annual report

Securities Investor Protection Corporation

SIPC

2001

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 30, 2002

The Honorable Harvey L. Pitt
Chairman
Securities and Exchange Commission
450 5th St., N.W.
Washington, D.C. 20549

Dear Sir:

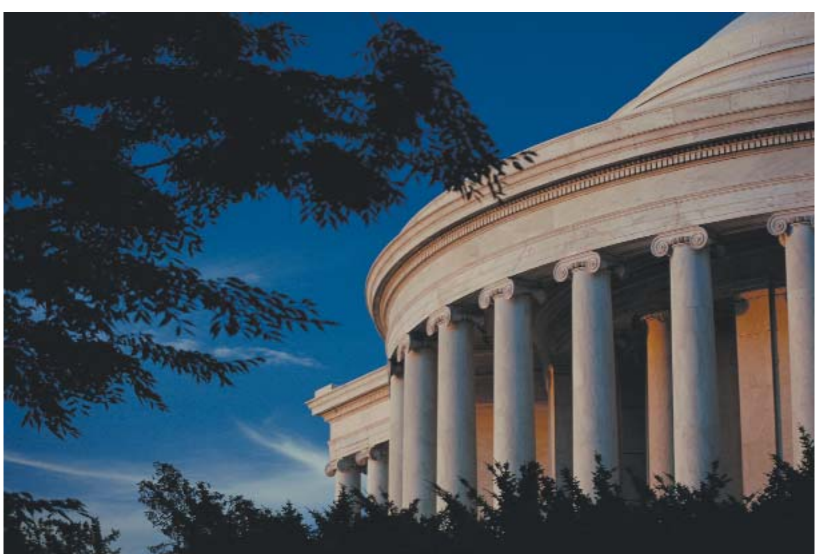
On behalf of the Board of Directors I submit herewith the Thirty-first Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 11(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

Debbie D. Branson
Acting Chairman

CONTENTS

Message from the Acting 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 Thirty-one Years Ended December 31, 2001	17
Appendix II: Customer Protection Proceedings	18
A: Customer Claims and Distributions Being Processed	18
B: Customer Claims Satisfied, Litigation Matters Pending	24
C: Proceedings Completed in 2001	28
D: Summary	30
Appendix III: Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2001	32



"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 ACTING CHAIRMAN

The year 2001 was busy for SIPC. We initiated 12 new customer protection proceedings including the largest in SIPC's history, the liquidation of MJK Clearing, Inc. in Minneapolis, Minnesota. In that case SIPC supervised the transfer of nearly 175,000 customer accounts introduced by over 60 broker-dealers. The transfer, involving customer assets exceeding $10 billion, was accomplished in approximately one week. SIPC initially advanced $177 million to the trustee in the MJK case, but the net cost of the case to SIPC is expected to be less than $80 million.

The year 2001 saw major advancements in the program of investor education which SIPC initiated last year:

- SIPC and the National Association of Investors Corporation collaborated on a national survey identifying deficiencies in the "investment survival skills" of American investors. The survey results, which showed substantial investor misunderstandings about SIPC coverage, will now be used to help remedy those misunderstandings. For example, SIPC now issues press releases in connection with its larger cases in order to make the investing public more aware of SIPC's benefits and its limitations.

- SIPC completely overhauled its website (www.sipc.org) to make it more "user friendly" and to make clear to investors what SIPC does and does not do. Included in the new site is a "SIPC Claim Center" to facilitate customers' preparation of claim forms to be filed in customer protection proceedings. In addition, SIPC's basic brochure was rewritten to provide plain English answers to the questions most commonly asked about SIPC.

- SIPC is working on a national radio and television public service announcement campaign which is expected to be launched this spring.

In the year 2001, SIPC continued to demonstrate that it is fulfilling its mandate to protect investors in the event of the financial failure of their stockbroker.

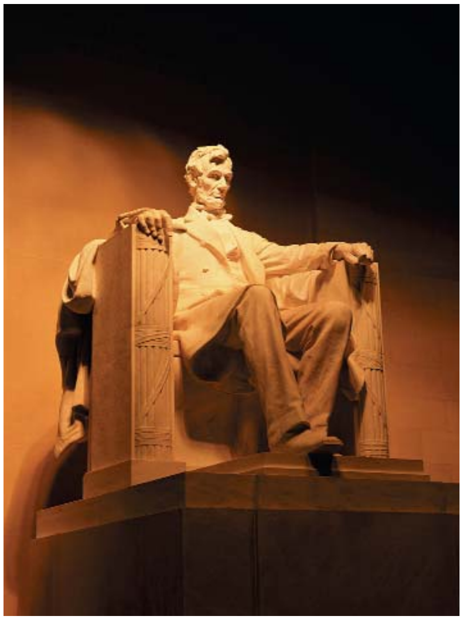
Debbie Dudley Branson
Acting Chairman of the Board

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 & OFFICERS

Directors

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

Albert J. Dwoskin
Chain Bridge
Securities

Peter R. Fisher
Under Secretary for
Domestic Finance
Department of the
Treasury

Charles L. Marinaccio, Esq.
Director
Ameritrade Holding
Corporation

David J. Stockton
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

"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 12 SIPC members in 2001, bringing the total since SIPC's inception to 299 proceedings commenced under SIPA. The 299 members represent less than one percent of the approximately 36,000 broker-dealers that have been SIPC members during the last 31 years. Currently, SIPC has 6,791 members.

