

ANNUAL

1992

REPORT



SECURITIES INVESTOR PROTECTION CORPORATION



**SECURITIES INVESTOR PROTECTION CORPORATION**  
**805 FIFTEENTH STREET, N.W. SUITE 800**  
**WASHINGTON, D.C. 20005-2207**  
**(202) 371-8300**

April 30, 1993

The Honorable Richard C. Breeden  
Chairman  
Securities and Exchange Commission  
450 5th St., N.W.  
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Twenty-second 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

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

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

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



SIPC's excellent financial position continued to strengthen in 1992, while the rate of assessments on SIPC members continued to decline. As of the writing of this message in March of 1993, the Fund balance exceeded \$731 million. The assessment rate, which was .00065 for the 1991 assessment year, has been set at .00057 for the 1992 assessment year.

The decrease in the assessment rate has, to a large extent, been possible because the cost of customer protection proceedings in 1992 was, as in recent years, relatively low. Although the number of customer protection proceedings initiated in 1992 was 13, up from eight the year before, only four of the new cases were large enough to require the appointment of independent trustees, and four were so small that they were "out-of-court" direct payment proceedings. While one of the 13 could eventually cost SIPC as much as \$8 million, it is

estimated that the other 12 *combined* will cost less than \$3 million.

In September the United States General Accounting Office ("GAO") issued the report of its year-long study of SIPC. ("Securities Investor Protection—The Regulatory Framework Has Minimized SIPC's Losses," GAO/GGD-92-109). I am pleased to report that GAO has given SIPC high marks. Specifically, GAO has concluded, in regard to SIPC's funding, "that SIPC officials have acted responsibly in adopting a financial plan that would increase fund reserves to \$1 billion by 1997" and that the SIPC "board's strategy represents a responsible approach to anticipating funding demands that may be placed on SIPC in the future." In addition, the report states that "SIPC's role in providing back-up protection for customers' cash and securities has worked well," that SIPC has received "high marks for its ability to conduct liquidations," and that the GAO "found no reason to question this assessment of SIPC's liquidation activities." The GAO also recommended that SIPC make greater efforts to prepare for the unlikely eventuality of the SIPC liquidation of a very large stockbroker, and that SIPC clarify certain matters in its question-and-answer brochure. SIPC has already taken steps to carry out both recommendations.

I have been chairman of SIPC's board of directors for over ten years now. A decade of experience is an appropriate time to review the record and look to the future. In the ten-year period 1983-1992, it is noteworthy that:

- The SIPC Fund has grown from \$173 million to over \$720 million.
- SIPC has commenced 80 customer protection proceedings for an average of eight per year. In the course of those proceedings, the claims of approximately 168,000 customers have been satisfied.
- SIPC has made net advances to trustees in those proceedings totaling just under \$149 million, for an average of \$14.9 million per year.
- The SIPC staff size has ranged from 32 to 35 employees—currently it is 32, and SIPC's annual operating budget has ranged from \$3.2 million to \$6.7 million, or an average of slightly over \$5 million per year.

I believe this is a decade of experience of which we can be proud. I assure you that SIPC is dedicated to continuing to deliver this type of performance in the decade ahead.

James G. Stearns  
Chairman

## Overview of SIPC

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are \$500,000 per customer, except that claims for cash are limited to \$100,000 per customer.

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.\*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States, subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The self-regulatory organization—the exchanges and the National Association of Securities Dealers, Inc.—and the Securities and Exchange Commission (SEC) report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protec-



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

The SIPC staff, numbering 32, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. As a supplement to the SIPC Fund, a revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the SEC has the authority to lend SIPC up

to \$1 billion, which it, in turn, would borrow from the United States Treasury.

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

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

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

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

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

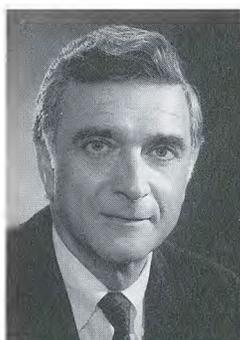
## Directors



JAMES G. STEARNS  
*Chairman*



JESSE D. WINZENRIED  
*Vice Chairman*



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



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



THOMAS J. HEALEY  
Partner  
Goldman Sachs & Co.



GEORGE H. PFAUF, JR.  
Senior Vice President  
PaineWebber Incorporated

One position of Director  
is vacant, pending  
appointment by the  
Secretary of the Treasury.

## Officers

THEODORE H. FOCHT  
President & General Counsel

MICHAEL E. DON  
Deputy General Counsel & Secretary

JOSEPH F. MARINO  
Vice President—Operations & Finance

## Customer Protection Proceedings

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

—Preamble to SIPA

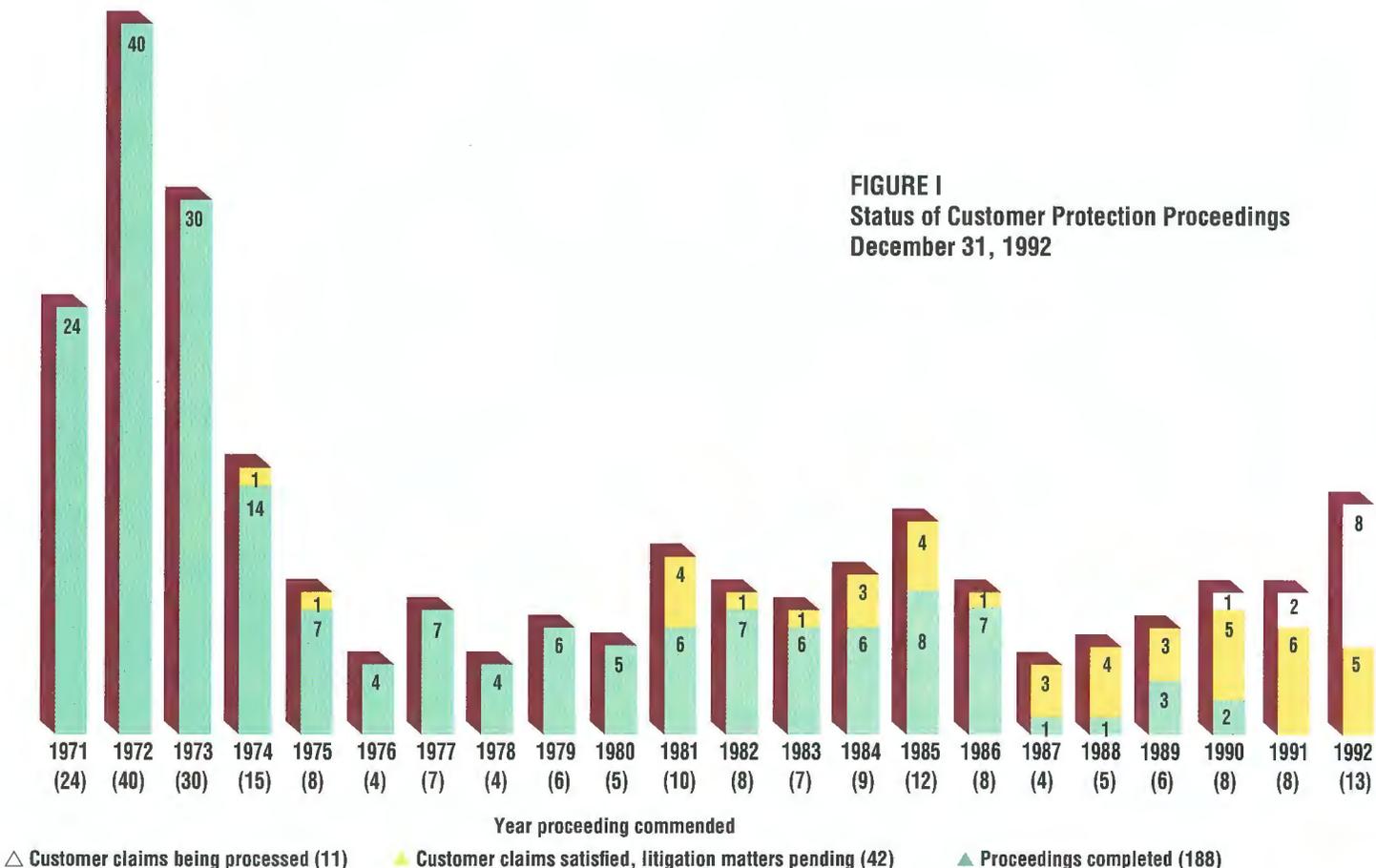
Customer protection proceedings were initiated for 13 SIPC members in 1992, bringing the total since SIPC's inception to 241 proceedings commenced under SIPA. The 241 members represent less than 1 percent of the approximately 29,900 broker-dealers that have been SIPC members during the last 22 years. Currently, SIPC has 7,910 members.

