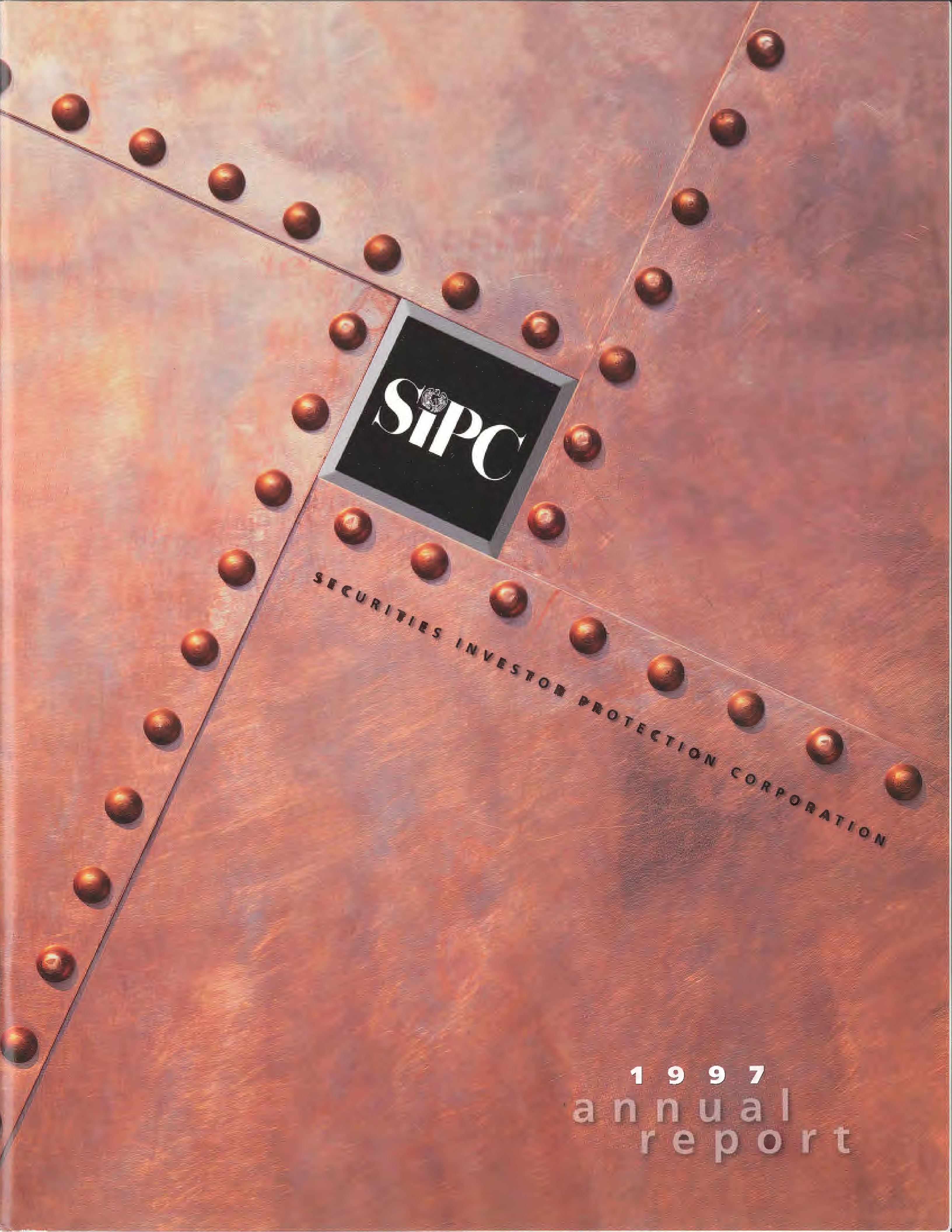
SIPC
SECURITIES INVESTOR PROTECTION CORPORATION
1997
annual
report

SECURITIES INVESTOR PROTECTION CORPORATION
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WASHINGTON, D.C. 20005-2215
(202) 371-8300 FAX (202) 371-6728
WWW.SIPC.ORG

April 30, 1998

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-seventh 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

This past year was marked, for the third consecutive year, by an increase in the number of member firm liquidations that were initiated by SIPC. With ten newly-initiated liquidations we surpassed the average of seven per annum we experienced during the preceding decade. To date during 1998, we have not seen this increased pace continue, but with three-quarters of the year remaining, it is too early to be certain whether these increases are part of a trend we may see over a longer period of time.

The year also brought the close of the Bell & Beckwith case, the most expensive liquidation proceeding SIPC has experienced, and, with $104 million in securities and cash distributed from the estate to customers, one of the largest. The cost of the case to SIPC, including customer payments (net of amounts collected in the liquidation) and the administrative costs of the proceeding, was $31 million. Unusual estate assets (including a hotel and casino in Las Vegas and a number of race horses) and litigation against the broker-dealer's partners, accountants, and others caused the proceeding to have a level of complexity beyond the usual SIPC liquidation. However, SIPC management does not anticipate that this will become the norm.

With the Board of Directors' advice and direction SIPC management moved in 1997 to extend the maturities of the portfolio of SIPC's assets. While 100% of the assets are in U.S. Treasury securities, none of the assets had previously been invested beyond five years. With today's fund in excess of $1 billion and more experience from which to determine liquidity needs, SIPC "laddered" its portfolio to include securities with maturities as long as ten years. This action generated additional interest income in 1997 of approximately $2 million ($3 million annualized).

In an important operational improvement, SIPC recently completed a conversion of its information technology systems. This investment will permit SIPC to record and track its performance with far greater efficiency as well as to more effectively handle the processing of customer claims in liquidation proceedings. As to issues of whether the systems are prepared for the year 2000, the answer is that they are. The recent installation has left SIPC with a modern and cost-effective system which we will continue to monitor and enhance as technology advances.

