SIPC

1999 annual report

SECURITIES INVESTOR PROTECTION CORPORATION

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

April 28, 2000

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-ninth 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
Chairman

CONTENTS

Message from the Chairman	3
Overview of SIPC	4
Customer Protection Proceedings	6
Membership and the SIPC Fund	8
Litigation	10
Disciplinary and Criminal Actions	11
Financial Statements	12
Appendix I: Distributions for Accounts of Customers for the Twenty-Nine Years Ended December 31, 1999	17
Appendix II: Customer Protection Proceedings	18
A: Customer Claims and Distributions Being Processed	18
B: Customer Claims Satisfied, Litigation Matters Pending	20
C: Proceedings Completed in 1999	24
D: Summary	26
Appendix III: Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1999	28

"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

As we bring to closure SIPC's third decade in operation, we at SIPC have the strong belief that the original objectives for which our organization was established continue to be met and very much remain our focus. This past year served to reinforce that belief.

In 1999, SIPC initiated nine new customer protection proceedings involving approximately 11,000 customers and accounts estimated to total over $300,000,000. On average, this was similar to recent years.

On a different note, a case involving one of the biggest liquidation proceedings in SIPC's history, the Adler, Coleman liquidation, presented new complexities during the year. When that case started in 1995 SIPC was able rapidly to transfer the accounts of over 50,000 customers. But not everyone is satisfied just to be protected against the bankruptcy of their stockbroker. Just prior to the failure of Adler, Coleman, an attempt was made by personnel at an introducing firm to defraud SIPC by making sham transactions in customer accounts in order to shift losses from favored customers onto other customers and SIPC. The Adler trustee and SIPC have thus far prevailed in resisting these claims in court, saving SIPC $200,000,000. This is the first time SIPC has confronted these types of claims on this scale.

On the other hand, in the case of A.R. Baron, cooperation among SIPC, the trustee, and state and federal authorities has resulted in the creation of a restitution fund to protect victims of fraud and to be administered by the SIPC trustee, in excess of $30,000,000. This was a unique resolution that achieved a result best for all involved.

More recently, Sunpoint Securities involved a liquidation in which SIPC, under difficult circumstances, did just what it was created to do. In the case of this liquidation, one month after a trustee was appointed, through a bulk transfer to two different firms, 9,700 customers had access to their accounts containing positions in over 5,600 different securities issues. This was accomplished despite intervening and approaching holidays and despite the fact that, because of "Y2K" fears, nearly all firms had decided not to accept account transfers during this period.

Finally, during the year, SIPC executed the replacement of its $1 billion credit facility with two new layers of financing and with a modified consortium of financial institutions. The two layers include a $250 million, 364-day revolving credit facility and a $750 million, 5-year revolving credit facility. These layers are in addition to the $1.1 billion SIPC Fund and a $1 billion credit call capability SIPC has with the U.S. Treasury. With these layers, SIPC is of the view that the size and nature of its financial resources are sufficient to meet anticipated demands.

In short, SIPC's business continues in a healthy fashion, consistent with the purposes for which it was originally established. This 1999 annual report is offered as an indication of this success.

Sincerely,

Clifford Hudson
Chairman of the Board

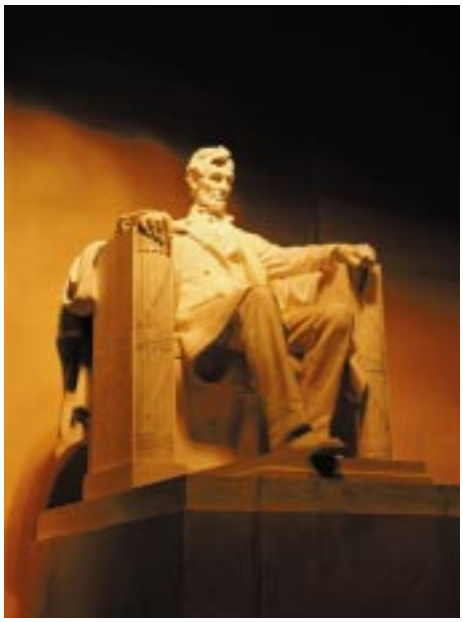
OVERVIEW OF SIPC

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. The web site address for the NASD book orders is www.nasdr.com/2370.htm

Directors

Clifford Hudson
Chairman of the Board
and CEO
Sonic Corp.
Chairman

Debbie D.
Branson, Esq.
The Law Offices of
Frank L. Branson, P.C.
Vice Chairman

Albert J. Dwoskin
Chain Bridge
Securities

Gary Gensler
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

Philip W. Carduck
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 nine SIPC members in 1999, bringing the total since SIPC's inception to 282 proceedings commenced under SIPA. The 282 members represent less than one percent of the approximately 35,000 broker-dealers that have been SIPC members during the last 29 years. Currently, SIPC has 7,315 members.

The nine new cases compare with six commenced in 1998. Over the last ten-year period, the annual average of new cases was seven.

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

Member	Date Trustee Appointed
Bishop, Allen, Inc. New York, NY (Direct Payment)	1/29/99†
CPA Advisors Network, Inc. Providence, RI (Edward J. Bertozzi, Jr., Esq.)	2/12/99
Duke & Co., Inc. New York, NY (Elizabeth Page Smith, Esq.)	3/24/99
John Dawson & Associates a/k/a PT Discount Brokers, Pioneer Discount Brokers, and Robinson Securities Chicago, IL (J. William Holland, Esq.)	4/13/99
R. D. Kushnir & Co. Northbrook, IL (SIPC)	7/14/99
GFB Securities, Inc. East Meadow, NY (Gilbert Backenroth, Esq.)	9/15/99
Texas Capital Securities Houston, TX (Direct Payment)	11/17/99†
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/19/99
Churchill Securities, Inc. Suffern, NY (Edwin B. Mishkin, Esq.)	12/13/99

†Date notice published

Of the 282 proceedings begun under SIPA to date, 247 have been completed, 21 involve pending litigation matters, and claims in 14 are being processed (See Figure I and Appendix II).

