SIPC

Securities Investor Protection Corporation

2005 Annual Report

2005

SECURITIES INVESTOR PROTECTION CORPORATION
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April 28, 2006

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Thirty-fifth 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,

Armando J. Bucelo, Jr.
Chairman

Contents

"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, and persons who are registered as brokers or dealers under section 15(b)(11)(A) of the Securities Exchange Act of 1934.

Armando J. Bucelo, Jr.

After serving as SIPC's Vice Chairman since 2002, I am honored to have been designated by the President to serve as SIPC's sixth Chairman. I salute my predecessor, W.R. "Tim" Timken, who now represents the United States as Ambassador to Germany. Mr. Timken presided over SIPC with distinction. His initiatives included the establishment of an internal risk management function, and a detailed business continuity program, with an emergency alternative work facility to make sure that the important work of the Corporation can go forward under virtually any circumstance.

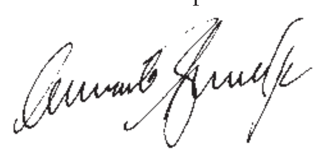
I am pleased to report that only one SIPC member brokerage firm required SIPC to intervene in order to protect customers in 2005. Never before in SIPC's history has only one brokerage firm failure occurred in any given year. Indeed, only three SIPC member firms required SIPC to take action during the two year period of 2004-2005. That is the lowest number of brokerage firm failures for any two year period since SIPC's inception in 1970. We attribute this outstanding result to the Securities and Exchange Commission, the securities industry self regulatory organizations, and the various state regulators, who monitor brokerage firms for compliance with SEC Rules concerning capital adequacy and the proper segregation of customer assets. One of the primary purposes of the Securities Investor Protection Act was to increase investor confidence in the mechanisms of the securities markets. Investor confidence in the markets is enhanced when investors know that brokerage firm failure is a rare event.

Investor confidence is also bolstered when investors realize that SIPC has adequate resources to deal with the rare instance where a brokerage firm does fail financially. With that in mind, the subject of SIPC's financial resources is a constant topic of the Board. At year end, the SIPC Fund stood at just over $1,286,000,000. This remains near the historic high set in 2004. As Chairman, I instituted a Board level Investment Committee to make sure that SIPC continues to prudently manage its available financial resources.

Late in 2005, the trustee for the liquidation of MJK Clearing, Inc. reached a settlement of major litigation in that matter. As a result, early in 2006 the trustee has returned over $91,000,000 to SIPC. This is the final installment of such returns, and at this time all of the funds that SIPC had previously advanced to satisfy customer claims and administrative expenses have now been restored to SIPC, with interest.

SIPC also partnered with the Investor Protection Trust to conduct an investor survey that focused on persons who identified themselves as investors. The results indicated that SIPC must continue its efforts to inform the investing public about the nature and limits of protection under this statutory program. Accordingly, SIPC will continue its investor education program, which includes radio and television public service announcements, internet and print media advertisements, and other outreach to investors.

Investing is an international exercise, now more than ever before. SIPC has entered into memoranda of understanding with both the Financial Services Compensation Scheme in the United Kingdom and the Canadian Investor Protection Fund to share information, and cooperate, if necessary, in the event of a brokerage firm insolvency with cross-border aspects. In the coming year we hope to reach out to other investor protection entities to further strengthen our network of international cooperation.



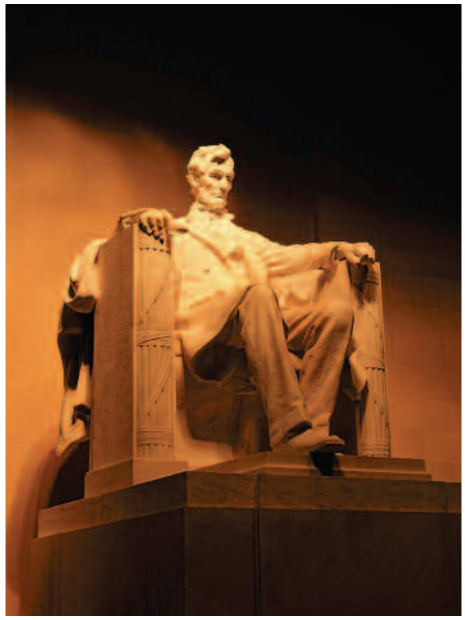
Armando J. Bucelo, Jr.
Chairman

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970, 15 U.S.C. § 78 aaa *et seq.* (SIPA). Its purpose is to afford certain protections against loss to customers resulting from broker-dealer failure and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are $500,000 per customer, except that claims for cash are limited to $100,000 per customer.

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

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



The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc.—and the Securities and Exchange Commission (SEC) report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding. This requires that SIPC apply to a Federal District Court for appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 31, 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 purposes. In cases where the court appoints SIPC 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.

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* 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 and brokers or dealers registered under Section 15(b)(11)(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., NASD Media Source, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for the NASD book orders is www.nasd.com/2370.htm

Directors

Armando J. Bucelo, Jr., Esq.
The Law Offices of Armando J. Bucelo, Jr.
Chairman of the Board

Thomas W. Grant
President
H.G. Wellington & Co., Inc.

Emil W. Henry, Jr.
Assistant Secretary for Financial Institutions, United States Department of the Treasury

Noe Hinojosa, Jr.
President and CEO
Estrada Hinojosa & Company, Inc.

Deborah D. McWhinney
President, Schwab Institutional, Charles Schwab & Co., Inc.

David J. Stockton
Director, Division of Research and Statistics
Board of Governors of the Federal Reserve System

Officers

Stephen P. Harbeck
President

Josephine Wang
General Counsel & Secretary

Philip W. Carduck
Vice President—Operations & Finance

"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 one SIPC member in 2005, bringing the total since SIPC's inception to 314 proceedings commenced under SIPA. The 314 members represent less than one percent of the approximately 37,800 broker-dealers that have been SIPC members during the last 35 years. Currently, SIPC has 5,959 members.

The one new case compares with two commenced in 2004. Over the last ten-year period, the annual average of new cases was six.

SIPC was appointed as trustee in the one case commenced during the year. The customer protection proceeding was initiated for:

Member	Date Trustee Appointed
Austin Securities, Inc. Forest Hills, NY	4/14/05

Of the 314 proceedings begun under SIPA to date, 283 have been completed, 26 involve pending litigation matters, and claims in 5 are being processed (See Figure I and Appendix III).

During SIPC's 35-year history, cash and securities distributed for accounts of customers totaled approximately $14.1 billion. Of that amount, approximately $13.8 billion came from debtors' estates and $371 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 2005

Year	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05
Total proceedings commenced	24	40	30	15	8	4	7	4	6	5	10	8	7	9	12	8	4	5	6	8	8	13	3	2	4	7	10	6	9	5	12	5	7	2	1

Customer claims being processed (5) **Customer claims satisfied, litigation matters pending (26)** **Proceedings completed (283)**

Claims over the Limits

Of the more than 623,600 claims satisfied in completed or substantially completed cases as of December 31, 2005, a total of 341 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 341 claims, unchanged during 2005, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $39.7 million, decreased $2,041,000 during 2005. These remaining claims approximate three-tenths of one percent of the total value of securities and cash distributed for accounts of customers in those cases.

SIPC Fund Advances

Table I shows that the 87 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 91 percent of the total advanced in all 314 customer protection proceedings. The largest net advance in a single liquidation is $80.5 million in MJK Clearing, Inc. This exceeds the net advances in the 227 smallest proceedings combined.

