts which indicate that a broker-dealer subject to their regulation is in or approaching financial difficulty. The Commission, the NASD and the exchanges fulfill this requirement through regulatory procedures which integrate inspection and reporting programs with an early-warning procedure for notifying SIPC. The primary objective of these programs is the early identification of those members which are in or approaching financial or operational difficulty and the initiation of action necessary to protect the investing public.

SIPC maintained active files on 45 Section 5(a) referrals during the year 1976, about half the number of the previous year. Eighteen new referrals were received during the year; sixteen of the active referrals were carried forward from 1975 and eleven from 1974.

Twenty-four Remained on List

Twenty-four members remained on active referral status as of December 31, 1976, which included eight referrals carried forward from 1975 and six which had been initially referred in 1974.

In addition to those members formally referred under Section 5(a), SIPC also receives periodic reports from the Commission and from the self-regulatory organizations identifying those members which, although not considered to be in or approaching financial difficulty, are subject to closer-than-normal surveillance as a result of their having exceeded certain pre-established financial or operational criteria.

LITIGATION

During 1976 extensive litigation under the Securities Investor Protection Act of 1970 (SIPA) generated more than 40 reported and unreported opinions, and still more decisions without opinions. The following are those considered to be of particular interest and importance.

Decisions of Appellate Courts

Supreme Court Denies Review

The United States Supreme Court refused to review a decision by the U. S. Court of Appeals for the Second Circuit in *SIPC v. Morgan, Kennedy & Co., Inc.*, 533 F.2d 1314 (2d Cir.), *cert. denied,* 426 U. S. 936 (1976). The trustees of an employee profit-sharing plan contended that each participating employee was a separate customer of the debtor broker-dealer with which the trustees had maintained a single fiduciary account. The Court of Appeals held that it was impossible to classify the beneficiaries of the plan as "customers" of the debtor because they had none of the indicia of the ordinary customer relationships with the debtor. The court stated: "The trust account itself was in the name of the Trustees who had the exclusive power to entrust the assets to the debtor, to invest and reinvest, and to purchase and trade securities in the account as they saw fit. In short, the single trust account, represented by the Trustees collectively, possessed the required attributes for customer status under SIPA; the [beneficiaries of the trust] possessed none of these attributes."

Another appellate court decision denied customer status to a subordinated lender of the debtor. *SIPC v. White & Co., Inc.*, 546 F.2d 789 (8th Cir. 1976). The claimant had subordinated securities pursuant to an agreement which bore a maturity date ("Maturity Date") prior to the date of the commencement ("Filing Date") of the proceeding to liquidate the debtor. However, the agreement subordinated the lender's claim to the claims of all creditors arising before the Maturity Date, and further provided that the lender would not be entitled to share in the debtor's assets until the claims of all such other creditors were satisfied in full. Because substantial claims of the debtor's customers which had arisen before the Maturity Date were unsatisfied on the Filing Date, the Court held that the claimant was not a customer because his claim was subordinated within the meaning of the customer definition in section 78fff(c)(2)(A)(ii) of SIPA.

Court Rules on Membership Exclusion

A novel question involving SIPC membership arose in *Massachusetts Financial Services, Inc. v. SIPC,* 545 F.2d 754 (1st Cir. 1976). The U. S. Court of Appeals for the First Circuit held that a registered broker-dealer is excluded from SIPC membership if its securities business conducted pursuant to its technical authority as a registered broker-dealer is limited to the lines of business specified in section 78ccc(c)(2)(i)-(iv) of SIPA, notwithstanding that it conducts other securities business (investment advice to clients other than registered investment companies) the revenues from which are assessable under SIPA. SIPC has petitioned the United States Supreme Court to review this decision. (No. 76-1197, 1976 Term).

In the liquidation of Weis Securities, Inc., ("Weis") the U. S. Court of Appeals for the Second Circuit affirmed two determinations by the District Court for the Southern District of New York. *Stock Clearing Corp. v. Weis Securities, Inc.* 542 F. 2d 840 (2d Cir. 1976); *In re Weis Securities, Inc.,* 538 F. 2d 317 (2d Cir. 1976), *aff'g without opinion,* 411 F. Supp. 194 (S.D.N.Y. 1975).

In the first case Stock Clearing Corporation (SCC) sought to reclaim securities it delivered to Weis and for which it accepted an uncertified check which was subsequently dishonored. The court held that under the circumstances, including SCC's failure to insist on its own rules designed to assure payment by its members for deliveries, the transaction was a credit transaction as a result of which SCC could not reclaim the securities.

In the second case, the court affirmed the District Court's decision that customers' claims (not involving certain specifically identifiable property) are barred unless filed, as required by SIPA, within six months from the date first set for the first meeting of creditors. In this case the debtor's records indicated that the claimant's account had been closed before the proceeding began. As a result, notice of the liquidation proceeding was not mailed to the claimant. Nevertheless, the District Court held that the trustee's publication of notice "must be sufficient in light of the statute's policy in favor of expeditious completion of liquidation proceedings."

Decisions of U. S. District Courts

Term, "Customer", Further Defined

The definition of customer in section 78fff(c)(2)(A)(ii) of SIPA has been the focal point of numerous decisions over the years. Courts have held that to be a "customer" the claimant must have "entrusted" cash or securities to the debtor in connection with an account maintained for buying and selling securities.

In the liquidation of Executive Securities Corporation, certain broker-dealers and educational institutions filed claims as customers in connection with securities loaned to the debtor in exchange for full cash collateral on a mark-to-the-market basis. Although they had no securities accounts with the debtor, they asserted they were "customers" because of subsection (VI) of section 78fff(c)(2)(A)(ii) which refers to loans of securities by customers. Their claims were for the difference between the cash collateral they received and the market value of the loaned securities at the time the liquidation proceeding was commenced. The decision of the bankruptcy judge that they had general unsecured claims only was affirmed by the district court which held that the claims for SIPC protection failed because the securities loans did not involve trading or investment *through* the debtor. *SIPC v. Executive Securities Corp., 423* F. Supp. 94 (S.D.N.Y. 1976). An appeal is pending in the U. S. Court of Appeals for the Second Circuit. (No. 77-6005).