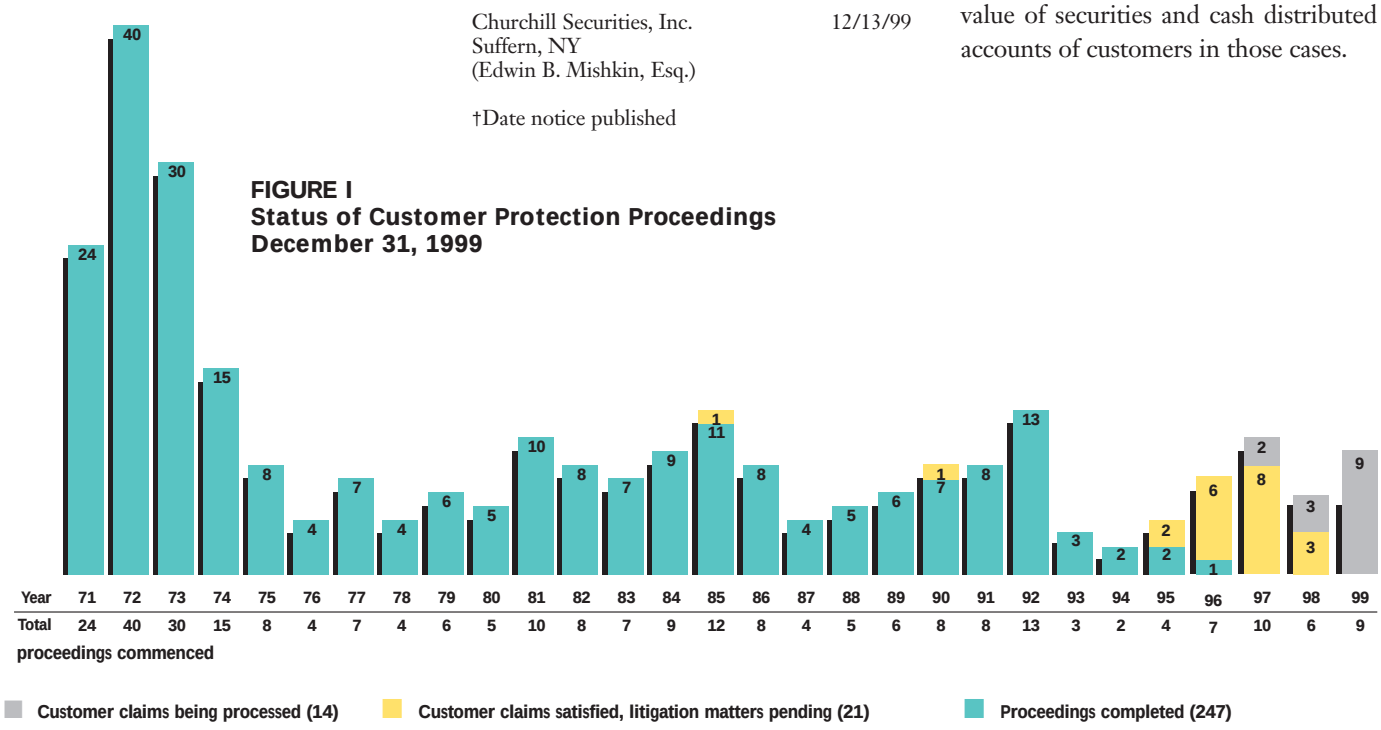
During SIPC's 29-year history, cash and securities distributed for accounts of customers aggregated approximately $3.38 billion. Of that amount, approximately $3.15 billion came from debtors' estates and $234.3 million came from the SIPC Fund (See Appendix I).

Claims over the Limits

Of the more than 427,500 claims satisfied in completed or substantially completed cases as of December 31, 1999, a total of 305 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 305 claims, unchanged from 1998, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $36.6 million, was also unchanged from 1998. These remaining claims are less than two percent of the total value of securities and cash distributed for accounts of customers in those cases.

FIGURE I
Status of Customer Protection Proceedings
December 31, 1999



SIPC Fund Advances

Table I shows that the 63 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 86 percent of the total advanced in all 282 customer protection proceedings. The largest net advance in a single liquidation is $31.0 million in Sunpoint Securities. This exceeds the net advances in the 186 smallest proceedings combined.

In 21 proceedings SIPC advanced $218.6 million, or 62 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 1999
282 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	6	$119,718,163
5,000,001	$10,000,000	15	98,912,775
1,000,001	5,000,000	42	87,640,050
500,001	1,000,000	33	23,901,271
250,001	500,000	38	13,190,221
100,001	250,000	59	9,630,570
50,001	100,000	41	2,923,066
25,001	50,000	21	761,963
10,001	25,000	11	170,430
0	10,000	11	31,207
Net recovery		5	(2,297,133)*
			$354,582,583†

* 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 ($234,285,409) and for administration expenses ($120,297,174).

"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 227 members during the year brought the total membership to 7,315 at December 31, 1999. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 1999, there were 81 members who were subjects of uncured notices, 67 of which were mailed during 1999, 11 during 1998 and 1997, and three during 1996. Subsequent filings and payments by four members left 77 notices uncured. SIPC has been advised by the SEC staff that: (a) 25 member registrations have been canceled or are being withdrawn; (b) 52 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.13 billion at year end, a decrease of $67 million during 1999.