In 27 proceedings SIPC advanced $406.6 million, or 69 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 2005
314 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	11	$297,511,807
5,000,001	$10,000,000	16	109,076,389
1,000,001	5,000,000	60	128,590,102
500,001	1,000,000	34	24,523,438
250,001	500,000	42	14,581,878
100,001	250,000	59	9,598,987
50,001	100,000	42	2,995,426
25,001	50,000	24	890,552
10,001	25,000	11	168,668
0	10,000	9	26,087
Net recovery		6	(2,697,133)*
			$585,266,201†

* 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 ($371,379,469) and for administration expenses ($213,886,732).

"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 194 members during the year brought the total membership to 5,959 at December 31, 2005. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 2005, there were 72 members who were subjects of uncured notices, 42 of which were mailed during 2005, 19 during 2004 and 2003, and 11 during the period 1997 through 2002. Subsequent filings and payments by three members left 69 notices uncured. SIPC has been advised by the SEC staff that: (a) one member registration has been canceled; and (b) 68 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.29 billion at year end, a decrease of $1.5 million during 2005.

Tables III and IV present principal revenues and expenses for the years 1971 through 2005. The 2005 member assessments were $900,000 and interest from investments was $62.8 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1995, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995) from the securities business.

Appendix II is an analysis of revenues and expenses for the five years ended December 31, 2005.

[1] 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 II
SIPC Membership
Year Ended December 31, 2005

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,686	260	261
SIPC(b)	163	-	161(c)
Chicago Board Options Exchange Incorporated	392	30	34
New York Stock Exchange, Inc.	345	19	16
American Stock Exchange LLC	175	16	17
Pacific Stock Exchange, Inc.	52	4	26
Philadelphia Stock Exchange, Inc.	84	15	14
Chicago Stock Exchange, Incorporated	59	3	11
Boston Stock Exchange, Inc.	3	-	1
	5,959	347	541

Notes:

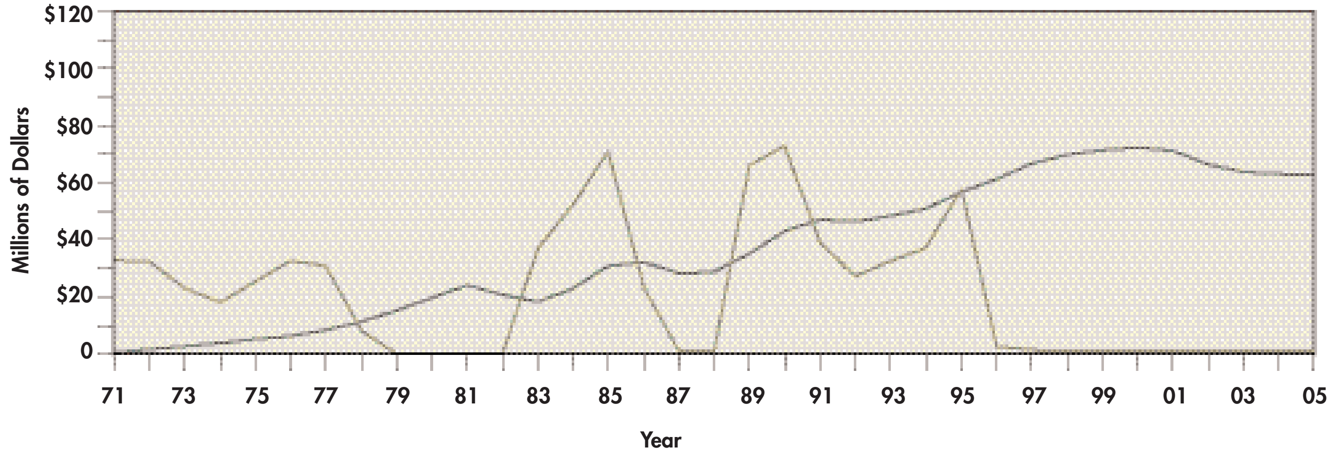
a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2005.

b. 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.

c. 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.

TABLE III **SIPC Revenues for the Thirty-five Years Ended December 31, 2005**



Member assessments and contributions: $734,344,364

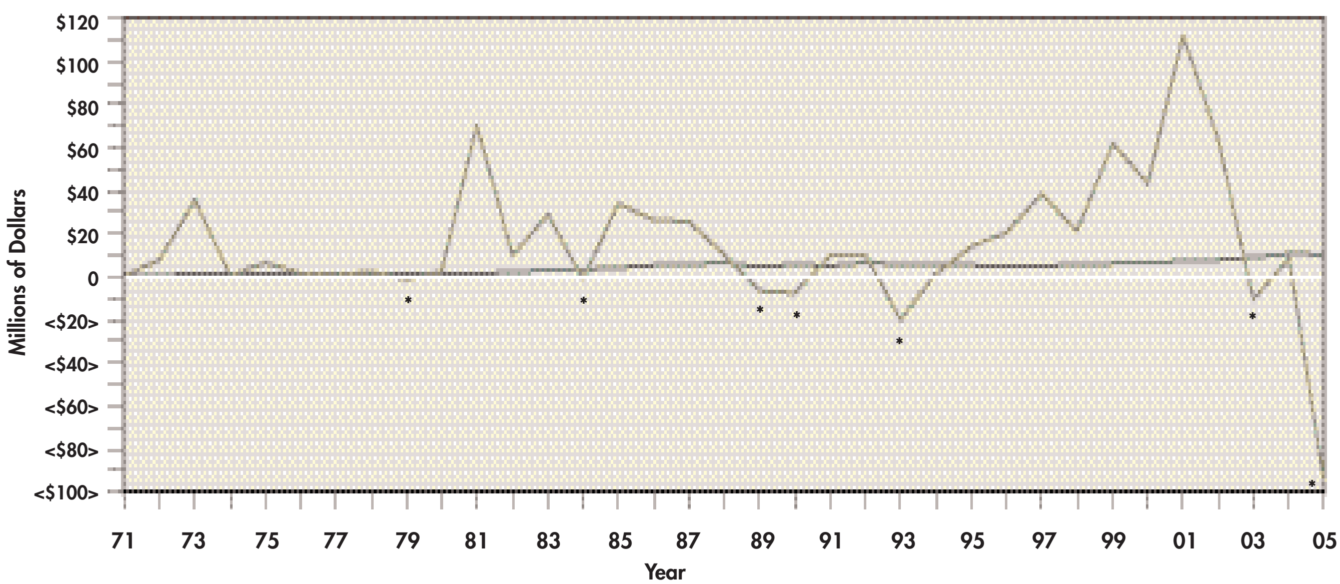
Interest on U.S. Government securities: $1,276,791,671

History of Member Assessments*

1971: ½ of 1% plus an initial assessment of ⅛ of 1% of 1969 revenues ($150 minimum).
1972-1977: ½ of 1%.
January 1-June 30, 1978: ¼ of 1%.
July 1-December 31, 1978: None.
1979-1982: $25 annual assessment.
1983-March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986-1988: $100 annual assessment.
1989-1990: 3/16 of 1% ($150 minimum).
1991: .065% of members' net operating revenues ($150 minimum).
1992: .057% of members' net operating revenues ($150 minimum).
1993: .054% of members' net operating revenues ($150 minimum).
1994: .073% of members' net operating revenues ($150 minimum).
1995: .095% of members' net operating revenues ($150 minimum).
1996-2005: $150 annual assessment.