Other judicial decisions involving "customer" claims include determinations that customers are not entitled to interest on their net equity credit balance for the period from the filing date to the date on which the credit balance is paid [*In re Weis Securities, Inc.,* 73 Civ. 2332 (S.D.N.Y. Aug. 13, 1976) (Wyatt, D.J.)]; that a claim of a customer which had been erroneously allowed can be reconsidered and disallowed on the trustee's motion for reconsideration [*SEC v. E.P. Seggos & Co., Inc.,* 416 F. Supp. 280 (S.D.N.Y. 1976)]; and that a bank could not take a valid assignment of a customer claim under SIPA where the consideration for the assignment was the bank's discharge of its own statutory liability [*In re Albert & Maguire Securities Co., Inc.,* 419 F. Supp. 1171 (E.D. Pa. 1976)]. The last decision has been appealed to the U. S. Court of Appeals for the Third Circuit. (No. 76-2451).

Court Rules on Open Contracts

In *SEC v. Bovers, Parnass & Turel, Inc.,* Civ. No. 1725-72 (D.N.J. August 2, 1976), the court held that the claim of a broker-dealer for completion of an open contractual commitment with the debtor firm could not be allowed where the claiming broker-dealer closed out the contract the day before the institution of the liquidation proceeding.

In the only case in which SEC Rule S6d-1 has been clearly operative, the court denied protection from SIPC's funds to a broker which had not complied with the close-out procedures set forth in the Rule. *SEC v. First Investment Corporation*, 2 Bankr. Ct. Dec. 465 (E.D. Mo. 1976).

In the Weis liquidation the district court has held that expenses of administration may be allocated between the single and separate fund and the general estate on the basis of time spent and moneys expended to benefit the respective funds, rather than on the basis of the size of the funds. *In re Weis Securities, Inc.,* 416 F. Supp. 861 (S.D.N.Y. 1976).

ADVERTISING AND PUBLIC INFORMATION

Advertising

The proposed amendment to the 1970 Act which would give SIPC the authority to require members to advertise their SIPC membership in certain ways was part of the legislative program the Board had previously submitted to Congress to improve liquidation procedures established by the act. Congress did not act on the proposed amendments in 1976.

The Board's intention in the area of advertising is to require members to display the SIPC official symbol at all principal and branch offices and to include the official symbol on official advertising statements in all advertisements. The proposed amendment also contained new provisions for optional uses of the official symbol and statements in member advertising. It is anticipated that the proposed amendments, including the advertising amendment, will be reintroduced in the current session of Congress.

Public Information

Chairman Owens participated as a speaker or panelist at a number of conventions and meetings of the investing community in various parts of the country. His appearances were part of SIPC's policy to keep the membership and the public fully informed about SIPC operations.

SIPC assisted in the preparation of articles about investor protection afforded by the Corporation which appeared in a number of national-circulation magazines.

ADMINISTRATION

Directors

Jerry Thomas, Under Secretary, Department of the Treasury, was named a SIPC Director, replacing Edward C. Schmults who resigned from the Board in 1975 when he left the Treasury Department to become Deputy Counsel to the President.

Personnel

John B. Bourne, former Manager—Accounting and Assessments, and Thomas R. Cassella, former Manager—Operations and Examination of Liquidations, were both promoted to Assistant Vice President—Finance.

Eugene K. Snyder, Assistant Vice President—Finance, resigned to assume a position with the U. S. Government.

SIPC Expenses

Expenses in 1976 aggregated $3,056,343, down significantly from $8,127,760 the previous year. Of the total, $1,561,538 represented provision for losses on advances to trustees, and $1,494,805 was incurred in administrative expenses—the day-to-day operation of the corporation. Administrative expenses were $87,437 lower than in 1975, a 6% reduction. The reduction in administrative expenses, despite inflation, was made possible by the elimination of credit agreement fees arising from the cancellation of a credit agreement, as well as from a scaling down of SIPC's staff from 45 full-time employees at the end of 1975 to 37 at the end of 1976. Economies in certain other aspects of the operation of the Corporation were also realized during the year.

In SIPC's six years of operation, expenses totaled $61,016,543. Of that, $52,795,965 was for net advances to trustees and $8,220,578 was for administrative costs.

SIPC ASSESSMENTS TASK FORCE

A special Task Force to consider the structure of future assessments on SIPC members was formed by Chairman Owens in September. The group is chaired by Lloyd W. McChesney, SIPC Vice President-Finance, and is composed of 17 members representing the membership, self-regulatory and trade organizations, and U.S. Government agencies.

In addition to Mr. McChesney, the members are:

SIPC Members

Robert C. Hill, President, Bateman Eichler, Hill Richards, Inc., Los Angeles, California

Thomas L. Kempner, Executive Vice President, Loeb, Rhoades, & Co., Inc., New York, New York; also Chairman of the Board, First Wall Street Settlement Corporation

Glenn R. Oxner, Senior Vice President, Interstate Securities Corporation, Charlotte, North Carolina

Robert A. Stephan, Senior Vice President, Robert W. Baird & Co., Inc., Milwaukee, Wisconsin

Allan L. Sher, Executive Vice President, Merrill Lynch, Pierce, Fenner & Smith, Inc., New York, New York

Joseph Paul Short, Partner, Arthurs, Lestrange & Short, Pittsburgh, Pennsylvania

Self-Regulatory Organizations

Robert M. Bishop, Senior Vice President, New York Stock Exchange, Inc.

Robert T. Eckenrode, Senior Vice President and Treasurer, American Stock Exchange, Inc.

