2006 ANNUAL REPORT

SECURITIES INVESTOR PROTECTION CORPORATION

SIPC

SECURITIES INVESTOR PROTECTION CORPORATION
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April 30, 2007

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-sixth 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.

The year 2006 was another success story for the SIPC program. Only three SIPC member brokerage firms were the subject of customer protection proceedings. Customer losses in two instances were small enough so that SIPC served as trustee, and, in one instance, the SIPC staff used the Securities Investor Protection Act's direct payment procedure to initiate the customer payment process. Indeed, the three year period from 2004 to 2006 resulted in only six brokerage firm failures requiring SIPC intervention. As I noted last year, I attribute this outstanding result to the vigilance of the Securities and Exchange Commission, the security industry self regulatory organizations, and the state regulators who assure customers that their assets are properly segregated and that brokerage firms maintain robust capital adequacy.

SIPC's Board of Directors constantly discusses the issue of whether SIPC has sufficient financial reserves to accomplish our mission: to protect investors. I am pleased to report that at year end, the SIPC Fund stands at an all time high. Two principal factors contributed to this result. First, the low incidence of brokerage firm failure means that SIPC's assets were not needed to replace substantial amounts of missing customer cash and securities in 2006. Second, the SIPC Fund was enhanced when the trustee for MJK Clearing, Inc. returned $91,776,000 to SIPC in 2006, and concluded distributions in the liquidation of that firm. This case is a unique success in SIPC's history. As a result of litigation settlements, the trustee was able to pay all customers, creditors of the firm, and SIPC, with interest, pay all administrative expenses in the proceeding, and return capital to the brokerage firm shareholders. The case will close for all purposes in 2007.

I am also pleased to report that SIPC continues its role as a major international force for investor protection. In June 2006, SIPC signed a Memorandum of Understanding with our counterpart in Taiwan. SIPC also gave a presentation to an international conference of investor protection organizations in conjunction with the meeting of the International Organization of Securities Commissions in Hong Kong. In November, SIPC gave a presentation on the merits of creating an investor protection entity for emerging Eastern European securities markets at the Fifth Annual Belgrade Stock Exchange Conference. As investors, exchanges, and capital move across borders, complex international issues are bound to arise. SIPC will seek to anticipate those issues and cooperate with our counterparts around the globe.

SIPC also focused on the continuing need to educate investors about the nature and limits of the protections afforded under our statutory program. SIPC's work can be complex. I would like to take this opportunity to congratulate SIPC's creative consultants, The Hastings Group and Non Profit Productions, for an outstanding job in bringing our message to the public. The 2006 public service announcement (PSA) campaign included print, radio, and television ads which made a memorable impression. Indeed, the sixty second radio public service announcement, entitled "Spelling Bee", won a Telly Award for an ad explaining our work. Please visit SIPC's website, www.sipc.org . Our radio and television public service announcements are available in the Media Center.

On a personal note, I take great pride in my affiliation with SIPC and its dedicated staff. I was, therefore, deeply honored to represent SIPC, as the Corporation's first Hispanic Chairman, at the "Closing Bell" ceremony at the New York Stock Exchange this summer. The ceremony reinforced SIPC's vital role in protecting the nation's securities markets, past, present, and future.

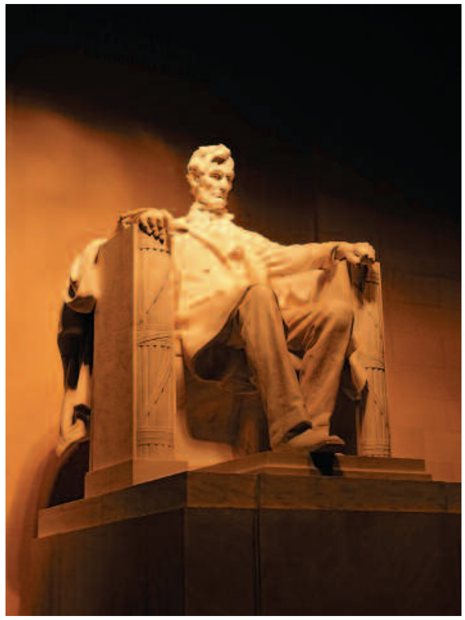
Armando J. Bucelo, Jr.
Chairman

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 NASD Book Store, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for the NASD orders is www.nasd.com/resources/bookstore/index.htm and the phone number is (240)386-4200.

Directors

Armando J. Bucelo, Jr., Esq.
The Law Offices of Armando J. Bucelo, Jr.
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President and CEO
WellCare Health Plans, Inc.
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Assistant Secretary for Financial Institutions, United States Department of the Treasury

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Estrada Hinojosa & Company, Inc.

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

David J. Stockton
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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 three SIPC members in 2006, bringing the total since SIPC's inception to 317 proceedings commenced under SIPA. The 317 members represent less than one percent of the approximately 38,200 broker-dealers that have been SIPC members during the last 36 years. Currently, SIPC has 5,654 members.

The three new cases compare with one commenced in 2005. Over the last ten-year period, the annual average of new cases was six.

SIPC was appointed as trustee in two of the cases commenced during the year, and there was one direct payment proceeding. Customer protection proceedings were initiated for:

Member	Date Trustee Appointed
Financial World Corporation Overland Park, Kansas (SIPC)	1/17/06
Salomon Grey Financial Corporation Dallas, Texas (Direct Payment)	11/28/06†
Paul L. Forchheimer & Co., Inc. New York, New York (SIPC)	12/12/06

† Date Notice Published

Of the 317 proceedings begun under SIPA to date, 291 have been completed, 20 involve pending litigation matters, and claims in 6 are being processed (See Figure I and Appendix III).

During SIPC's 36-year history, cash and securities distributed for accounts of customers totaled approximately $15.7 billion. Of that amount, approximately $15.4 billion came from debtors' estates and $322 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 2006

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	06
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	3

Customer claims being processed (6) Customer claims satisfied, litigation matters pending (20) Proceedings completed (291)

Claims over the Limits

Of the more than 623,600 claims satisfied in completed or substantially completed cases as of December 31, 2006, a total of 340 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 340 claims, a net decrease of one during 2006, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $39.1 million, decreased $620,000 during 2006. 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 86 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 92 percent of the total advanced in all 317 customer protection proceedings. The largest net advance in a single liquidation is $42.1 million in Sunpoint Securities, Inc. This exceeds the net advances in the 231 smallest proceedings combined.