Tables III and IV present principal revenues and expenses for the years 1971 through 1999. The 1999 member assessments were $1.14 million and interest from investments was $71.4 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, 1999.

TABLE II
SIPC Membership
Year Ended December 31, 1999

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,754	359	284
SIPC(b)	278	—	170(c)
Chicago Board Options Exchange Incorporated	993	133	176
New York Stock Exchange, Inc.	486	28	51
NASDAQ-AMEX	330	40	85
Pacific Stock Exchange, Inc.	200	38	45
Philadelphia Stock Exchange, Inc.	156	22	22
Chicago Stock Exchange, Incorporated	110	17	30
Boston Stock Exchange, Inc.	8	1	2
	7,315	638	865

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1999.

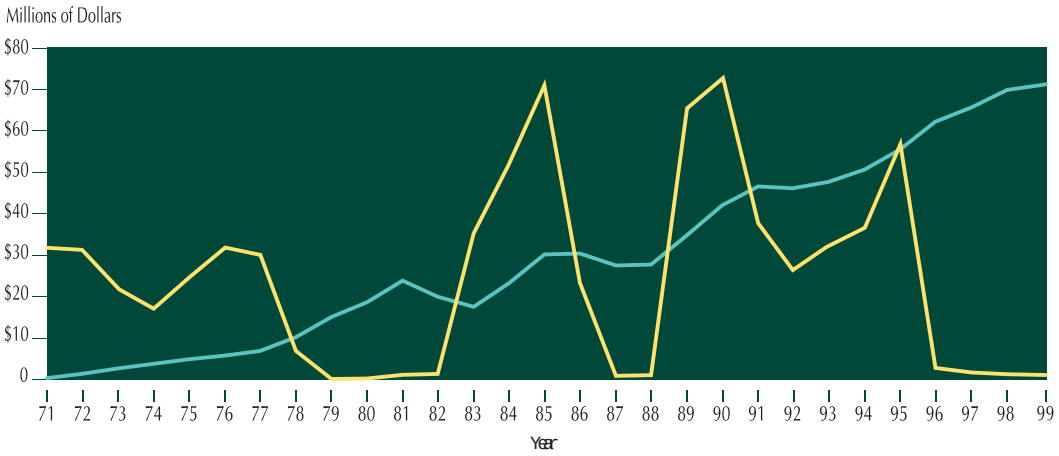
b. SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization.

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.

[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-nine Years Ended December 31, 1999



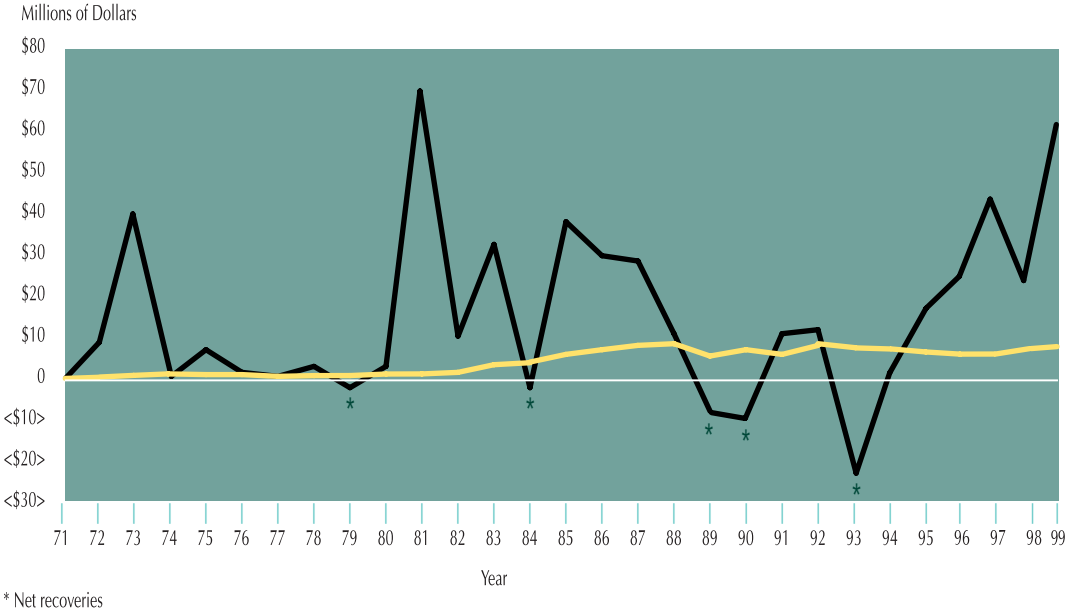
- Member assessments and contributions: $728,118,871
- Interest on U.S. Government securities: $876,951,204

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: 1/16 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).
1996-1999: $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-nine Years Ended December 31, 1999



- Customer protection proceedings: $404,832,583 (Includes net advances of $354,582,583 less estimated future recoveries of $3,350,000 and $53,600,000 of estimated costs to complete proceedings.)
- Other expenses: $108,793,092

During 1999, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below.

In *Federal Ins. Co. v. Horwitz (In re Donald Sheldon & Co., Inc.)*, 1999 U.S. App. LEXIS 13954 (2d Cir., June 22, 1999), on the trustee's claims against an insurance company on a broker-dealer's directors and officers insurance policy, the Second Circuit affirmed the judgment of the district court holding the insurance company liable to the trustee for breach of the insurance policy it had issued to the debtor broker-dealer. The court held that neither the policy's "dishonesty" nor its "personal profit or advantage" exclusions applied. The district court had affirmed the bankruptcy court's order which granted the trustee the policy's $7.3 million remaining limit of liability as well as an award of prejudgment interest of more than $3.2 million.