Nicholas A. Giordano, Executive Vice President, Philadelphia Stock Exchange, Inc

Bruce Simpson, Executive Vice President and Treasurer, Chicago Board Options Exchange, Incorporated

Frank J. Wilson, Senior Vice President and General Counsel, National Association of Securities Dealers, Inc.

Trade Associations

Adrian L. Banky, Senior Vice President and General Manager, Securities Industry Association

Donald R. Bonniwell, Jr., President, Bonniwell & Co., Chicago, Illinois and President, National Municipal Securities Dealers Assocation

U.S. Government Agencies

Basil N. Petrou, Director, Office of Capital Markets Legislation, U.S. Department of the Treasury. (Alternate: A Gary Klesch, Director, Office of Securities Market Policy)

Richard R. Puckett, Chief, Capital Markets Section, Board of Governors of the Federal Reserve System

Dr. J. Richard Zecher, Director of the Directorate of Economic and Policy Research, Securities and Exchange Commission

SIPC Members have been assessed ½% of gross revenues from their securities business since SIPC's inception. That is the minimum rate required by the 1970 Act during the fund build-up phase—until the fund balance reaches $150 million.

Once the fund attains a balance of $150 million (or such other amount as the SEC may determine in the public interest), SIPC may lower assessments. At current growth rates, that level could be reached in 1978.

The Task Force's responsibility will be to consider not only whether a future rate reduction is in order, but whether variations in the way members are assessed should be instituted and make recommendations to the SIPC Board. The 1970 Act permits SIPC to vary assessments among classes of members based in whole or in part on the amount of gross revenues from the securities business or on a variety of other factors.

Committees Appointed

The Task Force began its work in October and continues to meet in three separate committees. The committees and their chairmen follow:

Robert M. Bishop, Chairman—Committee to consider SIPC assessments on a non-actuarial basis.

Thomas L. Kempner, Chairman—Committee to consider the Fund level and the procedural aspects of SIPC assessments

Frank J. Wilson, Chairman—Committee to consider variable rates based on risks

The views of the members, which were solicited by Chairman Owens prior to the formation of the Task Force, have been incorporated in the discussions from the beginning.

FINANCIAL STATEMENTS

ACCOUNTANTS' REPORT

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

We have examined the statement of financial condition of Securities Investor Protection Corporation as at December 31, 1976 and 1975, and the related statements of operations and fund balance and of changes in financial position for the years 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.

As set forth in Note 4 to the financial statements, the liquidation costs to be incurred in subsequent years for liquidations in progress are not presently determinable; accordingly, no amounts have been provided therefor in the accompanying financial statements.

In our opinion, subject to the effect of the matter discussed above, the aforementioned financial statements present fairly the financial position of Securities Investor Protection Corporation as at December 31, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. LEIDESDORF & CO.

New York, N. Y.
February 25, 1977

SECURITIES INVESTOR PROTECTION CORPORATION

STATEMENT OF FINANCIAL CONDITION
December 31, 1976 and 1975

ASSETS

	1976	1975
Cash, operating and collection accounts	$ 693,336	$ 185,297
Estimated member assessments receivable (Note 3)	7,500,000	6,000,000
U.S. Government securities, at amortized cost and accrued interest receivable (1976 - $1,655,319, 1975 - $471,444); (approximate market 1976 - $116,920,000, 1975 - $81,767,000)	115,460,842	81,494,229
Furniture and equipment, at cost, less accumulated depreciation (1976 - $45,729, 1975 - $33,789), and leasehold improvements at amortized cost	71,480	83,694
Advances to trustees for liquidations in progress, less allowance for possible losses (1976 - $43,491,300, 1975 - $46,319,416) (Note 4)	—	—
Other	3,941	1,851
	$123,729,599	$87,765,071

LIABILITIES AND FUND BALANCE

	1976	1975
Advances to trustees - in process (Note 4)	$ 90,364	$ 147,949
Accounts payable and accrued expenses	65,847	54,176
	156,211	202,125
Commitments (Notes 2 and 4)		
Fund balance	123,573,388	87,562,946
	$123,729,599	$87,765,071

STATEMENT OF OPERATIONS AND FUND BALANCE
for the years ended December 31, 1976 and 1975

	1976	1975
Revenues:		
Member assessments (Notes 3 and 5)	$ 32,709,210	$25,485,635
Interest on U.S. Government securities	6,350,313	5,126,165
Interest on assessments	7,262	24,982
	39,066,785	30,636,782
Expenses:		
Administrative:		
Salaries and employee benefits	1,130,594	1,122,878
Credit agreement commitment fee (Note 2)	—	103,472
Legal and accounting fees	35,524	15,056
Rent	103,974	92,955
Other	224,713	247,881
	1,494,805	1,582,242
Provision for possible losses on advances to trustees, net of recoveries (1976 - $804,013, 1975 - $2,338,348) (Note 4)	1,561,538	6,545,518
	3,056,343	8,127,760
Excess revenues	36,010,442	22,509,022
Fund balance, beginning of year	87,562,946	65,053,924
Fund balance, end of year	$123,573,388	$87,562,946

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1976 and 1975

	1976	1975
Cash provided from (used in) operations:		
Provided:		
Member assessments	$31,209,210	$24,385,635
Interest on U.S. Government securities	5,369,673	5,204,060
Interest on assessments	7,262	24,982
	36,586,145	29,614,677
Used:		
Administrative expenses	(1,471,946)	(1,600,485)
Advances to trustees, net of recoveries (1976 - $804,013, 1975 - $2,338,348)	(1,619,123)	(6,416,037)
	(3,091,069)	(8,016,522)
	33,495,076	21,598,155
Other uses of cash:		
Purchases of U.S. Government securities, net	(32,985,973)	(25,025,649)
Miscellaneous, net	(1,064)	(6,477)
Increase (decrease) in cash	508,039	(3,433,971)
Cash, beginning of year	185,297	3,619,268
Cash, end of year	$ 693,336	$ 185,297

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

NOTES TO FINANCIAL STATEMENTS

1. Organization

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

2. The "SIPC Fund"

The "SIPC Fund," as defined by the Act, consisted of the following at December 31, 1976 and 1975:

	1976	1975
Cash	$ 693,336	$ 185,297
U.S. Government securities	115,460,842	81,494,229
	$116,154,178	$81,679,526

On September 19, 1975, lines of credit ($25,000,000 as of that date) under an agreement with banks dated April 14, 1971, were terminated pursuant to a decision of the SIPC Board of Directors. In connection with that agreement, SIPC had maintained compensating cash balances equal to 10% of the lines of credit and had paid a fee of ½% per annum on the unused lines of credit.