In 28 proceedings SIPC advanced $342.3 million, or 68 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 2006
317 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	10	$221,658,096
5,000,001	$10,000,000	18	120,669,741
1,000,001	5,000,000	58	122,137,379
500,001	1,000,000	37	26,983,275
250,001	500,000	41	14,139,128
100,001	250,000	59	9,598,393
50,001	100,000	42	2,995,426
25,001	50,000	24	890,512
10,001	25,000	12	193,668
0	10,000	9	26,087
Net recovery		7	(13,991,621)*
			$505,300,084†

* 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 ($322,090,419) and for administration expenses ($183,209,665).

"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 305 members during the year brought the total membership to 5,654 at December 31, 2006. 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, 2006, there were 31 members who were subjects of uncured notices, 18 of which were mailed during 2006, eight during 2005 and 2004, and five during the period 1998 through 2003. Subsequent filings and payments by seven members left 24 notices uncured. SIPC has been advised by the SEC staff that: (a) 12 member registrations have been canceled; and (b) 12 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

TABLE II
SIPC Membership
Year Ended December 31, 2006

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,611	230	317
SIPC(b)	86	-	184(c)
Chicago Board Options Exchange Incorporated	336	17	18
New York Stock Exchange, Inc.	317	19	23
American Stock Exchange LLC	141	14	30
NYSE Arca, Inc.(d)	42	3	10
Philadelphia Stock Exchange, Inc.	73	9	8
Chicago Stock Exchange, Incorporated	46	6	12
Boston Stock Exchange, Inc.	2	-	1
	5,654	298	603

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2006.

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.

d. Formally the Pacific Stock Exchange, Inc.

SIPC Fund

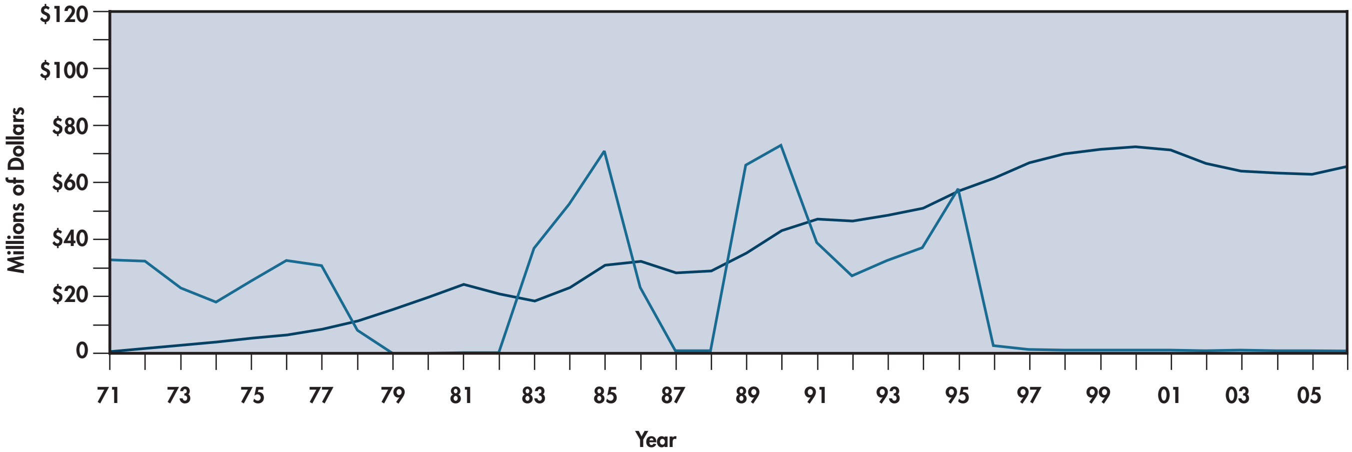
The SIPC Fund, Table V consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.40 billion at year end, an increase of $117 million during 2006.

Tables III and IV present principal revenues and expenses for the years 1971 through 2006. The 2006 member assessments were $900,000 and interest from investments was $65.5 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, 2006.

[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 III **SIPC Revenues for the Thirty-six Years Ended December 31, 2006**



Member assessments and contributions: $735,239,305

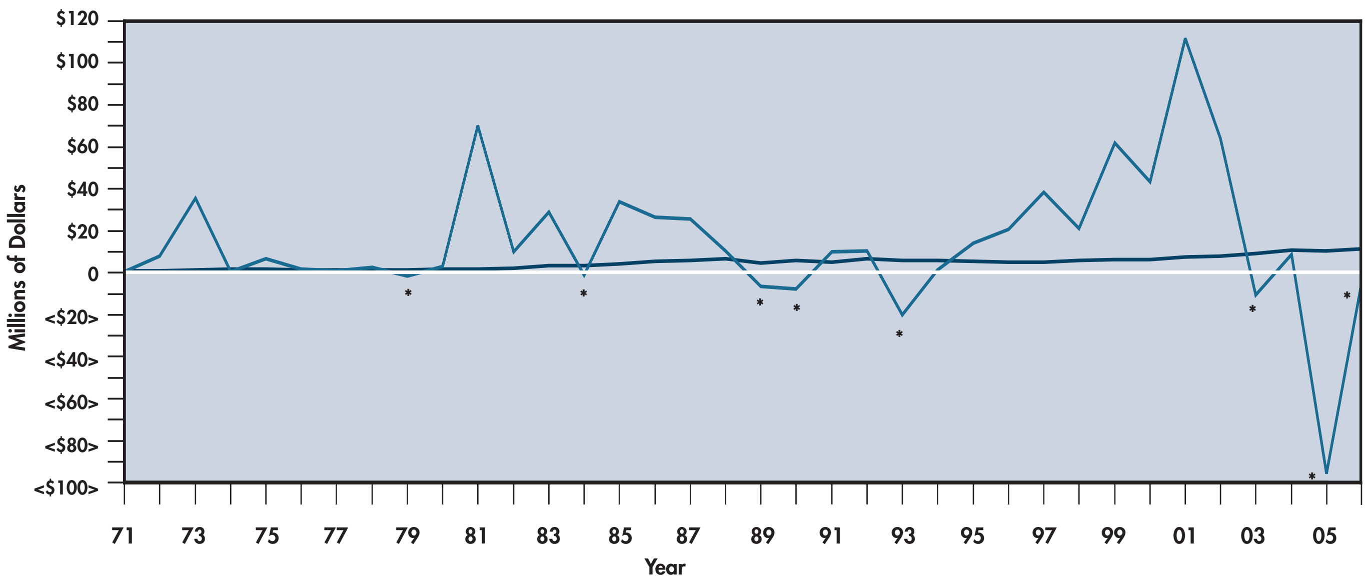
Interest on U.S. Government securities: $1,342,287,308

