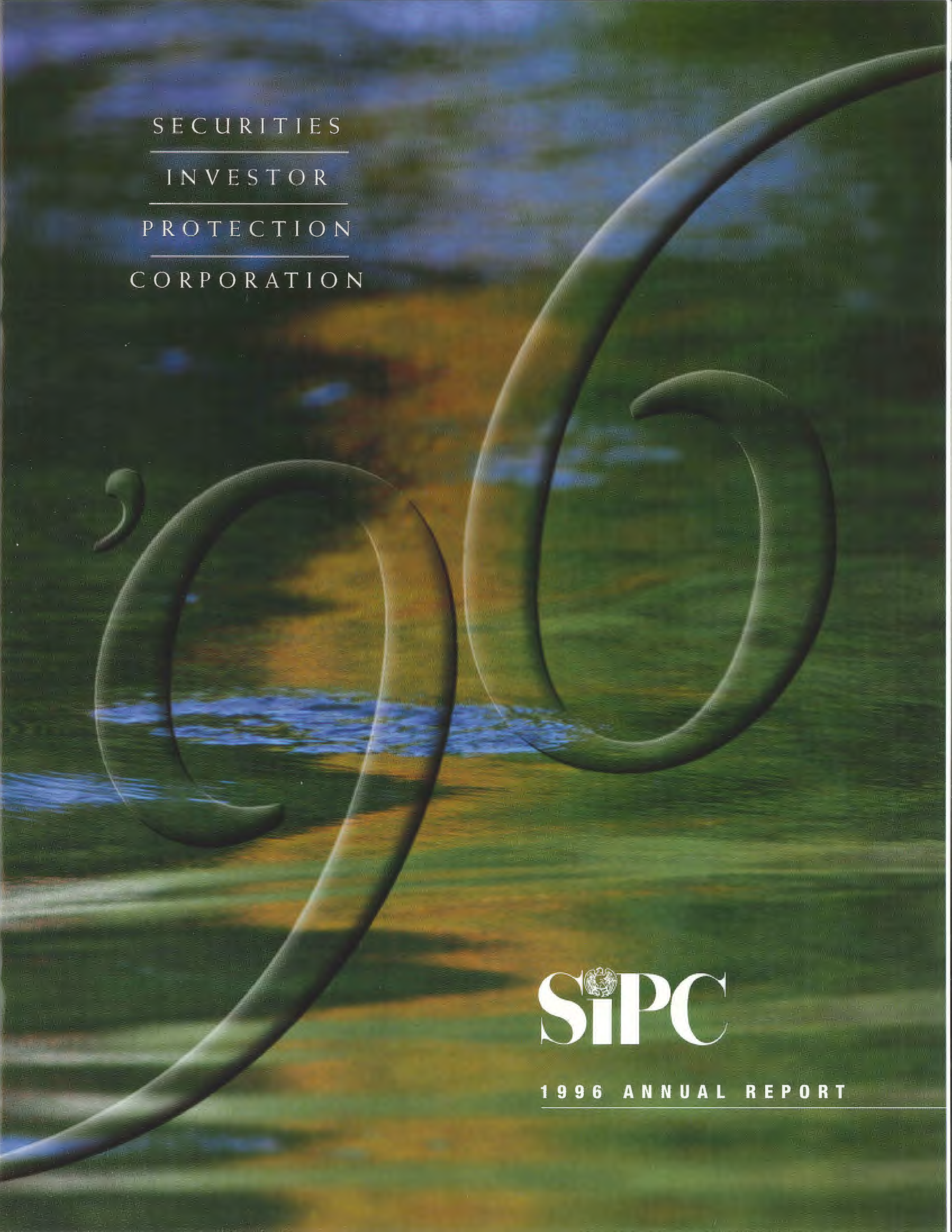
SECURITIES

INVESTOR

PROTECTION

CORPORATION



SIPC

1996 ANNUAL REPORT

SIPC

SECURITIES INVESTOR PROTECTION CORPORATION
805 FIFTEENTH STREET, N.W., SUITE 800
WASHINGTON, D.C. 20005-2215
(202) 371-8300
FAX (202)371-6728

April 30, 1997

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

Dear Sir:

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

Clifford Hudson

Clifford Hudson
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.

Message from the Chairman

With the advent of 1997, the Securities Investor Protection Corporation completed another year of successfully functioning as it was originally intended and has attained major goals it set in the more recent past.

First and foremost among these is the attainment, ahead of schedule, of a $1 billion balance for the SIPC Fund utilized to support customer protection proceedings. Established by SIPC as a goal in 1991, this accomplishment should provide SIPC a base for operations for the foreseeable future. So long as historical trends of the last 16 years continue to hold, interest income from the Fund should be sufficient to support both the administrative expenses of SIPC, as well as the cost of member firm liquidations SIPC is required to conduct. The counterpart to having attained this Fund balance goal is that annual membership assessments for 1996 and 1997 have been reduced to $150 per member. SIPC's Board of Directors is continuing, however, to assess the potential for a member firm liquidation of a magnitude far in excess of SIPC's prior experience and the need for a larger Fund to adequately manage such an event.

The manner in which the expenses of SIPC (exclusive of the highly variable costs of customer protection proceedings) have been managed has resulted in a healthy trend in recent years. These expenses have declined every year for the last five years, with 1996 expenses totaling 20% less than those of 1992.

Finally, the number of customer protection proceedings initiated by SIPC in 1996 was entirely consistent with recent historical trends. For the last ten years, SIPC has initiated, on average, six customer protection proceedings each year. In 1996, the organization initiated a total of seven such proceedings.

The support of our member firms in attaining our financial goals over the last several years has been greatly appreciated. A SIPC Fund of increased size yields an organization with strengthened resources in meeting the goals established for SIPC more than 25 years ago.

We at SIPC look forward to 1997 with the hope of another good year for our industry members and SIPC.

Clifford Hudson

Clifford Hudson
Chairman

Overview of SIPC

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970, 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 29, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. As a supplement to the SIPC Fund, a revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the SEC has the authority to lend SIPC up to $1 billion, which it, in turn, would borrow from the United States Treasury.