The 13 new cases compare with eight commenced in 1991. Over the last ten-year period, the annual average of new cases was eight.

Trustees other than SIPC were appointed in four of the cases commenced during the year. SIPC serves as trustee in five cases and the other four cases are direct payment proceedings. Customer protection proceedings were initiated for the following SIPC members:

Member	Date Trustee Appointed	Member	Date Trustee Appointed
First Securities Group of California, Inc. Beverly Hills, California (Leonard L. Gumpert, Esq.)	1/07/92	W. H. Farr & Co., Inc. New York, New York (Lee S. Richards, III, Esq.)	7/08/92
San Marino Securities, Inc. Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	1/30/92	Alison Baer Securities Boca Raton, Florida (Direct Payment)	7/06/92*
The Riverview Corporation Knoxville, Tennessee (SIPC)	2/03/92	Wall Street of America, Inc. Norfolk, Nebraska (SIPC)	8/12/92
Hyer, Bikson & Hinsin Leawood, Kansas (SIPC)	2/24/92	Noble Financial Corp. Los Angeles, California (Direct Payment)	8/19/92*
Jim Becherer & Co. Belleville, Illinois (Harry O. Moline, Jr., Esq.)	3/16/92	Wellshire Securities, Inc. New York, New York (Direct Payment)	9/21/92*
Sun Securities Incorporated Scottsdale, Arizona (SIPC)	3/16/92	Monmouth Investments, Inc. Princeton, New Jersey (Direct Payment)	10/09/92*
Seoul Securities, Ltd. f/k/a Pantheon Capital Corp. Beverly Hills, California (SIPC)	3/17/92		

\*Date notice published



Of the 241 proceedings begun under SIPA to date, 188 have been completed, 42 involve pending litigation matters, and claims in 11 are being processed (See Figure I and Appendix II).

During SIPC's 22-year history, cash and securities distributed for accounts of customers aggregated approximately \$1.8 billion. Of that amount, approximately \$1.7 billion came from debtors' estates and \$182 million came from the SIPC Fund (See Appendix I).

**Claims over the Limits**

Of the more than 330,000 claims satisfied as of December 31, 1992, a total of 319 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 319 claims, a net increase of 27 during 1992, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$22.4 million, increased approximately \$1.2 million during 1992. These remaining claims approximate one percent of the total value of securities and cash distributed for accounts of customers.

**SIPC Fund Advances**

Table I shows that the 45 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for 84 percent of the total advanced in all 241 customer protection proceedings. The largest net advance in a single liquidation is \$31.7 million for Bell & Beckwith. This exceeds the net advances in the 172 smallest proceedings combined.

In eleven proceedings SIPC advanced \$133.4 million, or 54 percent of net advances from the SIPC Fund for all proceedings.



*Legal Department: seated, l to r, Priscilla McLain, Virginia Drew, Teresa Lakawicz, Angeline Melland; standing, l to r, Ronald Heal♦, Kevin Bell, Stephen Harbeck, Michael Don, Juliet Boyne\*, Theodore Focht, Kenneth Caputo, Barbara Lieth♦, William Seckinger, Josephine Wang.*  
 ♦Office of the President

**TABLE I**  
**Net Advances from the SIPC Fund**  
**December 31, 1992**  
**241 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	5	\$ 96,806,820
5,000,001	\$10,000,000	6	36,557,792
1,000,001	5,000,000	34	76,256,567
500,001	1,000,000	24	17,070,285
250,001	500,000	33	11,425,327
100,001	250,000	54	8,714,697
50,001	100,000	39	2,767,968
25,001	50,000	20	735,608
10,001	25,000	10	146,829
0	10,000	12	47,047
Net recovery		4	(1,489,614)*
			<u>\$249,039,326†</u>

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

†Consists of advances for accounts of customers (\$182,420,083) and for administration expenses (\$66,619,243).

*Administration*

In June 1992, Jerome H. Powell resigned from the board of directors. Mr. Powell had been the representative of the United States Treasury Department to the board. The Secretary of the Treasury subsequently appointed John C. Dugan, Assistant Secretary for Domestic Finance, as a director to SIPC. Mr. Dugan's services as a director terminated in January 1993 when he left the Department of the Treasury.

## Membership and the SIPC Fund

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

—SIPA, Sec. 4(c)2

The net decrease of 243 members during the year brought the total membership to 7,910 at December 31, 1992. 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, 1992**

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,356	288	38
SIPC(b)	591	377(c)	1,070(d)
Chicago Board Options Exchange Incorporated	1,278	113	20
New York Stock Exchange, Inc.	675	33	17
American Stock Exchange, Inc.	477	62	23
Pacific Stock Exchange, Inc.	242	31	2
Philadelphia Stock Exchange, Inc.	159	20	7
Midwest Stock Exchange, Inc.	117	7	1
Boston Stock Exchange, Inc.	15		1
Administrative Adjustments		5	
	<u>7,910</u>	<u>936</u>	<u>1,179</u>

**Notes:**

- The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1992.
- SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization. The "SIPC" designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.
- This number reflects the temporary status of broker-dealers between the effective date of registration under section 15(b) of the 1934 Act and membership in a self-regulatory organization.
- This number reflects the temporary status of broker-dealers between the termination of membership in a self-regulatory organization and the effective date of the withdrawal or cancellation of registration under section 15(b) of the 1934 Act.



*Operations & Finance Department: seated, l to r, Janet Bulluck, Irene Austin, Karen Winklbauer, Joyce Murphy, Robert Heaney, Anne Ramsey; standing, l to r, Karen Dwyer, Joseph Furr, Patricia Voss, Charles Glover, Rita Huggins-Halstead, Linda Siemers, Theodore Barrow, Charles Moschera, William Fisher, Joseph Marino.*

### Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).<sup>1</sup> As of December 31, 1992, there were 205 members who were subjects of uncured notices, 196 of which were mailed during 1992, 4 during 1991 and five during 1990. Subsequent filings and payments by 98 members left 107 notices uncured. SIPC has been advised by the SEC staff that: (a) 77 member registrations have been cancelled or are being withdrawn; (b) 12 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 3 are expected to cure their delinquencies; and (d) 6 are being contacted by SEC 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 \$720.2 million at year end, an increase of \$41.4 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971

through 1992. The 1992 member assessments were \$27.2 million and interest from investments was \$46.2 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1992, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 and 1992) from the securities business.