Finally, we are pleased to report that SIPC now has a web site operating at "www.sipc.org", a site that I believe is fairly user friendly. It will provide members and others ready access to information about SIPC, including our question and answer booklet, a list of members, claim forms for active liquidation proceedings, financial information about SIPC and the like. Much of this information, including this annual report, can be downloaded, thus expediting delivery of services to our members. Please feel free to visit the site.

SIPC continues to function smoothly and achieve with some efficiency, I believe, the objective for which it was originally formed. The fact that it has yet to become a household word is indicative of the success it has achieved over the years. Last year was no exception and we are pleased to offer this report as evidence of the year's performance.

Sincerely,

Clifford Hudson

Clifford Hudson
Chairman

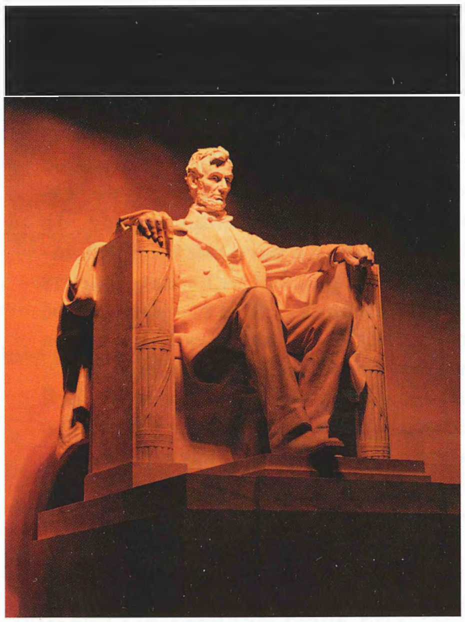
OVERVIEW OF SIPC

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.

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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.

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, ESQ.
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, ESQ.
Director
Ameritrade Holding Corporation


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


MARIANNE C. SPRAGGINS, ESQ.

Officers

MICHAEL E. DON
President

STEPHEN P. HARBECK
General Counsel & Secretary

JOSEPH F. MARINO
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 ten SIPC members in 1997, bringing the total since SIPC's inception to 267 proceedings commenced under SIPA. The 267 members represent less than one percent of the approximately 33,000 broker-dealers that have been SIPC members during the last 27 years. Currently, SIPC has 7,574 members.

The ten new cases compare with seven commenced in 1996. Over the last ten-year period, the annual average of new cases was seven.

Trustees other than SIPC were appointed in seven 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:

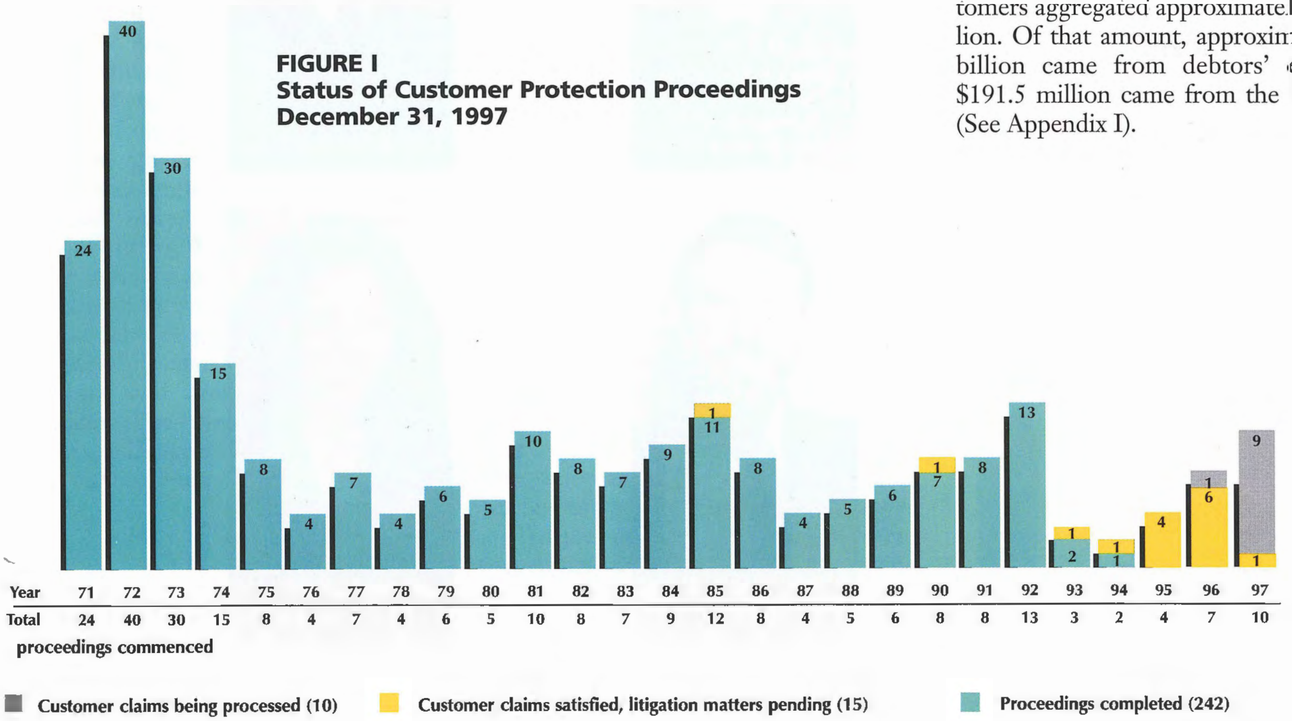
Member	Date Trustee Appointed
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/29/97
Vision Investment Group, Inc. Williamsville, NY (SIPC)	2/03/97
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	3/10/97
W. S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	3/12/97
Cygnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/26/97
Selheimer & Co. Ambler, PA (Direct Payment)	9/08/97†
M. Rimson & Co., Inc. New York, NY (Gilbert Backenroth, Esq.)	9/11/97
Chase Global Securities, Inc. Cleveland, OH (SIPC)	9/22/97
Cressida Capital, Inc./Norfolk Securities Corp. New York, NY (Elizabeth Page Smith, Esq.)	11/07/97
Chicago Partnership Board, Inc. Chicago, IL (J. William Holland, Esq.)	12/15/97

†Date notice published

Of the 267 proceedings begun under SIPA to date, 242 have been completed, 15 involve pending litigation matters, and claims in ten are being processed (See Figure I and Appendix II).