---

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

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

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

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

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

Directors

CLIFFORD HUDSON
President and Chief Executive Officer
Sonic Corp.
Chairman

DEBBIE D. BRANSON, ESQUIRE
The Law Offices of
Frank L. Branson, P.C.
Vice Chairman

ALBERT J. DWOSKIN
Chain Bridge Securities

JOHN D. HAWKE, JR.
Under Secretary
for Domestic Finance
Department of the Treasury

CHARLES L. MARINACCIO, ESQUIRE

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

MARIANNE C. SPRAGGINS, ESQUIRE
Chief Executive Officer
W. R. Lazard & Co.

Officers

MICHAEL E. DON
President

STEPHEN P. HARBECK
General Counsel & Secretary

JOSEPH F. MARINO
Vice President—Operations & Finance

Customer Protection Proceedings

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

—Preamble to SIPA

Customer protection proceedings were initiated for seven SIPC members in 1996, bringing the total since SIPC's inception to 257 proceedings commenced under SIPA. The 257 members represent less than one percent of the approximately 33,000 broker-dealers that have been SIPC members during the last 26 years. Currently, SIPC has 7,485 members.

The seven new cases compare with four commenced in 1995. Over the last ten-year period, the annual average of new cases was six.

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

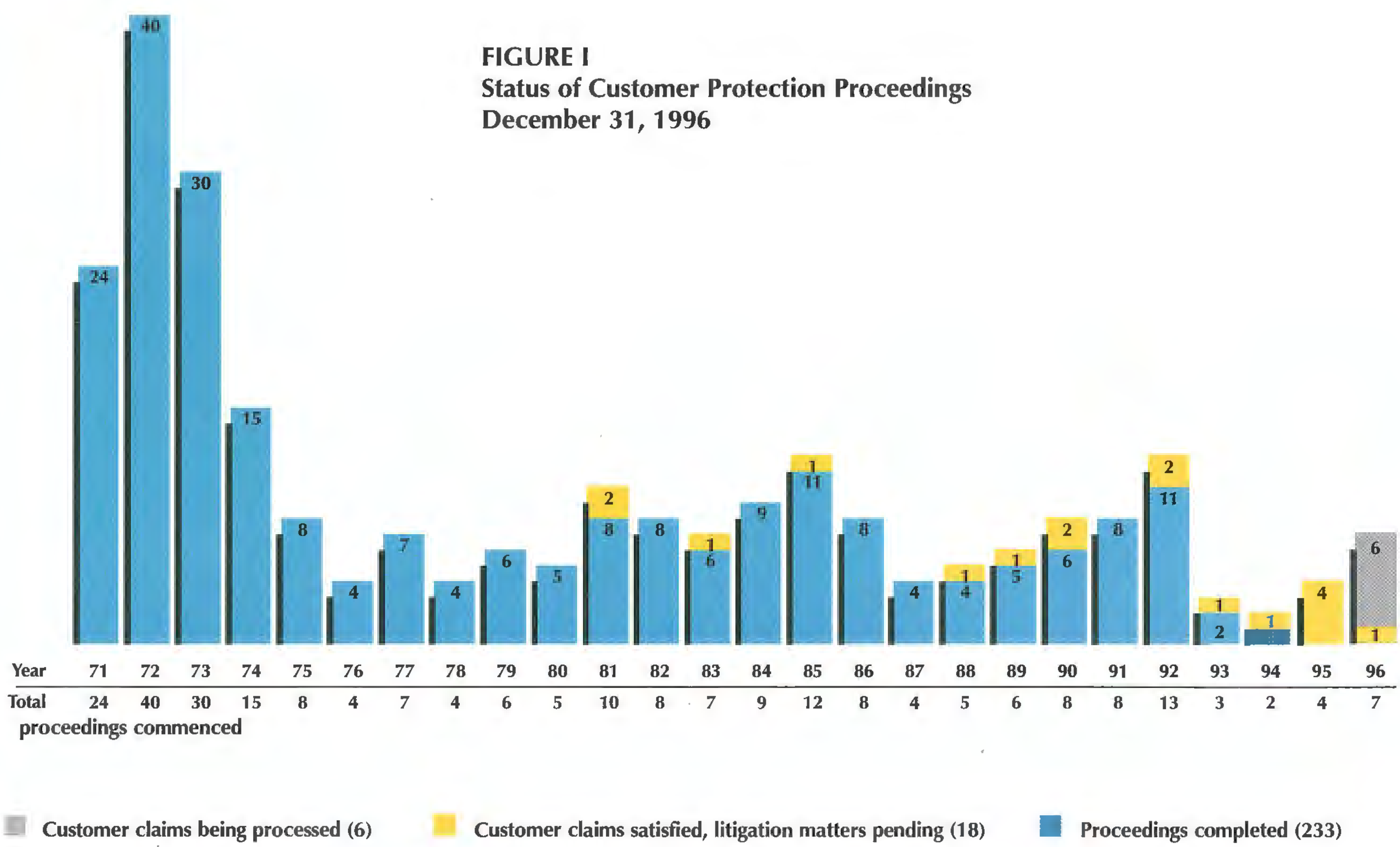
Member	Date Trustee Appointed
Pinnacle Financial Inc./ H. L. Camp & Co., Inc. Nashville, Tennessee (SIPC)	03/01/96
Hanover, Sterling & Company Ltd. New York, New York (Irving H. Picard, Esq.)	04/16/96
MBM Investment Corporation Houston, Texas (Tony M. Davis, Esq.)	06/03/96
Barrett Day Securities, Inc. New York, New York (Direct Payment)	06/26/96*
A. R. Baron & Co., Inc. New York, New York (James W. Giddens, Esq.)	07/11/96
AmeriNational Financial Services, Inc. Santa Monica, California (SIPC)	07/29/96
Old Naples Securities, Inc. Naples, Florida (Theodore H. Focht, Esq.)	08/28/96

*Date notice published

Of the 257 proceedings begun under SIPA to date, 233 have been completed, 18 involve pending litigation matters, and claims in six are being processed (See Figure I and Appendix II).