Appendix III is an analysis of revenues and expenses for the five years ended December 31, 1992.

<sup>1</sup>14(a) Failure to Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, unless specifically authorized by the Commission, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the full amount so specified in such notice, it may after payment of the full amount so specified commence an action against SIPC in the appropriate United States district court to recover the amount it denies owing.

**TABLE III**  
**SIPC Revenues for the**  
**Twenty-two Years Ended**  
**December 31, 1992**

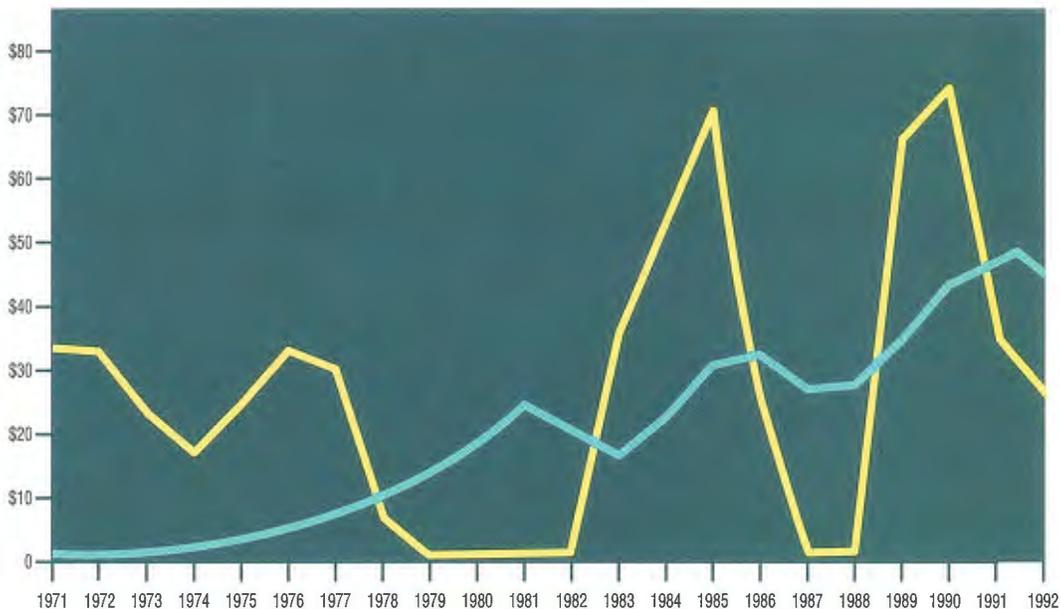
- Member assessments and contributions: \$594,257,282
- Interest on U.S. Government securities: \$451,758,469

**History of Member Assessments\***

1971: 1/2 of 1% plus an initial assessment of 1/6 of 1% of 1969 revenues (\$150 minimum).  
 1972-1977: 1/2 of 1%.  
 January 1-June 30, 1978: 1/4 of 1%.  
 July 1-December 31, 1978: None.  
 1979-1982: \$25 annual assessment.  
 1983-March 31, 1986: 1/4 of 1% effective May 1, 1983 (\$25 minimum).  
 1986-1988: \$100 annual assessment.  
 1989-1990: 3/6 of 1% (\$150 minimum).  
 1991: .065% of members' net operating revenues (\$150 minimum).  
 1992: .057% of members' net operating revenues (\$150 minimum).

\*Rates based on each member's gross revenues (net operating revenues for 1991 and 1992) from the securities business.

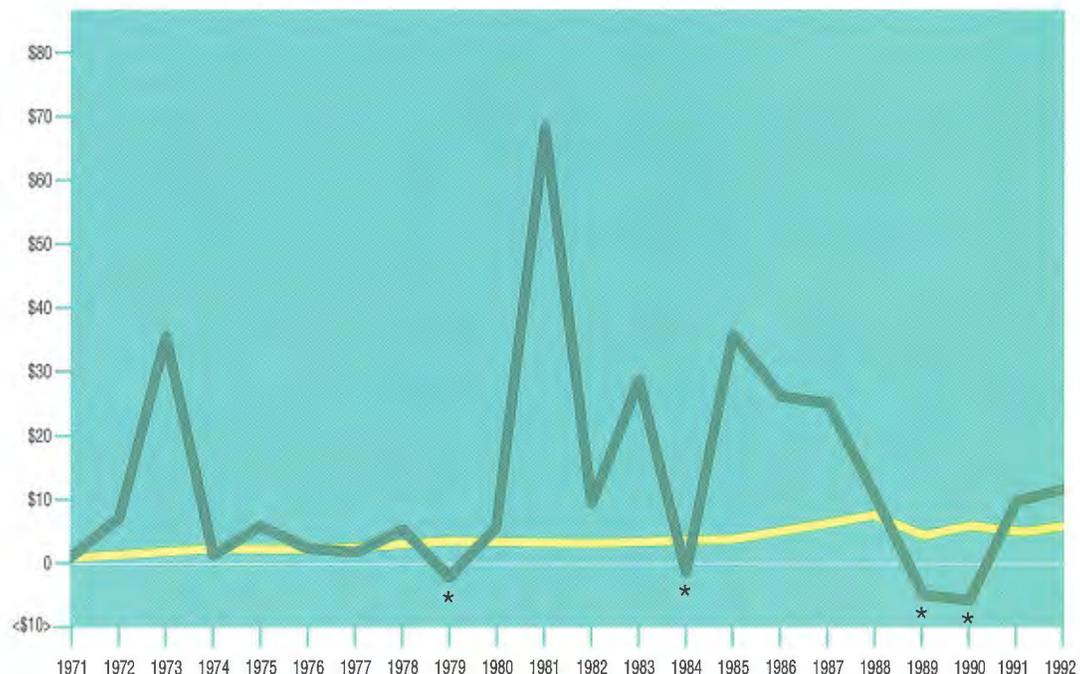
Millions of Dollars



**TABLE IV**  
**SIPC Expenses for the**  
**Twenty-two Years Ended**  
**December 31, 1992**

- Customer protection proceedings: \$267,639,326 (Includes net advances of \$249,039,326 less estimated future recoveries of \$4,400,000 and \$23,000,000 of estimated costs to complete proceedings.)
- Other expenses: \$69,153,664

Millions of Dollars



\* Net recoveries.

## Litigation

During 1992, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below.

In *In re Government Securities Corp. (National Union Fire Ins. v. Camp)*, 972 F.2d 328 (11th Cir. 1992), the court of appeals affirmed an order of the district court which had affirmed the bankruptcy court's order and held that (i) section 541(c)(1)(B) of the Bankruptcy Code applies to SIPA liquidation proceedings and thereby invalidates the automatic termination provision in the debtor's securities dealer blanket bond and (ii) the SIPA trustee was entitled to seek coverage for a possible loss under the bond. The United States Supreme Court denied the insurance company's petition for certiorari. 61 U.S.L.W. 3561 (U.S. February 22, 1993).