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

TABLE IV **SIPC Expenses for the Thirty-five Years Ended December 31, 2005**



Customer protection proceedings: $525,866,201 (Includes net advances of $585,266,201 and $32,300,000 of estimated costs to complete proceedings less estimated future recoveries of $91,700,000.)

Other expenses: $160,961,076

*** Net recoveries**

During 2005, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy matters are summarized below:

In *Stephenson v. Greenblatt et al. (In re MJK Clearing, Inc.)*, 408 F.3d 512 (8th Cir. 2005), on the trustee's claim for amounts due under promissory notes signed by Leon Greenblatt and entities formed by him, the Eighth Circuit affirmed the judgment of the district court holding the promissory notes to be valid and enforceable. Greenblatt and the entities entered into a settlement agreement with the debtor's subsidiary to cover $7.1 million in debit balances in Greenblatt margin accounts. Under the settlement, Greenblatt and the entities executed promissory notes personally guaranteed by Greenblatt and agreed to transfer tax credits. After the debtor was placed in liquidation, the subsidiary assigned the promissory notes, the guaranty and the tax credits to the debtor. The notes matured, and the debtor made a demand upon Greenblatt and the entities. No payment was made and the tax credits were not delivered. The trustee sued to recover on the original margin accounts and alternatively, to enforce the settlement agreement. The bankruptcy court granted summary judgment in favor of the trustee. The district court affirmed. On appeal to the Eighth Circuit, Greenblatt and the entities argued that the agreement with the subsidiary was an agreement to sell the debit balance accounts to Greenblatt in exchange for the promissory notes, tax credits, and guaranty. Greenblatt alleged that there were questions of fact as to whether the debit balances had been transferred, but if they had not been, the agreement between the subsidiary and Greenblatt was not enforceable.

The Eighth Circuit affirmed. The Court held that although the debit balances had not been transferred to Greenblatt before the start of the liquidation proceeding, the notes and guaranty were still enforceable because the reduction in the debit owed and the allowance of an additional year to the entities to make payment were adequate consideration for the parties' agreements.

In *Stephenson v. Deutsche Bank AG, Deutsche Bank Securities, Inc., Deutsche Bank Securities Limited, Wayne Breedon, et al.*, Case No. CV02-4845 RHK/AJB (D. Minn.), the trustee sued Deutsche Bank related entities, a Deutsche Bank stock-loan trader, and others, in connection with an alleged massive securities fraud. The suit was joined for discovery purposes with cases by Ferris Baker Watts, Inc. ("FBW"), E*Trade Securities, LLC ("E*Trade"), Wedbush Morgan Securities, Inc., CIBC World Markets, Inc., Stockwalk Group, Inc., and the debtor's subsidiary, MJSK, who asserted similar claims. On November 18, 2005, the trustee reached a settlement in principle with the Deutsche Bank entities and the trader during mandatory settlement conferences before the magistrate judge in the case. Under the terms of the settlement, the Deutsche Bank entities would obtain the withdrawal of the claims in the liquidation proceeding totalling approximately $120 million of E*Trade, FBW, and Nomura Securities International Inc., and pay the trustee $147.5 million in cash. Mutual releases and waivers would be exchanged. The trustee also reached an agreement with E*Trade with respect to the competing claims that the trustee and E*Trade had filed in the bankruptcy case of Native Nations Securities, Inc. Based upon the agreement, the trustee expected to receive an additional $3 million.

The settlement agreement was approved by the bankruptcy court. SIPC v MJK Clearing, Inc., Adv. Proc. No. 01-4257 RJK (Bankr. D. Minn. Jan. 18, 2006). As a result of the settlement, all valid claims in the liquidation proceeding will be fully paid, with interest. SIPC will recover approximately $91 million equal to the amount of its advances still owed to it, with interest, and the trustee is expected to make a distribution of at least $10 million to the debtor's equity owner.

In *Mishkin v. Gurian (In re Adler, Coleman Clearing Corp.)*, 399 F.Supp.2d 486 (S.D.N.Y. 2005), the trustee sued Philip Gurian seeking to hold him liable for payment of $150 million in judgments that the trustee had obtained against six Bahamian shell companies allegedly created and used by Gurian as the means to commit the securities fraud that ultimately resulted in the debtor's financial collapse. On the trustee's motion for summary judgment, the district court held Gurian to be a controlling person of the Bahamian companies under the common law doctrine of alter ego liability and section 20(a) of the Securities Exchange Act of 1934. In a related criminal proceeding arising out of frauds that injured the debtor and other securities firms and investors, Gurian had pled guilty to two counts of mail fraud and conspiracy to commit mail fraud, wire fraud, and securities fraud. The court found that through his plea allocution, Gurian had admitted facts and conduct sufficient to support a finding of control for purposes of liability.

In *Lutz v. Chitwood (In re Donahue Securities, Inc.)*, Case No. C-1-05-010 (S. D. Ohio Sept. 6, 2005), the district court affirmed the decision of the bankruptcy court granting a motion to dismiss trustee claims against defendant Richard Chitwood, among others, for negligent supervision and breach of fiduciary duty. The trustee had asserted that as the debtor's compliance principal, Chitwood had a duty to the debtor's customers to supervise the firm's registered representatives, including the president of the debtor who also was a registered representative, and to review personally the accounts and transactions of the debtor's president to ensure that customer funds were invested as directed. In the court's view, Ohio law of negligent supervision would not support imposition of liability on a compliance principal solely by reason of his position where the wrongdoer was the employer of the compliance principal and regardless of whether or not the compliance principal was complicit in the wrongdoing, had any authority to direct or control the activities of the wrongdoer or had any direct dealings with the affected customers. The court also held the allegations in the amended complaint to be insufficient to establish a fiduciary relationship between Chitwood and the debtor's customers.

In a related action, *Lutz v. St. Paul Fire & Marine Insurance Co.*, Case No. 1:03-CV-750 (S. D. Ohio Sept. 26, 2005), the district court granted an insurer's motion for summary judgment in a suit by the trustee to recover under two policies issued by the insurer to the debtor. The insurer disclaimed liability under the policies for defalcations by the debtor's president and sole shareholder because the president allegedly was not an "employee" under the terms of the policies and therefore, the losses were outside of the scope of the policies' coverage. The court found Ohio law to apply. While the Supreme Court of Ohio had not specifically decided the applicability of the dominate shareholder rule in the context of a commercial crime insurance policy, the court expressed the belief that if faced with the issue, the state court would conclude that "employee" did not include a shareholder who dominated the corporation. The court also concluded that NASD regulations giving the right to Chitwood, as compliance officer, to supervise registered representatives did not create a fact issue as to whether the principal was subject to the debtor's control sufficient to warrant denial of summary judgment.

In *Stafford v. Giddens (In re New Times Securities Services, Inc.)*, Case No. CV-05-0008 (JS) (E.D.N.Y. August 16, 2005), the district court reversed the order of the bankruptcy court upholding the trustee's determination that the claimants were not customers under SIPA. The claimants had invested in fraudulent securities, had authorized the sale of the securities, and had authorized the proceeds from the sales to be loaned to the debtor and/or its principal. Promissory notes evidencing the loans were signed by the principal of the debtor and repayment of the loans was guaranteed by the debtor and its principal. In connection with the transactions, the claimants received account and confirmation statements reflecting the loans; the claimants also received the promissory notes which they held, in one case, for more than one year before the debtor was placed in liquidation – all without protest. The claimants received monthly payments of interest on the loans, at an above-market interest rate of 18% per annum. Although the course of conduct between the claimants and the debtor evidenced unsecured loan transactions and not market transactions, the district court found the claimants to be "customers," with claims for cash under SIPA. Both SIPC and the trustee have appealed to the Second Circuit (*Mary Ann Stafford, Rheba Weine, Joel Weine v. James Giddens, as Trustee, and Securities Investor Protection Corporation*, Case No. 05-5527-bk).