The 12 new cases compare with five commenced in 2000. 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 three cases and there were two direct payment proceedings. Customer protection proceedings were initiated for the following SIPC members:

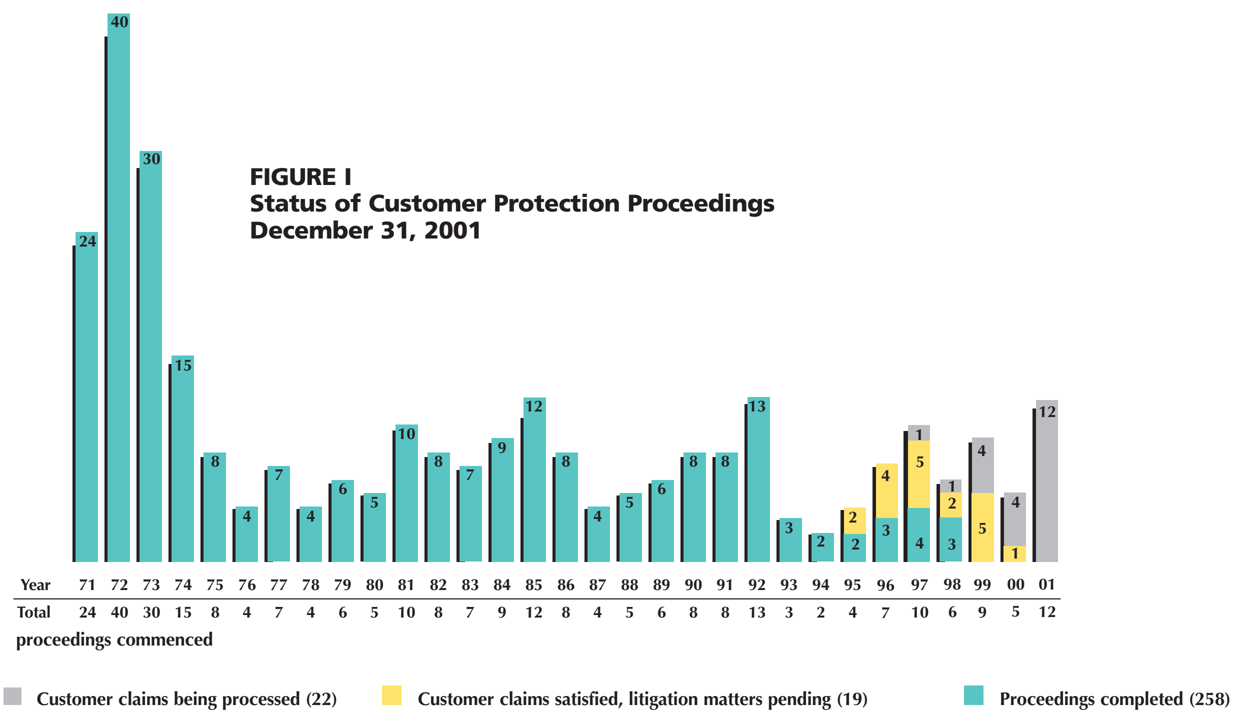
Member	Date Trustee Appointed
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	1/16/01
MPI Financial Columbus, OH (SIPC)	1/29/01
Cambridge Capital, LLC Garden City, NY (SIPC)	2/02/01
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	3/06/01
First Madison Securities, Inc. Boca Raton, FL (Direct Payment)	8/24/01 †
Thomas M. Couch, Inc. d/b/a Couch & Co., Inc. New York, NY (Direct Payment)	9/07/01 †
MJK Clearing, Inc. Minneapolis, MN (James P. Stephenson, Esq.)	9/27/01
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos, Esq.)	10/17/01
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	10/30/01
Krieger Financial Services, Inc. Delray Beach, FL (Howard J. Berlin, Esq.)	11/01/01
Montrose Capital Management Ltd. New York, NY (Irving H. Picard, Esq.)	12/07/01
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/12/01

†Date Notice Published

Of the 299 proceedings begun under SIPA to date, 258 have been completed, 19 involve pending litigation matters, and claims in 22 are being processed (See Figure I and Appendix II).

During SIPC's 31-year history, cash and securities distributed for accounts of customers aggregated approximately \$13.99 billion. Of that amount, approximately \$13.62 billion came from debtors' estates and \$370.6 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 2001



Claims over the Limits

Of the more than 433,200 claims satisfied in completed or substantially completed cases as of December 31, 2001, a total of 307 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 307 claims, unchanged from 2000, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $33.8 million, decreased $3 million during 2001. These remaining claims approximate one percent of the total value of securities and cash distributed for accounts of customers in those cases.

SIPC Fund Advances

Table I shows that the 72 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 90 percent of the total advanced in all 299 customer protection proceedings. The largest net advance in a single liquidation is $93.1 million in MJK Clearing, Inc. This exceeds the net advances in the 227 smallest proceedings combined.