In *National Factoring Services, Inc.; Funders Exchange, Inc. v. First Interregional Advisors Corp.; First Interregional Equity Corp. (In re First Interregional Advisors Corp.)*, 189 F.3d 463 (3d Cir. 1999), the Third Circuit, affirming decisions of the district and bankruptcy courts below, held that the automatic stay provisions of Bankruptcy Code §362 were applicable to pending litigation related to a SIPA proceeding.

In *Arford v. Miller (In re Stratton Oakmont, Inc.)*, 239 B.R. 698 (S.D.N.Y. 1999), the district court affirmed the decision of the bankruptcy court (229 B.R. 273 (Bankr. S.D.N.Y. 1999)) that claims arising from debtor's failure to execute sell orders are not "customer" claims protected under SIPA. Moreover, the district court held that claims for a debtor's failure to execute customers' orders to sell securities do not constitute conversion under SIPA because "conversion requires some sort of affirmative act, as opposed to a failure to act." 239 B.R. at 702. The claimants have appealed to the Second Circuit (99-5076).

In *SIPC v. BDO Seidman, LLP*, 49 F. Supp. 2d 644 (S.D.N.Y. 1999), an action by SIPC and the SIPA trustee for A.R. Baron & Co., Inc. against the debtor's accountants, the district court held that SIPC does not have the statutory authority to sue the accountants on its own behalf but does have standing to sue as subrogee of customers whose claims are satisfied with SIPC advances to the trustee. The court also held that the SIPA trustee can sue as bailee for the fund of customer property. The court, however, granted the accountants' motion to dismiss for failure to state a claim for fraudulent misrepresentation or negligent misrepresentation. The court found that neither SIPC nor the SIPA trustee established a relationship with the accountants "sufficiently approaching privity." 49 F. Supp. 2d at 657. SIPC and the trustee have appealed to the Second Circuit (99-7720).

In *Trefny v. Bear Stearns Securities Corp.*, 243 B.R. 300 (S.D. Texas 1999), in an adversary proceeding by a SIPA trustee against the debtor's clearing broker-dealer for damages and fraudulent transfer, the district court reversed the order of the bankruptcy court denying the clearing broker-dealer's request for a stay pending arbitration. The district court found that the basis of the trustee's claims is that the clearing broker-dealer committed fraud or actionable negligence. The district court ordered a stay of the adversary proceeding pending arbitration pursuant to a contract between parties, as required by the Federal Arbitration Act. The trustee has appealed to the Fifth Circuit (00-20049).

In *SIPC v. Stratton Oakmont, Inc.*, No. 97-8074A (TLB) (Bankr. S.D.N.Y., January 8, 1999), the trustee moved for an order directing the debtor's bankruptcy counsel to disgorge fees it paid itself out of its retainer for services rendered after the filing of a chapter 11 petition for the debtor. The bankruptcy court held that, upon the bankruptcy filing, the retainer became property of the debtor's estate. The court further held that debtor's counsel's opposition to the commencement of the SIPA liquidation proceeding was on spurious grounds, and was neither beneficial at the time rendered nor reasonably likely to benefit the debtor's estate. The court stated that "[t]o allow compensation out of the estate for these services would be to reward efforts to conceal conduct which may have been fraudulent and which, in any event, inured to the benefit of the principals rather than the debtor's estate." Slip op. at 11. The court further stated that "[o]n this record, there can be no question that [debtor's counsel] knew from numerous allegations contained in complaints against Stratton of unauthorized trades having been made by Stratton as well as from information provided to [debtor's counsel] by SIPC, that Stratton had customers." Slip. op. at 10-11. The court ordered the disgorgement of so much of the retainer as represented payment for counsel's post-petition services and expenses.

In *In re W.S. Clearing, Inc.*, SIPA No. AD 97-01493-AA (Bankr. C.D. Cal., January 14, 1999), the bankruptcy court upheld the SIPA trustee's determinations that claims in the liquidation proceeding of a clearing broker-dealer were not entitled to SIPA protection. The court found that the claims were for damages resulting from an introducing broker-dealer's unauthorized trading and that the claims do not constitute allowable "customer" claims against the clearing firm.

In *Mishkin v. Siclari*, Adv. Proc. No. 98-9432A (JLG) (Bankr. S.D.N.Y., May 27, 1999), a SIPA trustee sought to have a claim equitably subordinated to the claims of the debtor's other customers and creditors because that claimant allegedly allowed his account to become a proprietary account of the introducing broker-dealer that caused the debtor's failure. The bankruptcy court denied the claimant's motion for summary judgment because there is a material issue of fact regarding whether the claimant is entitled to recover his initial deposit.

In *Snyder v. Rounds (SIPC v. Consolidated Investment Services, Inc.)*, Adv. Proc. No. 99-1086 CEM (Bankr. D. Colo., June 14, 1999), on cross-motions for summary judgment by the trustee and the defendant (the former principal of the debtor), the bankruptcy court held that, because the trustee acquired a 50% interest in a judgment after the SIPA proceeding was commenced, he did so for the debtor's estate and not the debtor and the acquisition did not extinguish the judgment. The court also held that the defendant's acquisition of the other 50% interest in the judgment did serve to extinguish the judgment to that extent because he was the judgment debtor. The court, among other things, granted the trustee's motion for summary judgment and permanently enjoined the defendant or his attorneys from claiming any interest in the extinguished 50% interest in the judgment acquired by the defendant. An appeal to the district court has been taken by the defendant. Civil Action Nos. 99-AP-1177 and 99-AP-1548 (consolidated) (U.S.D.C., D. Colo.).