As noted in last year's Annual Report, in *SIPC v. Blinder, Robinson & Co.*, 962 F.2d 960 (10th Cir. 1992), the court of appeals affirmed an order of the district court, which had initiated the debtor's liquidation proceeding over the objection of the broker-dealer which had filed for reorganization under Chapter 11 of the Bankruptcy Code. The court of appeals held (i) that the filing of the Chapter 11 petition was sufficient grounds to grant SIPC's application, in that the filing made it clear, as a matter of law, that the debtor was "unable to meet its obligations as they mature" and (ii) that the district court's resolution of SIPC's application within one day did not violate the debtor's constitutional due process rights.

In *In re Investment Bankers, Inc.*, (*Turner v. Davis, Gillenwater & Lynch*), Civil Action No. 991-C-1474 (D. Colo., March 31, 1992), the district court affirmed the bankruptcy court's order and held that the trustee is entitled to prejudgment and postjudgment interest on the amounts set aside by the court as preferential and fraudulent transfers, including fees paid by the debtor to its attorney to resist the SIPA liquidation petition, especially where the attorney wrongfully held the disputed funds for ten years during which the estate was denied their use and benefit. An appeal to the United States Court of Appeals for the Tenth Circuit is pending (No. 92-1121).

In *In re Waddell Jenmar Securities, Inc. (National Union Fire Ins. v. SIPC)* Civil No. 1:92 CV00090; Civil No. 2:92 CV00215 (M.D.N.C. August 12, 1992), the district court affirmed the order of the bankruptcy court and held that (i) section 541(c)(1)(B) of the Bankruptcy Code applied to a SIPA liquidation proceeding and the automatic termination provision of the broker's fidelity bond is void and (ii) the bankruptcy court did not abuse its discretion in denying the insurance company's motion for leave to amend made after discovery was complete and one week prior to the hearing on the trustee's summary judgment motion. An appeal to the United States Court of Appeals for the Fourth Circuit is pending. (No. 92-2158).

In *In re Collins Securities Corporation (Bell v. FDIC)*, 145 B.R. 277 (E.D.Ark. 1992), the district court adopted the report and recommendation of the bankruptcy court and held that the SIPA trustee did not have an insured claim against the FDIC because the debtor broker-dealer was not listed as a depositor on the books and records of the failed bank when it was placed in receivership. An appeal to the United States Court of Appeals for the Eighth Circuit is pending. (No. 92-2708).

In *In re Blinder, Robinson & Co., Inc.*, 140 B.R. 790 (D.Colo. 1992), the district court affirmed the order of the bankruptcy court and held that (i) documents prepared by debtor's in-house counsel and retained in files at debtor's corporate offices were "property of the estate" subject to turnover to the trustee under section 542(a) of the Bankruptcy Code and (ii) the turnover of the documents did not violate Fifth Amendment rights of debtor's principal and did not prevent the effective assistance of counsel.

As noted in last year's report, in *In re Fitzgerald, DeArman & Roberts, Inc. (Newsome v. Culp)*, 129 B.R. 652 (Bankr. N.D. Okla. 1991), the bankruptcy court applied the *D'Oench, Duhme* doctrine (i.e., one who signs a facially unqualified note subject to an unwritten and unrecorded condition upon its repayment that is likely to mislead the banking authorities is estopped from asserting want of consideration as a defense) in favor of the SIPA trustee and granted judgment to the trustee on a note against a person who issued the note in a scheme to mislead

securities regulators about the debtor's financial condition. In *In re Culp (Newsome v. Culp)*, 140 B.R. 1005 (Bankr. N.D. Okla. 1992), the bankruptcy court granted summary judgment to the SIPA trustee and denied a bankrupt individual's discharge of a debt to the SIPA trustee (namely, the judgment noted above). The court also held that the amount of the debt is the face value of the bogus note, prejudgment interest, and attorneys fees.

In *In re First Securities Group of California, Inc.*, SIPA No. LA 92-01156 ICM (Bankr. C.D.Cal., August 17, 1992), the bankruptcy court held that (i) claimants were not customers because they had not entrusted cash or securities to the debtor and (ii) the alter ego doctrine may not be used to extend customer protection under SIPA to customers of a non-SIPC member.

In *In re First Ohio Securities Co. (Appleton v. Hardy)*, Case No. 590-0072 (SIPA); Adv. No. 92-5085 (Bankr. N.D. Ohio, December 1, 1992), the bankruptcy court held that (i) liquidation proceedings under SIPA proceed in accordance with the provisions of Title 11 of the United States Code, including the creation of an estate pursuant to 11 U.S.C. §541, and (ii) the SIPA trustee has the power to recover payments mistakenly made to customers in excess of what the customers should have been paid.

In *In re Lloyd Securities, Inc. (Shields v. Newbridge Securities, Inc.)*, 1992 WL 318588 (Bankr. E.D.Pa., October 29, 1992), the bankruptcy court held that the clearing broker-dealer, acting as bailee of the funds and securities of customers introduced by the debtor, was negligent and potentially liable to the customers for unauthorized withdrawals by the debtor from the customers' accounts at the clearing broker-dealer.

## 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 appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

As a result of SEC and self-regulatory action in 1992, seven 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 92 of the 241 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 207 indictments have been returned in federal or state courts, resulting in 171 convictions to date. As of December 31, 1992, sentencing was pending against 1 person who had been convicted.

Administrative and/or criminal action in 226 of the 241 SIPC customer protection proceedings initiated through December 31, 1992, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	58
Exclusive SEC Administrative Action	35
Exclusive Self-Regulatory Administrative Action	41
Criminal and Administrative Action	81
Criminal Action Only	<u>11</u>
Total	<u>226</u>

In the 215 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension <sup>1</sup>	114	103
Bar from Association	332	208
Fines	Not Applicable	\$3,818,835

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 \$3,818,835 in fines assessed by self-regulatory authorities were levied against 93 associated persons and ranged from \$250 to \$450,000.

### 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.

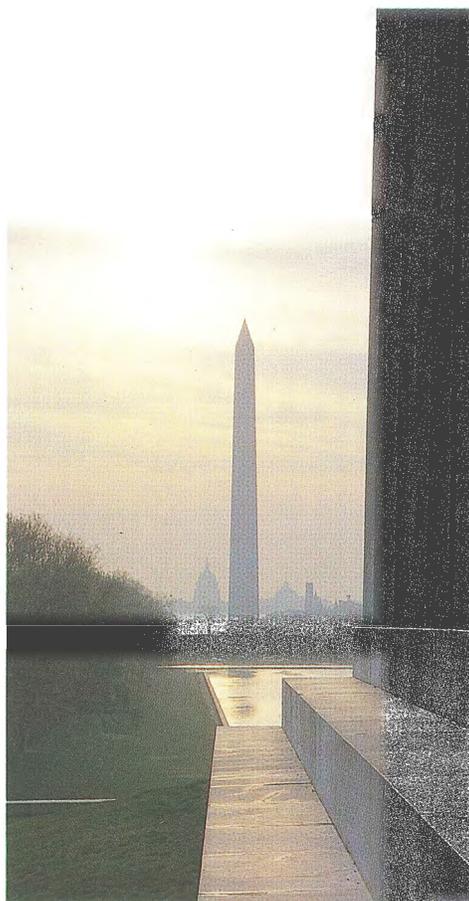
### Members on Active Referral

SIPC maintained active files on 10 members referred under Section 5(a) during the calendar year 1992. Six referrals were received during the year and 4 active referrals had been carried forward from prior years. Two of the 10 remained on active referral at year-end.