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

3. Estimated member assessments receivable and assessment revenues

Annual general assessments are payable quarterly at the rate of ½% per annum on gross revenues from the securities business. SIPC members are allowed to make quarterly payments based upon the previous year's gross revenues.

Annual general assessment reconciliation forms must be filed and underpayments for any year are due within 60 days after year-end. Overpayments for any year may be credited against future assessments.

4. Advances to trustees and commitments

Trustees had been appointed under the Act for 121 SIPC members as of December 31, 1976, 4 of which were appointed during 1976 and 8 during 1975. At that date 53 liquidations had been completed, 17 in 1976 and 14 in 1975. Data presently available from the trustees for liquidations in progress are inconclusive and no determination of the amounts which will be required for advances to satisfy customer claims, or for the liquidation expenses which will be incurred in these cases, is possible at this time; accordingly, no provision has been made therefor in the accompanying financial statements.

Advances to trustees for liquidations in progress represent net amounts disbursed and amounts currently payable. SIPC has adopted the policy of providing a 100% allowance for all advances to trustees. Amounts of unexpended advances, as well as any expended advances for which SIPC has subrogated rights, may be recovered by SIPC. Recoveries are applied upon receipt as a reduction of the advances to trustees and the allowance for possible losses on advances. Amounts which subsequently may be returned are not presently determinable.

5. Contribution from a prior trust

In 1971, the American Stock Exchange, Inc. contributed $3,011,925 from a special trust fund. Under a plan approved in 1974 and terminated in 1976, members used approximately $900,000 of the $3,011,925 to reduce their assessments otherwise due for the year 1975 and negligible amounts for 1976.

6. Retirement Plan

SIPC has a non-contributory retirement plan covering all employees. SIPC's policy is to fund pension expense accrued. Pension expense was $96,000 in 1976 and $71,000 for 1975.

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART A: Customer Claims and Distributions Being Processed by Trustees

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
FOURTH QUARTER 1976					
Institutional Securities of Colorado, Inc., Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,737
E. J. Albanese & Co., Inc., New York, New York (Joseph O. Barton)	10/29/75	10/28/76	11/ 4/76	750	25
Stilwell, Coker & Co., Inc., Charleston, South Carolina (Norman V. Stevenson, Esq.)	10/ 9/73	12/16/76	12/16/76	539	
TOTAL 3 MEMBERS: PART A				10,289	1,762

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
SECOND QUARTER 1971					
Howard Carlton, Inc., New York, New York (Clark J. Gurney, Esq.)	5/31/69	2/ 1/71	4/ 8/71	355	122
Stan Ingram & Associates, Los Angeles, California (Harold L. Orchid, Esq.)	12/22/68	2/22/71	6/ 8/71	400	41
THIRD QUARTER 1971					
Security Planners Ltd., Inc., Boston, Massachusetts (William C. Foehl, Esq.)	2/12/68	3/18/71	8/ 6/71	300	150
FOURTH QUARTER 1971					
Financial Equities, Ltd., Los Angeles, California (Gilbert Robinson, Esq.)	3/26/70	9/17/71	11/ 8/71	4,000	669
Securities Northwest, Inc., Seattle, Washington (George W. McBroom, Esq.)	6/23/71	12/ 7/71	12/ 7/71	940	117
E. P. Seggos & Co., Inc., New York, New York (Clark J. Gurney, Esq.)	2/ 6/70	12/13/71	12/14/71	960	360
Kelly, Andrews & Bradley, Inc., New York, New York (Edwin L. Gasperini, Esq.)	8/10/68	12/15/71	12/21/71	1,327	205
FIRST QUARTER 1972					
Mid-Continent Security Co., Inc., Wichita, Kansas (Thomas R. Brunner)	12/13/50	1/ 3/72	1/ 3/72	1,191	588
F. O. Baroff Co., Inc., New York, New York (Edward S. Davis, Esq.)	10/29/66	1/ 6/72	1/ 6/72	4,225	1,591
JNT Investors, Inc., New York, New York (Jerry B. Klein)	6/17/70	2/15/72	2/15/72	1,572	938

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$1,466,241	771			$725,846			$429,378	$296,468	387
$1,466,241	771			$725,846			$429,378	$296,468	387
$ 152,300	44	$ 30,264	69	$ 10,109			$ 212	$ 9,897	10
3,293	9	500	2	46,229	$ 3,777		33,382	9,070	37
516	2			199,103			164,428	34,675	147
320,682	264	99,852	244	224,708	75,926		110,894	37,888	277
67,575	17	26,596	8	66,856		$ 31,823	1,875	33,158	47
53,100	145	92,000	142	65,104	8,326		29,294	27,484	70
23,068	55	13,249	34	134,084	52,264		7,281	74,539	65
264,469	131	54,106	331	894,417			752,457	141,960	354
1,276,943	1,205			1,391,882	266,138	137,790	752,474	235,480	1,258
1,805,662	927	150,979	140	374,235	140,432	19,864	22,994	190,945	146