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).
1996-2006: $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-six Years Ended December 31, 2006**



Customer protection proceedings: $520,200,084 (Includes net advances of $505,300,084 and $21,300,000 of estimated costs to complete proceedings less estimated future recoveries of $6,400,000.)

Other expenses: $171,250,173

*** Net recoveries**

During 2006, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy matters are summarized below:

In *SIPC v. City National Bank (In re Sunpoint Securities, Inc.)*, Adv. Pro. No. 01-6079 (Bankr. E.D. Tex.), a suit by SIPC and the trustee against a bank, a settlement was reached after multiple rulings on cross-motions for summary judgment, and after trial began.

The defendant had a banking relationship with the debtor and its principal, Van R. Lewis. The debtor was one of the bank's largest clients. The bank leased office space to the debtor and made significant loans to Lewis and some to the debtor. The bank also was custodian for the debtor's Individual Retirement Account (IRA) customers. While the bank was custodian and thereafter, Lewis stole millions of dollars in assets from the customers' IRAs. The plaintiffs sued the bank under various theories of negligence and for breach of fiduciary duty, breach of contract, securities fraud, and for RICO violations. The bank disclaimed any responsibility for detecting the thefts.

In ruling on cross-motions for summary judgment in the case, the court rejected, *inter alia*, the plaintiffs' RICO count and claims of any fiduciary duty owed to the IRA customers or duty owed to the plaintiffs. The court allowed the plaintiffs to proceed on their breach of contract, securities fraud, and aiding and abetting breach of contract claims.

After the first day of the trial, the parties settled. The bank paid the trustee $6.15 million.

In another adversary proceeding in the Sunpoint Securities liquidation, *SIPC v. Cheshier & Fuller, LLP (In re Sunpoint Securities, Inc.)*, Adv. Pro. No. 00-6068 (Bankr. E.D. Tex.), the court found in favor of the trustee, denied the claims of SIPC and the defendants' third-party claims against the debtor's officers, and also denied the defendants' counterclaim against the debtor's estate.

The debtor engaged the defendant, an accounting firm, to conduct audits and prepare audit and other reports and opinions in 1997, 1998, and 1999. During those years, the principal of the debtor, Van R. Lewis, misappropriated large amounts of customer money from the debtor's omnibus money market mutual fund account. The court found that the auditors improperly failed to understand how the money market mutual fund account operated, failed to review the operating account check register after they learned of more than $1 million in related party transactions, made material omissions in the statement of financial condition, and noted a net capital deficiency, but failed to investigate properly the purported correction of the deficiency. The court determined that had the SEC and NASD known that the net capital deficiency had not been corrected or that $12 million in customer assets were missing, the debtor would have been required to cease operations.

Although the court concluded that the auditors were negligent and made negligent misrepresentations in their reports, neither SIPC nor the debtor's customers relied on the reports or misrepresentations. The court therefore denied the claims of SIPC and of the trustee to the extent asserted on behalf of customers. The court found that in negligently performing the audits, the auditors breached their duty of care to the debtor in its role as bailee of customer property. The court further found that the auditors' negligence had caused approximately $13 million in actual damages to the estate. The court apportioned liability among the parties responsible for the harm and awarded the trustee $751,281.53. An amended motion for reconsideration, filed by SIPC and the trustee, is pending before the court.

In *Zaremba v. Pheasant (In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.)*, Adv. Pro. No. 05-3322 (Bankr. N.D. Ohio), the court granted in part and denied in part the defendant's motion to dismiss the trustee's suit, with leave to amend the complaint. At various times, the defendant, Merle Pheasant, served as counsel to one or both of the debtors and their parent company, Continental Capital Corporation (CCC). William Clark Davis and William Faulkner, the principal wrongdoers, served in various capacities with the debtors and CCC, including as officers, directors, and investment advisors.

The trustee alleged that the defendant assisted Davis and Faulkner in four separate fraudulent schemes: (1) by advancing funds to the debtors, through CCC, for a limited period to enable them falsely to report that they met minimum net capital requirements; (2) by assisting Davis in fraudulent activities to the detriment of investors; (3) by helping Davis to perpetrate a Ponzi scheme which offered interests in non-existent private placement companies; and (4) by providing a materially false response to an NASD inquiry addressing complaints by investors regarding unregistered promissory notes. In suing the defendant, the trustee alleged preferential transfers, fraudulent transfers, and multiple violations of the Ohio Securities Act.

The defendant moved to dismiss for failure to state a claim and on jurisdictional grounds. The court found the trustee's preference and state securities law claims to be adequately stated and jurisdiction to be proper. The court dismissed the fraudulent transfer counts on the ground that they had not been stated with particularity, but gave the trustee leave to amend. The trustee subsequently amended his complaint. The case is now pending in district court because of the defendant's jury demand.