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

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

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



*Report of Ernst & Young  
Independent Auditors*

Board of Directors  
Securities Investor Protection Corporation

We have audited the accompanying statement of financial condition of Securities Investor Protection Corporation as of December 31, 1992, and the related statements of operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation at December 31, 1992, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

*Ernst & Young*

Washington, D.C.  
March 4, 1993

# Securities Investor Protection Corporation

## Statement of Financial Condition December 31, 1992

### ASSETS

Cash (Net of \$1,035,470 escrowed funds)	\$ 191,896
Estimated member assessments receivable (Note 3)	10,000,000
U.S. Government securities, at amortized cost and accrued interest receivable (\$12,575,724); (approximate market \$741,700,000) (Note 6)	720,022,626
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$146,748,904) (Note 4)	4,400,000
Other	252,106
	<b>\$734,866,628</b>

### LIABILITIES AND FUND BALANCE

Advances to trustees — in process (Note 4)	\$ 189,960
Accounts payable and accrued expenses (Note 8)	1,453,907
Estimated costs to complete customer protection proceedings in progress (Note 4)	23,000,000
Member assessments received in advance (Note 3)	1,000,000
	25,643,867
Commitments (Note 5)	
Fund balance	709,222,761
	<b>\$734,866,628</b>

## Statement of Operations and Fund Balance for the year ended December 31, 1992

Revenues:	
Interest on U.S. Government securities	\$ 46,232,710
Member assessments (Note 3)	27,217,374
	<b>73,450,084</b>
Expenses:	
Salaries and employee benefits (Note 8)	2,502,276
Legal and accounting fees (Note 4)	384,932
Credit agreement commitment fee (Note 5)	2,471,200
Rent (Note 5)	527,910
Other	691,558
	6,577,876
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	10,272,567
	<b>16,850,443</b>
Excess revenues	56,599,641
Fund balance, beginning of year	652,623,120
Fund balance, end of year	<b>\$709,222,761</b>

See notes to financial statements.

# Securities Investor Protection Corporation

## Statement of Cash Flows for the year ended December 31, 1992

Operating activities:	
Interest received from U.S. Government securities	\$ 50,630,031
Member assessments received	14,717,374
Advances paid to trustees	(14,125,554)
Recoveries of advances	1,068,011
Salaries and other operating activities expenses paid	(6,355,655)
<b>Net cash provided by operating activities</b>	<b>45,934,207</b>
Investing activities:	
Proceeds from sales of U.S. Government securities	306,804,967
Purchases of U.S. Government securities	(352,780,361)
Purchases of furniture and equipment	(91,573)
<b>Net cash used by investing activities</b>	<b>(46,066,967)</b>
Decrease in cash	(132,760)
Cash, beginning of year	324,656
<b>Cash, end of year</b>	<b>\$ 191,896</b>

See notes to financial statements.

## Notes to Financial Statements

### 1. Organization

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

### 2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$720,214,522.

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

### 3. Member assessments

Member assessment rates for fiscal years beginning 1991 and thereafter are estimated according to the September 1991 by-law mandating 10% yearly growth of the SIPC Fund to

\$1 billion. Effective January 1, 1992, for members' fiscal years beginning in 1992, the assessment rate is .057% of net operating revenues from the securities business or \$150, whichever is greater. Assessments received in advance will be applied to future assessments and are not refundable except to terminated members.

### 4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 53 proceedings in progress at December 31, 1992. Customer claims have been satisfied in 42 of these proceedings and in 11 proceedings customer claims and distributions are being processed.

Advances to trustees represent net amounts disbursed and amounts currently payable for proceedings in progress, less an allowance for possible losses.

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

SIPC has advanced \$151.1 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$146.7 million is not expected to be recovered.

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

	<b>Customer Protection Proceedings</b>	
	<b>Advances to trustees, less allowance for possible losses</b>	<b>Estimated costs to complete</b>
Balance, beginning of year	\$3,400,000	\$24,900,000
Add:		
Estimated future recoveries	1,500,000	
Provision for estimated costs to complete proceedings		12,240,632
Less:		
Recoveries estimated previously	500,000	
Advances to trustees		14,140,632
<b>Balance, end of year</b>	<b>\$4,400,000</b>	<b>\$23,000,000</b>

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

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

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

## 5. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1987, at the rate of \$404,730 for the first five years and \$472,185 thereafter, total \$2,203,500. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease. Rent expense for 1992 totalled \$527,910.

Effective April 1, 1992, SIPC entered into a credit agreement with a consortium of banks to provide SIPC with a \$1 billion revolving line of credit. A fee of  $\frac{1}{5}$  th of 1% per annum on the unused portion of the commitment is payable quarterly to the banks.

## 6. Fair value of securities

Approximate market of U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 1992.

## 7. Reconciliation of excess revenues with net cash provided by operating activities:

Excess revenues	\$56,599,641
Decrease in member assessments received in advance	(7,000,000)
Increase in amortized premium on U.S. Government securities	5,372,220
Increase in member assessments receivable	(5,500,000)
Net decrease in estimated costs to complete customer protection proceedings	(1,900,000)
Net increase in estimated recoveries of advances to trustees	(1,000,000)
Increase in accrued interest receivable on U.S. Government securities	(974,899)
Increase in accounts payable	226,313
Other reconciling items	110,932
<b>Net cash provided by operating activities</b>	<b>\$45,934,207</b>

## 8. Retirement Plans

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. Information regarding these plans, provided in accordance with Statement No. 87 of the Financial Accounting Standards Board, follows:

Defined benefit plan (actuarially determined*):	
Service cost—benefits earned during 1992	\$211,825
Interest accrued on Projected Benefit Obligation	334,528
Return on Plan assets	(463,309)
Net amortization and deferral	34,157
<b>Net pension expense</b>	<b>117,201</b>
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	
	59,601
<b>Total pension expense for 1992</b>	<b>\$176,802</b>

\*Assumptions used:

1. Discount rate	8%
2. Expected long-term rate of return	9%
3. Average compensation increase	5%
4. Cost of living adjustment	4%
5. Average remaining service period	11 Years

As of January 1, 1993, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:	
Vested	\$3,389,820
Non-vested	362,424
	<b>3,752,244</b>
Effect of projected future salary increases and moving IRS limitations	965,284
<b>Projected Benefit Obligation</b>	<b>4,717,528</b>
Market value of Plan assets	4,951,251
<b>Funded Status—Projected Benefit Obligation</b> less than the market value of Plan assets	<b>233,723</b>
Unrecognized net asset	245,097
	(11,374)
<b>Prepaid pension expense</b>	<b>(140,569)</b>
<b>Unrecognized net loss</b>	<b>\$ (151,943)</b>

Assets of the defined benefit plan are invested in commingled trusts with approximately 50% in bonds and 50% in equities.

SIPC also has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually; the life insurance plan is noncontributory.

Information regarding these plans' funded status, provided in accordance with Statement No. 106 of the Financial Accounting Standards Board, follows:

Defined benefit postretirement plan (actuarially determined):	
Accumulated postretirement benefit obligation	
Currently retired employees	\$ 92,988
Fully eligible active employees	47,252
Currently eligible active employees	64,079
Other active employees	906,321
Plan assets at fair value	0
<b>Funded Status</b>	<b>1,110,640</b>
Unrecognized net from past experience different from that assumed and from changes in assumptions	
	165,386
<b>Accrued postretirement benefit expenses</b>	<b>\$1,276,026</b>

The net periodic postretirement benefit cost for 1992 included the following components:

Service cost—benefits earned during 1992	\$ 100,704
Interest on accumulated postretirement benefit obligation	96,752
Return on Plan assets	0
Amortization of unrecognized net loss	1,053
<b>Net periodic postretirement benefit expense for 1992</b>	<b>\$ 198,509</b>

For measurement purposes, a 13% annual rate of increase in the health care trend factor was assumed for 1992, and the rate was assumed to decrease gradually to 6% for 2010 and thereafter. The health care trend factor assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care trend factor by 1% in each year would increase the accumulated postretirement benefit obligation as of December 31, 1992, by about \$288,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1992, by about \$56,000.