In *In re Old Naples Secs., Inc.*, 236 B.R. 854 (Bankr. M.D. Fla. 1999), the bankruptcy court upheld the trustee's Determinations of Claim which had denied the claims on the grounds that the claims were loans rather than purchases of securities for customer accounts. The court found that none of the claimants had any documentation to show that securities were purchased for their accounts. In a subsequent opinion, Adversary No. 96-896 (Bankr. M.D. Fla., August 16, 1999), the bankruptcy court vacated this decision and held the claimants to be customers of the debtor. SIPC and the trustee have appealed to the district court.

In *In re Chicago Partnership Board, Inc.*, 236 B.R. 249 (Bankr. N.D. Ill., 1999), a claimant asserted that he did not receive the trustee's mailed notice of the commencement of the SIPA proceeding and filed an untimely claim. The bankruptcy court upheld the trustee's denial of the claim as late-filed. The court held that the trustee's publication of the notice satisfied due process. The court further held that the

claimant could not avoid the effects of its late-filing by relying on the equitable estoppel effect of an alleged oral statement by an employee of the trustee. The court found that the claimants failed to establish all the elements of equitable estoppel.

In another decision in the same proceeding, *In re Chicago Partnership Board, Inc.*, 237 B.R. 726 (Bankr. N.D. Ill. 1999), the bankruptcy court upheld the trustee's denial of a claim for "customer" protection where the claim was based on an investment contract that was not registered under the Securities Act of 1933 and thus did not meet the "security" definition in SIPA. The court found that the claimant's interest in an unregistered limited partnership is not a security defined by SIPA. The court further found that the claimant's subjective belief that he was protected by SIPA does not give him customer status under SIPA, nor does it entitle him to the protections afforded to customers under SIPA.

In *Mishkin v. Ensminger (In re Adler, Coleman Clearing Corp.)*, Adv. Proc. No. 97/8423A (Bankr. S.D.N.Y., December 15, 1999), a SIPA liquidation proceeding for a failed clearing broker-dealer, the court upheld the SIPA trustee's denials of claims of claimants who sought to benefit from fraudulent transfers engineered by an introducing broker-dealer through phantom trades allegedly executed in the last days of operation of both broker-dealers. The court noted that the claimants may not accept the fruits of the introducing broker-dealer's fraud where the introducing broker-dealer acted as an agent for the claimants. The phantom trades were set aside pursuant to Bankruptcy Code §548, and New York's Debtor and Creditor Law. The court also noted that the transactions purportedly executed on the claimants' behalf (i) violated the Securities Exchange Act of 1934; (ii) violated the criminal provisions of SIPA; and (iii) violated New York's Blue Sky Law. The court also held that the Trustee had a contractual right to cancel the purported trades, based upon the debtor's clearing agreement with the introducing broker-dealer. Some of the claimants have appealed to the district court.

DISCIPLINARY AND CRIMINAL ACTIONS

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.

Criminal and Administrative Actions

Criminal action has been initiated in 106 of the 282 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 255 indictments have been returned in federal or state courts, resulting in 224 convictions to date.

Administrative and/or criminal action in 248 of the 282 SIPC customer protection proceedings initiated through December 31, 1999, 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	46
Criminal and Administrative Action	90
Criminal Action Only	16
Total	248

In the 232 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	111
Bar from Association	345	216
Fines	Not Applicable	$9,579,714

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 $9,579,714 in fines assessed by self-regulatory authorities were levied against 127 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

During the calendar year 1999 SIPC maintained active files on three members referred under Section 5(a). One referral was received during the year and two active referrals had been carried forward from prior years. Two of the three remained on active referral at year end.

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

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

Report of 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, 1999, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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, 1999, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

McLean, Virginia
March 31, 2000

Securities Investor Protection Corporation

Statement of Financial Position
December 31, 1999

ASSETS	
Cash	$ 11,431,285
U.S. Government securities, at fair value and accrued interest receivable ($16,847,883); (amortized cost $1,112,296,633) (Note 6)	1,118,221,977
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($122,540,567) (Note 4)	3,350,000
Other	302,539
	$1,133,305,801
LIABILITIES AND NET ASSETS	
Advances to trustees – in process (Note 4)	$ 717,237
Accounts payable and accrued expenses (Note 8)	1,919,031
Estimated costs to complete customer protection proceedings in progress (Note 4)	53,600,000
Member assessments received in advance (Note 3)	156,000
	56,392,268
Net assets	1,076,913,533
	$1,133,305,801

Statement of Activities
for the year ended December 31, 1999

Revenues:	
Interest on U.S. Government securities	$ 71,427,189
Member assessments (Note 3)	1,136,318
	72,563,507
Expenses:	
Salaries and employee benefits (Note 8)	3,119,030
Legal and accounting fees (Note 4)	401,495
Credit agreement commitment fee (Note 5)	1,412,722
Rent (Note 5)	430,353
Other	919,254
	6,282,854
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	61,798,247
	68,081,101
Total net revenues	4,482,406
Realized and unrealized loss on U.S. Government securities (Note 6)	(85,017,167)
Decrease in net assets	(80,534,761)
Net assets, beginning of year	1,157,448,294
Net assets, end of year	**$1,076,913,533**

See notes to financial statements.

Securities Investor Protection Corporation

Statement of Cash Flows for the year ended December 31, 1999

Operating activities:	
Interest received from U.S. Government securities	$ 75,091,129
Member assessments received	1,112,318
Advances paid to trustees	(58,042,221)
Recoveries of advances	9,303,286
Salaries and other operating activities expenses paid	(5,807,698)
Net cash provided by operating activities	21,656,814
Investing activities:	
Proceeds from sales of U.S. Government securities	152,445,870
Purchases of U.S. Government securities	(163,437,451)
Purchases of furniture and equipment	(17,223)
Net cash used in investing activities	(11,008,804)
Increase in cash	10,648,010
Cash, beginning of year	783,275
Cash, end of year	**$ 11,431,285**

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 $1,129,653,262.