In 21 proceedings SIPC advanced $351.9 million, or 69 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 2001
299 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	8	$260,029,291
5,000,001	$10,000,000	13	91,831,174
1,000,001	5,000,000	51	112,002,889
500,001	1,000,000	33	23,770,598
250,001	500,000	39	13,516,279
100,001	250,000	61	9,949,302
50,001	100,000	41	2,930,188
25,001	50,000	22	800,961
10,001	25,000	12	180,911
0	10,000	14	26,087
Net recovery		5	(2,297,133)*
			$512,740,547†

* 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 ($370,631,183) and for administration expenses ($142,109,364).

"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 242 members during the year brought the total membership to 6,791 at December 31, 2001. 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, 2001, there were 66 members who were subjects of uncured notices, 37 of which were mailed during 2001, 19 during 2000 and 1999, and 10 during the period 1996 through 1998. Subsequent filings and payments by nine members left 57 notices uncured. SIPC has been advised by the SEC staff that: (a) 41 member registrations have been canceled or are being withdrawn; (b)16 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

TABLE II
SIPC Membership
Year Ended December 31, 2001

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,861	427	442
SIPC(b)	174	-	106(c)
Chicago Board Options Exchange Incorporated	780	81	130
New York Stock Exchange, Inc.	410	19	52
American Stock Exchange LLC	245	37	59
Pacific Stock Exchange, Inc.	110	19	38
Philadelphia Stock Exchange, Inc.	125	24	19
Chicago Stock Exchange, Incorporated	78	8	12
Boston Stock Exchange, Inc.	8	1	-
	6,791	616	858

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2001.

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.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.18 billion at year end, a decrease of $36 million during 2001.

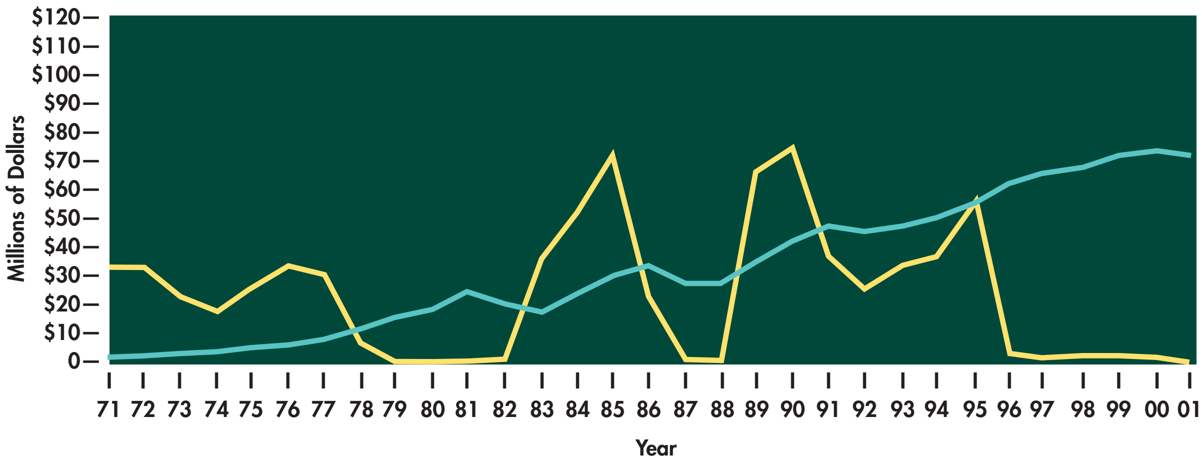
Tables III and IV present principal revenues and expenses for the years 1971 through 2001. The 2001 member assessments were $1.1 million and interest from investments was $71.3 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1995, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995) from the securities business.

Appendix III is an analysis of revenues and expenses for the five years ended December 31, 2001.

---

[1] 14(a) Failure to Pay Assessment, etc—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, unless specifically authorized by the Commission, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the full amount so specified in such notice, it may after payment of the full amount so specified commence an action against SIPC in the appropriate United States district court to recover the amount it denies owing.

