



Annual Report
1985

SECURITIES INVESTOR PROTECTION CORPORATION



SECURITIES INVESTOR PROTECTION CORPORATION
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WASHINGTON, D.C. 20006
202-223-8400

April 30, 1986

The Honorable John S. R. Shad
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 Fifteenth 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 fluid and cursive, with a long horizontal stroke extending to the right.

James G. Stearns
Chairman

“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.

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Securities Investor Protection Corporation

Directors



James G. Stearns
Chairman



Roger A. Yurchuck, Esquire
Vorys, Sater, Seymour & Pease
Columbus, Ohio
Vice Chairman



**Stephen L. Hammerman,
Esquire**
Executive Vice President
Chief Administrative Officer and
General Counsel
Merrill Lynch & Co., Inc.
New York, New York



James W. Fuller
President
Bull & Bear Group, Inc.
New York, New York



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



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Chairman of the Board
Goldberg Securities, Inc.
Chicago, Illinois



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Assistant Secretary for Domestic
Finance
Department of the Treasury
Washington, D.C.

Staff Officers

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President & General Counsel

Michael E. Don
Deputy General Counsel & Secretary

Lloyd W. McChesney
Senior Vice President—Finance

John B. Bourne
Vice President—Finance

J. H. Moelter
Vice President—Operations

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 36, 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 that which is 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. 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. — 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.

Further information about the provisions for customer account protection are contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry Association, 120 Broadway, New York, N.Y. 10271, and from the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

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

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

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

A Message from the Chairman



December 30, 1985 marked the 15th anniversary of the signing of the Securities Investor Protection Act of 1970 and the establishment of SIPC. Our 15th anniversary seems an appropriate time to review the past and look forward to the future.

During its 15 years of existence, SIPC, its trustees, their counsel and staffs, with federal court oversight, provided protection for the accounts of over 200,000 customers in 189 customer protection proceedings. Securities and cash valued at over \$1 billion have been distributed to those customers. SIPC advances, net of recoveries, have totaled over \$180 million.

This is also an appropriate time to recognize the work and assistance we have received from so many people and organizations throughout the years. The cooperation and assistance of the Securities and Exchange Commission and all of the self-regulatory organizations have been invaluable. We wish also to acknowledge the 26 individuals who have served so faithfully on our Board as Directors over the years, and who have shared with us their knowledge and experience. Finally, we want to recognize the dedicated people who have served on SIPC's staff. Their loyalty, expertise, and experience are some of our greatest assets.

1985 has been a year of progress for SIPC. Although, as detailed in this report, the twelve new customer protection proceedings is an increase over the preceding year, three of those proceedings are direct payment

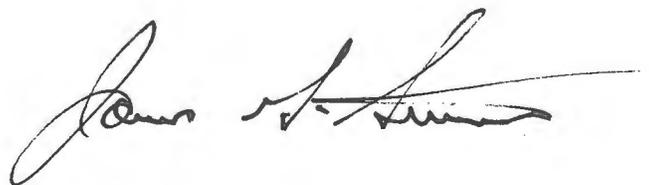
proceedings and SIPC is trustee in two others. We continue to benefit from the new procedures approved by Congress in 1978, which have now been tested and used in many cases.

One of the more important subjects which our Board dealt with this year is the size of the SIPC Fund and the future assessment structure for our members. In 1985 the SIPC Fund increased \$81 million to \$327 million, a level not previously attained. After receiving recommendations from a Special Task Force which was appointed to consider the SIPC Fund size and assessments, our Directors determined in November to augment our resources by arranging a \$500 million line of credit with a consortium of banks throughout the country. This action was taken to enlarge the resources available to SIPC in the event of a severe drain on the SIPC Fund. The SIPC Fund is expected to provide sufficient assets to meet requirements based on experience, but the addition of the line of credit should make it most unlikely that we would have to call upon our statutorily authorized borrowing of \$1 billion from the U.S. Government.

As part of the re-examination of the SIPC Fund level, the Directors also made changes in our assessment bylaws. As of April 1, 1986, member assessments revert from $\frac{1}{4}$ of 1 percent of each member's gross revenues from the securities business to a \$100 uniform annual assessment. Our bylaws have also been amended to provide for a return to assessments based on gross revenues if in the future the SIPC Fund drops below \$250 million. Our Directors intend to re-examine regularly assessments and the size of the SIPC Fund with a view to monitoring the program and making any changes or adjustments which appear to be necessary.

This year we have implemented a number of improvements in our internal operations, notably the installation of computer equipment. The process of converting from manual operations has been completed in some areas and is now underway in other areas. We expect this process will continue to proceed expeditiously and will assure more efficient operations in nearly every department.

We look forward with enthusiasm to 1986. We believe that we have the personnel, the facilities, and the programs needed to continue to provide to public customers of SIPC members the protections prescribed by our enabling statute.



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 twelve SIPC members in 1985, bringing the total since SIPC's inception to 189 proceedings commenced under SIPA. The 189 members represent less than 1 percent of the approximately 21,000 broker-dealers that have been SIPC members during the last 15 years. Currently, SIPC has 11,004 members.

The twelve new cases compare with nine commenced in 1984. An average of seven new cases were commenced during the period 1976 through 1985. During SIPC's first five years, 1971 through 1975, new proceedings averaged 23 per year.

Trustees other than SIPC were appointed in seven of the cases commenced during the year, SIPC serves as trustee in two and there are three direct payment proceedings. SIPC members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
Brentwood Securities, Inc., Los Angeles, California (SIPC)	2/07/85
Marsan Securities Company, Inc., New York, New York (Direct Payment)	4/08/85*
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	5/03/85
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	5/08/85
Parr Securities Corp., New York, New York (Edwin B. Mishkin, Esq.)	5/17/85
Apex Financial Planners Corp., Los Altos, California (SIPC)	6/04/85
Donald Sheldon & Co., Inc., New York, New York (Stanley T. Lesser, Esq.)	8/13/85
Collins Securities Corporation, Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/04/85
R. H. Stewart & Company, Inc., Ft. Lauderdale, Florida (John R. Camp, Jr., Esq.)	9/30/85
TK Securities, Inc., Ft. Lauderdale, Florida (Samuel A. Brodnax, Jr., Esq.)	10/4/85
C. Harvey and Associates Securities, Inc., Phoenix, Arizona (Direct Payment)	12/04/85*
DMR Securities, Inc., Tucson, Arizona (Direct Payment)	12/04/85*

*Date notice published

Of the 189 proceedings begun under SIPA to date, 130 have been completed, 51 involve problem claims and/or litigation, and claims in 8 are being processed (See Figure 1 and Appendix I).