During SIPC's 27-year history, cash and securities distributed for accounts of customers aggregated approximately $2.86 billion. Of that amount, approximately $2.67 billion came from debtors' estates and $191.5 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 1997



Claims over the Limits

Of the more than 419,000 claims satisfied in completed or substantially completed cases as of December 31, 1997, a total of 300 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 300 claims, a net decrease of three during 1997, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $18.3 million, decreased approximately $2.3 million during 1997. These remaining claims are less than 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 55 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 85 percent of the total advanced in all 267 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 183 smallest proceedings combined.

In sixteen proceedings SIPC advanced $167.5 million, or 58 percent of net advances from the SIPC Fund for all proceedings.

Office of President and Legal Department: seated, l to r, Stephen Harbeck, Teresa Lakawicz, Michael Don, William Seckinger, Virginia Drew, Juliet Boyne; standing, l to r, Barbara Hayward, Kenneth Caputo, Ronald Heal, Priscilla McLain, Kevin Bell; not present, Josephine Wang.

TABLE I
Net Advances from the SIPC Fund
December 31, 1997
267 Customer Protection Proceedings

Net Advances From	Net Advances To	Number of Proceedings	Amounts Advanced
$10,000,001	up	6	$103,945,095
5,000,001	$10,000,000	10	63,564,465
1,000,001	5,000,000	39	77,176,478
500,001	1,000,000	29	20,753,834
250,001	500,000	36	12,600,402
100,001	250,000	57	9,371,085
50,001	100,000	43	3,059,183
25,001	50,000	22	807,581
10,001	25,000	10	147,450
0	10,000	10	26,087
Net recovery		5	(2,297,133)*
			$289,154,527†

* 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 ($191,497,855) and for administration expenses ($97,656,672).

ADMINISTRATION

The SIPC Web site on the Internet, *www.sipc.org*, was activated recently. This Annual Report is included on that Web site and can be downloaded. While a copy of the Annual Report is mailed to the headquarters address of each SIPC member, the practice of mailing to the branch offices has been discontinued.

The year 2000 presents problems for many computer systems that are programmed to deal only with two digit references to years. Those programs assume that all references to years begin with the digits 19 and therefore can produce unexpected results when comparative calculations are performed with other dates. Three years ago SIPC began a project to update, upgrade, and migrate all internal applications off of a mini computer and onto a more modern platform which is a year 2000 compliant Intel based LAN with a Microsoft Windows NT Server operating system. All SIPC hardware and internal applications are either currently in or are expected to be in year 2000 compliance by the end of 1998. Relevant SIPC vendors have also given assurance of compliance by the year 2000. There are no material unusual costs anticipated as a result of year 2000.

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

—SIPA, Sec. 4(c)2

The net increase of 89 members during the year brought the total membership to 7,574 at December 31, 1997. 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, 1997

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,735	384	297
SIPC(b)	242	—	10(c)
Chicago Board Options Exchange Incorporated	1,084	119	119
New York Stock Exchange, Inc.	557	28	25
American Stock Exchange, Inc.	427	80	76
Pacific Stock Exchange, Inc.	246	36	47
Philadelphia Stock Exchange, Inc.	144	14	5
Chicago Stock Exchange, Incorporated	128	10	2
Boston Stock Exchange, Inc.	11	—	1
	7,574	671	582

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1997.

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.

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

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 1997, there were 63 members who were subjects of uncured notices, 58 of which were mailed during 1997, four during 1996, and one during 1993. Subsequent filings and payments by 5 members left 58 notices uncured. SIPC has been advised by the SEC staff that: (a) 18 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) 29 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 $1.109 billion at year end, an increase of $62 million during 1997.

Tables III and IV present principal revenues and expenses for the years 1971 through 1997. The 1997 member assessments were $1.34 million and interest from investments was $66.7 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.

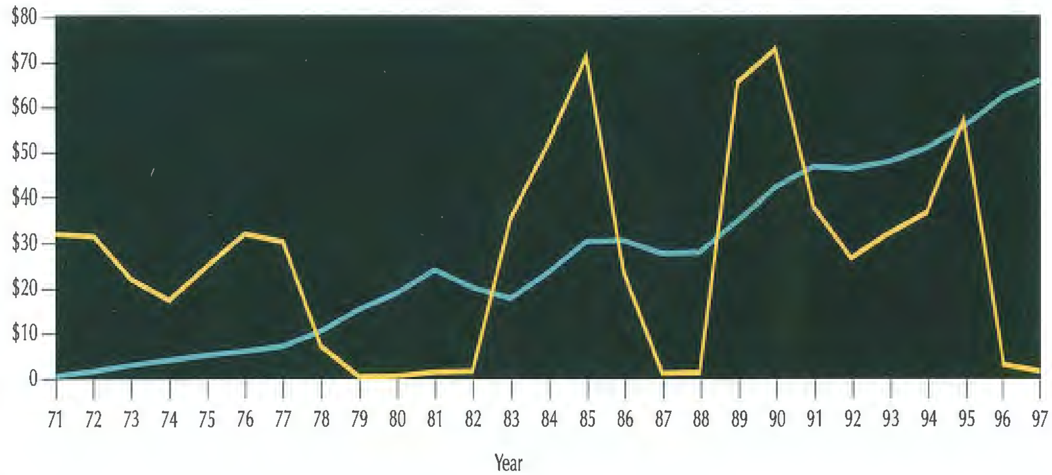
Appendix III is an analysis of revenues and expenses for the five years ended December 31, 1997.