TABLE III **SIPC Revenues for the Thirty-one Years Ended December 31, 2001**



Member assessments and contributions: $730,310,676

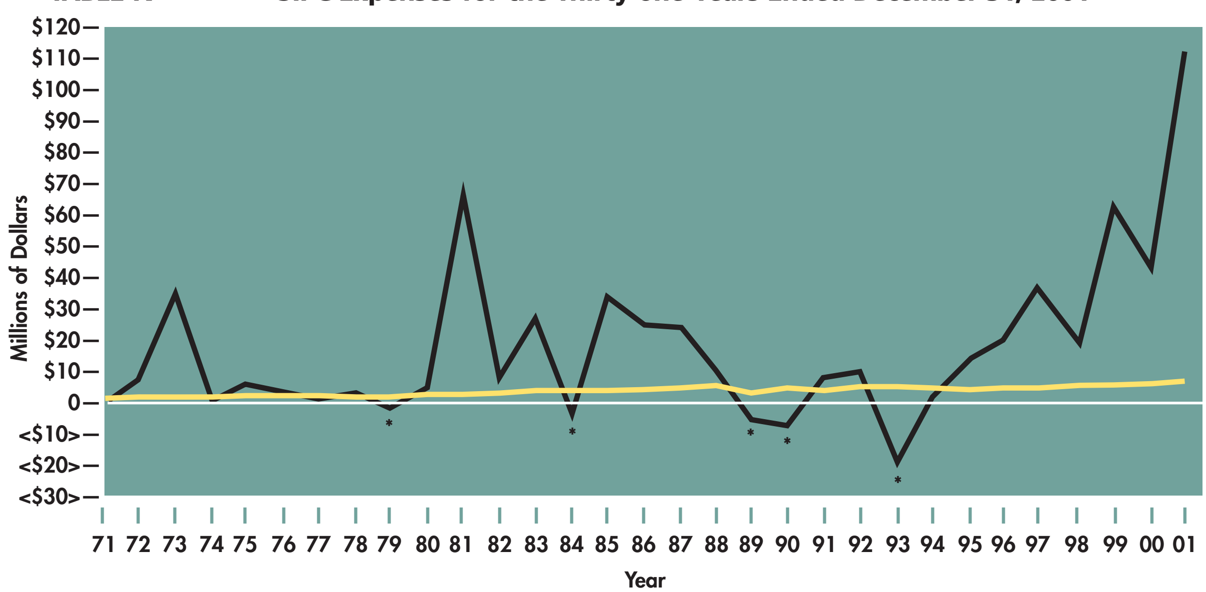
Interest on U.S. Government securities: $1,020,642,404

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).
1996-2001: $150 annual assessment.

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

TABLE IV **SIPC Expenses for the Thirty-one Years Ended December 31, 2001**



Customer protection proceedings: $559,540,547 (Includes net advances of $512,740,547 less estimated future recoveries of $16,000,000 and $62,800,000 of estimated costs to complete proceedings.)

Other expenses: $122,565,091

* Net recoveries

During 2001, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below:

In *SIPC v. BDO Seidman, LLP*, 245 F.3d 174 (2d Cir. 2001), following the resolution of two questions certified to the New York Court of Appeals, the Second Circuit affirmed the judgment of the district court that SIPC lacked standing to bring claims on its own behalf against the former accounting firm of the debtor, A.R. Baron & Co., for fraud and negligent misrepresentation. SIPC and the SIPA Trustee had brought an action claiming that the accounting firm had engaged in fraud, negligent misrepresentation and breach of contract by filing false audit reports on the debtor's behalf with the SEC. In a decision rendered in 2000, the Second Circuit affirmed the district court's dismissal of the claims brought by SIPC and the Trustee on behalf of customers. However, because it was an unsettled issue of state law, the Second Circuit certified to the New York Court of Appeals the question whether under New York law, SIPC may state a claim for either fraudulent misrepresentation or negligent misrepresentation against an accountant with whom SIPC had minimal direct contact, but whose reports were prepared with the knowledge that SIPC would receive any negative information contained therein. On February 20, 2001, the New York Court of Appeals answered the question in the negative as to both the fraudulent and negligent misrepresentation claims. *SIPC v. BDO Seidman, LLP*, 95 N.Y.2d 702, 746 N.E.2d 1042, 723 N.Y.S.2d 750 (N.Y. 2001). The Second Circuit subsequently affirmed the decision of the district court.

In *Rounds v. SIPC*, 275 F.3d 46 (5th Cir. 2001), the Fifth Circuit upheld the district court's declaratory judgment that the portion of a judgment assigned to SIPC remained unsatisfied. Judgment creditors had obtained a state court judgment against the plaintiff in connection with his role in a Ponzi scheme involving Consolidated Investment Services, Inc. ("CIS"), and they subsequently assigned a portion of that judgment to SIPC in exchange for advances made to them by the SIPA Trustee in the liquidation of CIS. The Fifth Circuit affirmed the district court's finding that payments made to the judgment creditors should not be credited to the portion of the judgment assigned to SIPC and that SIPC was entitled to interest on its portion of the judgment.

In *Jackson v. Mishkin (In re Adler, Coleman Clearing Corp.)*, 263 B.R. 406 (S.D.N.Y. 2001), the district court rendered a 90-page opinion affirming in virtually all respects the bankruptcy court's judgment in favor of the SIPA Trustee who had filed an adversary proceeding to set aside certain stock trades. The trades at issue were made by an introducing broker, Hanover Sterling & Company, in anticipation of its imminent collapse. Seeking to promote the interests of certain preferred investors, Hanover brokers purported to sell the nearly worthless house stock held in the preferred investors' accounts at inflated prices, and purchase blue chip stock with the purported proceeds, which the debtor never received. Among other things, the district court determined that the Trustee could (i) avoid the trades as fraudulent transfers pursuant to the Bankruptcy Code and New York state law, (ii) rescind the contracts under New York common law of fraud, and (iii) rescind the trades as illegal contracts under anti-fraud provisions of federal and New York securities laws.

In *Rounds v. SIPC*, No. EP-99-CA-115-H (W.D. Tex. July 11, 2001), the district court awarded SIPC $33,419.50 in attorneys fees. Following a trial on the merits, the court entered judgment in favor of SIPC, and SIPC subsequently applied for attorneys fees. The court found that SIPC had a contractual right to attorneys fees pursuant to an assignment agreement executed by the plaintiff, Norman Rounds.