In 1997, SIPC initiated a Direct Payment Procedure with respect to Selheimer & Co. In connection with the Direct Payment Procedure, various actions were brought in bankruptcy court by investors whose claims had been denied. In one of those actions, the court upheld SIPC's denial of the claim of Edward Murphy III on five grounds, one of which was that Murphy was a partner of Selheimer and therefore, ineligible under SIPA to have his claim satisfied with an advance from SIPC. Murphy appealed. The district court upheld the denial of Murphy's claim, and the ruling was affirmed by the Third Circuit. In its opinion, the court expressly affirmed the finding that Murphy was a general partner of the firm. While the district court appeal was pending, SIPC commenced a liquidation proceeding as to Selheimer pursuant to section 78fff-4(f) of SIPA which authorizes SIPC, in its discretion, to discontinue a Direct Payment Procedure, if appropriate, and to initiate a liquidation proceeding with respect to a member. SIPC was appointed trustee for the firm.

In 2005, four decisions were issued in the Selheimer liquidation proceeding -- three in the bankruptcy court and one in the district court -- relating to an action by the trustee seeking to hold Murphy liable. The debtor's estate has no assets except for claims against the debtor's general partners. The trustee seeks to recover funds from Murphy to satisfy the claim of any customer that exceeds the limits of protection under SIPA and to reimburse SIPC for its advances.

In *SIPC v. Murphy (In re Selheimer & Co.)*, 319 B.R. 395 (Bankr. E.D. Pa. 2005), consistent with SIPA, the bankruptcy court held payments by SIPC to satisfy customer claims during the Direct Payment Procedure of Selheimer to be entitled to full effect in the subsequent liquidation proceeding of the debtor. The court also held its earlier findings that the debtor was a general partnership and that Murphy was one of its general partners, which were litigated in the bankruptcy court and affirmed on appeal, to have preclusive effect in the current action. The court further held that inasmuch as the acts of securities fraud by a partner of the debtor against the firm's customers were performed in the ordinary course of the debtor's business, such acts were chargeable to the partnership. Because the partnership was liable for the acts of the partner, the partners, jointly and severally, also were liable.

In *Murphy v. Selheimer (In re Selheimer & Co.)*, 319 B.R. 384 (Bankr. E.D. Pa. 2005), a third party complaint seeking indemnification and contribution was filed by Murphy against five persons alleged to be partners of Selheimer. The bankruptcy court granted the trustee's motion to dismiss Murphy's third-party complaint on the ground that the court lacked subject matter jurisdiction.

In *SIPC v. Murphy (In re Selheimer & Co.)*, Adv. Proc. No. 04-0669 (Bankr. E.D. Pa. April 12, 2005), the bankruptcy court denied Murphy's motions for reconsideration of the two above opinions and orders because the motions were untimely. The court granted the trustee a partial final judgment against Murphy under Fed. R. Civ. P. 54 (b) and granted Murphy a stay of the enforcement of that judgment subject to the posting of a bond in the amount of the judgment. On appeal, in *Murphy v. SIPC*, Civ. Action No. 05-2311 (E.D. Pa. Oct. 14, 2005), the district court reversed the bankruptcy court's order granting a partial final judgment because the court found that (i) there was no clear showing of unfairness or hardship to SIPC that would be alleviated by an immediate appeal and (ii) the bankruptcy court's order was unclear as to the dollar amount of Murphy's liability.

In Picard v. *Taylor (In re Park South Securities, LLC)*, 326 B.R. 505 (Bankr. S.D.N.Y. 2005), the trustee sued under various fraudulent transfer statutes and on the basis of unjust enrichment, to avoid and recover transfers of funds made without consent between investor accounts. The transfers were initiated by a principal of the debtor in order to conceal his wrongdoing and his misuse of customer funds and allowed the favored investors to benefit to the detriment of the investors from whose accounts the funds had been transferred. The bankruptcy court held that the trustee had standing on twelve of his thirteen claims because those claims sought to avoid either constructively or intentionally fraudulent transfers under sections 544(b) or 548(a) of the Bankruptcy Code and section 78fff-2(c)(3) of SIPA or to recover the proceeds or value thereof for the benefit of the debtor's estate and creditors under section 550 of the Bankruptcy Code. The court rejected the investors' challenge that the transfers were not properly the subject of a fraudulent transfer claim because the assets were transferred from customer, and not debtor, accounts, noting that for purposes of avoidance actions under the Bankruptcy Code, section 78fff-2(c)(3) of SIPA creates a legal fiction by deeming customer property to be property of the debtor. The court also rejected the argument that the debtor's complicity in the transfers barred the trustee's claims under the Second Circuit's *Wagoner* Rule, on the ground that the Rule does not apply to causes of action that the Bankruptcy Code specifically confers on a trustee or a debtor in possession. The court held that the trustee lacked standing as a contractual assignee of the injured customers, and further repudiated the trustee's right to bring his unjust enrichment claim on the basis of SIPC's subrogation rights, unless he pled that SIPC had expressly conferred those rights upon him.

In *In re Vision Investment Group, Inc.*, 330 B.R. 358 (Bankr. W.D.N.Y. 2005), the bankruptcy court upheld the trustee's determination of a "customer" claim for losses arising from the debtor's failure to execute an order to sell stock. By the time the stock was sold by the claimant's new broker, the stock had dropped in value and the claimant filed a claim for the loss. The court held that the claimant was not a "customer" under SIPA. Having received back long before the commencement of the debtor's liquidation proceeding all the stock that the debtor held for him, the claimant had no claim against the debtor for securities or cash deposits, a prerequisite to "customer" status. While claimant might have a claim for damages, such a claim was not a "customer" claim under SIPA.

In *Lutz v. Drayton (In re Donahue Securities, Inc.)*, Adv. Case No. 03-1531 (Bankr. W.D. Ohio Aug. 19, 2005), on a trustee's motion for summary judgment against Donald Scott, a former SIPC employee who pled guilty to obtaining almost $200,000 fraudulently from a contractor whom he recommended to the trustee, the bankruptcy court held that because there was a mutual understanding between Scott and the contractor to commit an unlawful act, the trustee had satisfied his burden of proof on the claim of civil conspiracy against Scott. The court also held that because (i) Scott recommended the contractor to the trustee, (ii) Scott asked the contractor for kickbacks, (iii) Scott recommended the contractor overbill the estate to compensate for the kickbacks, and (iv) Scott was the SIPC employee responsible for reviewing the inflated invoices of the contractor, the trustee had satisfied his burden of proof on the claim of civil aiding and abetting. The court ordered that a judgment of $238,006 in favor of the trustee be entered against Scott. Scott was sentenced to two years in prison, three years of supervised probation and a fine, for his criminal activity.