In *Zaremba v. Berthel Fisher & Company (In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.)*, Adv. Pro. No. 04-3354 (Bankr. N.D. Ohio), the trustee sued for a turnover, accounting and recovery of preferential and fraudulent transfers in connection with the sale of the assets of the debtor by its parent corporation in exchange for stock in the buyer and the assumption by the buyer of certain of the debtor's debts. The agreement also called for the tender of supplemental consideration by the buyer in the form of cash, stock and warrants. The buyer failed to tender the additional consideration. The trustee sought payment from the buyer of $2.3 million, stock and warrants. The buyer generally denied the allegations and asserted a right of set-off. The parties agreed to mediate their disputes. During the mediation, the parties reached a settlement which required payment of $3 million by the buyer to the trustee. The settlement was approved by the court.

In *Focht v. McDermott (In re Old Naples Securities, Inc.)*, 343 B.R. 310 (Bankr. M.D. Fla. 2006), the court found in favor of the trustee in his suit to void fraudulent transfers made by the debtor to broker Dean McDermott and his firm, Compos-McDermott Securities, Inc. (CMSI).

The debtor's principal, James Zimmerman, employed a Ponzi scheme to defraud investors who bought bonds which the debtor promised to repurchase at guaranteed high interest rates. Zimmerman did not explicitly tell McDermott that the bond transactions involved a Ponzi scheme. McDermott solicited several sets of clients, who became victims of this scheme, and assured them that these were "riskless" transactions. For his part in obtaining clients, McDermott and CMSI received exorbitant commissions. McDermott arranged for multiple investors in eight successive transactions. The eighth, and largest, transaction resulted in losses to customers that eventually had to be covered by SIPC advances.

The court found that McDermott knew that the investments were too good to be true, were not true, and somebody would suffer loss when the scheme collapsed. It held that CMSI was not negligent because it owed no duty to the investors, and that, although McDermott had a duty, and breached that duty, the trustee had failed to prove damages resulting from his actions. However, the court found that the commissions received by McDermott and CMSI in connection with the debtor's Ponzi scheme were transfers made with the actual intent to defraud creditors. It held that payments by the debtor to McDermott totaling $115,040, and by the debtor to CMSI totaling $203,310, were voidable as fraudulent transfers, and awarded judgment for the trustee accordingly.

In *Stafford v. Giddens (In re New Times Securities Services, Inc.)*, 463 F.3d 125 (2nd Cir. 2006), the Second Circuit reversed the decision of the district court and remanded the case, with instructions to reinstate the judgment of the bankruptcy court upholding the trustee's determination that the claimants were not "customers" under SIPA. The claimants had invested in fictitious securities, had authorized the sale of these securities, and had authorized the proceeds from the sales to be lent to the debtor and/or its principal. The principal of the debtor had signed promissory notes evidencing the loans, and the debtor and its principal had guaranteed repayment of the loans. In connection with the transactions, the claimants received account and confirmation statements showing the sale of the claimants' "securities" and a transfer of the sales proceeds into a private note; the claimants also received the promissory notes—all without protest. The claimants received monthly payments of interest on the loans, at an above-market interest rate of 18% per annum.

The district court had concluded that the claimants' original investment in "securities" established their "customer" status and that their later decision, fraudulently induced by the principal, to sell the securities in order to provide loans to the debtor and its principal did not alter the claimants' status. The Second Circuit disagreed. Having decided to exchange their securities investments for non-protected loan instruments, authorized the loans, received confirmation and account statements of the transactions, and accepted interest payments in connection with the loans, the claimants could only legitimately expect to be lenders. As lenders, the claimants could not be "customers."

In *Cho v. Holland (In re John Dawson & Associates, Inc.)*, Case No. 04-C-5227 (N. D. Ill.), the district court affirmed the decisions of the bankruptcy court granting summary judgment and default judgments for the trustee and against defendants Peter Cho and Simon Chong, officers and directors of the debtor.

The trustee filed a complaint alleging Cho and Chong converted 25 checks from the debtor's account totaling $404,496.46, and manipulated the sale of options in the company's account in a way that allowed them to misappropriate $149,960. Correctly believing that they would be indicted based on the same matters, the defendants invoked their Fifth Amendment privilege to the trustee's discovery requests and deposition questions. The trustee proceeded with the case and moved for summary judgment. The court granted the trustee's motion as to the 25 checks, but denied it as to the rest and set the remaining matters for trial. After several status hearings, the trustee prepared submissions required by the Final Pretrial Order, while the defendants failed to participate in the process. Shortly before the trial, the trustee moved for entry of a default based on the defendants' lack of participation in preparing the submissions. The defendants responded by filing a motion for a stay pending resolution of the criminal trial. The court denied the stay motion, and granted the default motion. Cho and Chong appealed the summary judgment ruling and the rulings on the stay and default motions.

In affirming, the district court found the evidence submitted by the trustee met the summary judgment standard regarding almost all of the converted checks, and that the bankruptcy court's analysis of the evidence had been thorough. The district court concluded that the evidence showed that the defendants had caused all but five checks to be written to the defendants or to cash and had realized the proceeds. It upheld the summary judgment ruling regarding 20 of the checks, totaling $369,010.74, and remanded for further proceedings regarding five checks. The trustee subsequently abandoned that portion of his claim. The district court also held that the default judgment on the remaining claims was a reasonable sanction for the defendants' not being attentive to the case and not filing a stay motion earlier, and concluded that the lower court had not abused its discretion in granting the default.

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 317 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 279 of the 317 SIPC customer protection proceedings initiated through December 31, 2006, were accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Actions	62
Exclusive SEC Administrative Actions	41
Exclusive Self-Regulatory Administrative Actions	52
Criminal and Administrative Actions	100
Criminal Actions Only	24
Total	279

In the 255 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	352	231
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.

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

Three members were referred under Section 5(a) during the calendar year 2006 and no active referrals had been carried forward from prior years. Two referrals, Financial World Corporation and Salomon Grey Financial Corporation, became SIPC proceedings 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, 2006, 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 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, 2006, 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.

As discussed in Note 8 to the accompanying financial statements, the Corporation has adopted Statement of Financial Accounting Standards No. 158 "Employees' Accounting of Defined Benefit Pension and Postretirement Plans" as of December 31, 2006.