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 1999 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 35 proceedings in progress at December 31, 1999. Customer claims have been satisfied in 21 of these proceedings and in 14 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 $126.1 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, $122.7 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	$2,000,000	$39,600,000
Add:		
Provision for current year recoveries	7,300,000	
Provision for estimated future recoveries	3,350,000	
Provision for estimated costs to complete proceedings		72,300,000
Less:		
Recoveries	9,300,000	
Advances to trustees		58,300,000
Balance, end of year	$3,350,000	$53,600,000

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 $2,461,564. 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, that terminated March 30, 1999, provided SIPC with a $1 billion revolving line of credit. A commitment fee, payable quarterly on the unused portion of the commitment, was .11% per annum. Effective March 31, 1999, a new $1 billion credit agreement with a consortium of banks was entered into by SIPC, consisting of (i) a $250 million 364-day revolving credit facility with a commitment fee of .09% per year, and (ii) a $750 million 5-year revolving credit facility at .11% per year. Effective March 31, 2000, this agreement was amended to extend forward one year with the same commitment fee rates.

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, 1999.

U.S. Government securities as of December 31, 1999, included gross unrealized gains of $7,089,304 and gross unrealized losses of $18,011,844.

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

Decrease in net assets	$(80,534,761)
Realized and unrealized loss on U.S. Government securities	85,017,167
Net increase in estimated cost to complete customer protection proceedings	14,000,000
Decrease in amortized premium on U.S. Government securities	3,501,300
Net increase in estimated recoveries of advances to trustees	(1,350,000)
Increase in payables	797,045
Decrease in accrued interest receivable on U.S. Government securities	163,102
Other reconciling items	62,961
Net cash provided by operating activities	$21,656,814

8. Pensions and Other Postretirement Benefits

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

Information regarding these plans is provided in accordance with the Financial Accounting Standards Board Statement No. 132, *Employers' Disclosure about Pensions and Other Postretirement Benefits*.

	Pension Benefits	Other Postretirement Benefits
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$9,599,729	$1,927,660
Service cost	357,300	92,153
Interest cost	614,135	124,275
Actuarial (gain)/loss	(488,157)	228,051
Benefits paid	(299,805)	(29,848)
Benefit obligation at end of year	$9,783,202	$2,342,291
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$9,539,301	-
Actual return on plan assets	187,080	-
SIPC contributions	-	-
Benefits paid	(299,805)	-
Fair value of plan assets at end of year	$9,426,576	-
Funded status	$ (356,626)	$(2,342,291)
Unrecognized actuarial loss	1,062,328	232,626
Unrecognized prior service credit	(53,438)	-
Prepaid (accrued) benefit cost	$ 652,264	$(2,109,665)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31, 1999		
Discount rate	7.00%	7.00%
Expected return on assets	9.00%	-
Rate of compensation increase	5.00%	-

For measurement purposes, 7.5%/6.6% (non-Medicare/Medicare) annual rates of increase in the per capita cost of covered health care benefits were assumed for 1999. These rates were assumed to decrease gradually to 5% for 2003 and remain at that level thereafter.

COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$357,300	$ 92,153
Interest cost	614,135	124,275
Amortization of unrecognized asset	(35,013)	-
Amortization of unrecognized actuarial gain	-	124
Amortization of prior service credit	(7,634)	-
Expected return on assets	(844,902)	-
Benefit cost	$ 83,886	$216,552
DEFINED CONTRIBUTION PLAN		
SIPC contributions (60% of employee contributions, up to 3.6% of salary)	$ 76,552	

The assumed health care cost trend rate has a significant effect on the amounts reported.
A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components in 1999	$ 62,000	$ (50,000)
Effect on postretirement benefit obligation as of December 31, 1999	$480,000	$(400,000)

APPENDIX I Distributions for Accounts of Customers for the Twenty-Nine Years Ended December 31, 1999

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			Total
		Advances*	Recoveries*	Net	
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
	$3,149,912	**$380,763**	**$(146,478)**	**$234,285**	**$3,384,197**

* 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
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,367	26
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	9/03/77	3/06/97	3/10/97	11,097	5,413	3,748
Primeline Securities Corporation Wichita, KS (Todd Connell, Esq.)	12/20/84	1/09/98	1/09/98	4,700	251	21
Nichols, Safina, Lerner & Co. New York, NY (Direct Payment)	11/17/93		10/30/98†	19,090	254	6
Michael William Ribant, d/b/a Trinity Capital San Diego, CA (SIPC)	10/26/92	11/16/98	11/16/98	82	51	42
CPA Advisors Network, Inc. Providence, RI (Edward J. Bertozzi Jr., Esq.)	10/27/80	12/29/98	2/12/99	1,400	72	33
Bishop, Allen, Inc. New York, NY (Direct Payment)	4/19/63		1/29/99†	1,125	27	3
Duke & Co., Inc. New York, NY (Elizabeth Page Smith, Esq.)	11/02/79	3/19/99	3/24/99	24,000	517	356
John Dawson & Associates Chicago, IL (J. William Holland, Esq.)	10/30/72	4/08/99	4/13/99	6,750	123	24
R. D. Kushnir & Co. Northbrook, IL (SIPC)	4/14/89	6/02/99	7/14/99	13,328	46	
GFB Securities, Inc. East Meadow, NY (Gilbert Backenroth, Esq.)	10/24/94	9/14/99	9/15/99	3,368	153	