During SIPC's 26-year history, cash and securities distributed for accounts of customers aggregated approximately $2.5 billion. Of that amount, approximately $2.3 billion came from debtors' estates and $174 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 1996



Claims over the Limits

Of the more than 402,000 claims satisfied in completed or substantially completed cases as of December 31, 1996, a total of 303 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 303 claims, a net increase of six during 1996, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $20.6 million, increased approximately $2.8 million during 1996. These remaining claims approximate 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 49 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 83 percent of the total advanced in all 257 customer protection proceedings. The largest net advance in a single liquidation is $30.7 million for Bell & Beckwith. This exceeds the net advances in the 180 smallest proceedings combined.

In twelve proceedings SIPC advanced $139.7 million, or 54 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 1996
257 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	5	$ 92,033,355
5,000,001	$10,000,000	7	47,671,959
1,000,001	5,000,000	37	76,177,648
500,001	1,000,000	28	20,134,906
250,001	500,000	37	13,040,694
100,001	250,000	54	8,994,494
50,001	100,000	40	2,830,187
25,001	50,000	22	804,117
10,001	25,000	13	203,658
0	10,000	9	26,087
Net recovery		5	(2,297,133)*
			$259,619,972†

* 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 ($173,658,668) and for administration expenses ($85,961,304).

Membership and the SIPC Fund

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

—SIPA, Sec. 4(c)2

The net decrease of 89 members during the year brought the total membership to 7,485 at December 31, 1996. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

TABLE II
SIPC Membership
Year Ended December 31, 1996

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,648	383	46
SIPC(b)	196	—	630(c)
Chicago Board Options Exchange Incorporated	1,084	100	20
New York Stock Exchange, Inc.	610	20	4
American Stock Exchange, Inc.	423	67	17
Pacific Stock Exchange, Inc.	257	40	4
Philadelphia Stock Exchange, Inc.	135	15	6
Chicago Stock Exchange, Incorporated	120	17	4
Boston Stock Exchange, Inc.	12	—	—
	7,485	642	731

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1996.

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.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 1996, there were 164 members who were subjects of uncured notices, 153 of which were mailed during 1996, ten during 1995, and one during 1993. Subsequent filings and payments by 75 members left 89 notices uncured. SIPC has been advised by the SEC staff that: (a) 44 member registrations have been canceled or are being withdrawn; (b) 11 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; and (c) 34 are being contacted by SEC regional offices or the affected examining authorities.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.047 billion at year end, an increase of $101.1 million during 1996, inclusive of the $19.8 million increase in the beginning balance to record investments at fair value instead of amortized cost in accordance with the adoption of FAS No. 124 (See Note 6 of the financial statements).

Tables III and IV present principal revenues and expenses for the years 1971 through 1996. The 1996 member assessments were $2.6 million and interest from investments was $61.3 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 III is an analysis of revenues and expenses for the five years ended December 31, 1996.

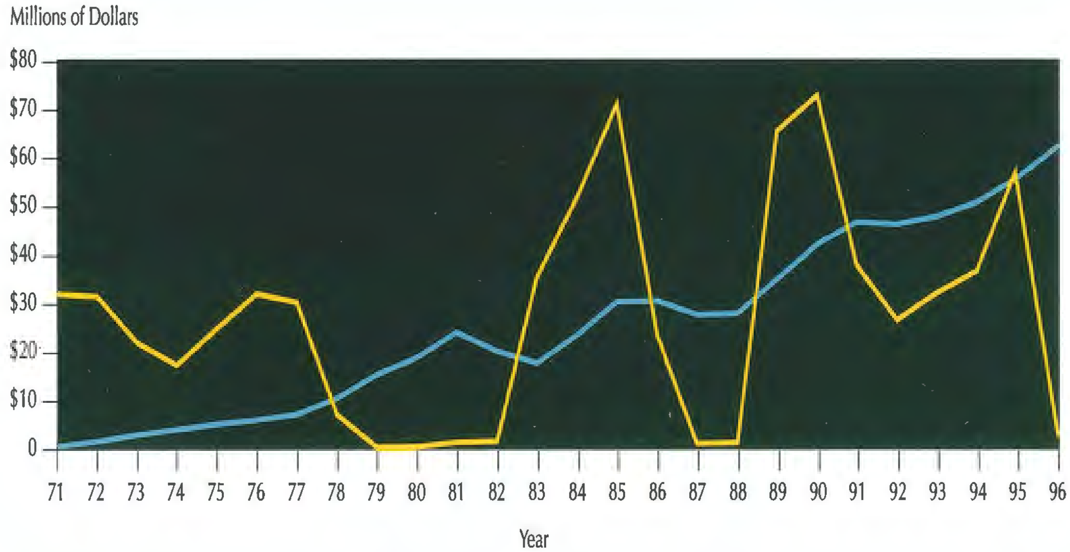
---

[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 Twenty-six Years Ended December 31, 1996

Member assessments and contributions: $724,456,690

Interest on U.S. Government securities: $669,016,847



History of Member Assessments*

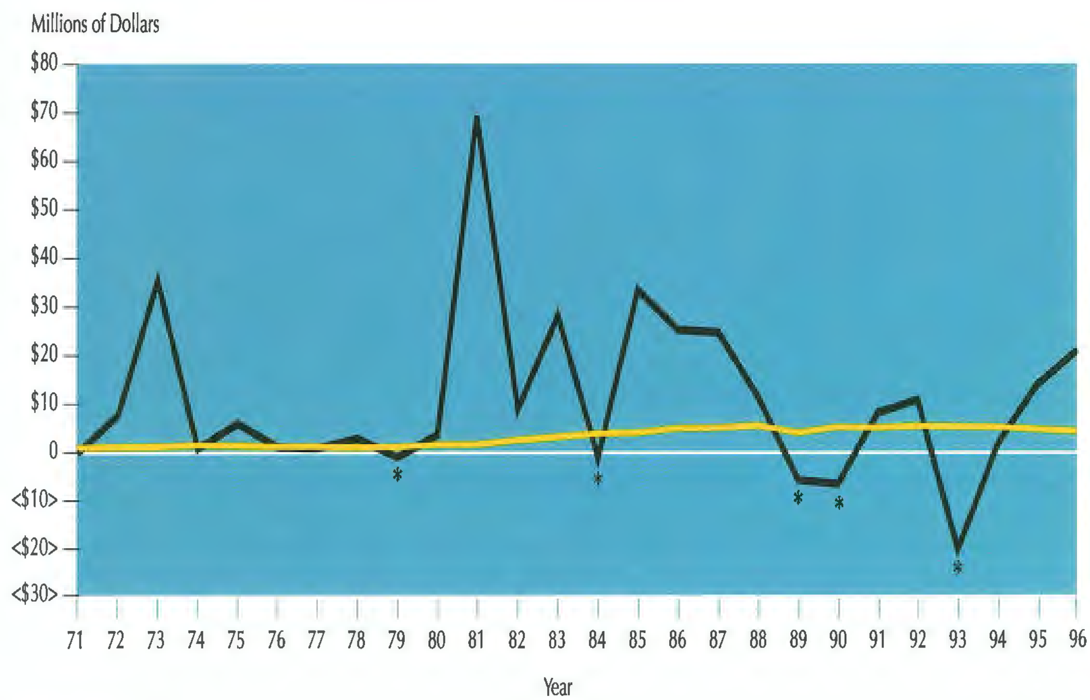
1971: ½ of 1% plus an initial assessment of ⅛ of 1% of 1969 revenues ($150 minimum).
1972-1977: ½ of 1%.
January 1-June 30, 1978: ¼ of 1%.
July 1-December 31, 1978: None.
1979-1982: $25 annual assessment.
1983-March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986-1988: $100 annual assessment.
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: $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 Twenty-six Years Ended December 31, 1996