During SIPC's fifteen year history, cash and securities distributed for accounts of customers aggregated approximately \$1.05 billion. Of that amount, approximately \$893 million came from debtors' estates and \$161 million from the SIPC Fund (See Appendix III).

SIPC Fund Advances

Table I shows that the 36 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for about 84 percent of the total advanced in all 189 customer protection proceedings. The largest net advance in a single liquidation is \$39 million for Bell & Beckwith. This exceeds the net advances in the 153 smallest proceedings.

In six proceedings SIPC advanced \$93 million, or 51 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
As of December 31, 1985
189 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	3	\$ 71,532,792
5,000,000†	\$10,000,000	3	21,195,389
1,000,001	5,000,000	30	59,336,877
500,001	1,000,000	16	11,578,992
250,001	500,000	20	6,976,568
100,001	250,000	48	7,923,343
50,001	100,000	36	2,621,644
25,001	50,000	17	638,963
10,001	25,000	5	76,451
0	10,000	9	21,181
Net recovery		2	(1,026,853)*
			\$180,875,347†

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

†Consists of advances for accounts of customers (\$160,996,278) and for administration expenses (\$19,879,069).

Claims over the Limits

Of the more than 200,000 claims satisfied as of December 31, 1985, a total of 272 were for cash and securities whose value was greater than the limits of protection by SIPA.

The 272 claims, a net increase of 3 during 1985, represent approximately one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$10.7 million, increased approximately \$.8 million during 1985. These remaining claims approximate 1 percent of the total value of securities and cash distributed for accounts of customers.

FIGURE 1
Status of Customer Protection Proceedings

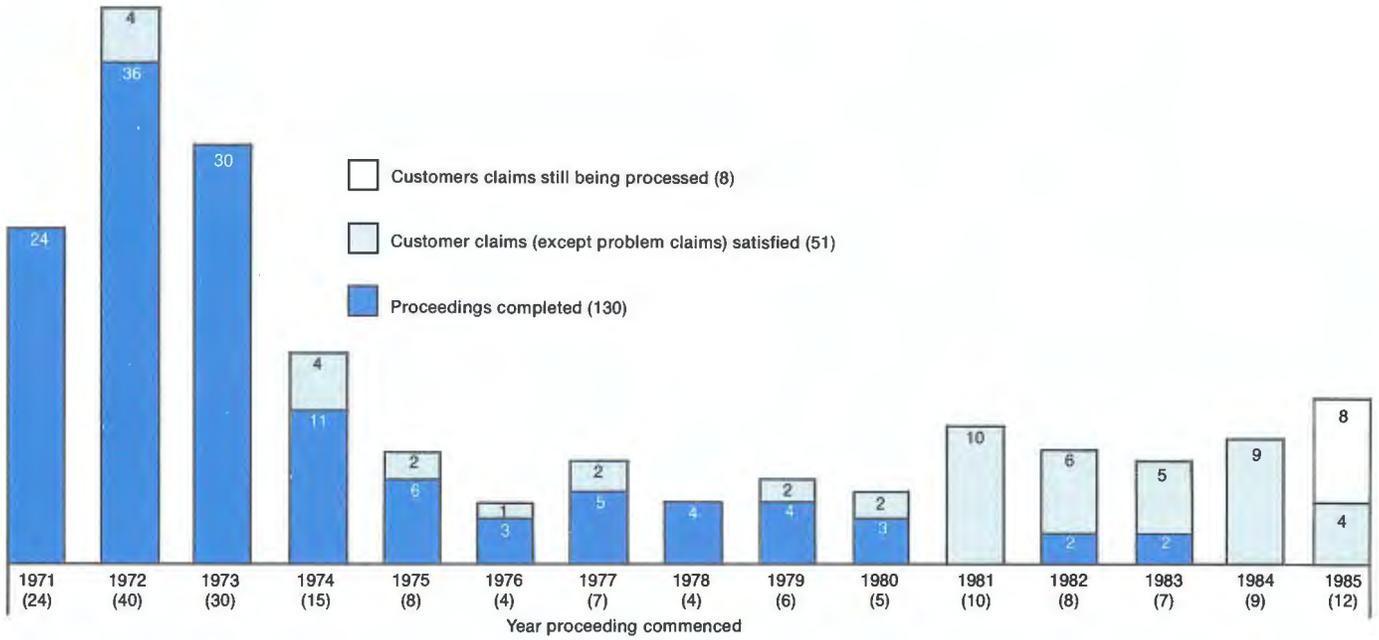
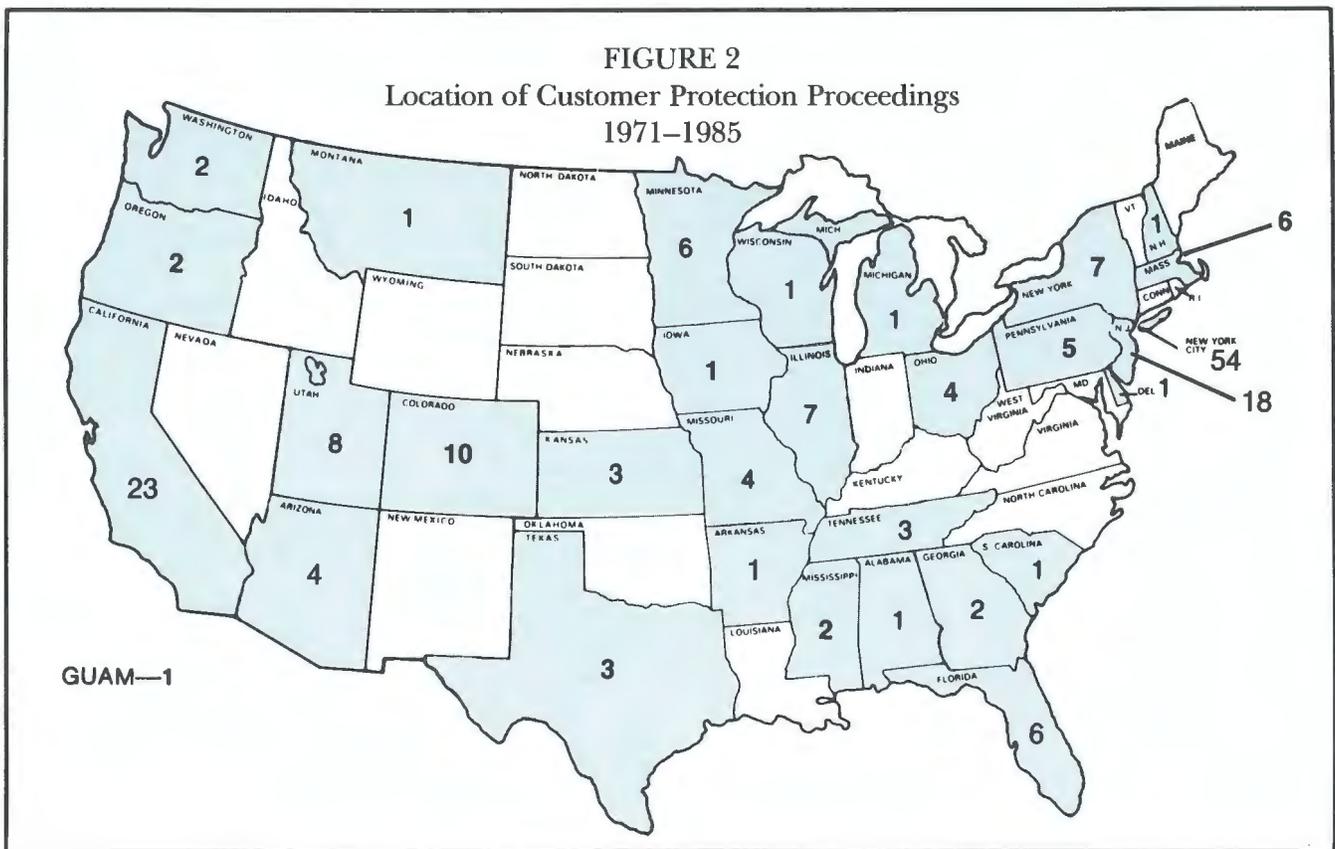