†Date notice published

December 31, 1999

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 3,019,462		$ 3,019,462	$ 7,199,360	$ 5,390,346		$ 669,111	$ 1,139,903
354,769,693	$ 351,482,341	3,287,352	8,137,393	7,959,499			177,894
69,847		69,847	919,448	532,312			387,136
1,837	1,837		118,189	31,521			86,668
			2,550,304	43,908		1,521,750	984,646
19,639	19,639		5,658,174	436,304		5,221,870	
			22,979	11,456			11,523
			265,216	234,768		3,065	27,383
			1,799,545	301,396		575,620	922,529
			109,642	109,642			
			176,017	176,017			

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
Texas Capital Securities Houston, TX (Direct Payment)	11/15/89		11/17/99†	4,216	22	
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234		9,738
Churchill Securities, Inc. Suffern, NY (Edward B. Mishkin, Esq.)	7/13/79	11/30/99	12/13/99	5,200		
TOTAL 14 MEMBERS: PART A				**139,220**	**10,296**	**13,997**

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	68,733	61,334
Adler, Coleman Clearing Corp. New York, NY (Edwin B. Mishkin, Esq.)	12/27/84	2/27/95	2/27/95	102,000	19,841	59,650
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	7/16/81	10/16/95	10/17/95	2,866	139	20
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
†Date notice published

December 31, 1999

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$ 5,120	$ 5,120			
$ 15,098,182	$ 15,098,182		31,045,202	50,000			$ 30,995,202
$ 372,978,660	**$ 366,601,999**	**$ 6,376,661**	**$ 58,006,589**	**$15,282,289**		**$ 7,991,416**	**$ 34,732,884**

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 55,842,496	$ 49,326,701	$ 6,515,795	$ 5,193,498	$ 5,193,498			
114,422,863	93,480,379	20,942,484					
728,615,259	711,744,281	16,870,978	8,000,000	8,000,000			
100,000	100,000		5,061,576	4,252,938		$ 808,638	
1,211,843	1,211,843		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	148
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	797	49	33
A. R. Baron & Co., Inc. New York, NY (James W. Giddens, Esq.)	11/04/91	7//03/96	7/11/96	7,826	555	66
AmeriNational Financial Services, Inc. Santa Monica, CA (SIPC)	9/14/93	6/04/96	7/29/96	3,189	75	5
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	136	21
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	153	67
W.S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	6/26/91	3/07/97	3/12/97	25,600	6,658	22,726
Cygnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/30/91	8/26/97	8/26/97	346	60	12
Selheimer & Co. Ambler, PA (Direct Payment)	9/17/67		9/08/97†	84	11	2
M. Rimson & Co., Inc. New York, NY (Gilbert Backenroth, Esq.)	6/03/70	9/08/97	9/11/97	11,064	631	30
Chase Global Securities, Inc. Cleveland, OH (SIPC)	4/30/93	9/22/97	9/22/97	294	7	1

†Date notice published

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 42,567		$ 42,567	$ 3,421,335	$ 1,436,966		$ 607,129	$ 1,377,240
562,462	$ 74,820	487,642	9,467,156	786,078		7,438,470	1,242,608
243,468		243,468	8,427,749	6,084,117		979,554	1,364,078
3,522		3,522	714,826	64,451		520,375	130,000
638,222	14,298	623,924	2,287,365	238,271		1,156,548	892,546
9,158	9,019	139	317,352	30,022		168,520	118,810
213,400,426	207,839,387	5,561,039	10,955,031	610,000		10,345,031	
			2,847,037	397,830		1,583,171	866,036
			92,879	3,916			88,963
2,600	2,600		944,889	590,386		354,503	
139,237		139,237	734,520	634,520			100,000

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
Cressida Capital, Inc./ Norfolk Securities Corp. New York, NY (Elizabeth Page Smith, Esq.)	6/16/93	11/04/97	11/07/97	7,632	521	76
Chicago Partnership Board, Inc. Chicago, IL (J. William Holland, Esq.)	5/06/88	12/05/97	12/15/97	6,472	1,676	1,028
Chimneyville Investments Group, Incoporated Jackson, MS (SIPC)	1/25/95	9/01/98	9/03/98	168	31	14
Euro-Atlantic Securities, Inc. New York, NY (Irving H. Picard, Esq.)	12/24/87	10/02/98	10/07/98	21,500	725	63
First National Equity Corp., f/k/a J. S. Securities Inc. New York, NY (Lee S. Richards, Esq.)	9/07/94	10/30/98	11/04/98	4,484	187	7
TOTAL 21 MEMBERS: PART B				**437,599**	**103,938**	**147,683**

PART C: Proceedings Completed in 1999 [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
Harrington Securities Corp. Williamsville, NY (SIPC)	6/30/87	8/10/95	8/14/95	4,220	117	13
TOTAL 1 MEMBER: 1999				**4,220**	**117**	**13**
TOTAL 246 MEMBERS 1973–1998(d)				**1,071,010**	**283,690**	**279,895**
TOTAL 247 MEMBERS 1973–1999				**1,075,230**	**283,807**	**279,908**

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 295		$ 295	$ 1,898,483	$ 1,188,423		$ 432,458	$ 277,602
14,177,203	$ 11,798,190	2,379,013	3,469,909	510,000		1,467,658	1,492,251
7,837		7,837	509,446	2,500			506,946
			2,723,673	748,951		1,086,278	888,444
1,192	1,192		357,478	267,618		7,888	81,972
$1,129,420,650	**$1,075,602,710**	**$ 53,817,940**	**$ 68,123,149**	**$31,151,646**		**$27,544,007**	**$ 9,427,496**