Customer protection proceedings: $283,719,972 (Includes net advances of $259,619,972 less estimated future recoveries of $5,500,000 and $29,600,000 of estimated costs to complete proceedings.)

Other expenses: $91,519,818



* Net recoveries

Litigation

During 1996, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below.

In *In re Lloyd Securities, Inc.* 75 F.3d 853 (3d. Cir. 1996), a law firm appealed from a district court decision [183 B.R. 386 (E.D. Pa. 1995)] in favor of a trustee and SIPC, which held that neither the brokerage firm's estate nor SIPC was responsible for the payment of the firm's fees and costs in connection with the firm's representation of a number of customers in the liquidation proceeding and related litigation. The court of appeals affirmed the district court, and adopted the arguments made by the trustee and SIPC that (i) SIPC incorporates section 503 of the Bankruptcy Code and requires that a SIPA proceeding be treated like a chapter 7 bankruptcy case and (ii) because the claimed fees and costs are not recoverable in a chapter 7 proceeding, they are not recoverable here. The court also rejected the firm's argument that it was entitled to compensation under a common fund doctrine.

In *In re First Securities Group of California* (Gumport v. Conn), 1996 WL 92115 (9th Cir., March 4, 1996), the court of appeals upheld the position taken by a trustee and SIPC, holding that SIPC, as an innocent third party, was not obligated to satisfy the claims of persons who gave money to a successor, alter ego entity, rather than to the defunct brokerage firm.

In *In re Omni Mutual, Inc.*, 193 B.R. 678 (S.D.N.Y. 1996), the district court reversed a bankruptcy court's order and held that a claimant did not have a claim for cash where he purchased and received an interest in a limited partnership.

In *In re Blinder, Robinson & Co., Inc. (Keller v. Hoyle, Morris & Kerr),* 199 B.R. 976 (D. Colo. 1996), the district court affirmed an order of the bankruptcy court and held that (i) funds transferred to attorneys for a debtor-related entity were property of the estate, (ii) the attorneys were initial transferees, (iii) settlement of the trustee with other debtor-related entities did not affect the trustee's avoidance action against the attorneys, and (iv) the trustee's avoidance action was not barred by laches or equitable estoppel.

In *In re Adler Coleman Clearing Corp.*, 195 B.R. 266 (Bankr. S.D.N.Y. 1996), the bankruptcy court held, among other things, that customers are at risk for market loss with respect to the securities in their account with the debtor between the filing date and the date the trustee delivers the securities to the customers.

In *In re Adler Coleman Clearing Corp.*, 198 B.R. 70 (Bankr. S.D.N.Y. 1996), a liquidation of a SIPC member broker-dealer which cleared for 42 introducing broker-dealers, the bankruptcy court held that claimants did not have "customer" claims under SIPA against the debtor clearing firm where the alleged unauthorized trading was caused by the introducing firms.

Two decisions were rendered on Fifth Amendment and spousal privilege objections raised by a judgment debtor in an asset deposition taken by a SIPA trustee in his effort to collect on a $10 million judgment against the judgment debtor, who was a principal of a liquidated SIPC member.

In *In re Donald Sheldon & Co., Inc. (Horwitz v. Sheldon),* 191 B.R. 39 (Bankr. S.D.N.Y. 1996), the bankruptcy court addressed the assertion of a spousal privilege to certain questions raised by the trustee about the location of assets allegedly secreted by the judgment debtor. The court found that (i) there is probable cause to believe the judgment debtor and his spouse attempted to conceal assets to prevent the trustee from executing on the judgment and (ii) the questions upon which the spousal privilege was asserted relate to the existence or location of the allegedly concealed assets. The court concluded that such spousal communications were not privileged even if the parties intended them to be confidential.

In *In re Donald Sheldon & Co., Inc. (Horwitz v. Sheldon),* 28 B.C.D. 824 (Bankr. S.D.N.Y. 1996), a trustee who had obtained a judgment against a principal of a defunct brokerage firm scheduled a deposition to ascertain his assets. The bankruptcy court issued a contempt order when the principal failed to provide testimony and documents. The principal was eventually arrested and deposed by the trustee while in custody. The bankruptcy court informed the incarcerated man that he could have a court-appointed attorney for bail purposes, but not with respect to the deposition. The bankruptcy court also advised the principal of his Fifth Amendment privileges. In the deposition, without benefit of counsel, the principal answered questions, but was evasive. At a continued session of the deposition, where the principal was represented by counsel, he invoked the Fifth Amendment on issues where he had previously given vague answers. The bankruptcy court held that the evasive answers given in the first deposition session did not constitute a waiver of the privilege. The court stated that a waiver of the Fifth Amendment privilege is recognized only where there are compelling circumstances, such as where the trustee had been actually misled by the evasive answers.