[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-seven Years Ended December 31, 1997

Member assessments and contributions: $725,796,274

Interest on U.S. Government securities: $735,679,602



History of Member Assessments*

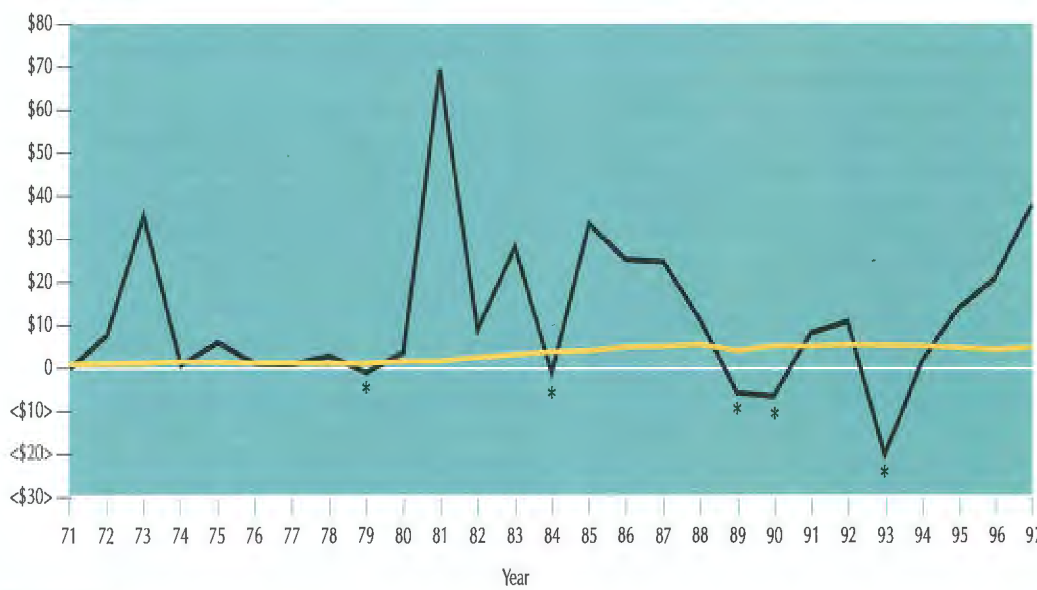
1971: ½ of 1% plus an initial assessment of ⅛ of 1% of 1969 revenues ($150 minimum).
1972-1977: ½ of 1%.
January 1-June 30, 1978: ¼ of 1%.
July 1-December 31, 1978: None.
1979-1982: $25 annual assessment.
1983-March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986-1988: $100 annual assessment.
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).
1996-1997: $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-seven Years Ended December 31, 1997

Customer protection proceedings: $322,054,527 (Includes net advances of $289,154,527 less estimated future recoveries of $4,000,000 and $36,900,000 of estimated costs to complete proceedings.)

Other expenses: $96,553,937



* Net recoveries

During 1997, 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 Blinder, Robinson & Co., Inc.*, 124 F.3d 1238 (10th Cir. 1997), the court of appeals made significant rulings regarding the time-bar provisions of SIPA as they applied to certain customers who had filed claims after the statutory bar date. The trustee rejected the claims as untimely. The trustee had mailed notice of the commencement of the SIPA proceeding to more than 220,000 customers of the debtor, including the claimants, at the addresses listed on the debtor's computer records, and published the notice in newspapers of general circulation where the debtor had branch offices. Publication was also effected in all editions of The Wall Street Journal. The court held that the procedure followed by the trustee for the dissemination of notice, which had been approved by the bankruptcy court, was consistent with the requirements of SIPA, and gave the claimants sufficient notice of the SIPA case. The court stated that the mailing and publication "were reasonably calculated to apprise interested parties of the SIPA liquidation and afford them an opportunity to be heard. Thus, the trustee's actions satisfied due process requirements." 124 F.3d at 1243. The court of appeals expressly held that the SIPA provisions for notice and mailing were constitutional. The court of appeals also held that the six-month time bar in SIPA is mandatory and absolute and reversed the district court's holding that SIPA's incompetent person exception was applicable to a claimant with physical hardships who failed to apply for an extension of time to file a claim within the six-month time period, as "contrary to the plain language of the statute."

Also in the Blinder, Robinson liquidation proceeding, in *Keller v. Ying Wah Tak Holdings Ltd. and Bank of Credit and Commerce Hong Kong Ltd.*, 1997, No. MP 207 (High Court of Hong Kong, November 4, 1997), the court held that the trustee was entitled to the proceeds of a bank account held at the Bank of Credit and Commerce Hong Kong Ltd. The court found that the debtor's president had conveyed all of his property, wherever located, to the trustee in 1992, as part of a settlement agreement. Thus, an attempt by the former president to assign this account to the defendant in 1996 was invalid, since the trustee, not the former president, was the owner of the account at the time of the purported assignment.

In Horwitz v. Sheldon *(In re Donald Sheldon & Co., Inc.)*, 1997 U.S. Dist. LEXIS 18527 (S.D.N.Y., November 20, 1997), an action by the trustee against the former president of the debtor broker-dealer, the district court granted the trustee's motion for sanctions of approximately $67,000 against the former president and his attorney pursuant to Bankruptcy Rule 9011, where the attorney had moved to reinstate the former president's appeal from a judgment of more than $9 million entered against him after jury trial. The former president had become a fugitive during the appeal and, during his two-year fugitive status, the district court, invoking the doctrine of disentitlement, had dismissed the appeal outright. On the sanctions motion, the district court stated that "the motion to reinstate the appeal was neither well grounded in fact nor warranted by existing law; moreover, no reasonable attorney could have thought that it was."