The discount rate used in determining the accumulated postretirement benefit obligation was 8%.

**APPENDIX I** *Distributions for Accounts of Customers  
for the Twenty-Two Years Ended December 31, 1992*  
(In Thousands of Dollars)

	From Debtor's Estates As Reported By Trustees	Advances	From SIPC Recoveries*	Net	Total
1971	\$ 271	\$ 401		\$ 401	\$ 672
1972	9,300	7,347	\$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
	<u>\$1,662,334</u>	<u>\$287,131</u>	<u>\$(104,711)</u>	<u>\$182,420</u>	<u>\$1,844,754</u>

\*Recoveries not limited to cases initiated this year.

## APPENDIX II *Customer Protection Proceedings*

### PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Lloyd Securities, Inc. Elkins Park, Pennsylvania (Robert E. Shields, Esq.)	6/02/61	6/06/90	12/22/90	500	163	56
C. J. Wright & Company, Inc. Ocala, Florida (K. Rodney May, Esq.)	10/17/85	4/24/91	4/24/91	1,500	120	
T. L. Reed Securities, Inc. Irving, Texas (Jack L. Kinzie, Esq.)	6/10/87	10/08/91	10/08/91	4,500	284	7
First Securities Group of California, Inc. Beverly Hills, California (Leonard L. Gumport, Esq.)	12/12/85	1/06/92	1/07/92	800	480	141
San Marino Securities, Inc. Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	11/14/86	1/21/92	1/30/92	1,200	247	
Jim Becherer & Co. Belleville, Illinois (Harry O. Moline, Jr., Esq.)	6/10/76	3/16/92	3/16/92	320	69	1
Sun Securities Incorporated Scottsdale, Arizona (SIPC)	2/05/85	3/16/92	3/16/92	885	78	18
W. H. Farr & Co., Inc. New York, New York (Lee S. Richards, III, Esq.)	1/04/90	6/24/92	7/08/92	640	40	2
Wall Street of America, Inc. Norfolk, Nebraska (SIPC)	3/18/83	8/12/92	8/12/92	805	68	
Wellshire Securities, Inc. New York, New York (Direct Payment)	5/20/86		9/21/92 <sup>†</sup>	168	27	1
Monmouth Investments, Inc. Princeton, New Jersey (Direct Payment)	11/02/79		10/09/92 <sup>†</sup>	147	19	
<b>TOTAL 11 MEMBERS: PART A</b>				<b><u>11,465</u></b>	<b><u>1,595</u></b>	<b><u>226</u></b>

<sup>†</sup>Date notice published

December 31, 1992

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$3,192,698	\$ 573,214		\$21,756	\$2,597,728
\$157,055		\$157,055	10,000	10,000			
			306,738	136,965			169,773
			4,836,809	598,047			4,238,762
9,426		9,426	114,175	114,175			
			60,000	10,000			50,000
			300,446	4,136			296,310
			162,839	155,359			7,480
			5,000	5,000			
			12,302	6,838		5,464	
			5,958	5,958			
<u>\$166,481</u>		<u>\$166,481</u>	<u>\$9,006,965</u>	<u>\$1,619,692</u>		<u>\$27,220</u>	<u>\$7,360,053</u>

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

<b>Member and Trustee By Date of Appointment</b>	<b>Date Registered as Broker-Dealer</b>	<b>Filing Date</b>	<b>Trustee Appointed</b>	<b>Customers<sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed</b>	<b>Responses<sup>(a)</sup> Received</b>	<b>Total Customer Claims Satisfied</b>
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	12,572	12,572
Executive Securities Corp. New York, New York (Cameron F. MacRae, III, Esq.)	11/08/67	2/14/75	2/14/75	8,740	2,757	1,341
The Investment Bankers, Inc. Denver, Colorado (James H. Turner, Esq.)	10/23/80	7/10/81	7/15/81	2,500	1,939	1,189
First State Securities Corp. North Miami, Florida (Laurence A. Schroeder, Esq.)	6/19/75	7/24/81	7/24/81 7/17/85*	3,064	936	824
Joseph Sebag, Incorporated Los Angeles, California (Eugene W. Bell, Esq.)	3/07/68	7/27/81	7/27/81	8,000	4,341	3,640
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)	16,000 (Estimated)
G. V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/08/82	4/15/82	600	50	19
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/05/83	2/10/83	10,500	6,888	6,523
California Municipal Investors, Inc. Los Angeles, California (Theodore B. Stolman, Esq.)	1/09/76	1/31/84	1/31/84	16,000	1,752	1,500
Gattini & Co. New York, New York (William J. Rochelle, III, Esq.)	9/25/81	2/01/84	2/01/84	3,200	1,800	1,538
MV Securities, Inc., a/k/a Multi-Vest Securities, Inc. New York, New York (Lee S. Richards, III, Esq.)	4/08/76	3/14/84	3/14/84	8,246	1,338	1,338

\*Successor Trustee

Total	Distributions From Debtor's Estate		SIPC Advances				
	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 2,608,597	\$ 786,957	\$ 1,821,640	\$ 3,502,385	\$ 1,199,128		\$ 2,044,056	\$ 259,201
4,105,036	2,271,501	1,833,535	2,945,918	850,440	\$ 30,535	1,449,655	615,288
3,161,670	2,128,941	1,032,729	3,667,483				3,667,483
6,556,331	6,458,025	98,306	5,662,689	4,860,217	60,804	329,980	411,688
27,218,033	27,218,033		11,599,646	4,895,811		268,257	6,435,578
198,871,157	190,380,000	8,491,157	2			2	
1,921,166	1,884,150	37,016	1,408,793	1,064,057		235,806	108,930
80,755,000	80,755,000		31,722,352	6,786,229			24,936,123
37,011,728	35,428,701	1,583,027	(1)	(1)			
2,726,746	2,417,204	309,542	1,807,901	1,091,239		556,938	159,724
21,402,320	18,428,353	2,973,967					

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

<b>Member and Trustee By Date of Appointment</b>	<b>Date Registered as Broker-Dealer</b>	<b>Filing Date</b>	<b>Trustee Appointed</b>	<b>Customers<sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed</b>	<b>Responses<sup>(a)</sup> Received</b>	<b>Total Customer Claims Satisfied</b>
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/01/75	4/08/85	5/08/85	23,800	4,700	3,601
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/06/85	5/17/85	1,350	63	13
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/01/75	7/30/85	8/13/85 2/17/87*	8,300	2,469	2,362
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/04/85	272	78	26
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/02/81	7/23/85	3/26/86	23,000	1,047	40
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28	9
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,368	2,200
H. B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/08/57	10/20/87	10/20/87	18,000	5,237	5,237
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	1/05/83	3/21/88	3/21/88	2,885	176	44
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408	368
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (P. David Newsome, Jr., Esq.)	12/18/63	6/28/88	6/28/88	52,219	20,000	30,376