In a related matter from the same liquidation proceeding, *In re Donald Sheldon & Co., Inc. (Horwitz v. Sheldon),* Case No. 85-6538 (AJB), Adv. No. 94-8368 (Bankr. S.D.N.Y., December 10, 1996), in the trustee's action against the insurance company on the debtor broker-dealer's directors and officers policy, the bankruptcy court denied the insurance company's motion to set aside the judgment that the insurance company was liable to indemnify the debtor broker-dealer.

In *In re Bell & Beckwith,* 198 B.R. 265 (Bankr. N.D. Ohio 1996), the bankruptcy court rejected the application of the trustee to release from seal the transcript of the testimony of one of the debtor's former partners.

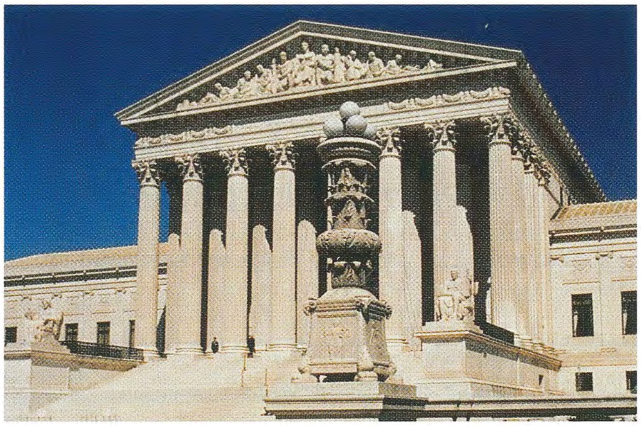
In *SIPC v. Sun Securities, Inc.*, Adv. No. 92-380 (Bankr. D. Az., January 22, 1996), the bankruptcy court held that (i) the claimants were not "customers" under SIPA where they expected and received interest checks on their deposits, where they were focused on the interest rate paid on their funds, and where there were no orders for specific securities on express terms; and (ii) the same claimants were "customers" where they deposited cash for the purposes of purchasing specific securities.

In *Holland v. Dines,* Case No. 91-09 (Bankr. E.D. Mich., February 29, 1996), in an action by SIPC to enforce a $350,000 settlement agreement with individuals based on a judgment against them which a SIPA trustee had assigned to SIPC, the bankruptcy court held the judgment was properly registered in the bankruptcy court because the judgment at issue relates to a proceeding arising in a case under title 11, and that the settlement agreement should be enforced.

Disciplinary and Criminal Actions

"Congress enacted SIPA to . . . restore confidence in the capital markets, and upgrade the financial responsibility requirements for registered brokers and dealers. The Act apportions responsibility for these tasks among the SEC, the securities industry self-regulatory organizations and the SIPC . . . ."

—Supreme Court Justice
T. Marshall
*May 19, 1975**



SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

As a result of SEC and self-regulatory action in 1996, one person associated with members subject to SIPC proceedings was barred from association with any broker or dealer.

Criminal and Administrative Actions

Criminal action has been initiated in 98 of the 257 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 215 indictments have been returned in federal or state courts, resulting in 178 convictions to date.

Administrative and/or criminal action in 236 of the 257 SIPC customer protection proceedings initiated through December 31, 1996, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	60
Exclusive SEC Administrative Action	36
Exclusive Self-Regulatory Administrative Action	42
Criminal and Administrative Action	87
Criminal Action Only	11
Total	236

In the 225 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	114	103
Bar from Association	344	214
Fines	Not Applicable	$6,597,365

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 $6,597,365 in fines assessed by self-regulatory authorities were levied against 117 associated persons and ranged from $250 to $1,500,000.

Members In or Approaching Financial Difficulty

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

Members on Active Referral

SIPC maintained active files on four members referred under Section 5(a) during the calendar year 1996. Two referrals were received during the year and two active referrals had been carried forward from prior years. One of the four remained on active referral at year-end.

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

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

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

Financial Statements

Report of Ernst & Young LLP Independent Auditors

Board of Directors
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation as of December 31, 1996, 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation at December 31, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, in 1996 the Corporation changed its method of accounting for investment securities.

Ernst + Young LLP

Washington, D.C.
March 14, 1997

Securities Investor Protection Corporation

Statement of Financial Position
December 31, 1996

ASSETS	
Cash	$ 1,139,680
U.S. Government securities, at fair value and accrued interest receivable ($15,114,734); (amortized cost $1,042,701,390) (Note 6)	1,046,066,265
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($93,939,031) (Note 4)	5,500,000
Other	350,175
	$1,053,056,120
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses (Note 8)	$ 1,482,498
Estimated costs to complete customer protection proceedings in progress (Note 4)	29,600,000
Member assessments received in advance (Note 3)	375,000
	31,457,498
Net assets	1,021,598,622
	$1,053,056,120

Statement of Activities
for the year ended December 31, 1996

Revenues:	
Interest on U.S. Government securities	$ 61,302,538
Member assessments (Note 3)	2,639,822
	63,942,360
Expenses:	
Salaries and employee benefits (Note 8)	2,611,595
Legal and accounting fees (Note 4)	130,638
Credit agreement commitment fee (Note 5)	1,160,862
Rent (Note 5)	412,668
Other	702,286
	5,018,049
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	20,605,770
	25,623,819
Total net revenues	38,318,541
Change in unrealized gain on U.S. Government securities (Note 6)	(16,451,399)
Increase in net assets	21,867,142
Net assets, beginning of year as restated (Note 6)	999,731,480
Net assets, end of year	**$1,021,598,622**

See notes to financial statements.

Securities Investor Protection Corporation

Statement of Cash Flows
for the year ended December 31, 1996

Operating activities:	
Interest received from U.S. Government securities	$ 66,287,480
Member assessments received	36,464,822
Advances paid to trustees	(6,601,575)
Recoveries of advances	11,465,805
Salaries and other operating activities expenses paid	(4,835,233)
Net cash provided by operating activities	102,781,299
Investing activities:	
Proceeds from sales of U.S. Government securities	291,609,712
Purchases of U.S. Government securities	(393,354,205)
Purchases of furniture and equipment	(71,287)
Net cash used by investing activities	(101,815,780)
Increase in cash	965,519
Cash, beginning of year	174,161
Cash, end of year	**$ 1,139,680**

See notes to financial statements.