In a related matter from the same liquidation proceeding, *Federal Insurance Co. v. Sheldon (In re Donald Sheldon & Co., Inc.)*, Case No. 85-6538 (AJG), Adv. No. 94-8368 (Bankr. S.D.N.Y., October 8, 1997), on the trustee's claims against the insurance company in its action on the debtor broker-dealer's directors and officers policy, the bankruptcy court denied the insurance company's second motion to set aside the judgment that the insurance company was liable to indemnify the former officers of the debtor broker-dealer. The court also granted the trustee an award of prejudgment interest of more than $3.2 million on the previously ordered liability of the insurance company of $7.3 million.

Two decisions were rendered involving various aspects of the untimely filing of customer and broker-dealer claims in the same liquidation proceeding. In *In re Adler, Coleman Clearing Corp.*, 204 B.R. 99 (Bankr. S.D.N.Y. 1997), the bankruptcy court was faced with the trustee's denial of three separate late-filed customer claims. First, the bankruptcy court held that the claimants did not fall within the narrow exceptions to the statutory time bar and had failed to file a timely claim. The claimants' account - with securities and a debit - was transferred post-filing date by the trustee to a receiving broker-dealer as part of a bulk account transfer but, because of the non-payment of the debit, the account was returned to the trustee. The court found that the claimants had ignored the trustee's explicit notice that claimants should file claims even though their account was transferred to another broker-dealer. Second, the bankruptcy court held that (i) the publication of notice in the national editions of The New York Times and The Wall Street Journal on a single day is reasonable under the circumstances with regard to certain late-filed claimants who asserted they had not received notice, (ii) the publication supplemented the mailing of claims packages to addresses where the claimants reside, and (iii) the fact that the claimants may not have actually received notice by this means or otherwise is irrelevant. Third, the bankruptcy court held that the "mailbox rule" applies in SIPA liquidation proceedings. That rule states that a timely and accurate mailing raises a rebuttable presumption that the mailed material was received and thereby filed. The court however, upheld the trustee's denial of the late-filed claim because the trustee presented evidence that rebutted the presumption of receipt and the claimants failed to adduce evidence that the trustee received their claim.

Also in the Adler Coleman case, in *In re Adler Coleman Clearing Corp.*, 204 B.R. 111 (Bankr. S.D.N.Y. 1997), the bankruptcy court held that "deposit accounts" maintained by introducing broker-dealers at the debtor clearing broker-dealer as collateral under clearing

LITIGATION
Continued

agreements were neither trading nor margin accounts and the introducing broker-dealers were not protected "customers" under SIPA.

In *In re First Interregional Equity Corporation*, Adv. No. 97-2165 (Bankr. D. N.J., November 10, 1997), on motions to intervene by the Chapter 11 trustee of a related debtor corporation and by the Unsecured Creditors Committee of that same debtor corporation, the bankruptcy court found that both movants have proper standing to intervene under Bankruptcy Rule 2018(a). The court stated that their intervention will not cause a delay or unduly burden the proceedings or prejudice the parties, and granted each motion to intervene while retaining the discretion to limit the scope of each intervention as the particular facts develop in the future.

In *SIPC v. Stratton Oakmont, Inc.*, 213 B.R. 433 (Bankr. S.D.N.Y., 1997), the SIPA trustee, who had waived the debtor broker-dealer's attorney-client privilege, moved to compel the debtor's former lawyers to produce documents listed in a privilege log. A former principal of the debtor then moved for a protective order, based on a joint defense privilege and alleged oral joint defense agreements. The bankruptcy court held that where the trustee is conducting an investigation as to the factual underpinning and scope of identifiable claims, and where he has not yet sued the former principal, the trustee is adverse to the former principal and the joint defense privilege has been waived. The court denied the motion for a protective order and granted the trustee's motion to compel discovery.

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 1997, 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 100 of the 267 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 231 indictments have been returned in federal or state courts, resulting in 194 convictions to date.

Administrative and/or criminal action in 238 of the 267 SIPC customer protection proceedings initiated through December 31, 1997, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	59
Exclusive SEC Administrative Action	37
Exclusive Self-Regulatory Administrative Action	42
Criminal and Administrative Action	88
Criminal Action Only	12
Total	238

In the 227 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	345	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 five members referred under Section 5(a) during the calendar year 1997. Four referrals were received during the year and one active referral had been carried forward from prior years. Two of the five 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.

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

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, 1997, 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 as of December 31, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

Washington, D.C.
March 13, 1998

Securities Investor Protection Corporation

Statement of Financial Position
December 31, 1997

ASSETS	
Cash	$ 964,783
U.S. Government securities, at fair value and accrued interest receivable ($15,929,137); (amortized cost $1,056,557,213) (Note 6)	1,108,485,981
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($60,575,205) (Note 4)	4,000,000
Other	358,622
	$1,113,809,386
LIABILITIES AND NET ASSETS	
Advances to trustees – in process (Note 4)	$ 24,000
Accounts payable and accrued expenses (Note 8)	1,326,673
Estimated costs to complete customer protection proceedings in progress (Note 4)	36,900,000
Member assessments received in advance (Note 3)	300,000
	38,550,673
Net assets	1,075,258,713
	$1,113,809,386

Statement of Activities
for the year ended December 31, 1997

Revenues:	
Interest on U.S. Government securities	$ 66,662,755
Member assessments (Note 3)	1,339,584
	68,002,339
Expenses:	
Salaries and employee benefits (Note 8)	2,629,970
Legal and accounting fees (Note 4)	89,369
Credit agreement commitment fee (Note 5)	1,017,332
Rent (Note 5)	419,905
Other	877,543
	5,034,119
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	38,334,555
	43,368,674
Total net revenues	24,633,665
Realized and unrealized gain on U.S. Government securities (Note 6)	29,026,426
Increase in net assets	53,660,091
Net assets, beginning of year	1,021,598,622
Net assets, end of year	**$1,075,258,713**

See notes to financial statements.