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
FIRST QUARTER 1972 (Cont'd)					
C. H. Wagner & Co., Inc., Boston, Massachusetts (Thomas J. Carens, Esq.)	6/23/69	2/22/72	2/28/72	14,000	839
White & Co., Inc., St. Louis, Missouri (Hugh S. Hauck)	3/ 5/47	3/23/72	3/30/72	150	59
SECOND QUARTER 1972					
Parker, England & Co., Inc., Hicksville, New York (John R. Dunne, Esq.)	10/23/68	11/12/71	4/20/72	600	230
John E. Samuel & Co., White Plains, New York (Henry J. Smith, Esq.)	5/ 9/62	2/ 3/72	5/30/72	350	10
THIRD QUARTER 1972					
G. M. Stanley & Co., New York, New York (Winthrop J. Allegaert, Esq.)	4/11/69	7/17/72	7/18/72	1,044	409
Holt, Murdock Securities, Inc., Helena, Montana (Thomas F. Dowling, Esq.)	11/10/70	7/26/72	7/26/72	650	180
Kenneth Bove & Co., Inc., New York, New York (William W. Golub, Esq.)	5/17/66	5/25/72	8/17/72	12,500	6,332
FOURTH QUARTER 1972					
Trio Securities, Inc., New York, New York (Bernard L. Augen)	5/20/71	9/29/72	10/ 3/72	90	67
Equitable Equities, Inc., New York, New York (Herbert S. Camitta, Esq.)	2/ 4/70	10/13/72	10/13/72	134	69
Bovers, Parnass & Turel, Inc., Jersey City, New Jersey (Edward J. Rosner, Esq.)	10/12/68	10/19/72	10/19/72	1,180	307
Albert & Maguire Securities Co., Inc., Philadelphia, Pennsylvania (Donald M. Collins, Esq.)	9/ 9/68	10/19/72	10/19/72	5,181	1,310
Havener Securities Corp., New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	900	533
C. I. Oren & Co., Inc., New York, New York (Martin R. Gold, Esq.)	11/10/68	10/13/72	10/26/72	345	61
First Eastern Investment Corp., Red Bank, New Jersey (Burton Peskin, Esq.)	1/29/58	12/11/72	12/11/72	700	59

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 54,889	8			$ 1,140,300	$ 69,312	$ 9,886	$ 72,847	$ 988,255	253
2,229	1			508,035	76,783		385,031	46,221	49
9,723	19	$ 80,683	160	52,553	18,033		21,294,	13,226	114
		10,775	1	352,470	52,112	255,505	16,848	28,005	75
117,337	225			88,646	65,078		22,080	1,488	82
144,541	150			262,913	69,030	5,267	80,646	107,970	102
2,524,223	6,891	993,659	2,969	926,589		11,948	201,041	713,600	3,480
4,164	16	5,062	10	85,105	4,652	868	73,007	6,578	49
128,362	45			80,465		27,604	16,034	36,827	33
19,630	40	192,426	243	172,274		41,411	36,725	94,138	236
804,617	520	1,193,557	943	826,448			703,540	122,908	656
291,292	82	476,104	316	390,848	202,416	20,819	14,990	152,623	225
1,800	1			145,252	41,199	26,919	33,710	43,424	41
20,700	8			81,898			24,571	57,327	38

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
FIRST QUARTER 1973					
Provident Securities, Inc., New York, New York (Harvey R. Miller, Esq.)	3/16/69	1/23/73	2/ 2/73 9/10/75*	2,100	850
N. F. James & Co., Inc., Jersey City, New Jersey (Milton Rosenkranz, Esq.)	8/14/71	2/ 1/73	2/ 9/73	150	110
Frank & Drake, Inc., New York, New York (Daniel F. Callahan, Esq.)	1/ 8/69	2/22/73	2/22/73	1,900	428
Teig Ross, Inc., Bloomington, Minnesota (Lawrence Perlman, Esq.)	5/31/72	2/20/73	2/26/73	6,700	3,194
First Minneapolis Investment Corp., Minneapolis, Minnesota (James T. Hale, Esq.)	8/ 4/70	3/ 2/73	3/ 2/73	1,275	442
Custodian Security Brokerage Corp., New York, New York (Lyonel E. Zunz, Esq.)	4/25/71	3/ 6/73	3/ 7/73	673	67
Morgan Kennedy & Co., Inc., New York, New York (Eugene L. Bondy, Jr., Esq.)	1/19/66	3/ 9/73	3/13/73	3,114	1,446
Lexington Capital Corp., New York, New York (Peter H. Morrison, Esq.)	11/19/69	3/21/73	3/26/73	1,918	628
Pacific Western Securities, Inc., Los Angeles, California (Edwin M. Lamb)	8/ 7/66	3/26/73	3/28/73	3,023	521
SECOND QUARTER 1973					
J. Shapiro Co., Minneapolis, Minnesota (William T. Dolan, Esq.)	7/31/68	4/13/73	4/13/73	32,730	11,820
Oxford Securities, Ltd., New York, New York (Lewis Kruger, Esq.)	12/ 8/71	1/19/73	4/17/73 3/ 3/76*	2,100	181
P & H Associates, New York, New York (Edward Brodsky, Esq.)	9/23/70	3/13/73	4/17/73	2,201	450
Weis Securities, Inc., New York, New York (Edward S. Redington, Esq.)	8/ 1/65	5/24/73	5/30/73	55,026	34,000

† In the administration of the estate, funds used to pay customers' free credit balances or cash in lieu of securities were not segregated as to source.

†† Increase over 1975 primarily due to recalculation of values for securities distributed in prior years.