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.

The preparation of financial statements in conformity with generally accepted accounting principles 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 $1,047,205,945.

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 1996 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 24 proceedings in progress at December 31, 1996. Customer claims have been satisfied in 18 of these proceedings and in six proceedings customer claims and distributions are being processed.

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

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

SIPC has advanced $99.4 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $93.9 million is not expected to be recovered.

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.

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

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	**Estimated costs to complete**
Balance, beginning of year	$ 9,000,000	$ 7,000,000
Add:		
Provision for current year recoveries	4,400,000	
Provision for estimated future recoveries	3,600,000	
Provision for estimated costs to complete proceedings		29,200,000
Less:		
Recoveries	11,500,000	
Advances to trustees		6,600,000
Balance, end of year	$ 5,500,000	$29,600,000

5. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1995, at the rate of $410,136 for the first five years and $437,628 thereafter, total $3,691,972. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease.

A credit agreement with a consortium of banks provides SIPC with a $1 billion revolving line of credit. A fee, which is payable quarterly on the unused portion of the commitment, was reduced from .125% per annum to .10% per annum during 1996 and further reduced to .09% per annum in 1997.

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, 1996.

The Financial Accounting Standards Board has issued Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* which is effective for fiscal years beginning after December 15, 1995. This standard requires investments in debt securities to be reported at fair value, with realized and unrealized gains and losses included in the statement of activities. SIPC has adopted the provisions of the new standard in its financial statements for the year ended December 31, 1996. This has resulted in an increase in beginning net assets for 1996 of $19,816,274. U.S. Government securities as of December 31, 1996, included gross unrealized gains of $7,607,982 and gross unrealized losses of $4,243,107. There were no realized gains or losses during 1996.

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

Increase in net assets	$ 21,867,142
Decrease in member assessments receivable	34,000,000
Net increase in estimated cost to complete customer protection proceedings	22,600,000
Decrease in unrealized gain on U.S. Government securities	16,451,399
Net decrease in estimated recoveries of advances to trustees	3,500,000
Decrease in accrued interest receivable on U.S. Government securities	3,004,445
Decrease in amortized premium on U.S. Government securities	1,980,501
Decrease in payables	(691,497)
Other reconciling items	69,309
Net cash provided by operating activities	$102,781,299

8. Retirement Plans

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

The net periodic benefit cost for 1996 included the following components:

Defined benefit plan (actuarially determined):	
Service cost—benefits earned during 1996	$ 306,767
Interest on projected benefit obligation	506,169
Actual return on plan assets	(1,122,218)
Net amortization and deferral	526,897
Net periodic pension expense	217,615
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	63,102
Total periodic pension expense for 1996	$ 280,717

As of January 1, 1997, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:	
Vested benefit obligation	$(5,913,185)
Non-vested benefit obligation	(489,740)
Accumulated benefit obligation	(6,402,925)
Effect of projected future salary increases and moving IRS limitations	(1,447,431)
Projected benefit obligation	(7,850,356)
Market value of plan assets	8,035,999
Funded Status—market value of plan assets in excess of projected benefit obligation	185,643
Unrecognized net (asset)	(105,041)
Unrecognized prior service (credit)	(76,340)
Unrecognized net loss	547,537
Prepaid pension expense	$ 551,799

Assumptions used:	
1. Discount rate	7.0%
2. Expected long-term rate of return	9.0%
3. Average compensation increase	5.0%
4. Cost of living adjustment	3.5%

Assets of the defined benefit plan are invested in a global securities commingled trust.

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

The net periodic postretirement benefit cost for 1996 included the following components:

Service cost—benefits earned during 1996	$51,802
Interest on accumulated postretirement benefit obligation	65,605
Return on plan assets	0
Amortization of unrecognized net gain	(38,486)
Net periodic postretirement benefit expense for 1996	$78,921

For measurement of the 1996 expense, a discount rate of 6.5% and annual rates of 10.5%/8.5% (non-Medicare/Medicare) for increases in the health care trend factor were assumed for 1996. The trend rates were assumed to decrease gradually to 5% for 2003 and thereafter. The health care trend factor assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care trend factor by 1% in each year would increase the accumulated postretirement benefit obligation as of December 31, 1996, by about $246,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1996, by about $32,000.

Information regarding these plans' funded status as of December 31, 1996, net of employee contributions, provided in accordance with Statement No. 106 of the Financial Accounting Standards Board, was:

Accumulated postretirement benefit obligation:	
Currently retired employees	$ (222,650)
Fully eligible active employees	(99,016)
Currently eligible active employees	0
Other active employees	(776,898)
Net SIPC liability	(1,098,564)
Plan assets at fair value	0
Funded status	(1,098,564)
Unrecognized net gain	(616,418)
(Accrued) postretirement benefit cost	$(1,714,982)

The discount rate used in determining the accumulated postretirement benefit obligation at December 31, 1996, was 7%.

APPENDIX I Distributions for Accounts of Customers for the Twenty-Six Years Ended December 31, 1996

(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)
	$2,353,859	**$306,579**	**$(132,920)**	**$173,659**	**$2,527,518**

* 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.

APPENDIX II 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
Hanover, Sterling & Company Ltd. New York, New York (Irving H. Picard, Esq.)	8/21/84	4/02/96	4/16/96	15,537	1,165	33
MBM Investment Corporation Houston, Texas (Tony M. Davis, Esq.)	9/2/92	6/03/96	6/03/96	797	45	
Barrett Day Securities, Inc. New York, New York (Direct Payment)	3/31/86		6/26/96†	8,700	239	
A.R. Baron & Co., Inc. New York, New York (James W. Giddens, Esq.)	11/4/91	7/03/96	7/11/96	7,826	536	
AmeriNational Financial Services, Inc. Santa Monica, California (SIPC)	9/14/93	6/04/96	7/29/96	3,189	72	
Old Naples Securities, Inc. Naples, Florida (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	1,644	143	
TOTAL 6 MEMBERS: PART A				**37,693**	**2,200**	**33**