Securities Investor Protection Corporation

Statement of Cash Flows
for the year ended December 31, 1997

Operating activities:	
Interest received from U.S. Government securities	$ 54,023,614
Member assessments received	1,264,614
Advances paid to trustees	(35,687,951)
Recoveries of advances	6,177,397
Salaries and other operating activities expenses paid	(5,051,234)
Net cash provided by operating activities	20,726,440
Investing activities:	
Proceeds from sales of U.S. Government securities	695,602,085
Purchases of U.S. Government securities	(716,393,230)
Purchases of furniture and equipment	(110,192)
Net cash used in investing activities	(20,901,337)
Increase in cash	(174,897)
Cash, beginning of year	1,139,680
Cash, end of year	**$ 964,783**

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.

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

The preparation of financial statements in conformity with 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 $1,109,450,764.

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 1997 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 25 proceedings in progress at December 31, 1997. Customer claims have been satisfied in 15 of these proceedings and in ten 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 $64.8 million for proceedings in progress (including direct payment proceedings of $.2 million) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $60.8 million is not expected to be recovered.

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	$5,500,000	$29,600,000
Add:		
Provision for current year recoveries	2,700,000	
Provision for estimated future recoveries	2,000,000	
Provision for estimated costs to complete proceedings		43,000,000
Less:		
Recoveries	6,200,000	
Advances to trustees		35,700,000
Balance, end of year	$4,000,000	$36,900,000

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 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 $3,281,836. 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 .10% per annum to .09% per annum during 1997 and increased to .11% per annum in March 1998.

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, 1997.

U.S. Government securities as of December 31, 1997, included gross unrealized gains of $36,520,911 and gross unrealized losses of $521,280. In 1997 SIPC decided to enhance the yield on the investment portfolio by re-laddering the maturities over ten years instead of five years. This resulted in gross realized gains of $1,425,756 and gross realized losses of $5,034,086.

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

Increase in net assets	$53,660,091
Increase in realized and unrealized gains on U.S. Government securities	(29,026,426)
Increase in amortized premium on U.S. Government securities	(12,261,268)
Net increase in estimated cost to complete customer protection proceedings	7,300,000
Net decrease in estimated recoveries of advances to trustees	1,500,000
Increase in accrued interest receivable on U.S. Government securities	(339,531)
Decrease in payables	(206,825)
Other reconciling items	100,399
Net cash provided by operating activities	$20,726,440

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 1997 included the following components:

Defined benefit plan (actuarially determined):	
Service cost—benefits earned during 1997	$ 297,766
Interest on projected benefit obligation	539,480
Actual return on plan assets	(952,456)
Net amortization and deferral	182,378
Net periodic pension expense	67,168
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	68,419
Total periodic pension expense for 1997	$ 135,587

As of January 1, 1998, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:	
Vested benefit obligation	$(6,352,610)
Non-vested benefit obligation	(545,662)
Accumulated benefit obligation	(6,898,272)
Effect of projected future salary increases and moving IRS limitations	(1,488,964)
Projected benefit obligation	(8,387,236)
Market value of plan assets	8,983,291
Funded Status—market value of plan assets in excess of projected benefit obligation	596,055
Unrecognized net (asset)	(70,027)
Unrecognized prior service (credit)	(68,706)
Unrecognized net loss	302,309
Prepaid pension expense	$ 759,631

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 1997 included the following components:

Service cost—benefits earned during 1997	$53,960
Interest on accumulated postretirement benefit obligation	76,238
Return on plan assets	0
Amortization of unrecognized net gain	(39,194)
Net periodic postretirement benefit expense for 1997	$91,004

For measurement of the 1997 expense, a discount rate of 7.0% and annual rates of 9.5%/7.5% (non-Medicare/Medicare) for increases in the health care trend factor were assumed for 1997. 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, 1997, by about $323,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1997, by about $42,000.

Information regarding these plans' funded status as of December 31, 1997, 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	$ (270,315)
Fully eligible active employees	(125,057)
Currently eligible active employees	0
Other active employees	(1,061,359)
Net SIPC liability	(1,456,731)
Plan assets at fair value	0
Funded status	(1,456,731)
Unrecognized net gain	(330,896)
(Accrued) postretirement benefit cost	$(1,787,627)

The discount rate used in determining the accumulated postretirement benefit obligation at December 31, 1997, was 7.0%.

APPENDIX I

Distributions for Accounts of Customers for the Twenty-Seven Years Ended December 31, 1997

(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
	$2,668,672	**$328,945**	**$(137,447)**	**$191,498**	**$2,860,170**

* 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
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	136	18
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,365	
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	152	8
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	9/03/77	3/06/97	3/10/97	11,097	4,978	3,810
Cygnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/30/91	8/26/97	8/26/97	348	50	
Selheimer & Co. Ambler, PA (Direct Payment)	9/17/67		9/08/97†	84	4	1
M. Rimson & Co., Inc. New York, NY (Gilbert Backenroth, Esq.)	6/03/70	9/08/97	9/11/97	11,064	570	
Chase Global Securities, Inc. Cleveland, OH (SIPC)	4/30/93	9/22/97	9/22/97	294	7	
Cressida Capital, Inc./ Norfolk Securities Corp. New York, NY (Elizabeth Page Smith, Esq.)	6/16/93	11/04/97	11/07/97	4,032		
Chicago Partnership Board, Inc. Chicago, IL (J. William Holland, Esq.)	5/06/88	12/05/97	12/15/97	6,472		
TOTAL 10 MEMBERS: PART A				**59,827**	**9,262**	**3,837**

†Date notice published

December 31, 1997

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 103,264	$ 1,596	$ 101,668	$1,906,593	$ 25,000		$1,156,548	$725,045
		52,324	2,500,112	2,351,444			148,668
			111,711	30,022		78,560	3,129
284,373,063	282,881,607	1,491,456	1,502,393	1,502,393			
			45,618	45,618			
			66,658	2,695			63,963
			62,337	62,337			
			101,247	101,247			
			100,000	100,000			
$284,476,327	**$282,883,203**	**$1,645,448**	**$6,396,669**	**$4,220,756**		**$1,235,108**	**$940,805**