FIGURE 2
Location of Customer Protection Proceedings
1971-1985



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 666 members during the year brought the total membership to 11,004 at December 31, 1985. 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, 1985

Agents for Collection of SIPC Assessments	Added(a)	Terminated(a)	Total
National Association of Securities Dealers, Inc. SIPC(b)	—	219	5,362
Chicago Board Options Exchange Incorporated	1,673	702	1,812
New York Stock Exchange, Inc.	—	66	1,813
American Stock Exchange, Inc.	7	55	941
Pacific Stock Exchange, Inc.	9	10	521
Philadelphia Stock Exchange, Inc.	5	5	242
Midwest Stock Exchange, Inc.	2	7	192
Boston Stock Exchange, Inc.	4	4	97
	—	3	24
	<u>1,700</u>	<u>1,071</u>	<u>11,004</u>

Notes:

- Excluding transfers (2,753) of members to successor collection agents.
- SIPC is the collection agent and the SEC is the examining authority for brokers and dealers that are not members of any self-regulatory organization. The additions in this category reflect the temporary status of many broker-dealers between the date of their registrations under Section 15(b) of the 1934 Act and their becoming members of a securities exchange or association. The large number of terminations reflect the temporary status after broker-dealers terminate their memberships in these self-regulatory organizations and before their withdrawal of registrations as broker-dealers.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).¹ As of December 31, 1985, there were 972 members who were subjects of uncured notices, 548 of which were mailed during 1985 (346 in September) 256 during 1984 and 168 during the years 1974 through 1983. Subsequent filings and payments by 97 members left 879 notices uncured. SIPC has been advised by the SEC staff that: (a) 208 member registrations have been cancelled or are being withdrawn; (b) 445 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 19 are either subjects of administrative proceedings or otherwise resolved; and (d) 207 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 \$327 million at year end, an increase of \$81 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1985. The 1985 member assessments were \$71 million and interest from investments was \$30.7 million. During the periods 1971 through 1977 and 1983 through 1985, member assessments were the principal source of revenues and 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, 1985.

¹14(a) Failure to Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, 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.

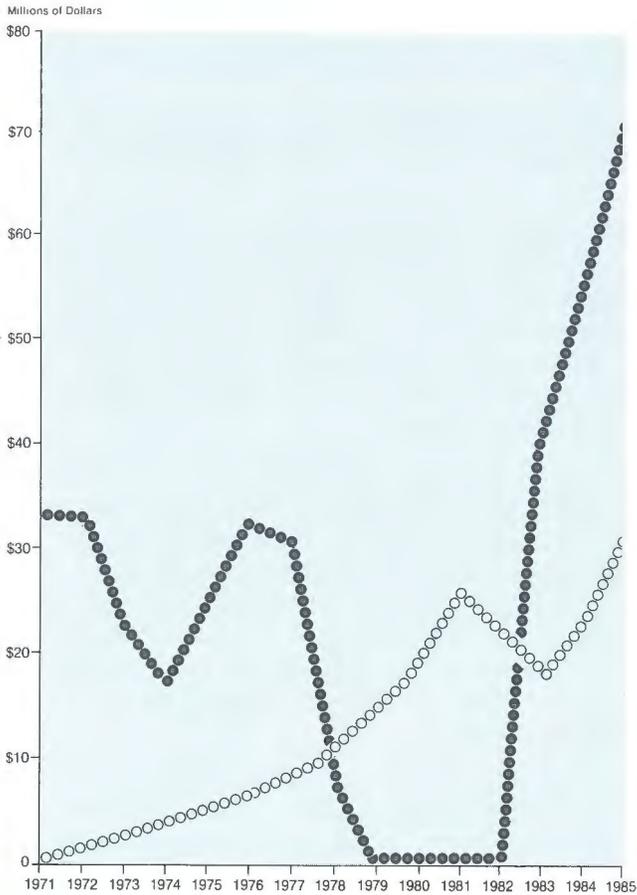


TABLE III
SIPC Revenues for the
Fifteen Years Ended December 31, 1985

●●●● Member assessments and contributions: \$364,121,000
 ○○○○ Interest on U.S. Government securities: \$191,536,000

History of Member Assessments*

1971: ½ of 1% plus an initial assessment of ¼ of 1% of 1969 revenues, \$150 minimum.

1972–1977: ½ of 1%.

January 1–June 30, 1978: ¼ of 1%.

July 1–December 31, 1978: None

1979–1982: \$25 uniform annual assessment.

1983–1985: ¼ of 1% effective May 1, 1983, \$25 minimum.