In *SIPC v. Rossi (In re Cambridge Capital, LLC)*, 331 B. R. 47 (Bankr. E.D.N.Y. Aug. 22, 2005), the trustee commenced an action which, inter alia, asserted fraudulent conveyance claims against Rossi (the debtor's principal owner), Lisa Caponigro (Rossi's wife), and Mountain Investments, L.P. ("Mountain") (a New York limited partnership comprised of Rossi as general partner, and Rossi and the Rossi family Trust as limited partners), and sought a judgment setting aside and voiding the transfer by Rossi of his personal residence in Dix Hills, NY, to Mountain and Mountain's transfer of the Dix Hills house to Caponigro. The bankruptcy court denied Caponigro's motion for partial summary judgment. The court concluded that the trustee had identified several possible "badges of fraud" that, if proven, would lend support to an inference of actual intent to hinder, delay, or defraud on the part of Rossi. The court also concluded that Caponigro had not shown the absence of a genuine issue of material fact as to whether Rossi's transfer of the Dix Hills house to Mountain was made with fair consideration or that Caponigro's purchase of the Dix Hills house was made for a "fair equivalent therefor" – or was made in good faith. Rossi and Caponigro settled with the trustee by their payment to the trustee of $425,000.

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 14(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.

Criminal and Administrative Actions

Criminal actions have been initiated in 124 of the 314 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 295 indictments have been returned in federal or state courts, resulting in 261 convictions to date.

Administrative and/or criminal actions in 277 of the 314 SIPC customer protection proceedings initiated through December 31, 2005, were accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Actions	61
Exclusive SEC Administrative Actions	41
Exclusive Self-Regulatory Administrative Actions	51
Criminal and Administrative Actions	100
Criminal Actions Only	24
Total	277

In the 253 customer protection proceedings in which administrative actions have been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	117	113
Bar from Association	351	228
Fines	Not Applicable	$11,483,781

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 $11,483,781 in fines assessed by self-regulatory authorities were levied against 130 associated persons and ranged from $250 to $1,600,000.

Todd Eberhard, the securities financial principal responsible for the 2003 failures of two SIPC members, Park South Securities, LLC and Consolidated Services of America, Inc., was sentenced to a 160-month term of imprisonment on June 7, 2005 in the U.S. District Court. Restitution has yet to be determined.

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

One member was referred under Section 5(a) during the calendar year 2005 and no active referrals had been carried forward from prior years. The one referral, Austin Securities, Inc., became a SIPC proceeding during the year.

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

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

Report of Independent Certified Public Accountants

To the Board of Directors of:
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (the Corporation) as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Vienna, VA
March 22, 2006

Securities Investor Protection Corporation

Statement of Financial Position as of December 31, 2005

ASSETS	
Cash	$ 3,710,019
U.S. Government securities, at fair value including accrued interest receivable of $17,700,071; (amortized cost $1,269,472,374) (Note 6)	1,282,382,212
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($194,062,438) (Note 4)	91,700,000
Prepaid benefit costs (Note 8)	3,097,068
Other (Note 5)	1,668,550
	$1,382,557,849
LIABILITIES AND NET ASSETS	
Advances to trustees - in process (Note 4)	$ 71,545
Accrued benefit costs (Note 8)	4,122,032
Accounts payable and other accrued expenses	545,576
Deferred rent (Note 5)	373,972
Estimated costs to complete customer protection proceedings in progress (Note 4)	32,300,000
	37,413,125
Net assets	1,345,144,724
	$1,382,557,849

Statement of Activities for the year ended December 31, 2005

Revenues:	
Interest on U.S. Government securities	$ 62,758,304
Member assessments (Note 3)	927,597
	63,685,901
Expenses:	
Salaries and employee benefits (Note 8)	5,244,719
Legal and accounting fees (Note 4)	395,573
Credit agreement commitment fee (Note 5)	2,218,971
Rent (Note 5)	631,764
Other	1,713,120
	10,204,147
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(95,690,136)
	(85,485,989)
Total net revenues	149,171,890
Realized and unrealized losses on U.S. Government securities (Note 6)	(39,972,573)
Increase in net assets	109,199,317
Net assets, beginning of year	1,235,945,407
Net assets, end of year	**$1,345,144,724**

The accompanying notes are an integral part of these statements.

Securities Investor Protection Corporation

Statement of Cash Flows for the year ended December 31, 2005

Operating activities:	
Interest received from U.S. Government securities	$ 66,085,639
Member assessments received	927,597
Advances paid to trustees	(21,883,938)
Recoveries of advances	6,457,179
Salaries and other operating activities expenses paid	(9,362,622)
Net cash provided by operating activities	42,223,855
Investing activities:	
Proceeds from sales of U.S. Government securities	123,691,565
Purchases of U.S. Government securities	(162,624,393)
Purchases of furniture and equipment	(70,975)
Leasehold improvements	(314,956)
Net cash used in investing activities	(39,318,759)
Increase in cash	2,905,096
Cash, beginning of year	804,923
Cash, end of year	**$ 3,710,019**

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

1. Organization and general

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

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

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

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

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $1,286,092,231.

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

3. Member assessments

For calendar year 2005 each member's assessment is $150. Assessments received in advance will be applied to future assessments, or refunded to the member after it fulfills certain requirements.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 31 proceedings in progress at December 31, 2005. Customer claims have been satisfied in 26 of these proceedings and in 5 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 and Trustees appointed under SIPA are subject to legal claims arising out of the proceedings and there are certain legal claims pending seeking coverage under SIPA. These claims are considered in determining estimated costs to complete proceedings and management believes that any liabilities or settlements arising from these claims will not have a material effect on SIPC's net assets.

SIPC has advanced a net of $285.9 million for proceedings in progress (including direct payment proceedings of $.1 million) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $194.2 million is not expected to be recovered.

The following table summarizes transactions during the year ended December 31, 2005 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$ 700,000	$52,200,000
Add:		
Provision for current year recoveries	5,800,000	—
Provision for estimated future recoveries	91,700,000	—
Provision for estimated costs to complete proceedings	—	2,000,000
Less:		
Recoveries	6,500,000	—
Advances to trustees	—	21,900,000
Balance, end of year	$91,700,000	$32,300,000

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 rentals for office space under a ten-year lease expiring August 31, 2015, are as follows: 2006 - $501,376; 2007 - $513,944; 2008 - $526,790; 2009 - $539,911; 2010 - $553,447; 2011 - $567,259; 2012 - $581,485; 2013 - $595,988; 2014 - $610,905; 2015 - $417,491; for a total of $5,408,595, as of December 31, 2005. Additional rental based on increases in operating expenses and real estate taxes is required by the lease. The rent holiday of $41,567 and the leasehold improvement incentive of $345,300 are being amortized over the life of the lease.

On June 25, 2003, SIPC signed a five-year lease for additional office space in Fairfax, Virginia, expiring July 31, 2008. Future minimum rentals for the space are as follows: 2006 - $90,230; 2007 - $92,936; 2008 - $55,150; for a total of $238,316 as of December 31, 2005. Additional rental is based on increases in operating expenses, including real estate taxes.

In March, 2004, SIPC entered into a $1 billion credit agreement with a consortium of banks, consisting of (i) a $500 million, 364-day, revolving credit facility, with a commitment fee of .09% per annum, and (ii) a $500 million, 3-year, revolving credit facility at .11% per annum, both paid quarterly. Additionally, fees ranging from .2% to .3% were paid to certain banks based on the level of their commitment.

In March, 2005, SIPC renewed the $500 million 364-day, facility at the same commitment fee. In March of 2006, this facility was replaced by a new 3-year, $500 million revolving credit facility with commitment fees of .10% per year. Additionally, fees ranging from .12% to .15% were paid to certain banks based on the level of their commitment.

6. Fair value of securities

Fair value of U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2005.

U.S. Government securities as of December 31, 2005, included gross unrealized gains of $21,073,064 and gross unrealized losses of $8,163,226.