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
Smith & Medford, Inc., Atlanta, Georgia (William Green, Esq.)	9/ 2/70	5/31/73	6/ 1/73	1,705	525
R. S. Emerson Co., Agana, Guam (Hyman B. Rosenzweig)	6/11/67	5/18/72	6/22/73	200	74

* Successor Trustee

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 229,741	739			$ 873,891	$ 278,335		$ 283,713	$ 311,843	645
23,494	35	$ 28,547	15	1,252,550	75,787		1,125,454	51,309	90
424,052	224			112,309	43,612		35,618	33,079	55
2,043,893	3,215			343,589	186,004	$ 700	61,017	95,868	630
382,755	393			101,975	19,355	10,000	70,039	2,581	34
1,219	3			134,271	81,633		29,927	22,711	17
1,664,435	1,642			894,183	455,964	23,085	211,380	203,754	687
378,558	432			300,233	100,700	48,314	50,886	100,333	157
280,827	158	79,179	118	1,263,258	215,037	18,163	926,705	103,353	354
17,212,512	10,357			2,532,025	481,192	33,004	1,350,859	666,970	3,626
35,993	88	1,163	5	52,388	12,928	332	24,330	14,798	48
221,307	310			328,385	71,093	15,337	69,805	172,150	405
145,994,972††	28,900 (Estimated)	29,030,339	34,000 (Estimated)	14,616,662			14,616,662†		33,500
150,798	298			275,968	72,576	25,685	172,458	5,249	272
3,304	9			187,339			176,344	10,995	59

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
THIRD QUARTER 1973					
Duvest Corporation, Jersey City, New Jersey (Ralph M. Lowenbach, Esq.)	9/13/72	9/ 4/73	9/ 4/73	1,087	179
Associated Underwriters, Inc., Salt Lake City, Utah (Richard L. Blanck, Esq.)	7/ 8/70	9/11/73	9/11/73 10/23/73*	150	45
Busec Securities Corp., Buena Park, California (Harold L. Orchid, Esq.)	8/10/69	9/13/73	9/14/73	575	65
FIRST QUARTER 1974					
Howard Lawrence & Co., Inc., New York, New York (Grant S. Lewis, Esq.)	8/ 9/69	1/11/74	1/11/74	1,800	365
Equidyne, Salt Lake City, Utah (Reed L. Martineau, Esq.)	4/19/72	2/ 7/74	2/ 7/74	6,452	641
Parker Jackson & Co., Inc., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	5/24/63	2/ 7/74	2/14/74	2,400	1,103
SECOND QUARTER 1974					
Harper Johnson Co., Inc., New York, New York (David P. Prescott, Esq.)	4/30/70	4/ 8/74	4/ 8/74	329	55
Memme & Co., Inc., New York, New York (Edward Farman, Esq.)	8/ 6/65	8/ 6/73	4/15/74	300	29
Christian-Paine & Co., Inc. Carlton Cambrige & Co., Inc. Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	7,884
London Securities, Ltd., New York, New York (Edward Brodsky, Esq.)	4/18/70	1/ 3/74	4/22/74	108	6
McMahon & Hoban, Inc., Chicago, Illinois (J. Kirk Windle, Esq.)	2/14/70	4/26/74	4/26/74	1,600	337
THIRD QUARTER 1974					
Llorens Associates, Inc., New York, New York (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93
Investment Securities Corp., Clayton, Missouri (Martin M. Green, Esq.)	11/ 8/69	7/ 8/74	7/ 8/74	1,400	490
Financial House, Inc., Detroit, Michigan (David Robb, Esq.)	3/ 9/55	9/17/74	9/18/74	1,958	708

* Successor Trustee

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 56,442	124	$ 20,631	42	$ 47,887	$ 21,996		$ 9,773	$ 16,118	72
12,575	10			82,031	36,720		10,650	34,661	32
5,975	4			124,822	30,428		94,282	112	75
94,998	232			433,971	135,255		61,741	236,975	400
16,399	63			80,715	45,417		17,237	18,061	210
42,899	417			102,916	51,280	$ 963	26,929	23,744	154
487	5			21,090	15,897			5,193	5
70	6			61,928	34,253	5,200	4,300	18,175	11
762,766	12,539			2,980,560	714,157	3,125	2,004,918	258,360	6,537
150	1			15,918	11,580		2,338	2,000	4
49,046	21			820,923			213,740	607,183	269
31,174	40			70,816	14,574	214	17,823	38,205	30
515,614	388			351,519	5,000	81,078	181,751	83,690	162
431,422	226			899,924	214,409	37	568,250	117,228	284

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
FOURTH QUARTER 1974					
Dow Financial, Inc., Irvine, California (Eugene W. Bell, Esq.)	4/ 8/73	11/11/74	11/11/74	1,250	423
Henry C. Atkeison, Jr., d/b/a Ambassador Church Finance Development Group, Inc.; d/b/a Atalbe Christian Credit Association, Inc., Brentwood, Tennessee (Fred D. Bryan)	4/18/70	11/ 7/74	12/17/74	531	115
Universal Underwriting Service, Inc., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	8/28/71	11/25/74	12/26/74	5,500	1,100
FIRST QUARTER 1975					
R. L. Whitney Securities, Inc., New York, New York (Thomas Ungerland, Esq.)	1/29/72	2/ 6/75	2/ 6/75	1,877	440
Executive Securities Corp., New York, New York (Cameron F. MacRae, III, Esq.)	11/ 8/67	2/14/75	2/14/75	8,740	2,757
G. H. Sheppard & Co., Inc., New York, New York (Jerome M. Selvers, Esq.)	4/ 4/73	3/ 4/75	3/25/75	175	27
SECOND QUARTER 1975					
Saxon Securities Corp., New York, New York (Joseph O. Barton)	11/27/68	1/24/75	4/ 1/75	685	81
Horvat, Maniscalco & Co., Bergenfield, New Jersey (Lawrence E. Jaffe, Esq.)	9/ 5/71	4/25/75	4/25/75	1,093	221
THIRD QUARTER 1975					
Ben Campo, d/b/a Campo & Co., Phoenix, Arizona (Ronald E. Warnicke, Esq.)	4/ 7/71	3/ 8/73	7/11/75	257	16
Investors Security Corp., Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	5/ 8/66	9/15/75	9/15/75	4,300	244
FOURTH QUARTER 1975					
Westco Financial Corp., Denver, Colorado (William J. Fisher)	6/12/62	11/12/75	11/12/75	890	88
FIRST QUARTER 1976					
J. S. Roberts & Co., Westfield, New Jersey (Michael M. Marx)	8/26/70	2/ 2/76	2/11/76	696	74
TOTAL 65 MEMBERS: PART B				230,110	87,568