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 803,430	$ 800,363	$ 3,067	$ 130,275	$ 81,168			$ 49,107
803,430	**800,363**	**3,067**	**130,275**	**81,168**			**49,107**
1,846,274,239	**1,706,906,881**	**139,367,358**	**228,322,570**	**73,782,071**	**$1,392,776**	**$61,645,452**	**91,502,271**
$1,847,077,669	**$1,707,707,244**	**$139,370,425**	**$228,452,845**	**$73,863,239**	**$1,392,776**	**$61,645,452**	**$91,551,378**

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:	14	Members — Customer Claims and Distributions Being Processed	139,220	10,296	13,997
Part B:	21	Members — Customer Claims Satisfied, Litigation Matters Pending	437,599	103,938	147,683
		Sub-Total	576,819	114,234	161,680
Part C:	247	Members — Proceedings Completed	1,075,230	283,807	279,908
		TOTAL	**1,652,049**	**398,041**	**441,588**

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, 1999

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 372,978,660	$ 366,601,999	$ 6,376,661	$ 58,006,589	$ 15,282,289		$ 7,991,416	$ 34,732,884
1,129,420,650	1,075,602,710	53,817,940	68,123,149	31,151,646		27,544,007	9,427,496
1,502,399,310	1,442,204,709	60,194,601	126,129,738	46,433,935		35,535,423	44,160,380
1,847,077,669	1,707,707,244	139,370,425	228,452,845	73,863,239	$1,392,776	61,645,452	91,551,378
$3,349,476,979	**$3,149,911,953**	**$199,565,026**	**$354,582,583**	**$120,297,174**	**$1,392,776**	**$97,180,875**	**$135,711,758**

APPENDIX III Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1999

	1999	1998	1997	1996	1995
Revenues:					
Interest on U.S. Government securities	$71,424,040	$69,839,676	$66,656,807	$61,280,052	$ 56,715,607
Member assessments and contributions	1,136,318	1,186,279	1,339,584	2,639,822	57,831,365
Interest on assessments	3,149	4,737	5,948	22,486	51,024
	72,563,507	71,030,692	68,002,339	63,942,360	114,597,996
Expenses:					
Salaries and employee benefits	3,119,030	2,890,318	2,629,970	2,611,595	2,511,153
Legal fees	375,095	274,539	66,469	108,638	235,305
Accounting fees	26,400	24,300	22,900	22,000	31,400
Credit agreement commitment fee	1,412,722	1,251,315	1,017,332	1,160,862	1,408,174
Professional fees—other	177,694	350,562	81,109	75,520	62,196
Other:					
Assessment collection cost	8,038	11,149	7,589	16,522	15,764
Bank fees	805	(1,235)	2,329	7,929	5,414
Depreciation and amortization	122,639	109,986	119,341	107,485	93,146
Directors fees and expenses	20,997	31,414	15,754	16,913	15,171
Insurance	19,809	19,414	17,385	18,405	17,796
Office supplies and expense	225,020	229,010	172,689	109,685	147,243
Postage	17,134	16,332	12,962	16,758	11,625
Printing & mailing annual report	38,000	37,934	91,526	95,578	93,302
Publications and reference services	94,789	85,661	95,383	92,601	71,734
Rent—office space	430,353	430,743	419,905	412,668	512,026
Telephone	24,008	26,101	23,313	22,098	18,152
Travel and subsistence	160,739	155,820	215,075	116,097	118,602
Miscellaneous	9,582	12,938	23,088	6,695	16,690
	1,171,913	1,165,267	1,216,339	1,039,434	1,136,665
	6,282,854	5,956,301	5,034,119	5,018,049	5,384,893
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments				(19)	100,344
Securities	1,982,830	2,284,516	16,994,249	(4,620,035)	7,836,701
Cash	34,820,956	719,902	(171,914)	(8,315,111)	2,865,643
	36,803,786	3,004,418	16,822,335	(12,935,165)	10,802,688
Administration expenses	9,061,034	12,784,379	11,663,353	6,411,562	2,033,094
	45,864,820	15,788,797	28,485,688	(6,523,603)	12,835,782
Net change in estimated future recoveries	(1,350,000)	2,000,000	1,500,000	3,500,000	1,500,000
	44,514,820	17,788,797	29,985,688	(3,023,603)	14,335,782
SIPC as Trustee:					
Securities	1,509,251	(208,428)	585,813	633,791	1,864,465
Cash	1,464,091	75,962	197,712	184,912	994,274
	2,973,342	(132,466)	783,525	818,703	2,858,739
Administration expenses	169,902	583,148	22,043	192,225	486,797
	3,143,244	450,682	805,568	1,010,928	3,345,536
Direct payments:					
Securities		7,912	49,505		(2,402)
Cash	123,190	7,370	183,822		(5,476)
	123,190	15,282	233,327		(7,878)
Administration expenses	16,993	25,046	9,972	18,445	(464)
	140,183	40,328	243,299	18,445	(8,342)
Net change in estimated cost to complete proceedings	14,000,000	2,700,000	7,300,000	22,600,000	(3,400,000)
	61,798,247	20,979,807	38,334,555	20,605,770	14,272,976
	68,081,101	26,936,108	43,368,674	25,623,819	19,657,869
Total net revenues	4,482,406	44,094,584	24,633,665	38,318,541	94,940,127
Realized and unrealized gain or (loss) on U.S. Government securities*	(85,017,167)	38,094,997	29,026,426	(16,451,399)	48,441,195
Increase (decrease) in net assets*	**$(80,534,761)**	**$82,189,581**	**$53,660,091**	**$21,867,142**	**$143,381,322**

*1995 has been restated to reflect the adoption of FAS 124.