Grant Thornton LLP

McLean, VA
April 12, 2007

Securities Investor Protection Corporation

Statement of Financial Position
as of December 31, 2006

ASSETS		
Cash	$	730,086
U.S. Government securities, at fair value including accrued interest receivable of ($18,493,558); (amortized cost $1,408,502,316) (Note 6)		1,402,827,949
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($181,125,930) (Note 4)		6,400,000
Prepaid benefit costs (Note 8)		574,513
Other (Note 5 and Note 8)		1,480,513
		$1,412,013,061
LIABILITIES AND NET ASSETS		
Advances to trustees - in process (Note 4)	$	448,078
Accrued benefit costs (Note 8)		4,892,022
Accounts payable and other accrued expenses		513,620
Deferred rent		411,411
Estimated costs to complete customer protection proceedings in progress (Note 4)		21,300,000
		27,565,131
Net assets		1,384,447,930
		$1,412,013,061

Statement of Activities
for the year ended December 31, 2006

Revenues:		
Interest on U.S. Government securities	$	65,490,207
Member assessments (Note 3)		894,941
		66,385,148
Expenses:		
Salaries and employee benefits (Note 8)		5,439,474
Legal and accounting fees (Note 4)		329,606
Credit agreement commitment fee (Note 5)		2,164,497
Rent (Note 5)		678,667
Other		1,676,853
		10,289,097
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)		(5,666,120)
		4,622,977
Total net revenues		61,762,171
Realized and unrealized losses on U.S. Government securities (Note 6)		(18,597,798)
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 8)		(3,861,167)
Increase in net assets		39,303,206
Net assets, beginning of year		1,345,144,724
Net assets, end of year		**$1,384,447,930**

The accompanying notes are an integral part of these statements.

Securities Investor Protection Corporation

Statement of Cash Flows
for the year ended December 31, 2006

Operating activities:	
Interest received from U.S. Government securities	$ 67,670,863
Member assessments received	894,941
Advances paid to trustees	(14,263,952)
Recoveries of advances	94,750,268
Salaries and other operating activities expenses paid	(10,730,719)
Net cash provided by operating activities	138,321,401
Investing activities:	
Proceeds from sales of U.S. Government securities	122,895,909
Purchases of U.S. Government securities	(264,120,101)
Purchases of furniture and equipment	(60,719)
Leasehold improvements	(16,423)
Net cash used in investing activities	(141,301,334)
Decrease in cash	(2,979,933)
Cash, beginning of year	3,710,019
Cash, end of year	**$ 730,086**

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 and under § 501(c)(6) of the Internal Revenue Code. 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 $1,403,558,035.

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 2006 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 26 proceedings in progress at December 31, 2006. Customer claims have been satisfied in 20 of these proceedings and in 6 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 $188 million for proceedings in progress (including direct payment proceedings of $45 thousand and advances in process of $448 thousand) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $181.6 million is not expected to be recovered.

The following table summarizes transactions during the year ended December 31, 2006 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$ 91,700,000	$32,300,000
Add:		
Provision for current year recoveries	3,100,000	—
Provision for estimated future recoveries	6,400,000	—
Provision for estimated costs to complete proceedings	—	3,700,000
Less:		
Recoveries	94,800,000	—
Advances to trustees	—	14,700,000
Balance, end of year	$6,400,000	$21,300,000

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: 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 - $417,490; for a total of $4,907,219, as of December 31, 2006. 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: 2007 - $92,936; 2008 - $55,150; for a total of $148,086 as of December 31, 2006. 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 2006, the $500 million, 364-day revolving credit facility with a commitment fee of .09% per year was replaced by a new 3-year, $500 million revolving credit facility with commitment fees of .10% per year. Additionally, upfront fees averaging .14% were paid to certain banks.

In March 2007, a new $500 million, 3-year revolving credit facility with a commitment fee of .10% per year was entered into, replacing the expiring March, 2004, 3-year credit agreement. Upfront 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, 2006.

U.S. Government securities as of December 31, 2006, included gross unrealized gains of $9,841,033 and gross unrealized losses of $15,515,400.

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

Increase in net assets	$39,303,206
Net decrease in estimated recoveries of advances to trustees	85,300,000
Realized and unrealized losses on U.S. Government securities	18,597,798
Net decrease in estimated cost to complete customer protection proceedings	(11,000,000)
Net amortized premium on U.S. Government securities	2,782,172
Decrease in prepaid expenses	2,625,759
Increase in payables and accrued expenses	1,114,567
Increase in accrued interest receivable on U.S. Government securities	(601,514)
Depreciation and amortization	160,453
Increase in deferred rent	37,439
Loss on disposal of assets	1,521
Net cash provided by operating activities	$ 138,321,401

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 a supplemental non-qualified retirement plan for certain employees. The $139,415 year end market value of the supplemental plan is reflected in Other assets and as a deferred compensation liability in Accrued benefit costs. In addition SIPC 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 to reflect changes in gross premiums; the life insurance plan is noncontributory.

As of December 31, 2006, SIPC adopted the provisions of Statement of Financial Accounting Standard No. 158 (FAS 158) (an amendment of FAS 132, 106, and 87) which requires SIPC to recognize in the Statement of Financial Position the overfunded or underfunded status of the plans as an asset or liability in the Statement of Financial Position and to recognize the funded status in the year in which the change occurs through the Statement of Activities. In addition, SIPC is required to recognize within the Statement of Activities, gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period and which are not being recognized as net periodic benefit costs. The incremental impact of applying FAS 158 was to reduce total Net Assets by $3.9 million.