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

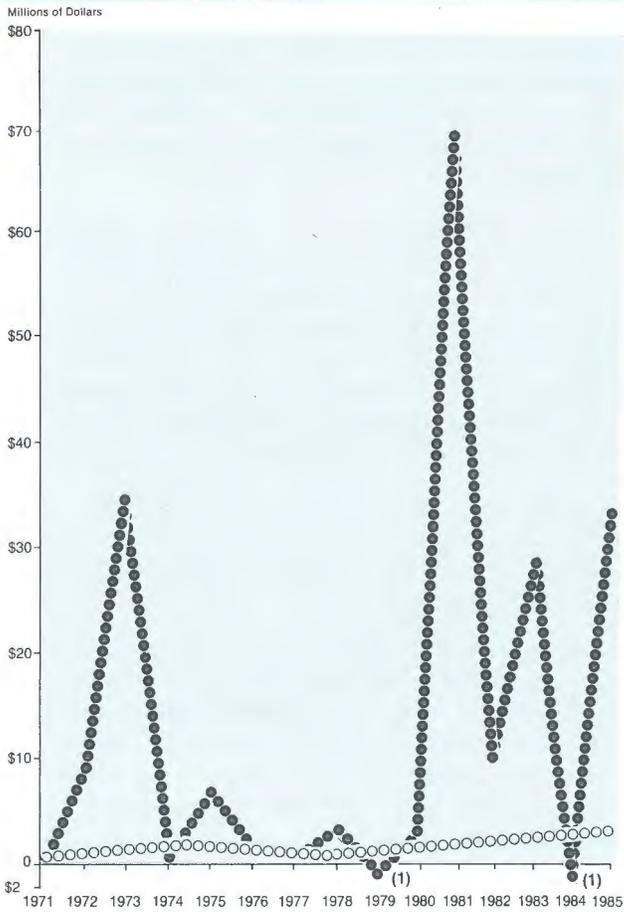


TABLE IV
SIPC Expenses for the
Fifteen Years Ended December 31, 1985

●●●● Customer protection proceedings: \$199,475,000
 (Includes net advances of \$180,875,000 less estimated future recoveries of \$8,300,000 and \$26,900,000 of estimated costs to complete proceedings.)
 ○○○○ Other expenses: \$28,564,000

(1) Net recoveries.

Litigation

During 1985, SIPC was actively involved in litigation at both the trial and appellate levels. The more important court decisions are summarized below.

In *In re Stalvey & Associates, Inc.*, 750 F.2d 464 (5th Cir. 1985), the court of appeals reversed the bankruptcy judge's decision and held that an individual, although having a customer relationship with the debtor in other transactions, was not a "customer" entitled to protection under SIPA where he deposited bonds with a bank as collateral for two letters of credit issued by the bank, and the bonds were stolen from the bank's possession by one of the debtor's employees. By agreement between the bank and the claimant, the debtor or its employees had access to the bonds to clip the coupons and, under certain conditions, to substitute bonds of equal value. In reaching its conclusion, the court held that whether one is a "customer" within the meaning of SIPA is a question of law rather than a question of fact.

SIPC v. Vigman, 764 F.2d 1309 (9th Cir. 1985), is an action wherein SIPC and trustees for two broker-dealers in liquidation under SIPA alleged numerous violations of the antifraud provisions of the securities laws and of the Racketeer Influenced and Corrupt Organizations Act ("RICO") by various individuals, corporate entities related to them, and seven issuers of securities in which the two broker-dealers made markets. The court of appeals reversed the district court's order dismissing four of the 75 defendants on grounds of lack of personal jurisdiction and improper venue. The court of appeals held (i) that section 27 of the Securities Exchange Act of 1934 authorizes nationwide service of process, (ii) that so long as a defendant has minimum contacts with the United States, section 27 of the Exchange Act confers personal jurisdiction over the defendant in any federal district court, and (iii) that it is appropriate to apply the co-conspirator venue theory to the defendants, namely, where an action is brought against multiple defendants alleging a common scheme of acts or transactions in violation of securities statutes, so long as venue is established for any of the defendants in the forum district, venue is proper as to all defendants.

In *SIPC v. Christian-Paine & Co., Inc.*, 755 F.2d 359 (3d Cir. 1985), the court of appeals held that the trustee has authority under SIPA to conduct an examination into the principal's assets in the hands of third parties.

In *Klein v. SIPC*, 84-AR-2597-S (N.D. Ala., January 15, 1985), relying on *SIPC v. Barbour*, 421 U.S. 412 (1975), the district court held that an aggrieved customer of a SIPC member could not sue SIPC in the federal

court in Alabama. SIPC had already commenced a liquidation proceeding against the SIPC member in New York.

In *SIPC v. I.E.S. Management Group, Inc.*, 612 F.Supp. 1172 (D.N.J. 1985), the district court held that claimants, limited partners in a real estate syndication sold through the Debtor and for which the debtor's affiliate was the general partner, were not "customers" entitled to SIPC protection where the claimants had received their limited partnership interests.

In *In re MV Securities, Inc.*, 48 B. R. 156 (Bankr. S.D.N.Y. 1985), the bankruptcy court held that a claimant, who had obtained before the filing date an arbitration award against the debtor and its salesman for fraud, was not a "customer" entitled to SIPC protection because she actually possessed her securities, purchase of which was induced by fraud. The decision was subsequently affirmed by the district court, 85 Civ. 3923-CLB (S.D.N.Y., September 16, 1985).

In *Murray v. McGraw (In re Bell & Beckwith)*, 47 B.R. 528 (Bankr. N.D. Ohio 1985), *aff'd*, Case No. C 85-7240 (N.D. Ohio, January 31, 1986), the bankruptcy court held that a customer was entitled to receive back his securities rather than cash proceeds from the sale of the securities where, even though the customer had received a confirmation of the sale, the debtor broker-dealer had not transferred the securities to, nor received payment from, the purchasing broker-dealers. An appeal has been filed with the United States Court of Appeals for the Sixth Circuit.

In *In re M.S. Wien & Co., Inc.*, No. 81-0889 (Bankr. D.N.J., February 1, 1985), the bankruptcy court held that SIPC Rule 302 must be construed strictly so that the open contractual commitment must be closed out by the buy-in or sell-out initiated by the other broker within 30 calendar days after the settlement. The court interpreted "initiated" to mean an effective attempt to sell or close out to a broker or customer.