\*Successor Trustee

December 31, 1992

Total	Distributions From Debtor's Estate		SIPC Advances				
	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 421,455,227	\$ 397,836,433	\$23,618,794	\$ 26,395,628	\$ 6,736,106	\$ 1,107	\$ 7,483,186	\$12,175,229
5,131,925	1,298,503	3,833,422	2,760,215			2,760,215	
6,038,508	5,962,405	76,103	10,098,696	2,681,020		7,013,546	404,130
2,076,196	1,427,215	648,981	623,458	177,128		446,330	
830,854	48,443	782,411	1,170,548	972,836		185,083	12,629
51,004		51,004	239,687	53,207		65,000	121,480
50,431,312	49,460,386	970,926	8,109,953			6,178,104	1,931,849
130,584,748	127,809,903	2,774,845	125,000	125,000			
21,430		21,430	870,270	409,263		430,620	30,387
187,545		187,545	4,203,333	2,614,307			1,589,026
137,812,259	132,071,748	5,740,511	6,231,354	1,170,000		280,726	4,780,628

## APPENDIX II *Customer Protection Proceedings*

### PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	7/08/85	9/08/88	9/08/88	16,500	392	15
Waddell-Jenmar Securities, Inc. Chapel Hill, North Carolina (SIPC)	9/19/83	1/22/88	4/10/89	245	20	6
Fitzgerald, Talman, Inc. Denver, Colorado (SIPC)	6/16/83	11/01/89	11/01/89	7,800	579	56
Williams Financial Group, Inc. Spokane, Washington (Joseph A. Esposito, Esq.)	6/01/87	12/07/89	12/07/89	30	24	3
Oberweis Securities Inc. Chicago, Illinois (J. William Holland, Esq.)	12/27/78	7/10/89	6/18/90	48,000	334	96
First Ohio Securities Company Cleveland, Ohio (William Appleton, Esq.)	1/09/85	6/22/90	6/22/90 4/19/91*	900	200	117
Blinder, Robinson & Co., Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/01/90	215,000	64,770	61,334
D F W Clearing, Inc. Fort Worth, Texas (Robert G. Richardson, Esq.)	1/15/89	9/17/90	9/17/90	77,051	5,556	5,447
Carolina First Securities Group, Inc. Winston-Salem, North Carolina (L. Bruce McDaniel, Esq.)	6/12/89	8/24/90	10/31/90	210	20	12
John M. Sorenson & Co., Inc. Houston, Texas (SIPC)	6/25/84	1/22/91	1/22/91	248	36	16

\*Successor Trustee

December 31, 1992

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 67,641	\$ 62,822	\$ 4,819	\$ 130,646	\$ 97,952		\$ 16,741	\$ 15,953
59,169		59,169	483,295	204,022		17,125	262,148
8,198	6,680	1,518	103,292	74,200		29,092	
			375,232	41,677		281,055	52,500
1,073,839	132,778	941,061	1,531,288	1,178,699		70,938	281,651
322,228		322,228	3,716,792	831,008		2,823,482	62,302
36,306,543	24,500,000 (Estimated)	11,806,543	6,168,244	4,868,244		350,000	950,000
763,117	229,255	533,862	2,529,006	1,838,309	\$ 20,000	46,104	624,593
42,481		42,481	431,682	123,995			307,687
13,824		13,824	355,975	68,495			287,480

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Faitos & Co., Inc. Huntington, New York (Irving H. Picard, Esq.)	9/03/87	2/27/91	2/27/91	700	91	49
Gateway Securities, Inc. Greenwich, Connecticut (SIPC)	12/17/79	4/23/91	4/23/91	3,216	124	28
Pilgrim Planning Associates, Inc.. Easton, Pennsylvania (SIPC)	6/21/79	5/22/91	5/23/91	2,834	104	9
Affiliated Security Brokers, Inc. Tyler, Texas (Wayne M. Secore, Esq.)	4/10/81	9/12/91	9/12/91	2,000	89	15
Cooper-Daher Securities, Inc. San Francisco, California (Direct Payment)	1/05/88		9/13/91 <sup>†</sup>	268	45	3
The Riverview Corporation Knoxville, Tennessee (SIPC)	8/17/89	2/03/92	2/03/92	300	20	7
Hyer, Bikson & Hinsen Leawood, Kansas (SIPC)	5/24/84	2/24/92	2/24/92	1,200	53	2
Seoul Securities, Ltd. f/k/a Pantheon Capital Corp. Beverly Hills, California (SIPC)	10/28/82	3/06/92	3/17/92	100	10	1
Alison Baer Securities Boca Raton, Florida (Direct Payment)	4/26/82		7/08/92 <sup>†</sup>	1	1	1
Noble Financial Corp. Los Angeles, California (Direct Payment)	9/14/87		8/19/92 <sup>†</sup>	220	2	1
<b>TOTAL 42 MEMBERS: PART B</b>				<u>645,549</u>	<u>154,417</u>	<u>157,978</u>

<sup>†</sup>Date notice published

December 31, 1992

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 19,249	\$ 15,349	\$ 3,900	\$ 1,599,460	\$ 256,167		\$ 1,226,129	\$ 117,164
139,613	122,112	17,501	135,724	35,724			100,000
4,755		4,755	443,243	85,255			357,988
10,620		10,620	627,801	244,743		150,723	232,335
			16,230	1,230			15,000
13,081		13,081	102,149	32,004			70,145
3,861		3,861	171,660			159,671	11,989
4,122		4,122	109,400	9,400			100,000
			18,980	414			18,566
			62,735	3,927		54,832	3,976
<u>\$1,179,811,133</u>	<u>\$1,109,140,897</u>	<u>\$70,670,236</u>	<u>\$142,258,144</u>	<u>\$45,681,452</u>	<u>\$112,446</u>	<u>\$34,953,396</u>	<u>\$61,510,850</u>

## APPENDIX II *Customer Protection Proceedings*

### PART C: Proceedings Completed in 1992

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Institutional Securities of Colorado, Inc. Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/04/76	9,000	1,780	1,194
Brentwood Securities, Inc. Los Angeles, California (SIPC)	7/18/77	8/31/84	2/07/85	754	129	82
Cusack, Light & Company, Inc. West Orange, New Jersey (Frederick B. Lacey, Esq.)	3/22/83	6/25/86	6/25/86	1,404	256	256
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	12/04/84	11/05/86	11/05/86	550	18	3
Investors Center, Inc. Hauppauge, New York (Irving H. Picard, Esq.)	3/01/84	2/28/89	3/07/89	55,000	10,268	700
<b>TOTAL 5 MEMBERS 1992</b>				<b>66,708</b>	<b>12,451</b>	<b>2,235</b>
<b>TOTAL 183 MEMBERS 1973-1991(b)</b>				<b><u>550,504</u></b>	<b><u>174,277</u></b>	<b><u>169,931</u></b>
<b>TOTAL 188 MEMBERS 1973-1992</b>				<b><u>617,212</u></b>	<b><u>186,728</u></b>	<b><u>172,166</u></b>