	Pension Benefits	Other Postretirement Benefits
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 17,858,882	$ 4,472,820
Service cost	628,527	153,814
Interest cost	1,012,044	255,422
Plan participants' contributions	-	9,945
Amendments	161,250	96,693
Actuarial loss (gain)	151,777	(180,835)
Benefits paid	(474,602)	(55,252)
Benefit Obligation at end of year	$ 19,337,878	$ 4,752,607
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 16,469,509	$ -
Actual return on plan assets	2,312,484	-
Employer contributions prior to measurement date	1,605,000	-
Employer contributions	-	45,307
Plan participants' contributions	-	9,945
Benefits paid	(474,602)	(55,252)
Fair value of plan assets at end of year	$ 19,912,391	$ -
Funded status	$ 574,513	$(4,752,607)
Employer contribtions between measurement and statement date	-	-
Funded status at year end	$ 574,513	$ (4,752,607)
Amounts Recognized in the Statement of Financial Position and Net Assets consist of:		
Before Adoption of FAS 158:		
Prepaid benefit cost	$ 4,169,922	$ -
After Adoption of FAS 158:		
Noncurrent assets	$ 574,513	$ -
Current liabilities	-	(70,321)
Noncurrent liabilities	-	(4,682,286)
Net amount recognized in the Statement of Financial Position	$ 574,513	$(4,752,607)
Amounts Recognized within the Statement of Activities consist of:		
Net actuarial loss	$ 3,309,325	$ 169,065
Prior service cost	286,084	96,693
Change within the Statement of Activities due to Adoption of FAS 158	$ 3,595,409	$ 265,758
Accumulated Benefit Obligation end of year	$ 16,724,985	$ 4,752,607

Weighted-average Assumptions for Disclosure as of December 31, 2006

	Pension Benefits	Other Postretirement Benefits
Discount rate	6.00%	6.00%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	10.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2012

Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities

	Pension Benefits	Other Postretirement Benefits
Net Periodic Benefit Cost		
Service cost	$ 628,527	$ 153,814
Interest cost	1,012,044	255,422
Expected return on plan assets	(1,375,818)	-
Recognized prior service cost	13,172	889
Recognized actuarial loss	254,221	-
Net Periodic Benefit Cost	532,146	$ 410,125
Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities		
Net actuarial gain	(784,889)	-
Recognized actuarial loss	(254,221)	-
Prior service cost	161,250	-
Recognized prior service cost	(13,172)	-
Total recognized within the Statement of Activities	(891,032)	-
Total recognized in net benefit cost and within the Statement of Activities	$ (358,886)	-
Amounts Expected to be Recoginzed in Net Periodic Cost in the Coming Year		
Loss recognition	$ 138,600	$ -
Prior service cost recognition	37,762	11,650
Total	$ 176,362	$ 11,650
Effect of a 1% Increase in Trend on:		
Benefit Obligation	N/A	$ 876,700
Total Service Interest Cost	N/A	$ 100,122
Effect of a 1% Decrease in Trend on:		
Benefit Obligation	N/A	$ (740,164)
Total Service Interest Cost	N/A	$ (80,449)
Weighted-average Assumptions for Net Periodic as of December 31, 2006		
Discount rate	5.75%	5.75%
Expected asset return	8.00%	N/A
Salary scale	4.50%	N/A
Health Care Cost Trend: Initial	N/A	10.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2011

For the pension plan the change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2006 the unrecognized net loss decreased by 0.2% of the 12/31/2005 projected benefit obligation.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2006 by ($210,000)/$322,000 and (decreased)/increased the year-end projected benefit obligation by ($2.4)/$2.7 million.

The expected return on the pension plan assets was determined based on historical and expected future returns of the various asset classes, using the target allocations described below.

Pension Plan Assets

Asset Category	Expected Long-Term Return	Target Allocation	Actual/Allocation 12/31/2006
Equity securities	10.25%	60–70%	66%
Debt securities	4.50%	40–30%	34%
TOTAL	8.00–8.50%	100%	100%

Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2007	$ 573,000	$ 72,400
2008	$ 674,000	$ 91,200
2009	$ 801,000	$ 120,600
2010	$ 983,000	$ 159,300
2011	$ 1,084,000	$ 178,400
2012–2016	$ 7,395,000	$ 1,329,107

Contributions

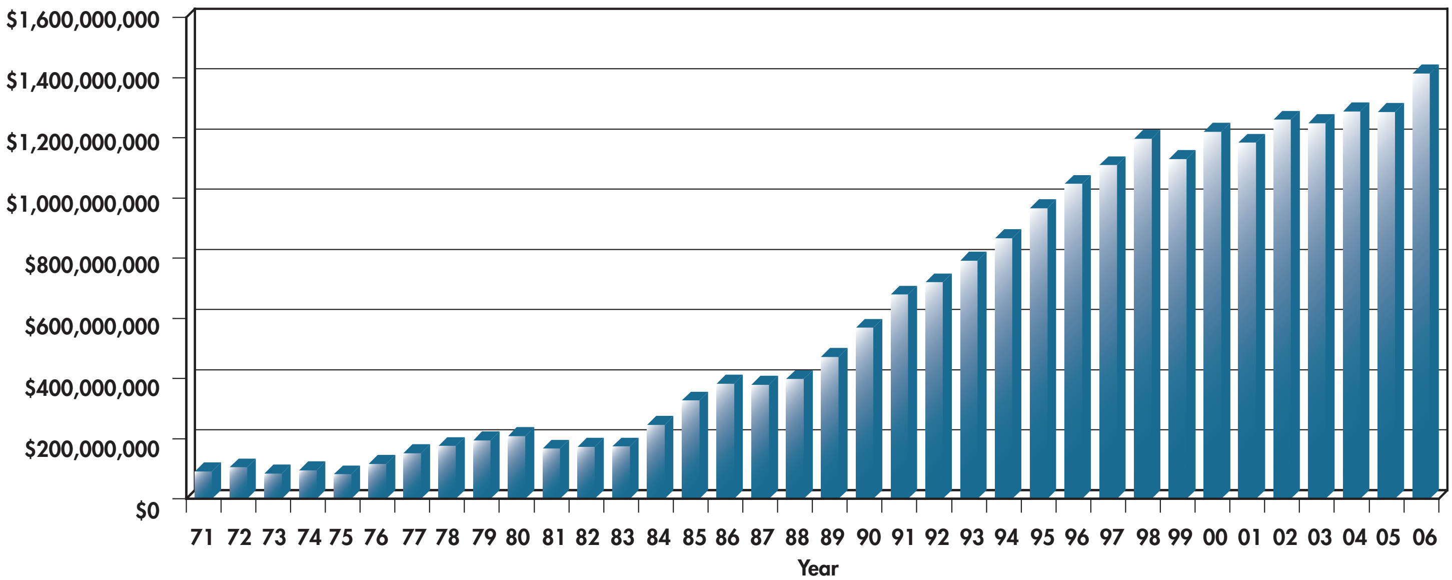
The company expects to contribute $500,000 to the pension plan and $72,400 to the postretirement benefit plan during 2007.

Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$ 116,674

SIPC Fund Comparison

TABLE V **Inception to December 31, 2006**



APPENDIX I Distributions for Accounts of Customers for the Thirty-six Years Ended December 31, 2006

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC Advances*	From SIPC Recoveries*	From SIPC 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
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)
2006	1,635,006	2,653	(51,942)	(49,289)	1,585,717
	$15,407,469	**$663,740**	**$(341,650)**	**$322,090**	**$15,729,559**

* 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, 2006

	2006	2005	2004	2003	2002
Revenues:					
Interest on U.S. Government securities	$65,487,278	$ 62,754,357	$63,085,146	$63,770,520	$66,526,852
Member assessments and contributions	894,941	927,597	972,817	1,083,178	1,050,096
Interest on assessments	2,929	3,947	5,430	3,815	4,630
	66,385,148	63,685,901	64,063,393	64,857,513	67,581,578
Expenses:					
Salaries and employee benefits	5,439,474	5,244,719	5,118,345	5,329,547	4,495,570
Legal fees	257,329	347,240	347,793	261,121	71,382
Accounting fees	72,277	48,333	36,050	35,450	72,298
Credit agreement commitment fee	2,164,497	2,218,971	2,864,300	1,409,071	1,228,902
Professional fees—other	179,575	164,602	184,882	274,056	506,555
Other:					
Assessment collection cost	9,492	7,984	10,788	5,257	7,731
Depreciation and amortization	160,453	150,247	161,437	107,274	101,059
Directors fees and expenses	67,492	31,124	55,835	42,114	19,112
Insurance	30,970	30,621	28,988	23,955	20,370
Investor education	324,029	343,022	342,600	172,518	253,217
Imaging expenses△	57,440	74,442	290,296	92,972	
Office supplies and expense*△	85,457	132,282	149,968	112,636	117,859
EDP and internet expenses*	352,902	338,582	378,024	346,386	134,058
Postage	11,165	11,040	15,050	16,773	18,540
Printing & mailing annual report	32,793	32,692	33,461	35,457	37,484
Publications and reference services	155,887	145,311	149,725	149,526	137,275
Rent—office space	678,667	631,764	619,450	495,297	483,757
Telephone	70,127	68,933	71,227	40,055	28,439
Travel and subsistence	122,258	156,671	126,827	146,201	153,887
Personnel recruitment*		10,104	2,608	160,923	37,191
Miscellaneous	16,813	15,463	9,071	10,949	8,889
	2,175,945	2,180,282	2,445,355	1,958,293	1,558,868
	10,289,097	10,204,147	10,996,725	9,267,538	7,933,575
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(48,468,436)	(2,192,756)	(37,187,364)	14,942,466	529,017
Cash	(2,452,686)	(1,147,479)	(14,345,975)	2,002,437	29,402,976
	(50,921,122)	(3,340,235)	(51,533,339)	16,944,903	29,931,993
Administration expenses	(31,319,949)	17,565,057	30,564,773	10,186,525	8,455,180
	(82,241,071)	14,224,822	(20,968,566)	27,131,428	38,387,173
Net change in estimated future recoveries	85,300,000	(91,000,000)	34,300,000	(35,000,000)	16,000,000
	3,058,929	(76,775,178)	13,331,434	(7,868,572)	54,387,173
SIPC as Trustee:					
Securities	1,382,472	184,354	1,798,260	507,105	4,078,910
Cash	249,601	(9,714)	367,371	354,548	532,294
	1,632,073	174,640	2,165,631	861,653	4,611,204
Administration expenses	454,596	810,987	1,601,101	1,369,116	1,076,410
	2,086,669	985,627	3,766,732	2,230,769	5,687,614
Direct payments:					
Securities		(585)	2,141	351,208	169,026
Cash			2,805	166,612	260,727
		(585)	4,946	517,820	429,753
Administration expenses	188,282		16,272	14,134	97,713
	188,282	(585)	21,218	531,954	527,466
Net change in estimated cost to complete proceedings	(11,000,000)	(19,900,000)	(8,200,000)	(5,500,000)	3,100,000
	(5,666,120)	(95,690,136)	8,919,384	(10,605,849)	63,702,253
	4,622,977	(85,485,989)	19,916,109	(1,338,311)	71,635,828
Total net revenues (expenses)	61,762,171	149,171,890	44,147,284	66,195,284	(4,054,250)
Realized and unrealized (loss) gain on U.S. Government securities	(18,597,798)	(39,972,573)	(29,654,153)	(36,264,061)	60,876,221
Effect of adoption of recognition provisions of FASB Statement No. 158	(3,861,167)				
Increase (decrease) in net assets	$39,303,206	$109,199,317	$14,493,131	$29,931,763	$56,821,971

*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
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	38
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356	81	32
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	4/26/00	11/30/04	12/03/04	103,690	3,062	2,747
Financial World Corporation Overland Park, KS (SIPC)	9/13/96	1/12/06	1/17/06	1,383	111	5
Salomon Grey Financial Corp. Dallas, TX (Direct Payment)	1/26/98		11/28/06†	15,031		
Paul L. Forchheimer & Co. New York, NY (SIPC)	8/08/52	12/12/06	12/12/06			
TOTAL 6 MEMBERS: PART A				140,096	3,579	2,822

†Date notice published

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$68,544		$68,544	$ 5,257,639	$3,590,484		$ 632,650	$1,034,505
			1,858,888	91,854		1,051,881	715,153
2,507		2,507	6,259,938	5,381,303		878,635	
			610,076	60,138		539,580	10,358
			44,618	44,618			
			25,000	25,000			
$71,051		**$71,051**	**$14,056,159**	**$9,193,397**		**$3,102,746**	**$1,760,016**