In *In re Donahue Securities, Inc.*, Adv. Case No. 01-1027 (Bankr. S.D. Ohio Nov. 29, 2001), the bankruptcy court granted the motion of SIPC and the SIPA Trustee seeking substantive consolidation of the estate of the debtor brokerage firm, Donahue Securities, Inc., with the estate of S.G. Donahue & Company, a related non-broker entity. The court determined that substantive consolidation was warranted in light of the extensive interrelationships between the two companies and the course of dealings and expectations of their customers and creditors. Accordingly, the court ordered that the assets and liabilities of the two companies should be pooled, and that for purposes of determining "customer" claims under SIPA, the debtor should include Donahue Securities, Inc. and S.G. Donahue & Company. The SIPA Trustee serves as trustee with respect to the consolidated estates.

In *Holland v. Cho, et al. (In re John Dawson & Associates, Inc.)*, Adv. No. 99 A 00536 (Bankr. N.D. Ill. May 17, 2001), the bankruptcy court refused to dismiss a complaint brought by the SIPA Trustee seeking to avoid and recover various alleged fraudulent transfers and to recover for the conversion of property of the debtor brokerage firm, John Dawson & Associates, Inc. In so holding, the court determined that any claim that the debtor might have had against the defendant for conversion would constitute an asset of the debtor's estate and stated that "it is beyond dispute" that the SIPA Trustee is authorized to bring an action for conversion. In addition, the court found that the Trustee's complaint sufficiently stated a claim for avoidance of fraudulent transfers under Illinois and federal law.

In another decision in the same case, *Holland v. Cho, et al. (In re John Dawson & Associates, Inc.)*, 271 B.R. 270 (Bankr. N.D. Ill. 2001), the bankruptcy court denied a motion to dismiss the SIPA Trustee's complaint against the wife of one of the officers of the debtor brokerage firm for the wife's collusion and participation in the breach of fiduciary duty by her husband and other officers. The court found that the Trustee had sufficiently stated a cause of action by alleging that the wife had knowingly participated in favorable trades effected by her husband between the debtor's house account and the wife's individual account, at a time when the debtor was insolvent, and that the wife had knowledge of and accepted the benefits of the transactions.

In *In re John Dawson & Associates, Inc.*, 271 B.R. 561 (Bankr. N.D. Ill. 2001), the bankruptcy court denied the motion of the claimant, the Joan Erickson Trust, for summary judgment with respect to the Trust's customer claim based upon alleged unauthorized trading. The SIPA Trustee had denied the claim on the grounds that (i) the claimant had failed to make a timely written objection to the alleged unauthorized trades and (ii) even if the claimant qualified as a customer, the losses resulting from alleged unauthorized trades would have to be offset by the gains resulting from unauthorized trades. The bankruptcy court found that it was possible that each of the trades was unauthorized at the time it was made but became authorized by the claimant's failure to make a timely written objection as required by the customer agreement. The court noted that while there is no separate written-objection requirement specifically set forth under SIPA, courts have generally enforced provisions of customer agreements requiring that a party objecting to securities transactions as unauthorized present that objection in writing. The court further found that the claimant could not "cherry pick" the unauthorized trades that would form the basis of a claim under SIPA, finding that "within the SIPA context, a decision to allow the investor to retain the benefits of every profitable unauthorized trade while forcing SIPC, a third party without involvement in any alleged wrongdoing, to insure and compensate such an investor for any unauthorized trade which proved unprofitable would run contrary to the stated purposes of SIPA."

In *SIPC v. Carney (In re R.D. Kushnir & Co.)*, 267 B.R. 819 (Bankr. N.D. Ill. 2001), the bankruptcy court entered a default judgment against a former employee of the debtor brokerage firm, R.D. Kushnir & Co. The court found that the employee had breached his duties to the debtor and was liable to the debtor for the resulting losses, as well as to SIPC, as Trustee, for the administrative costs of liquidating the debtor. The court found that the former employee, Paul E. Carney, had (i) engaged in a pattern and practice of making unauthorized, highly speculative purchases and sales of options on behalf of his customers, (ii) exercised discretion over his customers' accounts despite the fact that such accounts were established as non-discretionary and (iii) provided false and misleading profit and loss statements to some of his customers. The court held that by engaging in such conduct, Carney breached his duties to the debtor, and that as a licensed registered representative, he knew or should have known that his conduct was in contravention of the securities laws and that he placed the debtor at substantial risk of financial loss. The court found that as a result of Carney's unauthorized trading, the debtor suffered losses and liability to its customers of at least $2 million and SIPC incurred damages in an amount no less than $1,821,140.62.

In *SIPC v. Consolidated Investment Services, Inc.*, Case No. 95-1645 CEM (Bankr. D. Colo. Sept. 28, 2001), the bankruptcy court granted the SIPA Trustee's motion for partial summary judgment on the Trustee's complaint seeking recovery of constructive fraudulent transfers and awarded the Trustee $78,135.60, plus prejudgment interest in the amount of 8% per annum. The court reserved for determination at trial the Trustee's claim that intentional fraud was present with respect to the transfer of funds from the debtor brokerage firm.