†Date notice published

December 31, 1996

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$1,168,792	$ 517,277		$100,696	$550,819
			42,155	42,155			
			18,446	18,446			
$428,000		$428,000	690,500	690,500			
			12,762	12,762			
			25,000	25,000			
$428,000		**$428,000**	**$1,957,655**	**$1,306,140**		**$100,696**	**$550,819**

APPENDIX II 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
First State Securities Corp. North Miami, Florida (Nicholas E. Christin, Esq.)	6/19/75	7/24/81	7/24/81 7/26/95*	2,784	936	824
Joseph Sebag Incorporated Los Angeles, California (C. Edward Simpson, Esq.)	3/07/68	7/27/81	7/27/81 11/08/96*	8,000	4,287	3,853
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/05/83	2/10/83	10,500	6,966	6,964
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/01/75	7/30/85	8/13/85 2/17/87*	8,300	2,469	2,362
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408	372
Williams Financial Group, Inc. Spokane, Washington (Joseph A. Esposito, Esq.)	6/01/87	12/07/89	12/07/89	30	24	11
First Ohio Securities Company Cleveland, Ohio (William Appleton, Esq.)	1/09/85	6/22/90	6/22/90 4/19/91*	900	200	117
Blinder, Robinson & Co., Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/01/90	215,000	64,770	61,334
First Securities Group of California, Inc. Beverly Hills, California (Leonard L. Gumport, Esq.)	12/12/85	1/06/92	1/07/92	800	503	215

* Successor Trustee

December 31, 1996

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 7,304,770	$ 6,658,941	$ 645,829	$ 6,327,643	$ 5,641,943	$60,805	$ 329,980	$ 294,915
34,637,307	30,688,912	3,948,395	12,692,869	6,184,258		268,257	6,240,354
109,823,808	103,666,000	6,157,808	30,728,907	7,068,235			23,660,672
6,038,508	5,962,405	76,103	13,910,984	6,493,308		7,013,546	404,130
252,306	201,106	51,200	4,921,538	3,226,171			1,695,367
5,570		5,570	408,132	39,577		166,055	202,500
480,000	10,000	470,000	4,050,583	1,166,651		2,821,969	61,963
108,502,473	88,186,351	20,316,122					
			7,227,264	1,162,878			6,064,386

APPENDIX II 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
Sun Securities Incorporated Scottsdale, Arizona (SIPC)	2/05/85	3/16/92	3/16/92	885	78	19
Doviak Securities, Inc. Dallas, Texas (Jack L. Kinzie, Esq.)	8/17/88	8/11/93	8/11/93	335	29	12
Portfolio Asset Management USA Financial Group, Inc. El Paso, Texas (SIPC)	12/23/92	7/26/93	8/17/93	16,118	1,045	42
First Lauderdale Securities Ft. Lauderdale, Florida (SIPC)	6/04/84	11/29/94	11/29/94	1,255	124	49
Adler, Coleman Clearing Corp. New York, New York (Edwin B. Mishkin, Esq.)	12/27/84	2/27/95	2/27/95	102,000	19,799	59,000
Harrington Securities Corp. Williamsville, New York (SIPC)	6/30/87	8/10/95	8/14/95	4,220	115	12
U.S. Equities Management Corp. New York, New York (Irving H. Picard, Esq.)	9/14/93	6/09/95	9/22/95	50	16	11
Consolidated Investment Services, Inc. Littleton, Colorado (Stephen E. Snyder, Esq.)	7/16/81	10/16/95	10/17/95	2,866	139	18
Pinnacle Financial Inc./ H.L. Camp & Co., Inc. Nashville, Tennessee (SIPC)	11/21/85	2/29/96	3/01/96	635	111	18
TOTAL 18 MEMBERS: PART B				**375,778**	**102,019**	**135,233**

December 31, 1996

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$ 567,754	$ 193,934			$ 373,820
$ 8,500		$ 8,500	445,021	333,027			111,994
665,100	$ 199,500	465,600	667,952	245,021		$ 134,465	288,466
40,929		40,929	2,493,048	102,375		1,814,663	576,010
571,405,513	560,000,000	11,405,513	10,000,000	4,000,000		3,000,000	3,000,000
			346,127	15,500			330,627
			805,230	158,395		5,775	641,060
4,550		4,550	1,158,768	250,129		908,639	
564,929	560,329	4,600	748,003	23,191		593,462	131,350
$839,734,263	**$796,133,544**	**$43,600,719**	**$97,499,823**	**$36,304,593**	**$60,805**	**$17,056,811**	**$44,077,614**

APPENDIX II Customer Protection Proceedings

PART C: Proceedings Completed in 1996 [(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	Total Customer Claims Satisfied
Executive Securities Corp. New York, New York (Cameron F. MacRae, III, Esq.)	11/08/67	2/14/75	2/14/75	7,300	2,747	2,481
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (P. David Newsome, Jr., Esq.)	12/18/63	6/28/88	6/28/88	56,130	19,593	30,500
Carolina First Securities Group, Inc. Winston-Salem, North Carolina (L. Bruce McDaniel, Esq.)	6/12/89	8/24/90	10/31/90	210	22	13
Lloyd Securities, Inc. Elkins Park, Pennsylvania (Robert E. Shields, Esq.)	6/02/61	6/06/90	12/22/90	550	163	72
Faitos & Co., Inc. Huntington, New York (Irving H. Picard, Esq.)	9/03/87	2/27/91	2/27/91	750	90	39
C. J. Wright & Company, Inc. Ocala, Florida (K. Rodney May, Esq.)	10/17/85	4/24/91	4/24/91	1,300	204	19
Seoul Securities, Ltd. f/k/a Pantheon Capital Corp. Beverly Hills, California (SIPC)	10/28/82	3/06/92	3/17/92	135	12	1
TOTAL 7 MEMBERS 1996				**66,375**	**22,831**	**33,125**
TOTAL 226 MEMBERS 1973 - 1995(d)				**953,127**	**245,988**	**234,264**
TOTAL 233 MEMBERS 1973 - 1996				**1,019,502**	**268,819**	**267,389**