In *In re Bell & Beckwith*, 50 B.R. 422 (Bankr. N.D. Ohio 1985), the bankruptcy court held, among other things, that the trustee has standing to represent the interests of SIPC as subrogee.

In *In re John Muir & Co.*, 51 B.R. 150 (Bankr. S.D.N.Y. 1985), the bankruptcy court held that a broker-dealer, who for the benefit of its short selling customer had borrowed stock in exchange for the deposit of cash in a stock loan transaction with the debtor, was not a customer entitled to SIPC protection nor was the transaction an open contractual commitment.

In *In re Hanover Square Securities Group, Inc.*, Case No. 83 B 6155 (TLB) (Bankr. S.D.N.Y., November 22, 1985), the bankruptcy court held that a claimant seeking the excess proceeds realized by the debtor broker-dealer from its sale of securities pledged by the claimant as collateral for a Secured Demand Note is not a "customer" entitled to SIPA protection.

In *In re John Muir & Co.*, 81 B 11761 (Bankr. S.D.N.Y., March 20, 1985), the bankruptcy court held that, where a customer did not file a timely claim because she allegedly relied on statements by her former representative

that no claim need be filed, principles of excusable neglect and manifest injustice require that the customer's claim be allowed, at least in a case where SIPA's advances to protect customers will be fully reimbursed. An appeal has been taken to the district court.

In *Turner v. Davis, Gillenwater & Lynch (In re The Investment Bankers, Inc.)*, Civil Action No. 81-M-1203, Adv. No. 82 M 87 (Bankr. D. Colo., December 10, 1985), the bankruptcy court held that bankruptcy judges are without authority to decide SIPA matters. An appeal has been filed with the district court.



Legal Department: seated, l to r, George Bingham, Josephine Wang, Virginia Drew, Raji Murthy, Stephen Harbeck; standing, l to r, Kevin Bell, Darlene Rondinelli, Ronald Heal,* Gayle Sommers,* Victoria Hirschland, William Seckinger, Barbara Lieth,* Theodore Focht (President and General Counsel). Not pictured: Michael Don (Deputy General Counsel and Secretary).

*Office of the President



Operations Department: seated, l to r, John Montgomery, Jerome Stranahan, John Moelter (Vice President-Operations), Robert Heaney; standing, l to r, Theodore Barrow, William Fisher.

Disciplinary and Criminal Actions

“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 and SIPC personnel appointed to administer customer protection proceedings 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 1985 eighteen 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 66 of the 189 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December, 1970. A total of 172 indictments have been returned in federal or state courts, resulting in 144 convictions to date. As of December 31, 1985, trial or sentencing was pending against 21 persons who had been indicted or convicted.

Administrative and/or criminal action in 177 of the 189 SIPC customer protection proceedings initiated through December 31, 1985, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	53
2. Exclusive SEC Administrative Action	34
4. Exclusive Self-Regulatory Administrative Action	24
4. Criminal and Administrative Action	58
5. Criminal Action Only	8
Total	177

*SIPC v. Barbour, 421 U.S. 412, 415 (1975)

In the 169 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension ¹	89	76
Bar from Association	295	176
Fines	Not Applicable	\$765,000

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

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

The \$765,000 in fines assessed by self-regulatory authorities were levied against 59 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 52 members referred under Section 5(a) during calendar year 1985. Thirty-six new referrals were received during the year and 18 active referrals had been carried forward from prior years. Fourteen of the 52 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.

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

Administration

Two new Directors were appointed during 1985. In May, President Reagan nominated Stephen L. Hammerman, Executive Vice President, Chief Administrative Officer and General Counsel of Merrill Lynch & Co., Inc., to serve as a Director of SIPC, replacing Ralph D. DeNunzio, President and Chief Executive Officer of Kidder, Peabody & Co., Inc., whose term had expired. Mr. DeNunzio had served as a Director of SIPC since December, 1973. In addition, he had been Chairman of the Industry Task Force which was established in 1970 to work with the Executive and Legislative branches of the government in developing legislation which led to the establishment of SIPC.

In November, 1985, Treasury Secretary James A. Baker appointed Charles O. Sethness, Assistant Secretary for Domestic Finance, to take the place of Thomas J. Healey, who had resigned from his position with the Treasury Department. Prior to joining the Treasury Department, Mr. Sethness spent four years as the Associate Dean for External Relations at the Harvard Business School, and prior to that he was Managing Director of Morgan Stanley & Co., Inc.

In addition, during 1985 Roger A. Yurchuck was renominated by the President and reconfirmed by the Senate to serve as a Director and Vice Chairman of SIPC through December, 1987.



Finance Department: seated, l to r, Linda Siemers, Douglas Count, Mary Parker, Mark Ginsberg, Patricia Voss, Joseph Furr, Karen Dwyer; standing, l to r, John Bourne (Vice President-Finance), Eileen Haley, Charles Glover, Irene Austin, Clara McIntyre, Anne Ramsey, Karen Winklbauer, Lloyd McChesney (Senior Vice President-Finance).

Financial Statements

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, 1985, and the related statements of operations and fund balance and of changes in financial position 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, 1985, and the results of its operations and the changes in its financial position 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, 1986

Securities Investor Protection Corporation

Statement of Financial Condition

December 31, 1985

ASSETS

Cash	\$	441,474
Estimated member assessments receivable (Note 3)		20,000,000
U.S. Government securities, at amortized cost and accrued interest receivable (\$7,800,006); (approximate market \$332,300,000)		326,581,742
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$136,760,951) (Note 4)		8,300,000
Other		376,938
		\$355,700,154

LIABILITIES AND FUND BALANCE

Advances to trustees—in process (Note 4)	\$	506,615
Accounts payable and accrued expenses		675,823
Estimated costs to complete customer protection proceedings in progress (Note 4)		26,900,000
		28,082,438
Commitments (Note 5)		
Fund balance		327,617,716
		\$355,700,154

Statement of Operations and Fund Balance

for the year ended December 31, 1985

Revenues:		
Member assessments (Note 3)	\$	71,027,532
Interest on U.S. Government securities		30,710,452
		101,737,984
Expenses:		
Salaries and employee benefits (Note 6)		1,564,250
Legal and accounting fees (Note 4)		1,361,165
Professional fees—automation		217,394
Rent (Note 5)		343,695
Other		593,315
		4,079,819
Provision for estimated costs to complete customer protection proceedings (Note 4)		33,765,993
		37,845,812
Excess revenues		63,892,172
Fund balance, beginning of year		263,725,544
Fund balance, end of year		\$327,617,716

See notes to financial statements.