In *In re Stratton Oakmont, Inc.*, 257 B.R. 644 (Bankr. S.D.N.Y. 2001), the bankruptcy court annulled the SIPA Trustee's determination treating six claims for unauthorized trading as claims for securities. The bankruptcy court held that the claims should be treated as claims for cash and remitted them to the Trustee to be recalculated in accordance with the court's ruling. The claims at issue were based upon an unauthorized sale of shares in each claimant's account and a subsequent unauthorized purchase of other shares using the proceeds from the initial unauthorized sale. The Trustee proposed to restore the customers' accounts to the status quo ante as if the unauthorized transactions had not occurred by providing the claimants with the securities that were initially sold without authorization, which securities were virtually worthless on the filing date. In addition, the Trustee sought to require each claimant to pay any cash proceeds received from the unauthorized sale of stock that had been purchased with the proceeds of the initial unauthorized sale of stock. The court noted that under the Trustee's approach, one claimant would be required to pay the SIPA Trustee $10,106.63 and would receive stock of virtually no value. The court found that nothing in SIPA or non-SIPA law (including securities, bankruptcy and state law) required that the "two related but distinct wrongs" be collapsed and that a remedy be fashioned on the basis of the first wrong. The Trustee has appealed the decision to the district court.

In *SIPC v. Cheshier & Fuller, L.L.P., et al. (In re Sunpoint Securities, Inc.)*, 262 B.R. 384 (Bankr. E.D. Tex. 2001), the bankruptcy court denied the motion of the defendants, the former auditors of the debtor brokerage firm, to dismiss the complaint filed by SIPC and the SIPA Trustee alleging various causes of action, including negligence, negligent misrepresentation, breach of contract and breach of warranty. The court rejected the auditors' argument that the Trustee and SIPC had failed to state a claim upon which relief could be granted. The court first found that the Trustee's professional malpractice claim, which sounded solely in tort and was governed by negligence principles, had been "repackaged" under a breach of contract theory. Rather than dismissing the claim, the court permitted the Trustee to replead the complaint as to the contractual allegations. As respects the claims brought by SIPC, the court rejected the defendants' argument that they did not owe a legal duty to either SIPC or to Sunpoint's customers (one of the elements necessary to support a claim by SIPC for negligence and negligent misrepresentation). The court found that SIPC had sufficiently stated a claim for negligence by alleging, among other things, that the auditors owed a duty to SIPC and Sunpoint's customers to exercise reasonable care. The court also found that SIPC had sufficiently stated a claim for negligent misrepresentation.

In *In re Sunpoint Securities, Inc.*, Adv. No. 99-6073 (Bankr. E.D. Tex. Jan. 8, 2001), the bankruptcy court upheld the SIPA Trustee's determinations denying "customer" status with respect to a number of claims for loss in market value or market opportunity attributable to the Trustee's liquidation of standardized option positions in accordance with the SIPC Series 400 Rules. In so holding, the court determined that the Trustee was authorized to liquidate or cause to be liquidated all standardized options positions held in customer accounts as of the date of commencement of the SIPA liquidation proceeding. The court further found that pursuant to Rule 400, the only distribution that could be made to a customer on account of a standardized option position held in his/her account is a debit or credit to the account for the value of the standardized option position as of the filing date.

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 227 of the 299 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 264 indictments have been returned in federal or state courts, resulting in 233 convictions to date.

Administrative and/or criminal action in 265 of the 299 SIPC customer protection proceedings initiated through December 31, 2001, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	59
Exclusive SEC Administrative Action	38
Exclusive Self-Regulatory Administrative Action	53
Criminal and Administrative Action	92
Criminal Action Only	23
Total	265

In the 242 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	112
Bar from Association	345	221
Fines	Not Applicable	$9,759,714

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 $9,759,714 in fines assessed by self-regulatory authorities were levied against 128 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 2001 SIPC maintained active files on three members referred under Section 5(a). Two referrals were received during the year and one active referral 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, 2001, 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, 2001, 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 28, 2002

Securities Investor Protection Corporation

Statement of Financial Position
December 31, 2001

ASSETS	
Cash	$ 1,812,968
U.S. Government securities, at fair value and accrued interest receivable ($18,429,891); (amortized cost $1,124,066,096) (Note 6)	1,182,344,047
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($249,606,785) (Note 4)	16,000,000
Other	312,246
	$1,200,469,261
LIABILITIES AND NET ASSETS	
Advances to trustees – in process (Note 4)	$ 94,354
Accounts payable and accrued expenses (Note 8)	2,796,365
Estimated costs to complete customer protection proceedings in progress (Note 4)	62,800,000
Member assessments received in advance (Note 3)	80,000
	65,770,719
Net assets	1,134,698,542
	$1,200,469,261

Statement of Activities
for the year ended December 31, 2001

Revenues:	
Interest on U.S. Government securities	$ 71,315,136
Member assessments (Note 3)	1,083,173
	72,398,309
Expenses:	
Salaries and employee benefits (Note 8)	4,234,246
Legal and accounting fees (Note 4)	180,874
Credit agreement commitment fee (Note 5)	1,258,049
Rent (Note 5)	475,010
Other	1,176,386
	7,324,565
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	111,470,882
	118,795,447
Total net expenses	(46,397,138)
Realized and unrealized gain on U.S. Government securities (Note 6)	21,344,414
Decrease in net assets	(25,052,724)
Net assets, beginning of year	1,159,751,266
Net assets, end of year	**$1,134,698,542**

See notes to financial statements.