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 160,057	98			$ 587,727			$ 325,173	$ 262,554	272
6,860	11			89,917	$ 65,507		22,243	2,167	17
109,816	574			146,183	51,914	$ 11,375	26,130	56,764	162
239,039	271	$ 1,582	2	760,286		1,906	692,420	65,960	199
2,268,426	1,218			2,121,009	25,531	30,535	1,449,655	615,288	1,341
10,046	4			98,362	31,650	3,650	9,303	53,759	11
19,226	40			19,040	9,874		4,463	4,703	11
910	2			797,456	32,285		726,052	39,119	249
				35,241			30,237	5,004	6
800	1			122,864	11,942		67,375	43,547	10
1,920	2			2,800	2,800				
				100,000			100,000		2
$181,976,092	73,905	$32,581,253	39,794	$42,765,454	$4,802,163	$902,407	$29,449,635	$7,611,249	58,948

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART C: Liquidations Completed

1976 Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Packer, Wilbur & Co., Inc., New York, New York (Martin R. Gold, Esq.)	6/21/71	196	$ 129,345
Buttonwood Securities, Inc., La Jolla, California (Edwin M. Lamb)	10/18/71	1,020	1,250,059
Aberdeen Securities Co., Inc., Wilmington, Delaware (Claude P. Hudson)	11/22/71	273	150,508
Rodney B. Price & Co., Inc., Atlanta, Georgia (Robert E. Hicks, Esq.)	12/ 7/71	43	163,580
Murray, Lind & Co., Inc., Jersey City, New Jersey (Mark F. Hughes, Jr., Esq.)	1/24/72	817	428,177
S. J. Salmon & Co., Inc., New York, New York (John C. Fontaine, Esq.)	2/ 7/72	1,655	3,071,540
North American Planning Corp., New York, New York (Joseph D. Ellison)	8/ 8/72	977	1,413,794
Northeast Investors Planning Corp., Bronx, New York (David Handel)	8/23/72	302	160,846
Doores Security Corp., New York, New York (Peter H. Morrison, Esq.)	8/31/72	25	105,711
G. L. Equities Corp., New York, New York (Charles H. Kaufman)	10/11/72	248	190,401
J. R. Narwitz & Co., Sacramento, California (Loren S. Dahl, Esq.)	11/ 8/72	26	51,958
First Midwest Investment Corp., Milwaukee, Wisconsin (Frank C. Verbest)	11/28/72	928	2,932,086
Forma Securities, Inc., New York, New York (Lawrence P. King, Esq.)	2/ 9/73	148	21,697
Gary L. Jones & Associates, Salt Lake City, Utah (D. Spencer Nilson)	7/12/73	1,109	343,514
Hill, Curtin & Ackroyd, Inc., Framingham, Massachusetts (Joseph P. Rooney, Esq.)	7/30/73	123	84,448
Klee & Company, Inc., Cleveland, Ohio (William M. Nelson, Jr., Esq.)	8/20/73	347	404,866
Seed Capital Corporation, New York, New York (Thomas Ungerland, Esq.)	5/ 6/74	39	54,148
TOTAL 17 MEMBERS 1976		8,276	10,956,678
TOTAL 36 MEMBERS 1973, 1974 & 1975 (b)		6,019	3,793,622
TOTAL 53 MEMBERS 1973, 1974, 1975 & 1976		14,295	$ 14,750,300

PART D: SUMMARY

	Responses Received/ Customers Receiving Distributions	Total
Part A: 3 Members—Customer Claims and Distributions Being Processed by Trustees	1,762 (a)	$ 1,466,241
Part B: 65 Members—Customer Claims (Except Problem Claims) Have Been Satisfied	87,568 (a)	214,557,345
Sub Total	89,330	216,023,586
Part C: 53 Members—Liquidations Completed	14,295 (d)	14,750,300
TOTAL	103,625	$230,773,886

Notes:

(a) Trustees commonly send notices and claim forms to all persons who, from the debtor's records, may have been customers. This is done so that these potential claimants may be advised of the proceeding.

(b) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.

Distributions of Properties Held by Trustees			SIPC Advances to Trustees				
	Single and Separate Fund and General Estate						
Customers' Specifically Identifiable	Customers And Others	Administration Expenses	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances
$ 14,728	$ 18,682	$ 95,935	$ 427,173	$ 51,107		$ 273,744	$ 102,322
680,406	323,334	246,319	454,678	306,382		60,540	87,756
11,993	102,353	36,162	72,621			59,243	13,378
29,100	76,312	58,168	33,342	225		15,742	17,375
203,000	198,992	26,185	216,315	105,181	$ 4,426	26,814	79,894
2,488,763	210,322	372,455	1,576,037	455,163	205,054	137,824	777,996
1,137,964	23,974	251,856	525,923	360,236	11,334	28,375	125,978
100,937	29,153	30,756	188,171	105,228	550	51,132	31,261
59,031	7,138	39,542	56,046	19,466	12,073	5,205	19,302
163,525	15,008	11,868	95,608	74,090		8,943	12,575
		51,958	87,596	9,643		68,152	9,801
1,999,405	696,882	235,799	85,893			53,196	32,697
7,129	8,125	6,443	142,943	76,871		57,667	8,405
295,839	9,368	38,307	151,412	11,982	6,031	34,549	98,850
59,306	44	25,098	169,450	52,601		103,711	13,138
370,927	11,959	21,980	87,522	48,574	3,125	7,027	28,796
	13,080	41,068	16,511			6,219	10,292
7,622,053	1,744,726	1,589,899	4,387,241	1,676,749	242,593	998,083	1,469,816
1,684,399	1,062,079	1,047,144	4,917,424	1,578,894	99,445	2,075,777	1,163,308
$9,306,452	$2,806,805 (c)	$2,637,043	$9,304,665	$3,255,643	$342,038	$3,073,860	$2,633,124