December 31, 1992

Total	Distributions From Debtor's Estate		SIPC Advances				
	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 2,509,343	\$ 1,437,694	\$ 1,071,649	\$ 30,878	\$ 30,878			
26,897	25,280	1,617	1,196,829	602,800			\$ 594,029
6,615,256	6,480,670	134,586	1,626,272	839,155		\$ 78,436	708,681
497,231	456,349	40,882	547,285	23,066		410,770	113,449
1,190,180	675,833	514,347	3,869,926	2,083,370		834,288	952,268
10,838,907	9,075,826	1,763,081	7,271,190	3,579,269		1,323,494	2,368,427
603,098,939	544,117,427	58,981,512	90,503,027	15,738,830	\$1,181,276	37,151,131	36,431,790
<u>\$613,937,846</u>	<u>\$553,193,253</u>	<u>\$60,744,593</u>	<u>\$97,774,217</u>	<u>\$19,318,099</u>	<u>\$1,181,276</u>	<u>\$38,474,625</u>	<u>\$38,800,217</u>

## APPENDIX II *Customer Protection Proceedings*

### PART D: Summary

		Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Customers Receiving Distributions
<b>Part A:</b>	11 Members—Customer Claims and Distributions Being Processed	11,465	1,595	226
<b>Part B:</b>	42 Members—Customer Claims Satisfied, Litigation Matters Pending	<u>645,549</u>	<u>154,417</u>	<u>157,978</u>
	Sub-Total	657,014	156,012	158,204
<b>Part C:</b>	188 Members—Proceedings Completed	<u>617,212</u>	<u>186,728</u>	<u>172,166</u>
	<b>Total</b>	<u><u>1,274,226</u></u>	<u><u>342,740</u></u>	<u><u>330,370</u></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.

December 31, 1992

Total	Distributions From Debtor's Estate		SIPC Advances				
	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 166,481		\$ 166,481	\$ 9,006,965	\$ 1,619,692		\$ 27,220	\$ 7,360,053
<u>1,179,811,133</u>	<u>\$1,109,140,897</u>	<u>70,670,236</u>	<u>142,258,144</u>	<u>45,681,452</u>	<u>\$ 112,446</u>	<u>34,953,396</u>	<u>61,510,850</u>
1,179,977,614	1,109,140,897	70,836,717	151,265,109	47,301,144	112,446	34,980,616	68,870,903
<u>613,937,846</u>	<u>553,193,253</u>	<u>60,744,593</u>	<u>97,774,217</u>	<u>19,318,099</u>	<u>1,181,276</u>	<u>38,474,625</u>	<u>38,800,217</u>
<u><u>\$1,793,915,460</u></u>	<u><u>\$1,662,334,150</u></u>	<u><u>\$131,581,310</u></u>	<u><u>\$249,039,326</u></u>	<u><u>\$66,619,243</u></u>	<u><u>\$1,293,722</u></u>	<u><u>\$73,455,241</u></u>	<u><u>\$107,671,120</u></u>

### APPENDIX III *Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1992*

	1992	1991	1990	1989	1988
<b>Revenues:</b>					
Interest on U.S. Government securities	\$46,211,084	\$46,962,755	\$ 42,827,097	\$ 34,965,465	\$28,680,924
Member assessments and contributions	27,217,374	38,851,496	73,029,832	66,046,991	988,079
Interest on assessments	21,626	112,083	66,936	111,675	10,196
	<u>73,450,084</u>	<u>85,926,334</u>	<u>115,923,865</u>	<u>101,124,131</u>	<u>29,679,199</u>
<b>Expenses:</b>					
Salaries and employee benefits	2,502,276	2,355,831	3,120,435	1,974,100	1,801,726
Legal fees	365,104	466,021	208,874	417,695	2,484,989
Accounting fees	19,828	18,150	31,400	19,000	19,000
Credit agreement commitment fee	2,471,200	1,050,000	1,052,135	1,227,634	1,300,009
Rent—office space	527,910	499,831	459,323	436,817	418,644
<b>Other:</b>					
Assessment collection cost	13,401	19,373	23,439	22,992	19,741
Custody and bank fees	14,108	39,867	35,330	28,827	27,735
Depreciation and amortization	93,824	98,290	108,174	126,931	119,459
Directors fees and expenses	16,569	23,194	14,272	11,337	10,830
Insurance	16,802	21,908	18,885	19,228	21,401
Office supplies and expenses	127,055	138,464	118,980	176,666	163,652
Postage	17,639	21,539	17,982	13,058	15,777
Printing & mailing annual report	65,022	61,270	60,845	54,928	58,587
Professional fees—other	144,580	101,730	233,044	43,689	66,236
Publications and reference services	70,087	59,545	58,817	53,555	45,643
Telephone	14,555	15,214	13,818	12,469	14,308
Travel and subsistence	87,127	149,072	153,089	92,503	141,625
Miscellaneous	10,789	18,987	4,510	8,359	11,128
	<u>691,558</u>	<u>768,453</u>	<u>861,185</u>	<u>664,542</u>	<u>716,122</u>
	<u>6,577,876</u>	<u>5,158,286</u>	<u>5,733,352</u>	<u>4,739,788</u>	<u>6,740,490</u>
<b>Customer protection proceedings:</b>					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	16,875	(170,044)	(19,733)	(76,793)	(3,558)
Securities	(89,117)	2,440,407	(7,174,535)	(967,860)	352,513
Cash	6,832,922	384,308	6,325,814	(14,742,160)	(2,791,862)
	<u>6,760,680</u>	<u>2,654,671</u>	<u>(868,454)</u>	<u>(15,786,813)</u>	<u>(2,442,907)</u>
Administration expenses	5,285,357	7,577,331	6,125,694	9,355,168	5,001,525
	<u>12,046,037</u>	<u>10,232,002</u>	<u>5,257,240</u>	<u>(6,431,645)</u>	<u>2,558,618</u>
Net change in estimated future recoveries	(1,000,000)	2,300,000		1,500,000	2,100,000
	<u>11,046,037</u>	<u>12,532,002</u>	<u>5,257,240</u>	<u>(4,931,645)</u>	<u>4,658,618</u>
SIPC as Trustee:					
Securities	159,671	17,125	29,092	18,161	412,318
Cash	582,790	873,011	50,000	25,953	117,147
	<u>742,461</u>	<u>890,136</u>	<u>79,092</u>	<u>44,114</u>	<u>529,465</u>
Administration expenses	284,094	258,547	120,580	71,383	196,956
	<u>1,026,555</u>	<u>1,148,683</u>	<u>199,672</u>	<u>115,497</u>	<u>726,421</u>
<b>Direct payments:</b>					
Securities	60,296		174,164		
Cash	22,542	80,000	131,290	18,000	35,500
	<u>82,838</u>	<u>80,000</u>	<u>305,454</u>	<u>18,000</u>	<u>35,500</u>
Administration expenses	17,137	1,230	3,546	2,087	10,154
	<u>99,975</u>	<u>81,230</u>	<u>309,000</u>	<u>20,087</u>	<u>45,654</u>
<b>Net change in estimated cost to complete proceedings</b>					
	<u>(1,900,000)</u>	<u>(3,900,000)</u>	<u>(13,500,000)</u>	<u>(1,700,000)</u>	<u>4,800,000</u>
	<u>10,272,567</u>	<u>9,861,915</u>	<u>(7,734,088)</u>	<u>(6,496,061)</u>	<u>10,230,693</u>
	<u>16,850,443</u>	<u>15,020,201</u>	<u>(2,000,736)</u>	<u>(1,756,273)</u>	<u>16,971,183</u>
<b>Excess revenues</b>	<u><u>\$56,599,641</u></u>	<u><u>\$70,906,133</u></u>	<u><u>\$117,924,601</u></u>	<u><u>\$102,880,404</u></u>	<u><u>\$12,708,016</u></u>