Statement of Changes in Financial Position

for the year ended December 31, 1985

Cash provided (used in) operations:

Provided:	
Member assessments	\$64,027,530
Interest on U.S. Government securities	29,598,389
	<u>93,625,919</u>
Used:	
Advances to trustees, net of recoveries	(9,623,298)
Salaries, legal and accounting fees, rent, etc.	(3,894,003)
	<u>(13,517,301)</u>
	80,108,618
Other uses of cash:	
Purchases of U.S. Government securities, net	(79,691,036)
Miscellaneous	(298,645)
	<u>(79,989,681)</u>
Increase in cash	118,937
Cash, beginning of year	322,537
Cash, end of year	<u>\$ 441,474</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 and all persons who are members of a national securities exchange except for those persons excluded under SIPA.

2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$327,023,216.

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

3. Estimated member assessments receivable and assessments revenues

During 1985 assessments were at the rate of $\frac{1}{4}$ of 1% of each member's gross revenues from the securities business.

The Board of Directors amended SIPC's bylaws to provide that assessments based on gross revenues will terminate as of the close of business on March 31, 1986 and each member's minimum assessment beginning in 1986 will be \$100 per annum.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 59 proceedings in progress at December 31, 1985. Customer claims, except problem claims, have been satisfied in 51 of these proceedings and in 8 proceedings customer claims are still 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:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$14,700,000	(\$ 9,600,000)
Add:		
Estimated future recoveries	6,600,000	
Provision for estimated costs to complete proceedings		(40,365,693)
Less:		
Recoveries estimated previously	(13,000,000)	
Advances to trustees		23,065,693
Balance, end of year	<u>\$ 8,300,000</u>	<u>(\$26,900,000)</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. Commitments

SIPC occupies office space under a lease expiring December 31, 1987 and renewable for five years. Future minimum annual rentals, \$302,074 for 1986 through 1987, aggregate \$604,148. Additional rental based on increases, over 1981 levels, in operating expenses and real estate taxes as well as increases over the November 30, 1982 level in the Consumer Price Index, are required by the lease. Rent expense for 1985 totalled \$343,695.

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.

6. Retirement Plan

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

As of January 1, 1986, the most recent actuarial valuation date, the market value of plan assets was \$2,205,711, and the present value of accumulated plan benefits based on an assumed interest rate of 8.5 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	\$ 296,392
Other members	865,579
	<u>1,161,971</u>
Non-vested	228,687
	<u>\$1,390,658</u>

APPENDIX I

Customer Protection Proceedings

PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/ 6/85	5/17/85	1,350	63
Apex Financial Planners Corp. Los Altos, California (SIPC)	10/13/73	6/ 4/85	6/ 4/85	4,200	511
Donald Sheldon & Co., Inc. New York, New York (Stanley T. Lesser, Esq.)	12/ 1/75	7/30/85	8/13/85	8,300	2,469
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/ 4/85	272	69
R. H. Stewart & Company, Inc. Ft. Lauderdale, Florida (John R. Camp, Jr., Esq.)	7/27/83	9/27/85	9/30/85	2,868	892
TK Securities, Inc. Ft. Lauderdale, Florida (Samuel A. Brodnax, Jr., Esq.)	10/27/82	10/ 4/85	10/ 4/85	564	389
C. Harvey and Associates Securities, Inc. Phoenix, Arizona (Direct Payment)	3/16/83		12/ 4/85*	4	3
DMR Securities, Inc. Tucson, Arizona (Direct Payment)	5/30/70		12/ 4/85*	13	5
TOTAL 8 MEMBERS: PART A				<u>17,571</u>	<u>4,401</u>

*Date notice published.

December 31, 1985

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$ 88,936				\$ 88,936	24
\$ 2,000,000		4,511,325	\$ 511,325		\$ 4,000,000		213
33,564,017	34						
		89,334	52,504			36,830	21
		56,070	22,927			33,143	8
<u>\$ 35,564,017</u>	<u>34</u>	<u>\$ 4,745,665</u>	<u>\$ 586,756</u>		<u>\$ 4,000,000</u>	<u>\$ 158,909</u>	<u>266</u>

APPENDIX I

Customer Protection Proceedings

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
C.H. Wagner & Co., Inc. Boston, Massachusetts (Thomas J. Carens, Esq.)	6/23/69	2/22/72	2/28/72	14,000	839
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
Financial House, Inc. Detroit, Michigan (John Addis)	3/ 9/55	9/17/74	9/18/74 4/12/83*	1,958	625
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

†Recovery of assets and appreciation of debtor's investments after the filing date enabled the Trustee to repay SIPC its advances plus interest.

*Successor Trustee.

December 31, 1985

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,125,877	253	\$ (1,000,800)†	\$ (1,000,800)				
131,585	45	224,327	143,862	\$ 27,604	\$ 16,034	\$ 36,827	33
814,261	491	660,213	446,230	24,044	16,368	173,571	233
1,800	1	463,303	327,098	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	130,579	74,337	214	17,823	38,205	30
752,660	399	813,689	132,109		568,250	113,330	284
6,860	11	368,433	65,507		210,609	92,317	18
2,271,501	1,219	2,239,204	143,726	30,535	1,449,655	615,288	1,341
800	1	1,605,309	291,569		326,971	986,769	161
3,728,930	911	104,215			66,435	37,780	484

APPENDIX I

Customer Protection Proceedings

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
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
Link-Up + 1 Securities, Inc. Denver, Colorado (SIPC)	12/22/78	5/17/79	8/ 9/79	117	26
P.J. Kisch & Co., Inc. Minneapolis, Minnesota (SIPC)	6/15/78	11/ 5/79	11/ 9/79	1,407	769
Simpson, Emery & Company, Inc. Pittsburgh, Pennsylvania (Carl F. Barger, Esq.)	2/ 2/54	3/ 3/80	3/ 3/80	3,500	616
Perry, Adams & Lewis Securities, Inc. Kansas City, Missouri (George H. Clay, Esq.)	12/ 4/75	4/ 2/80	4/11/80	259	18
Dennis Lee Mirus Lake Forest, Illinois (Robert D. Glick, Esq.)	1/11/79	10/10/80	3/17/81	19	15
Gallagher, Boylan & Cook, Inc. Beverly Hills, California (Charles D. Axelrod, Esq.)	11/ 3/67	3/17/81	3/17/81 4/ 9/82*	3,000	1,363
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

*Successor Trustee.