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
Donald Sheldon & Co., Inc. New York, NY (Don L. Horwitz, Esq.)	12/01/75	7/30/85	8/13/85 2/17/87*	8,300	2,469	2,362
Blinder, Robinson & Co., Inc. Englewood, CO (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/01/90	215,000	64,770	61,334
Portfolio Asset Management USA Financial Group, Inc. El Paso, TX (SIPC)	12/23/92	7/26/93	8/17/93	16,119	949	17
First Lauderdale Securities Ft. Lauderdale, FL (SIPC)	6/04/84	11/29/94	11/29/94	1,255	124	49
Adler, Coleman Clearing Corp. New York, NY (Edwin B. Mishkin, Esq.)	12/27/84	2/27/95	2/27/95	102,000	19,921	59,650
Harrington Securities Corp. Williamsville, NY (SIPC)	6/30/87	8/10/95	8/14/95	4,220	117	13
U.S. Equities Management Corp. New York, NY (Irving H. Picard, Esq.)	9/14/93	6/09/95	9/22/95	50	18	15
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	7/16/81	10/16/95	10/17/95	2,866	139	20
Pinnacle Financial Inc./ H.L. Camp & Co., Inc. Nashville, TN (SIPC)	11/21/85	2/29/96	3/01/96	635	111	18

* Successor Trustee

December 31, 1997

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 6,038,508	$ 5,962,405	$ 76,103	$ 14,269,649	$ 6,851,973		$ 7,013,546	$ 404,130
108,817,063	88,186,351	20,630,712					
634,988	26,427	608,561	667,952	71,970		134,465	461,517
303,968	232,770	71,198	2,503,238	112,565		1,814,663	576,010
578,814,816	560,000,000	18,814,816	8,000,000	8,000,000			
			346,127	15,500			330,627
349,510	349,510		878,355	231,520		5,775	641,060
86,852		86,852	1,559,534	650,896		908,638	
629,114	624,057	5,057	698,947	111,161		587,786	

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
Hanover, Sterling & Company Ltd. New York, NY (Irving H. Picard, Esq.)	8/21/84	4/02/96	4/16/96	15,536	1,170	147
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	797	49	32
Barrett Day Securities, Inc. New York, NY (Direct Payment)	3/31/86		6/26/96†	8,700	302	8
A. R. Baron & Co., Inc. New York, NY (James W. Giddens, Esq.)	11/04/91	7/03/96	7/11/96	7,826	554	50
AmeriNational Financial Services, Inc. Santa Monica, CA (SIPC)	9/14/93	6/04/96	7/29/96	3,189	75	5
W.S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	6/26/91	3/07/97	3/12/97	25,600	6,658	15,366
TOTAL 15 MEMBERS: PART B				412,093	97,426	139,086

†Date notice published

December 31, 1997

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$ 2,898,429	$ 1,051,534		$ 607,129	$1,239,766
			8,767,458	118,264		7,406,586	1,242,608
			195,087	25,722		49,506	119,859
$ 466,051		$ 466,051	5,026,564	2,782,932		979,554	1,264,078
230		230	673,911	23,536		520,375	130,000
29,460,265	$ 26,032,717	3,427,548	11,955,031			11,955,031	
$725,601,365	**$681,414,237**	**$44,187,128**	**$58,440,282**	**$20,047,573**		**$31,983,054**	**$6,409,655**

APPENDIX II Customer Protection Proceedings

PART C: Proceedings Completed in 1997 [(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
First State Securities Corp. North Miami, FL (Nicholas Christin, Esq.)	6/19/75	7/24/81	7/24/81 7/27/85* 7/26/95**	2,784	936	824
Joseph Sebag Incorporated Los Angeles, CA (C. Edward Simpson, Esq.)	3/07/68	7/27/81	7/27/81 11/8/96*	8,000	4,287	3,853
Bell & Beckwith Toledo, OH (Patrick A. McGraw, Esq.)	2/22/50	2/05/83	2/10/83	10,500	6,966	6,964
Omni Mutual, Inc. New York, NY (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408	372
Williams Financial Group, Inc. Spokane, WA (Joseph A. Esposito, Esq.)	6/01/87	12/07/89	12/07/89	30	24	11
First Ohio Securities Company Cleveland, OH (William Appleton, Esq.)	1/09/85	6/22/90	6/22/90 4/19/91*	950	208	117
First Securities Group of California, Inc. Beverly Hills, CA (Leonard L. Gumport, Esq.)	12/12/85	1/06/92	1/07/92	800	540	233
Sun Securities Incorporated Scottsdale, AZ (SIPC)	2/05/85	3/16/92	3/16/92	885	78	19
Doviak Securities, Inc. Beverly Hills, CA (Jack L. Kinzie, Esq.)	8/17/88	8/11/93	8/11/93	335	29	12
TOTAL 9 MEMBERS 1997				**25,384**	**13,476**	**12,405**
TOTAL 233 MEMBERS 1973 - 1996(d)				**1,019,502**	**268,819**	**267,389**
TOTAL 242 MEMBERS 1973 - 1997				**1,044,886**	**282,295**	**279,794**