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

Increase in net assets	$109,199,317
Net increase in estimated recoveries of advances to trustees	(91,000,000)
Unrealized loss on U.S. Government securities	40,016,547
Net decrease in estimated cost to complete customer protection proceedings	(19,900,000)
Net amortized premium on U.S. Government securities	3,071,720
Deferred rent	373,972
Decrease in accrued interest receivable on U.S. Government securities	211,644
Increase in payables and accrued expenses	178,197
Depreciation and amortization	150,247
Increase in prepaid expenses	(79,612)
Loss on disposal of assets	1,823
Net cash provided by operating activities	$ 42,223,855

8. Pensions and Other Postretirement Benefits

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. SIPC also has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance beneifts. The postretirement health care plan is contributory, with retiree contributions adjusted annually to reflect changes in gross premiums; the life insurance plan is noncontributory. The following valuation results are based on acturial assumptions and methods mandated by the Statement of Financial Accounting Standards No. 132 (FAS 132), No. 106 (FAS 106), and No. 87 (FAS 87).

	Pension Benefits	Other Postretirement Benefits
Change in Benefit Obligation		
Benefit obligation at beginning of year	$16,541,722	$ 3,541,305
Service cost	569,079	134,865
Interest cost	980,053	210,984
Actuarial losses	159,853	629,794
Plan participant's contributions	-	9,835
Benefits paid	(391,825)	(53,963)
Benefit Obligation at end of year	$17,858,882	$ 4,472,820
Change in Plan Assets		
Fair value of plan assets at beginning of year	$14,377,856	$ -
Actual return on plan assets	983,478	-
Employer contribution	1,500,000	44,128
Plan participants' contributions	-	9,835
Benefits paid	(391,825)	(53,963)
Fair value of plan assets at end of year	$16,469,509	$ -
Reconciliation of Funded Status		
Funded status	$ (1,389,373)	$(4,472,820)
Unrecognized net actuarial losses	4,348,435	350,788
Unrecognized prior service cost	138,006	-
Net amount recognized	$ 3,097,068	$(4,122,032)
Amounts Recognized in the Financial Statements		
Prepaid (Accrued) benefit cost	$ 3,097,068	$(4,122,032)
Net Periodic Benefit Cost		
Service cost	$ 569,079	$ 134,865
Interest cost	980,053	210,984
Expected return on assets	(1,208,628)	-
Amorization of prior service cost	13,172	-
Recognized net loss	256,584	957
Net Periodic Benefit Cost	$ 610,260	$ 346,806
Information for Pension Plans		
Projected benefit obligation	$17,858,882	
Accumulated benefit obligation	$15,753,406	
Fair value of plan assets	$16,469,509	

Actuarial Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the year ended December 31 and assumed health care cost trend rates at December 31

	Pension Benefits	Other Postretirement Benefits
Discount rate	5.75%	5.75%
Rate of compensation increase	4.50%	N/A
Expected return on plan assets	8.00%	N/A
Health care cost trend rate assumed for next year	N/A	10.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	5.00%
Year that the rate reaches the ultimate trend rate	N/A	2011
Average expected future working lifetime of active plan participants	10 years	11 years

The change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2005, the pension unrecognized net loss increased by 0.78% of the 12/31/2004 projected benefit obligation. SIPC with its actuary changes important assumptions whenever conditions warrant. The discount rate is reviewed annually. Other material assumptions include the compensation increase rates, rates of employee termination, rates of retirement and rates of participant mortality, which are reviewed periodically and changed as expectations about the future change.

The discount rate at January 1, 2006 used for FAS 87 and FAS 106 purposes has been chosen based on a discounted cash flow analysis and the Buck Consultants FASB Discount Rate Model. Recent SEC guidelines indicate that the discount cash flow model is an acceptable method for the selection of a discount rate. These spot curve plots yield rates as a function of time. Each point on the curve represents a spot rate that can be used to discount a benefit amount expected to be paid at that time. The curve is constructed by examining the yield on selected highly rated (AAA or AA) corporate bonds from the Bloomberg database. After yield and duration are obtained for each bond, Nelson Siegel curve fitting methodology is used to construct a regression curve of yield as a function of duration. The regression minimizes the least squares error of observed vs. fitted yields. The regression produces a single equivalent discount rate that, when applied to all future benefit payments, will result in the same obligation as the obligation obtained by discounting all future benefit payments using duration specific spot rates from the yield curve. The single discount rate produced from this model, as of January 1, 2006 rounded to the nearest 25 basis points, results in a rate of 5.75% to be used for FASB purposes.

A 1% increase/(decrease) in the discount rate would have (decreased)/increased the pension net periodic benefit cost for 2005 by ($216,000)/$315,000. The expected return on plan assets was determined based on historical and expected future returns of the various asset classes, using the target allocations described below. A 1% change in the expected rate of return assumption would have changed the net periodic benefit cost for 2005 by $151,000.

A 1% increase/(decrease) in the assumed health care trend rate would have increased/(decreased) the service cost and interest cost for 2005 by $77,000/($63,000). A 1% increase/(decrease) in the assumed health care trend rate would have increased/(decreased) the APBO for 2005 by $711,000/($592,000).

Plan Assets

Asset Category	Expected Long-Term Return	Target Allocations	Actual Allocation 12/31/2005
Equity securities	10.25%	60–70%	66%
Debt securities	4.50%	40–30%	34%
TOTAL	8.00–8.50%	100%	100%

The plan's investment policy includes a mandate to diversify assets and invest in a variety of asset classes to achieve that goal. The plan's assets are currently invested in a variety of funds representing most standard equity and debt security classes.

Contributions

SIPC expects to contribute $1,200,000 to the pension plan and $62,000 to the postretirement benefit plan during 2006. Funding requirements for subsequent years are uncertain and will significantly depend on changes in interest rates used to calculate plan funding levels, the actual return on plan assets and any legislative or regulatory changes affecting plan funding requirements. For financial planning, cash flow management, or cost reduction purposes SIPC may increase, accelerate, decrease, or delay contributions to the plan to the extent permitted by law.

Estimated Future Benefit Payments

The following benefit payments, which include expected future service, are anticipated:

	Pension	Other Benefits
2006	$ 524,000	$ 62,000
2007	$ 592,000	$ 78,000
2008	$ 683,000	$ 97,000
2009	$ 790,000	$ 129,000
2010	$ 948,000	$ 160,000
2011–2015	$6,372,000	$1,211,000

Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$114,904

APPENDIX I

Distributions for Accounts of Customers for the Thirty-five Years Ended December 31, 2005

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			Total
		Advances*	**Recoveries***	**Net**	
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	606,593	40,785	(5,812)	34,973	641,566
2003	(643,242)△	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662)△	(37,700)	(49,362)	159,663
2005	(24,245)○	1,175	(4,342)	(3,167)	(27,412)
	$13,772,463	**$661,087**	**$(289,708)**	**$371,379**	**$14,143,842**

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

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

△ Reflects adjustments to customer distributions in the MJK Clearing, Inc. customer protection proceeding based upon Trustee's revised allocation.

○ Reflects adjustment to distribution of customers assets subsequently determined not held by Donahue Securities, Inc.