December 31, 1985

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 2,896,742	194						
17,250	467	\$ 5,118,742				\$ 5,118,742	533
661	1	175,332	\$ 11,830		\$ 114,962	48,540	18
1,719,512	623	238,539	78,800		91,700	68,039	92
5,651,099	503	17,074				17,074	503
131,376	3	1,218,930	596,215		570,123	52,592	13
		295,124	28,472		53,452	213,200	6
3,000,000 (Estimated)	1,363	2,584,250	927,686		1,656,564		1,363
2,128,941	883	4,036,018				4,036,018	1,189
6,458,025	260	1,533,261	730,789	\$ 60,804	329,980	411,688	778
27,218,033	2,417	9,207,883	379,260		2,298,917	6,529,706	1,328
25,964,581	16,000 (Estimated)	1,876,365			1,876,365		16,000 (Estimated)
6,271,715	2,053	6,868,765	50,000	281,936	3,444,215	3,092,614	3,495

APPENDIX I

Customer Protection Proceedings

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
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
Morton Paul Kominsky North Bergen, New Jersey (Richard D. Shapiro, Esq.)	2/13/70	12/18/81	12/18/81	424	76
Stalvey & Associates, Inc. Jackson, Mississippi (Henry E. Chatham, Jr., Esq.)	2/18/78	2/18/82	2/18/82	229	52
T.E. Slanker Co., Inc. Portland, Oregon (Douglas M. Thompson, Esq.)	8/20/69	2/ 4/82	2/24/82	9,000	2,100
International Securities, Inc. Denver, Colorado (William D. Scheid, Esq.)	1/ 6/76	2/25/82	2/25/82	5,000	1,262
G.S. Omni Corporation Denver, Colorado (James H. Turner, Esq.)	2/25/80	2/24/82	3/ 8/82	8,500	3,347
G.V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/ 8/82	4/15/82	600	50
OTC Net Inc. Denver, Colorado (Glen E. Keller, Jr., Esq.)	8/10/78	6/ 3/82	6/ 9/82	38,500	15,796
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/ 5/83	2/10/83	10,500	6,888
Royer Securities Co. West Caldwell, New Jersey (Direct Payment)	8/ 3/79		5/19/83*	6	6
Gibalco, Inc. Santa Monica, California (Alexander C. McGilvray, Jr., Esq.)	1/26/75	6/21/83	6/22/83	7,000	681
Western Pacific Securities, Inc. Newport Beach, California (Richard M. Neiter, Esq.)	7/23/79	7/ 1/83	7/11/83	450	300
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

*Date notice published.

December 31, 1985

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,531,773	2,267	\$ 1,101,668	\$ 437,832	\$ 3,558	\$ 180,768	\$ 479,510	1,307
7,256,636		20,332,905			10,153,089	10,179,816	841
7,478	13	112,897	42,863		33,847	36,187	55
		1,873,424	64,493		1,447,567	361,364	140
		187,976	59,981		127,995		2,000
1,700		154,606	127,751		10,479	16,376	29
3,707,691	2,447	1,336,214	664,569		12,024	659,621	526
16,227	4	1,094,342	437,306		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
		74,566	44			74,522	5
877,376		1,403,750	195,000		1,018,750	190,000	811
1,013,415		1,026,394	70,264		936,634	19,496	29
1,617,475		2,467,475			1,617,475	850,000	2,700

APPENDIX I

Customer Protection Proceedings

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
Jay W. Kaufmann & Co. New York, New York (Irving H. Picard, Esq.)	4/28/62	1/23/84	1/23/84	3,000	1,131
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
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*	12	11
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/ 3/85	5/ 3/85	1,650	365
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/ 1/75	4/ 8/85	5/ 8/85	23,800	3,800 (Estimated)
TOTAL 51 MEMBERS: PART B				430,158	119,897

*Date notice published.

December 31, 1985

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,996,600	797	\$ 1,634,685	\$ 496,368	\$ 15,480	\$ 859,794	\$ 263,043	175
31,786,350	1,500	4,086,694	66,202		4,020,492		
972,617	1,560	1,519,978	604,490		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
		37,510	21,906		6,625	8,979	5
		744,492	270,800	63,175	410,349	168	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
		132,962	49,962			83,000	41
		30,560	650		16,314	13,596	7
1,232,950	314	1,220,000	20,000		1,200,000		325
303,514,700	3,125	11,878,942			4,566,203	7,312,739	3,601
<u>\$611,689,240</u>	<u>95,871</u>	<u>\$140,420,411</u>	<u>\$11,232,444</u>	<u>\$ 699,546</u>	<u>\$43,966,422</u>	<u>\$84,521,999</u>	<u>59,462</u>

APPENDIX I

Customer Protection Proceedings

PART C: Proceedings Completed in 1985

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Pacific Western Securities, Inc. Los Angeles, California (Edwin M. Lamb)	3/28/73	651	\$ 830,652
MBD Investors, Inc., Enon Valley, Pennsylvania (SIPC)	5/27/83	51	112,661
TOTAL 2 MEMBERS 1985		<u>702</u>	<u>943,313</u>
TOTAL 128 MEMBERS 1973–1984^(b)		<u>84,367</u>	<u>267,901,849</u>
TOTAL 130 MEMBERS 1973–1985		<u>85,069</u>	<u>\$268,845,162</u>

PART D: Summary

	Responses Received/ Customers Receiving Distributions	
Part A: 8 Members—Customer Claims and Distributions Being Processed by Trustee	4,401	\$ 35,564,017
Part B: 51 Members—Customer Claims (Except Problem Claims) Have Been Satisfied	<u>119,897</u>	<u>611,689,240</u>
Sub-Total	124,298	647,253,257
Part C: 130 Members—Proceedings Completed TOTAL	<u>85,069^(c)</u> <u>209,367</u>	<u>268,845,162</u> <u>\$916,098,419</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, 1985