Securities Investor Protection Corporation

Statement of Cash Flows
for the year ended December 31, 2001

Operating activities:	
Interest received from U.S. Government securities	$ 75,238,341
Member assessments received	1,017,174
Advances paid to trustees	(214,855,094)
Recoveries of advances	92,148,161
Salaries and other operating activities expenses paid	(7,016,286)
Net cash used in operating activities	(53,467,704)
Investing activities:	
Proceeds from sales of U.S. Government securities	276,818,802
Purchases of U.S. Government securities	(222,074,619)
Purchases of furniture and equipment	(81,055)
Net cash provided by investing activities	54,663,128
Increase in cash	1,195,424
Cash, beginning of year	617,544
Cash, end of year	**$ 1,812,968**

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 accounting principles generally accepted in the United States 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 $1,184,157,015.

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 2001 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 41 proceedings in progress at December 31, 2001. Customer claims have been satisfied in 19 of these proceedings and in 22 proceedings customer claims and distributions are being processed.

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

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

SIPC and Trustees appointed under SIPA are subject to legal claims arising out of the proceedings and there are certain legal claims pending seeking coverage under SIPA. These claims are considered in determining estimated costs to complete proceedings and management believes that any liabilities or settlements arising from these claims will not have a material effect on SIPC's net assets.

SIPC has advanced $266.2 million for proceedings in progress (including direct payment proceedings of $.6 million) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $250.2 million is not expected to be recovered.

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

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$ 1,600,000	$ 58,900,000
Add:		
Provision for current year recoveries	90,500,000	
Provision for estimated future recoveries	16,000,000	
Provision for estimated costs to complete proceedings		217,700,000
Less:		
Recoveries	92,100,000	
Advances to trustees		213,800,000
Balance, at year end	$16,000,000	$ 62,800,000

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 $1,604,636. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease.

On March 31, 1999, SIPC entered into a $1 billion credit agreement with a consortium of banks, 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 the $1 billion facilities forward one year with the same commitment fee rates.

On March 29, 2001, SIPC entered into a new $250 million 364-day revolving credit facility with a consortium of banks that requires SIPC to pay a commitment fee of 0.09% per year. This facility was renewed on March 28, 2002 with the same commitment fee rate.

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, 2001.

U.S. Government securities as of December 31, 2001, included gross unrealized gains of $59,670,712 and gross unrealized losses of $1,392,760.

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

Decrease in net assets	$(25,052,724)
Realized and unrealized gain on U.S. Government securities	(21,344,414)
Net increase in estimated recoveries of advances to trustees	(14,400,000)
Net increase in estimated cost to complete customer protection proceedings	3,900,000
Decrease in accrued interest receivable on U.S. Government securities	1,673,491
Decrease in amortized discount on U.S. Government securities	2,249,701
Decrease in payables	(595,247)
Other reconciling items	101,489
Net cash used in operating activities	$(53,467,704)

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 to reflect changes in gross premiums; 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	$11,953,582	$3,314,596
Service cost	426,960	152,508
Interest cost	765,088	213,525
Actuarial gain	(858,625)	(90,937)
Benefits paid	(374,286)	(56,198)
Benefit obligation at end of year	$11,912,719	$3,533,494
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$9,006,070	-
Actual return on plan assets	(359,710)	-
SIPC contributions	400,000	-
Benefits paid	(374,286)	-
Fair value of plan assets at end of year	$8,672,074	-
Funded status	$(3,240,645)	$(3,533,494)
Unrecognized actuarial loss	3,344,783	840,151
Unrecognized prior service credit	(38,170)	-
Unrecognized prior service cost	228,864	-
Prepaid (accrued) benefit cost	$ 294,832	$(2,693,343)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31, 2001		
Discount rate	6.50%	6.50%
Expected return on assets	9.00%	-
Rate of compensation increase	5.00%	-

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. This rate was assumed to decrease gradually to 5% for 2007 and remain at that level thereafter.