APPENDIX II Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2005

	2005	2004	2003	2002	2001
Revenues:					
Interest on U.S. Government securities	$ 62,754,357	$63,085,146	$63,770,520	$66,526,852	$71,308,629
Member assessments and contributions	927,597	972,817	1,083,178	1,050,096	1,083,173
Interest on assessments	3,947	5,430	3,815	4,630	6,507
	63,685,901	64,063,393	64,857,513	67,581,578	72,398,309
Expenses:					
Salaries and employee benefits	5,244,719	5,118,345	5,329,547	4,495,570	4,234,246
Legal fees	347,240	347,793	261,121	71,382	93,435
Accounting fees	48,333	36,050	35,450	72,298	87,439
Credit agreement commitment fee	2,218,971	2,864,300	1,409,071	1,228,902	1,258,049
Professional fees—other	164,602	184,882	274,056	506,555	165,489
Other:					
Assessment collection cost	7,984	10,788	5,257	7,731	7,339
Depreciation and amortization	150,247	161,437	107,274	101,059	115,669
Directors fees and expenses	31,124	55,835	42,114	19,112	20,436
Insurance	30,621	28,988	23,955	20,370	28,820
Investor education	343,022	342,600	172,518	253,217	129,563
Imaging expenses△	74,442	290,296	92,972		
Office supplies and expense*△	132,282	149,968	112,636	117,859	79,698
EDP and internet expenses*	338,582	378,024	346,386	134,058	137,185
Postage	11,040	15,050	16,773	18,540	14,858
Printing & mailing annual report	32,692	33,461	35,457	37,484	37,131
Publications and reference services	145,311	149,725	149,526	137,275	128,493
Rent—office space	631,764	619,450	495,297	483,757	475,010
Telephone	68,933	71,227	40,055	28,439	31,672
Travel and subsistence	156,671	126,827	146,201	153,887	245,435
Personnel recruitment*	10,104	2,608	160,923	37,191	27,594
Miscellaneous	15,463	9,071	10,949	8,889	7,004
	2,180,282	2,445,355	1,958,293	1,558,868	1,485,907
	10,204,147	10,996,725	9,267,538	7,933,575	7,324,565
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(2,192,756)	(37,187,364)	14,942,466	529,017	105,096,495
Cash	(1,147,479)	(14,345,975)	2,002,437	29,402,976	6,321,647
	(3,340,235)	(51,533,339)	16,944,903	29,931,993	111,418,142
Administration expenses	17,565,057	30,564,773	10,186,525	8,455,180	7,556,143
	14,224,822	(20,968,566)	27,131,428	38,387,173	118,974,285
Net change in estimated future recoveries	(91,000,000)	34,300,000	(35,000,000)	16,000,000	(14,400,000)
	(76,775,178)	13,331,434	(7,868,572)	54,387,173	104,574,285
SIPC as Trustee:					
Securities	184,354	1,798,260	507,105	4,078,910	1,687,819
Cash	(9,714)	367,371	354,548	532,294	152,839
	174,640	2,165,631	861,653	4,611,204	1,840,658
Administration expenses	810,987	1,601,101	1,369,116	1,076,410	882,629
	985,627	3,766,732	2,230,769	5,687,614	2,723,287
Direct payments:					
Securities	(585)	2,141	351,208	169,026	38,923
Cash	-	2,805	166,612	260,727	144,368
	(585)	4,946	517,820	429,753	183,291
Administration expenses	-	16,272	14,134	97,713	90,019
	(585)	21,218	531,954	527,466	273,310
Net change in estimated cost to complete proceedings	(19,900,000)	(8,200,000)	(5,500,000)	3,100,000	3,900,000
	(95,690,136)	8,919,384	(10,605,849)	63,702,253	111,470,882
	(85,485,989)	19,916,109	(1,338,311)	71,635,828	118,795,447
Total net revenues (expenses)	149,171,890	44,147,284	66,195,284	(4,054,250)	(46,397,138)
Realized and unrealized (loss) gain on U.S. Government securities	(39,972,573)	(29,654,153)	(36,264,061)	60,876,221	21,344,414
Increase (decrease) in net assets	$109,199,317	$14,493,131	$29,931,763	$56,821,971	$(25,052,724)

*2001–2002 Office supplies & expense, EDP and interest expense, and Personnel recruitment restated within those categories

△2003 Office supplies & expense and Imaging expenses restated within those categories

APPENDIX III Customer Protection Proceedings

PART A: Customer Claims and Distributions Being Processed [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Weatherly Securities Corporation New York, NY (SIPC)	9/08/82	5/05/03	5/05/03	13,354	221	10
Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	10/09/59	8/25/03	9/29/03	19,636	325	16
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356	81	29
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	4/26/00	12/03/04	12/03/04	103,690	3,054	70
Austin Securities, Inc. Forest Hills, NY (SIPC)	12/12/85	4/14/05	4/14/05	1,911	106	2
TOTAL 5 MEMBERS: PART A				**138,947**	**3,787**	**127**

December 31, 2005

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 864,850	$507,287	$357,563	$ 901,643	$ 284,233		$ 576,837	$ 40,573
25,044		25,044	2,831,928	2,306,378		496,750	28,800
			1,692,390	84,965		1,051,881	555,544
185,875		185,875	3,564,595	3,518,756		45,839	
190,366		190,366	44,659			44,659	
$1,266,135	**$507,287**	**$758,848**	**$9,035,215**	**$6,194,332**		**$2,215,966**	**$624,917**

APPENDIX III

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Adler, Coleman Clearing Corp. New York, NY (Edwin B. Mishkin, Esq.)	12/27/84	2/27/95	2/27/95	102,000	19,841	59,650
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	7/16/81	10/16/95	10/17/95	2,866	139	20
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	832	63	49
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	134	24
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,378	362
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	153	67
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	9/03/77	3/06/97	3/10/97	11,097	5,416	5,299

December 31, 2005

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 745,107,347	$ 711,744,281	$33,363,066	$ 8,000,000			$ 4,000,000	$ 4,000,000
5,537,527	860,265	4,677,262	6,928,716	$ 6,928,716			
3,006,267	2,354,698	651,569	10,678,689	1,997,611		7,438,470	1,242,608
697,818	14,999	682,819	5,544,040	2,817,737		1,547,458	1,178,845
9,605,638	5,419,193	4,186,445	14,060,257	8,533,031		421,423	5,105,803
9,019	8,601	418	343,989	55,860		169,020	119,109
360,528,759	351,960,822	8,567,937	36,541,115	11,215,455		23,314,669	2,010,991

APPENDIX III Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Selheimer & Co. Ambler, PA (SIPC)	9/17/67		9/08/97† 6/28/02 *	84	11	3
John Dawson & Associates Chicago, IL (J. William Holland, Esq.)	10/30/72	4/08/99	4/13/99	6,750	126	14
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,535	9,738
New Times Securities Services, Inc., and New Age Financial Services, Inc. Melville, NY (James W. Giddens, Esq.)	4/19/95	2/16/00	5/18/00	3,668	898	346
Meridian Asset Management, Inc. Tallahassee, FL (SIPC)	9/25/91	7/26/00	7/31/00	1,173	117	10
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	12/20/94	1/16/01	1/16/01	3,833	235	81
MPI Financial Columbus, OH (SIPC)	3/10/98	1/29/01	1/29/01	4,780	229	19

†Date notice published
*Date Direct Payment proceeding converted to SIPC as Trustee proceeding

December 31, 2005

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$ 428,170	$ 177,012		$ 162,195	$ 88,963
$ 1,447,122	$ 1,327,077	$ 120,045	5,866,488	5,192,695		673,793	
359,784,418	353,191,553	6,592,865	39,052,903	10,182,920		12,660,094	16,209,889
996,358	890,596	105,762	25,822,042	4,987,175		15,778,057	5,056,810
7,424	2,200	5,224	1,494,929	152,227		1,182,702	160,000
602,611	339,654	262,957	3,642,004	423,922		2,627,790	590,292
42,974		42,974	1,024,049	89,138		470,052	464,859