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 476,693	\$ 353,959	\$ 1,529,668	\$ 435,943		\$ 980,074	\$ 113,651
67,546	45,115	1,226,151				1,226,151
<u>544,239</u>	<u>399,074</u>	<u>2,755,819</u>	<u>435,943</u>		<u>980,074</u>	<u>1,339,802</u>
<u>245,425,393</u>	<u>22,476,456</u>	<u>32,953,452</u>	<u>7,623,926</u>	<u>\$ 830,320</u>	<u>15,167,145</u>	<u>9,332,061</u>
<u>\$245,969,632</u>	<u>\$22,875,530</u>	<u>\$ 35,709,271</u>	<u>\$ 8,059,869</u>	<u>\$ 830,320</u>	<u>\$16,147,219</u>	<u>\$10,671,863</u>
\$ 35,564,017	(d)	\$ 4,745,655	\$ 586,756		\$ 4,000,000	\$ 158,909
611,689,240	(d)	140,420,411	11,232,444	\$ 699,546	43,966,422	84,521,999
647,253,257		145,166,076	11,819,200	699,546	47,966,422	84,680,908
245,969,632	22,875,530	35,709,271	8,059,869	830,320	16,147,219	10,671,863
<u>\$893,222,889</u>	<u>\$22,875,530</u>	<u>\$180,875,347</u>	<u>\$19,879,069</u>	<u>\$1,529,866</u>	<u>\$64,113,641</u>	<u>\$95,352,771</u>

APPENDIX II

Analysis of SIPC Revenues and Expenses
for the Five Years Ended December 31, 1985

	1985	1984	1983	1982	1981
Revenues:					
Member assessments and contributions	\$71,027,532	\$52,293,859	\$36,763,866	\$ 282,096	\$ 259,506
Interest on U.S. Government securities	30,608,790	22,945,089	18,147,989	20,807,973	24,001,865
Interest on assessments	101,662	88,702	8,407	826	7,063
	<u>101,737,984</u>	<u>75,327,650</u>	<u>54,920,262</u>	<u>21,090,895</u>	<u>24,268,434</u>
Expenses:					
Salaries and employee benefits	1,564,250	1,533,851	1,296,849	1,195,920	1,113,512
Assessment collection direct cost	14,543	19,730	16,089	2,935	1,851
Legal Fees	1,343,102	935,128	1,057,907	142,411	12,813
Accounting Fees*	18,063	152,894	89,463	41,000	13,258
Professional fees—automation	217,394	—	—	—	—
Other:					
Custodian fees	15,237	12,331	9,540	9,164	11,333
Depreciation and amortization	66,340	17,832	15,879	12,866	12,705
Directors fees and expenses	14,758	10,798	15,369	11,200	3,098
Insurance	11,341	8,634	9,297	9,792	11,265
Office supplies and expenses	170,937	121,845	85,334	55,532	57,475
Postage	20,983	18,753	15,384	9,950	8,527
Printing and mailing annual report	23,397	27,216	20,663	16,322	16,735
Publications and reference services	42,805	39,342	32,701	19,334	16,930
Rent—office space	343,695	311,748	306,300	306,440	158,394
Telephone and telegraph	20,011	20,925	20,268	23,646	25,278
Travel and subsistence	154,740	163,159	104,323	135,786	118,220
Miscellaneous	38,223	129,636	132,047	9,831	14,977
	<u>922,467</u>	<u>882,219</u>	<u>767,105</u>	<u>619,863</u>	<u>454,937</u>
	<u>4,079,819</u>	<u>3,523,822</u>	<u>3,227,413</u>	<u>2,002,129</u>	<u>1,596,371</u>
Public information program consultant's fees	—	—	—	—	101,411
	<u>4,079,819</u>	<u>3,523,822</u>	<u>3,227,413</u>	<u>2,002,129</u>	<u>1,697,782</u>
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	44,975	63,356	(116)	341,939	47,195
Securities	256,798	28,776	(7,830,648)	3,262,149	41,422,989
Cash	7,178,900	(2,272,483)	43,986,859	7,019,471	21,688,733
	<u>7,480,673</u>	<u>(2,180,351)</u>	<u>36,156,095</u>	<u>10,623,559</u>	<u>63,158,917</u>
Administration expenses	2,350,497	1,555,161	787,407	3,331,870	1,292,915
	<u>9,831,170</u>	<u>(625,190)</u>	<u>36,943,502</u>	<u>13,955,429</u>	<u>64,451,832</u>
Net change in estimated future recoveries	6,300,000	1,600,000	(8,200,000)	2,700,000	(10,000,000)
	<u>16,131,170</u>	<u>974,810</u>	<u>28,743,502</u>	<u>16,655,429</u>	<u>54,451,832</u>
SIPC as Trustee:					
Securities	5,407	(173,839)	1,740	(900,096)	37,425
Cash	109,651	362,394	907,228	(356,719)	41,687
	<u>115,058</u>	<u>188,555</u>	<u>908,968</u>	<u>(1,256,815)</u>	<u>79,112</u>
Administration expenses	40,206	31,071	91,738	62,718	(159)
	<u>155,264</u>	<u>219,626</u>	<u>1,000,706</u>	<u>(1,194,097)</u>	<u>78,953</u>
Net change in estimated future recoveries	100,000	100,000	(200,000)	1,000,000	—
	<u>255,264</u>	<u>319,626</u>	<u>800,706</u>	<u>(194,097)</u>	<u>78,953</u>
Direct payments:					
Securities	16,313	—	41,921	—	—
Cash (net recoveries)	62,596	—	30,823	(8,008)	—
	<u>78,909</u>	<u>—</u>	<u>72,744</u>	<u>(8,008)</u>	<u>—</u>
Administration expenses	650	—	68	3,275	—
	<u>79,559</u>	<u>—</u>	<u>72,812</u>	<u>(4,733)</u>	<u>—</u>
Net change in estimated costs to complete proceedings					
	<u>17,300,000</u>	<u>(2,400,000)</u>	<u>(800,000)</u>	<u>(6,600,000)</u>	<u>15,400,000</u>
	<u>33,765,993</u>	<u>(1,105,564)</u>	<u>28,817,020</u>	<u>9,856,599</u>	<u>69,930,785</u>
	<u>37,845,812</u>	<u>2,418,258</u>	<u>32,044,433</u>	<u>11,858,728</u>	<u>71,628,567</u>
Excess revenues (expenses)	<u>\$63,892,172</u>	<u>\$72,909,392</u>	<u>\$22,875,829</u>	<u>\$ 9,232,167</u>	<u>(\$47,360,133)</u>

*Includes fees and expenses of litigation related to proceedings (1984-\$127,709; 1983-\$77,763; 1982-\$25,000).

APPENDIX III

Distributions for Accounts of Customers
for the Fifteen Years Ended December 31, 1985

(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	366,699	7,674	374,373
	<u>\$893,223</u>	<u>\$160,996</u>	<u>\$1,054,219</u>

*Net recoveries.