December 31, 1996

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 5,154,127	$ 2,373,000	$ 2,781,127	$ 3,110,930	$ 834,087	$ 111,043	$ 1,550,633	$ 615,167
133,642,326	132,444,792	1,197,534	7,269,829	7,269,829			
458,142	425,690	32,452	441,157	326,927			114,230
2,333,380	2,135,230	198,150	2,866,197	1,358,793			1,507,404
519,563	514,591	4,972	1,248,548	401,596		846,952	
707,219	3,980	703,239	1,907,470			1,512,853	394,617
5,553		5,553	132,615	32,615			100,000
142,820,310	**137,897,283**	**4,923,027**	**16,976,746**	**10,223,847**	**111,043**	**3,910,438**	**2,731,418**
1,542,470,966	**1,419,827,685**	**122,643,281**	**143,185,748**	**38,126,724**	**1,220,928**	**54,188,047**	**49,650,049**
$1,685,291,276	**$1,557,724,968**	**$127,566,308**	**$160,162,494**	**$48,350,571**	**$1,331,971**	**$58,098,485**	**$52,381,467**

APPENDIX II 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	37,693	2,200	33
Part B:	18 Members — Customer Claims Satisfied, Litigation Matters Pending	375,778	102,019	135,233
	Sub-Total	413,471	104,219	135,266
Part C:	233 Members — Proceedings Completed	1,019,502	268,819	267,389
	TOTAL	**1,432,973**	**373,038**	**402,655**

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, 1996

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 428,000		$ 428,000	$ 1,957,655	$ 1,306,140		$ 100,696	$ 550,819
839,734,263	$ 796,133,544	43,600,719	97,499,823	36,304,593	$ 60,805	17,056,811	44,077,614
840,162,263	796,133,544	44,028,719	99,457,478	37,610,733	60,805	17,157,507	44,628,433
1,685,291,276	1,557,724,968	127,566,308	160,162,494	48,350,571	1,331,971	58,098,485	52,381,467
$2,525,453,539	**$2,353,858,512**	**$171,595,027**	**$259,619,972**	**$85,961,304**	**$1,392,776**	**$75,255,992**	**$97,009,900**

APPENDIX III Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1996

	1996	1995	1994	1993	1992
Revenues:					
Interest on U.S. Government securities	$61,280,052	$ 56,715,607	$50,829,178	$48,316,768	$46,211,084
Member assessments and contributions	2,639,822	57,831,365	37,115,454	32,612,767	27,217,374
Interest on assessments	22,486	51,024	23,332	19,931	21,626
	63,942,360	114,597,996	87,967,964	80,949,466	73,450,084
Expenses:					
Salaries and employee benefits	2,611,595	2,511,153	2,654,204	2,550,446	2,502,276
Legal fees	108,638	235,305	133,664	163,866	365,104
Accounting fees	22,000	31,400	20,400	22,600	19,828
Credit agreement commitment fee	1,160,862	1,408,174	1,925,112	2,107,570	2,471,200
Professional fees—other	75,520	62,196	92,418	126,212	144,580
Other:					
Assessment collection cost	16,522	15,764	13,729	9,976	13,401
Custody and bank fees	7,929	5,414	7,532	10,109	14,108
Depreciation and amortization	107,485	93,146	65,278	69,001	93,824
Directors fees and expenses	16,913	15,171	16,183	18,182	16,569
Insurance	18,405	17,796	14,837	15,518	16,802
Office supplies and expense	109,685	147,243	110,465	154,517	127,055
Postage	16,758	11,625	16,060	15,969	17,639
Printing & mailing annual report	95,578	93,302	85,197	70,789	65,022
Publications and reference services	92,601	71,734	77,269	70,488	70,087
Rent—office space	412,668	512,026	577,489	557,832	527,910
Telephone	22,098	18,152	16,070	14,727	14,555
Travel and subsistence	116,097	118,602	56,637	83,766	87,127
Miscellaneous	6,695	16,690	10,023	9,077	10,789
	1,039,434	1,136,665	1,066,769	1,099,951	1,074,888
	5,018,049	5,384,893	5,892,567	6,070,645	6,577,876
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	(19)	100,344		(1,115)	16,875
Securities	(4,620,035)	7,836,701	(2,135,933)	(1,845,530)	(89,117)
Cash	(8,315,111)	2,865,643	(2,582,615)	(3,654,454)	6,832,922
	(12,935,165)	10,802,688	(4,718,548)	(5,501,099)	6,760,680
Administration expenses	6,411,562	2,033,094	5,565,095	4,104,982	5,285,357
	(6,523,603)	12,835,782	846,547	(1,396,117)	12,046,037
Net change in estimated future recoveries	3,500,000	1,500,000	1,100,000	(7,200,000)	(1,000,000)
	(3,023,603)	14,335,782	1,946,547	(8,596,117)	11,046,037
SIPC as Trustee:					
Securities	633,791	1,864,465	(1,125)	64,479	159,671
Cash	184,912	994,274	(467,608)	185,801	582,790
	818,703	2,858,739	(468,733)	250,280	742,461
Administration expenses	192,225	486,797	294,383	180,068	284,094
	1,010,928	3,345,536	(174,350)	430,348	1,026,555
Direct payments:					
Securities		(2,402)	435	16,632	60,296
Cash		(5,476)	74,712	69,357	22,542
		(7,878)	75,147	85,989	82,838
Administration expenses	18,445	(464)	29,854	4,482	17,137
	18,445	(8,342)	105,001	90,471	99,975
Net change in estimated cost to complete proceedings	22,600,000	(3,400,000)	(600,000)	(12,000,000)	(1,900,000)
	20,605,770	14,272,976	1,277,198	(20,075,298)	10,272,567
	25,623,819	19,657,869	7,169,765	(14,004,653)	16,850,443
Total net revenues	38,318,541	94,940,127	80,798,199	94,954,119	56,599,641
Change in unrealized gain or loss on U.S. Government securities*	(16,451,399)	48,441,195	(51,362,906)	1,095,960	(2,446,805)
Increase in net assets*	**$21,867,142**	**$143,381,322**	**$29,435,293**	**$96,050,079**	**$54,152,836**

*1992–1995 have been restated to reflect the adoption of FAS 124 (See Note 6 of the financial statements).

SECURITIES INVESTOR PROTECTION CORPORATION
805 Fifteenth Street, N.W., Suite 800
Washington, D.C. 20005-2215
(202) 371-8300