APPENDIX III Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Cambridge Capital, LLC Garden City, NY (SIPC)	4/11/97	1/24/01	2/02/01	2,745	154	36
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	5/08/89	2/26/01	3/06/01	26,395	7,117	3,371
MJK Clearing, Inc. Minneapolis, MN (James P. Stephenson, Esq.)	4/01/81	9/27/01	9/27/01	210,500	26,992	172,915
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos-Bonet, Esq.)	10/24/60	10/17/01	10/17/01	1,903	36	14
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	5/15/96	10/30/01	10/30/01	22,879	330	13
Krieger Financial Services, Inc. Delray Beach, FL (Howard J. Berlin, Esq.)	9/09/98	11/01/01	11/01/01	1,355	97	5
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	321	24

December 31, 2005

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 721,691	$ 443,029	$ 278,662	$ 2,192,486	$ 1,003,286		$ 1,189,200	
5,268,244	1,010,785	4,257,459	9,153,877	5,065,702			$ 4,088,175
10,201,074,509	10,196,214,109	4,860,400	80,482,164	32,358,490		48,123,674	
33,801		33,801	1,135,254	322,330			812,924
238,566		238,566	2,882,568	485,298		2,001,910	395,360
1,032,476		1,032,476	1,560,623	980,623		400,000	180,000
2,707		2,707	1,914,178	446,545			1,467,633

APPENDIX III Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Mason Hill & Co., Inc. New York, NY (SIPC)	11/28/95	3/27/02	3/27/02	1,580	69	11
Rocky Mountain Securities & Investments, Inc. Denver, CO (John D. Shively, Esq.)	8/22/80	2/06/03	2/06/03	5,426	653	3,837
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	7/24/00	2/05/03	2/10/03	2,278	302	21
Cybervest Securities, Inc. Ft. Lauderdale, FL (SIPC)	8/13/96	4/21/03	5/28/03	1,066	79	7
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	9/08/03	9/08/03	18,281	393	11
TOTAL 26 MEMBERS: PART B				**490,401**	**71,818**	**255,947**

December 31, 2005

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,671	$ 1,671		$ 1,386,304	$ 363,165		$ 893,825	$ 129,314
58,865,335	58,300,000	$ 565,335	5,193,783	1,090,892		3,599,790	503,101
2,285,307	1,641,434	643,873	8,084,849	2,630,732		5,104,326	349,791
18,537	4,200	14,337	1,161,512	526,875		571,129	63,508
528,920		528,920	2,262,900	609,570		1,653,330	
$11,757,445,046	**$11,685,729,167**	**$71,715,879**	**$276,837,889**	**$98,637,007**		**$133,982,907**	**$44,217,975**

APPENDIX III Customer Protection Proceedings

PART C: Proceedings Completed in 2005

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers (b) To Whom Notices and Claim Forms Were Mailed	Responses (b) Received	Total Customer Claims Satisfied
W. S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	6/26/91	3/07/97	3/12/97	25,600	6,658	21,645
Cygnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/30/91	8/26/97	8/26/97	346	60	24
CPA Advisors Network, Inc. Providence, RI (Edward J. Bertozzi, Jr., Esq.)	10/27/80	12/29/98	2/12/99	1,350	72	45
R. D. Kushnir & Co. Northbrook, IL (SIPC)	4/14/89	6/02/99	7/14/99	13,328	56	6
Churchill Securities, Inc. Suffern, NY (Edwin B. Mishkin, Esq.)	7/13/79	11/30/99	12/13/99	5,334	850	679
Klein, Maus & Shire, Inc. New York, NY (Irving H. Picard, Esq.)	10/02/87	8/28/00	9/06/00	723	66	22
Nationwide Securities Corporation Valrico, FL (Direct Payment)	1/29/92		8/16/04†	1,633	24	2
TOTAL 7 MEMBERS 2005				**48,314**	**7,786**	**22,423**
TOTAL 276 MEMBERS 1973-2004(d)				**1,465,141**	**362,957**	**345,247**
TOTAL 283 MEMBERS 1973-2005				**1,513,455**	**370,743**	**367,670**

†Date notice published

December 31, 2005

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 216,229,127	$ 209,226,415	$ 7,002,712	$ 9,628,766	$ 1,041,462		$ 7,331,878	$ 1,255,426
213,242	188,242	25,000	3,060,433	755,825		1,579,580	725,028
8,300,987	6,812,312	1,488,675	(400,000)			(400,000)	
957,417	915,634	41,783	3,789,114	3,232,539		449,319	107,256
450		450	13,182,369	2,640,928		9,977,684	563,757
7,883		7,883	3,831,439	1,092,340		2,439,782	299,317
			21,218	16,272		2,141	2,805
225,709,106	**217,142,603**	**8,566,503**	**33,113,339**	**8,779,366**		**21,380,384**	**2,953,589**
2,062,402,676	**1,869,083,742**	**193,318,934**	**266,279,758**	**100,276,027**	**$1,388,427**	**67,848,350**	**96,766,954**
$2,288,111,782	**$2,086,226,345**	**$201,885,437**	**$299,393,097**	**$109,055,393**	**$1,388,427**	**$89,228,734**	**$99,720,543**

APPENDIX III Customer Protection Proceedings

PART D: Summary

			Customers (b) To Whom Notices and Claim Forms Were Mailed	Responses (b) Received	Customers(b) Receiving Distributions
Part A:	5	Members — Customer Claims and Distributions Being Processed	138,947	3,787	127
Part B:	26	Members — Customer Claims Satisfied, Litigation Matters Pending	490,401	71,818	255,947
		Sub-Total	629,348	75,605	256,074
Part C:	283	Members — Proceedings Completed	1,513,455	370,743	367,670
		TOTAL	**2,142,803**	**446,348**	**623,744**

Notes:

(a) Based upon information available at year-end and subject to adjustments until the case is closed.

(b) SIPA requires notice to be mailed to each person who appears to have been a customer of the debtor with an open account within the past twelve months. In order to be sure that all potential claimants have been advised of the liquidation proceeding, trustees commonly mail notice and claim forms to all persons listed on the debtor's records, even if it appears that their accounts have been closed. As a result, many more claim forms are mailed than are received. Responses Received usually exceeds Customers Receiving Distributions because responses are commonly received from customers whose accounts were previously delivered to another broker or to the customer. Responses are also received from persons who make no claim against the estate, or whose accounts net to a deficit, or who file late, incorrect, or invalid claims. The number of Customers Receiving Distributions can exceed Responses Received when the trustee transfers accounts in bulk to other brokers before claims are filed.

(c) Includes assets marshalled by Trustee after filing date and does not include payments to general creditors.

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

December 31, 2005

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 1,266,135	$ 507,287	$ 758,848	$ 9,035,215	$ 6,194,332		$ 2,215,966	$ 624,917
11,757,445,046	11,685,729,167	71,715,879	276,837,889	98,637,007		133,982,907	44,217,975
11,758,711,181	11,686,236,454	72,474,727	285,873,104	104,831,339		136,198,873	44,842,892
2,288,111,782	2,086,226,345	201,885,437	299,393,097	109,055,393	$1,388,427	89,228,734	99,720,543
$14,046,822,963	**$13,772,462,799**	**$274,360,164**	**$585,266,201**	**$213,886,732**	**$1,388,427**	**$225,427,607**	**$144,563,435**

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