* Successor Trustee
**Second Successor Trustee

December 31, 1997

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 7,292,510	$ 6,658,941	$ 633,569	$ 5,919,051	$ 5,233,351	$ 60,805	$ 329,980	$ 294,915
34,637,307	30,688,912	3,948,395	12,293,058	5,784,447		268,257	6,240,354
109,823,808	103,666,000	6,157,808	30,728,907	7,068,235			23,660,672
259,589	201,106	58,483	5,543,848	3,848,481			1,695,367
5,572		5,572	439,370	70,815		166,055	202,500
3,459,981	3,438,305	21,676	2,062,530	1,206,362		856,168	
1,858,551	1,858,551		6,349,458	1,346,880			5,002,578
			571,815	199,995			371,820
22,904		22,904	626,193	520,376			105,817
157,360,222	**146,511,815**	**10,848,407**	**64,534,230**	**25,278,942**	**60,805**	**1,620,460**	**37,574,023**
1,685,670,424	**1,557,862,946**	**127,807,478**	**159,783,346**	**48,109,401**	**1,331,971**	**58,046,937**	**52,295,037**
$1,843,030,646	**$1,704,374,761**	**$138,655,885**	**$224,317,576**	**$73,388,343**	**$1,392,776**	**$59,667,397**	**$89,869,060**

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:	10	Members — Customer Claims and Distributions Being Processed	59,827	9,262	3,837
Part B:	15	Members — Customer Claims Satisfied, Litigation Matters Pending	412,093	97,426	139,086
		Sub-Total	471,920	106,688	142,923
Part C:	242	Members — Proceedings Completed	1,044,886	282,295	279,794
		TOTAL	**1,516,806**	**388,983**	**422,717**

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, 1997

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 284,476,327	$ 282,883,203	$ 1,645,448	$ 6,396,669	$ 4,220,756		$ 1,235,108	$ 940,805
725,601,365	681,414,237	44,187,128	58,440,282	20,047,573		31,983,054	6,409,655
1,010,077,692	964,297,440	45,832,576	64,836,951	24,268,329		33,218,162	7,350,460
1,843,030,646	1,704,374,761	138,655,885	224,317,576	73,388,343	$1,392,776	59,667,397	89,869,060
$2,853,108,338	**$2,668,672,201**	**$184,488,461**	**$289,154,527**	**$97,656,672**	**$1,392,776**	**$92,885,559**	**$97,219,520**

APPENDIX III Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1997

	1997	1996	1995	1994	1993
Revenues:					
Interest on U.S. Government securities	$66,656,807	$61,280,052	$ 56,715,607	$50,829,178	$48,316,768
Member assessments and contributions	1,339,584	2,639,822	57,831,365	37,115,454	32,612,767
Interest on assessments	5,948	22,486	51,024	23,332	19,931
	68,002,339	63,942,360	114,597,996	87,967,964	80,949,466
Expenses:					
Salaries and employee benefits	2,629,970	2,611,595	2,511,153	2,654,204	2,550,446
Legal fees	66,469	108,638	235,305	133,664	163,866
Accounting fees	22,900	22,000	31,400	20,400	22,600
Credit agreement commitment fee	1,017,332	1,160,862	1,408,174	1,925,112	2,107,570
Professional fees—other	81,109	75,520	62,196	92,418	126,212
Other:					
Assessment collection cost	7,589	16,522	15,764	13,729	9,976
Bank fees	2,329	7,929	5,414	7,532	10,109
Depreciation and amortization	119,341	107,485	93,146	65,278	69,001
Directors fees and expenses	15,754	16,913	15,171	16,183	18,182
Insurance	17,385	18,405	17,796	14,837	15,518
Office supplies and expense	172,689	109,685	147,243	110,465	154,517
Postage	12,962	16,758	11,625	16,060	15,969
Printing & mailing annual report	91,526	95,578	93,302	85,197	70,789
Publications and reference services	95,383	92,601	71,734	77,269	70,488
Rent—office space	419,905	412,668	512,026	577,489	557,832
Telephone	23,313	22,098	18,152	16,070	14,727
Travel and subsistence	215,075	116,097	118,602	56,637	83,766
Miscellaneous	23,088	6,695	16,690	10,023	9,077
	1,216,339	1,039,434	1,136,665	1,066,769	1,099,951
	5,034,119	5,018,049	5,384,893	5,892,567	6,070,645
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments		(19)	100,344		(1,115)
Securities	16,994,249	(4,620,035)	7,836,701	(2,135,933)	(1,845,530)
Cash	(171,914)	(8,315,111)	2,865,643	(2,582,615)	(3,654,454)
	16,822,335	(12,935,165)	10,802,688	(4,718,548)	(5,501,099)
Administration expenses	11,663,353	6,411,562	2,033,094	5,565,095	4,104,982
	28,485,688	(6,523,603)	12,835,782	846,547	(1,396,117)
Net change in estimated future recoveries	1,500,000	3,500,000	1,500,000	1,100,000	(7,200,000)
	29,985,688	(3,023,603)	14,335,782	1,946,547	(8,596,117)
SIPC as Trustee:					
Securities	585,813	633,791	1,864,465	(1,125)	64,479
Cash	197,712	184,912	994,274	(467,608)	185,801
	783,525	818,703	2,858,739	(468,733)	250,280
Administration expenses	22,043	192,225	486,797	294,383	180,068
	805,568	1,010,928	3,345,536	(174,350)	430,348
Direct payments:					
Securities	49,505		(2,402)	435	16,632
Cash	183,822		(5,476)	74,712	69,357
	233,327		(7,878)	75,147	85,989
Administration expenses	9,972	18,445	(464)	29,854	4,482
	243,299	18,445	(8,342)	105,001	90,471
Net change in estimated cost to complete proceedings	7,300,000	22,600,000	(3,400,000)	(600,000)	(12,000,000)
	38,334,555	20,605,770	14,272,976	1,277,198	(20,075,298)
	43,368,674	25,623,819	19,657,869	7,169,765	(14,004,653)
Total net revenues	24,633,665	38,318,541	94,940,127	80,798,199	94,954,119
Realized and unrealized gain or loss on U.S. Government securities*	29,026,426	(16,451,399)	48,441,195	(51,362,906)	1,095,960
Increase in net assets*	**$53,660,091**	**$21,867,142**	**$143,381,322**	**$29,435,293**	**$96,050,079**

*1993–1995 have been restated to reflect the adoption of FAS 124.

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