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
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
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
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

December 31, 2006

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 748,159,615	$ 711,744,281	$ 36,415,334	$ 6,625,198			$ 3,312,599	$ 3,312,599
5,088,552	860,265	4,228,287	7,782,642	$ 7,782,642			
697,756	14,999	682,757	5,589,235	2,862,932		1,547,458	1,178,845
8,435,696	5,419,193	3,016,503	15,230,199	9,702,973		421,423	5,105,803
360,589,875	351,960,822	8,629,053	36,639,862	11,314,202		23,314,669	2,010,991
1,846,794	1,725,923	120,871	5,866,488	5,641,710		224,778	
359,784,418	353,191,553	6,592,865	42,071,289	13,201,306		12,660,094	16,209,889

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
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
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	12/20/94	1/16/01	1/16/01	3,833	236	81
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	27,005	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	15

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,075,214	$ 890,596	$ 184,618	$ 26,163,968	$ 5,329,101		$15,778,057	$ 5,056,810
797,549	713,087	84,462	3,540,396	695,747		2,532,566	312,083
1,082,265	23,831	1,058,434	2,027,486	419,089		1,473,450	134,947
7,078,870	2,461,423	4,617,447	8,403,877	5,065,702			3,338,175
11,861,252,494	11,826,953,087	34,299,407	(11,294,488)	(11,294,488)			
1,048,408	995,217	53,191	849,769	347,734			502,035

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
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	5/15/96	10/30/01	10/30/01	22,879	330	13
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	321	24
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
Weatherly Securities Corporation New York, NY (SIPC)	9/08/82	5/05/03	5/05/03	13,364	223	11
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	9/08/03	9/08/03	18,281	391	11
Austin Securities, Inc. Forest Hills, NY (SIPC)	12/12/85	4/14/05	4/14/05	1,911	107	20
TOTAL 20 MEMBERS: PART B				**493,067**	**71,342**	**255,808**

December 31, 2006

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 677,625		$ 677,625	$ 2,882,568	$ 485,298		$ 2,001,910	$ 395,360
2,707		2,707	1,914,178	446,545			1,467,633
58,817,004	$ 58,300,000	517,004	5,422,644	1,319,753		3,599,790	503,101
2,417,109	2,379,295	37,814	9,219,929	4,432,103		4,480,744	307,082
997,296	475,516	521,780	1,027,392	637,298		349,521	40,573
801,449		801,449	2,305,563	652,233		1,653,330	
190,366		190,366	1,046,198			929,769	116,429
$13,420,841,062	**$13,318,109,088**	**$102,731,974**	**$173,314,393**	**$59,041,880**		**$74,280,158**	**$39,992,355**

APPENDIX III Customer Protection Proceedings

PART C: Proceedings Completed in 2006

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
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	832	63	49
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	153	67
Selheimer & Co. Ambler, PA (SIPC)	9/17/67		9/08/97† 6/28/02 *	84	11	4
Meridian Asset Management, Inc. Tallahassee, FL (SIPC)	9/25/91	7/26/00	7/31/00	1,173	117	10
MPI Financial Columbus, OH (SIPC)	3/10/98	1/29/01	1/29/01	4,780	229	19
Krieger Financial Services, Inc. Delray Beach, FL (Howard J. Berlin, Esq.)	9/09/98	11/01/01	11/01/01	1,358	97	5
Mason Hill & Co., Inc. New York, NY (SIPC)	11/28/95	3/27/02	3/27/02	1,580	69	11
Cybervest Securities, Inc. Ft. Lauderdale, FL (SIPC)	8/13/96	4/21/03	5/28/03	1,066	79	8
TOTAL 8 MEMBERS 2006				**12,612**	**818**	**173**
TOTAL 283 MEMBERS 1973-2005(d)				**1,513,455**	**370,743**	**367,695**
TOTAL 291 MEMBERS 1973-2006				**1,526,067**	**371,561**	**367,868**

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

December 31, 2006

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 3,006,287	$ 2,354,698	$ 651,589	$ 10,678,689	$ 2,644,127		$ 7,232,488	$ 802,074
9,019	8,601	418	346,989	58,731		169,020	119,238
500		500	947,167	423,830		162,195	361,142
22,287	17,063	5,224	1,499,019	171,180		1,182,702	145,137
173,149	162,802	10,347	962,287	167,678		470,053	324,556
1,105,485	580,000	525,485	1,518,309	1,518,309			
2,408		2,408	1,529,263	504,453		893,825	130,985
124,568		124,568	1,140,390	505,753		571,129	63,508
4,443,703	**3,123,164**	**1,320,539**	**18,622,113**	**5,994,061**		**10,681,412**	**1,946,640**
2,288,197,160	**2,086,236,657**	**201,960,503**	**299,307,419**	**108,980,327**	**$1,388,427**	**89,222,331**	**99,716,334**
$2,292,640,863	**$2,089,359,821**	**$203,281,042**	**$317,929,532**	**$114,974,388**	**$1,388,427**	**$99,903,743**	**$101,662,974**

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:	6	Members — Customer Claims and Distributions Being Processed	140,096	3,579	2,822
Part B:	20	Members — Customer Claims Satisfied, Litigation Matters Pending	493,067	71,342	255,808
		Sub-Total	633,163	74,921	258,630
Part C:	291	Members — Proceedings Completed	1,526,067	371,561	367,868
		TOTAL	**2,159,230**	**446,482**	**626,498**

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, 2006

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 71,051		$ 71,051	$ 14,056,159	$ 9,193,397		$ 3,102,746	$ 1,760,016
13,420,841,062	$13,318,109,088	102,731,974	173,314,393	59,041,880		74,280,158	39,992,355
13,420,912,113	13,318,109,088	102,803,025	187,370,552	68,235,277		77,382,904	41,752,371
2,292,640,863	2,089,359,821	203,281,042	317,929,532	114,974,388	$1,388,427	99,903,743	101,662,974
$15,713,552,976	**$15,407,468,909**	**$306,084,067**	**$505,300,084**	**$183,209,665**	**$1,388,427**	**$177,286,647**	**$143,415,345**

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