Distributions of Properties Held by Trustees			SIPC Advances to Trustees				
	Single and Separate Fund and General Estate						
Customers' Specifically Identifiable	Customers And Others	Administration Expenses	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances
$ 1,466,241		(e)	$ 725,846			$ 429,378	$ 296,468
181,976,092	$32,581,253	(e)	42,765,454	$4,802,163	$ 902,407	29,449,635	7,611,249
183,442,333	32,581,253		43,491,300	4,802,163	902,407	29,879,013	7,907,717
9,306,452	2,806,805	$2,637,043	9,304,665	3,255,643	342,038	3,073,860	2,633,124
$192,748,785	$35,388,058	$2,637,043	$52,795,965	$8,057,806	$1,244,445	$32,952,873	$10,540,841

(c) Includes $62,882 for open contractual commitments and $31,811 paid to general creditors other than SIPC.
(d) Number of customers receiving securities and/or cash.
(e) To be reported at completion of the liquidation.

APPENDIX II

Analysis of SIPC Revenues and Expenses and Trustees' Distributions

	1971	1972
Revenues:		
Member assessments and contributions	$32,790,194	$32,332,156
Interest:		
U.S. Government securities	490,042	1,674,257
Assessments	—	—
	33,280,236	34,006,413
Expenses:		
Administrative:		
Salaries and employee benefits:		
Salaries	178,036	411,075
FICA taxes	4,509	10,681
D.C. and Federal unemployment tax	1,548	3,680
Group health and life insurance	5,785	6,222
Contribution to Employees' Retirement Trust	—	43,400
Other employee benefits	—	2,404
	189,878	477,462
Assessment collection direct costs	35,780	24,047
Credit agreement commitment fee	236,527	292,223
Legal fees	70,987	76,574
Accounting fees	22,074	70,169
Other:		
Printing and mailing annual and interim reports	—	23,901
Directors fees and expenses	8,609	6,096
Travel and subsistence	4,154	23,981
Personnel recruitment	3,790	5,832
Rent-office space	10,849	34,073
Depreciation and amortization	1,548	10,923
Insurance	2,549	3,137
Postage	1,069	3,471
Office supplies and expense	13,140	25,920
Telephone and telegraph	4,583	17,966
Custodian fees	4,538	15,940
Relocation	—	—
Miscellaneous	9,805	30,914
	64,634	202,154
Preparation costs-potential major liquidations	156,328	—
Start-up expense-attorneys' and accountants' fees and printing expenses related to credit agreement and assessment procedures	127,632	—
	903,840	1,142,629
Provision for possible losses on advances to trustees:		
For completion of open contractual commitments (net recoveries)	51,675	135,183
Cash in lieu of securities (net recoveries)	173,012	3,489,969
Free credit balances	176,132	3,717,741
	400,819	7,342,893
Administration expenses	74,981	765,991
	475,800	8,108,884
	1,379,640	9,251,513
Excess revenues (expenses)	$31,900,596	$24,754,900
Trustees' distributions for the accounts of customers (rounded to nearest thousand dollars):		
From debtors' estates (including securities)	271,000	9,300,000
From SIPC advances (net recoveries)	401,000	7,343,000
	$ 672,000	$16,643,000

for Accounts of Customers for the Six Years Ended December 31, 1976

1973	1974	1975	1976	TOTAL
$ 22,858,920	$18,027,633	$25,485,635	$32,709,210	$164,203,748
2,771,131	3,914,782	5,126,165	6,350,313	20,326,690
10,938	16,311	24,982	7,262	59,493
25,640,989	21,958,726	30,636,782	39,066,785	184,589,931
705,424	900,858	965,631	946,255	4,107,279
25,362	32,511	34,083	34,514	141,660
6,503	8,597	7,046	6,892	34,266
11,167	18,387	31,324	32,809	105,694
44,700	35,900	71,000	96,000	291,000
6,384	10,828	13,794	14,124	47,534
799,540	1,007,081	1,122,878	1,130,594	4,727,433
13,916	11,124	10,035	9,439	104,341
240,625	189,931	103,472	—	1,062,778
44,388	86,991	6,256	22,624	307,820
20,313	21,520	8,800	12,900	155,776
21,671	13,076	15,529	11,926	86,103
6,667	8,260	5,678	3,200	38,510
55,587	62,320	66,119	49,745	261,906
14,312	15,131	21,830	4,896	65,791
45,227	91,903	92,955	103,974	378,981
12,865	12,093	13,362	13,278	64,069
4,073	4,452	4,299	6,176	24,686
3,013	5,221	4,430	6,567	23,771
35,946	65,667	47,549	54,153	242,375
25,533	32,906	28,147	28,964	138,099
18,523	18,691	17,610	14,812	90,114
36,439	—	—	—	36,439
25,986	26,071	13,293	21,557	127,626
305,842	355,791	330,801	319,248	1,578,470
—	—	—	—	156,328
—	—	—	—	127,632
1,424,624	1,672,438	1,582,242	1,494,805	8,220,578
693,142	167,769	223,250	(26,574)	1,244,445
27,868,208	(2,273,231)	3,129,514	565,401	32,952,873
3,144,691	1,883,472	1,393,839	224,966	10,540,841
31,706,041	(221,990)	4,746,603	763,793	44,738,159
3,755,307	864,867	1,798,915	797,745	8,057,806
35,461,348	642,877	6,545,518	1,561,538	52,795,965
36,885,972	2,315,315	8,127,760	3,056,343	61,016,543
($ 11,244,983)	$19,643,411	$22,509,022	$36,010,442	$123,573,388
170,672,000	21,582,000	6,379,000	19,901,000	228,105,000
31,706,000	(222,000)	4,746,000	764,000	44,738,000
$202,378,000	$21,360,000	$11,125,000	$20,665,000	$272,843,000