	Pension Benefits	Other Postretirement Benefits
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$426,960	$152,508
Interest cost	765,088	213,525
Amortization of unrecognized actuarial loss	188,148	54,512
Amortization of prior service credit	(7,634)	-
Expected return on assets	(807,576)	-
Benefit cost	$564,986	$420,545
DEFINED CONTRIBUTION PLAN		
SIPC contributions (60% of employee contributions, up to 3.6% of salary)	$94,226	

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 2001	$ 93,000	$ (75,000)
Effect on postretirement benefit obligation as of December 31, 2001	$770,000	$(640,000)

APPENDIX I Distributions for Accounts of Customers for the Thirty-one Years Ended December 31, 2001

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC Advances*	From SIPC Recoveries*	From SIPC Net	Total
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
	$13,624,332	**$ 608,060**	**$ (237,429)**	**$370,631**	**$13,994,963**

* 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	3,378	43
Primeline Securities Corporation Wichita, KS (Todd Connell, Esq.)	12/20/84	1/09/98	1/09/98	4,700	251	21
John Dawson & Associates Chicago, IL (J. William Holland, Esq.)	10/30/72	4/08/99	4/13/99	6,750	125	5
Texas Capital Securities Houston, TX (Direct Payment)	11/15/89		11/17/99†	4,216	85	3
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,534	9,738
Churchill Securities, Inc. Suffern, NY (Edward B. Mishkin, Esq.)	7/13/79	11/30/99	12/13/99	5,200	826	
New Times Securities Services, Inc. Melville, NY (James W. Giddens, Esq.)	4/19/95	2/16/00	5/18/00	3,668	896	310
Meridian Asset Management, Inc. Tallahassee, FL (SIPC)	9/25/91	7/26/00	7/31/00	1,173	115	9

†Date notice published

December 31, 2001

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 3,722,888	$ 5,109	$ 3,717,779	$ 9,093,125	$ 6,918,490		$ 702,442	$ 1,472,193
101,541	1,000	100,541	1,275,309	888,173			387,136
921,560	814,418	107,142	3,596,240	2,572,448		1,023,792	
			43,482	19,979			23,503
355,278,166	350,816,335	4,461,831	33,595,563	2,350,362		15,035,312	16,209,889
			1,055,878	1,055,878			
442,599		442,599	21,039,616	2,106,929		12,899,167	6,033,520
22,050		22,050	911,845	69,143		682,702	160,000

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
Klein, Maus & Shire, Inc. New York, NY (Irving H. Picard, Esq.)	10/02/87	8/28/00	9/06/00	750	66	19
Morgan Grant Capital Corp. Garden City, NY (Direct Payment)	7/09/91		9/29/00†	14,630	406	4
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	12/20/94	1/16/01	1/16/01	3,833	235	23
MPI Financial Columbus, OH (SIPC)	3/10/98	1/29/01	1/29/01	4,780	229	6
Cambridge Capital, LLC Garden City, NY (SIPC)	4/11/97	1/24/01	2/02/01	2,745	153	4
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	5/08/89	2/26/01	3/06/01	26,395	7,075	5,500
First Madison Securities, Inc. Boca Raton, FL (Direct Payment)	10/13/95		8/24/01†	647	7	

†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
			$ 3,719,212	$ 580,366		$ 2,632,554	$ 506,292
			287,011	127,223		38,923	120,865
$ 61,870		$ 61,870	1,553,909	153,497		1,142,308	258,104
347	$ 347		285,158	49,569		106,927	128,662
5,397	302	5,095	379,725	131,367		240,450	7,908
108,647,340	105,687,792	2,959,548					
			14,663	14,663			

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
Thomas M. Couch, Inc. d/b/a Couch & Co., Inc. New York, NY (Direct Payment)	10/03/86		9/07/01†	2,108	41	
MJK Clearing, Inc. Minneapolis, MN (James P. Stephenson, Esq.)	4/01/81	9/27/01	9/27/01	210,500	11,422	173,465
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos, Esq.)	10/24/60	10/17/01	10/17/01	1,903	15	
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	5/15/96	10/30/01	10/30/01	22,879	174	
Krieger Financial Services, Inc. Delray Beach, FL (Howard J. Berlin, Esq.)	9/09/98	11/01/01	11/01/01	1,355		
Montrose Capital Management Ltd. New York, NY (Irving H. Picard, Esq.)	5/29/97	12/05/01	12/07/01	2,032		
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,400		
TOTAL 22 MEMBERS: PART A				**375,528**	**30,033**	**189,150**

† Date notice published

December 31, 2001

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$ 18,798	$ 18,798			
$10,002,183,550	$10,000,000,000	$ 2,183,550	93,142,347			$ 93,142,347	
17,928		17,928					
64,826		64,826					
			100,000	100,000			
$10,471,470,062	**$10,457,325,303**	**$14,144,759**	**$170,111,881**	**$17,156,885**		**$127,646,924**	**$25,308,072**

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
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
Hanover, Sterling & Company Ltd. New York, NY (Irving H. Picard, Esq.)	8/21/84	4/02/96	4/16/96	15,536	1,170	151
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	264
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	134	24
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	153	67
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	9/03/77	3/06/97	3/10/97	11,097	5,416	5,276
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

*Successor Trustee

December 31, 2001

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 732,029,310	$ 711,744,281	$20,285,029	$ 8,000,000	$ 8,000,000			
5,278,967	1,092,885	4,186,082	3,427,476	3,427,476			
46,442		46,442	3,529,527	1,534,963		$ 605,971	$1,388,593
1,608,678	881,098	727,580	9,841,401	1,160,322		7,438,471	1,242,608
37,115,699	27,662,654	9,453,045	7,413,625	7,064,428		349,197	
667,136	14,298	652,838	3,177,522	451,219		1,547,458	1,178,845
8,767	8,730	37	317,352	30,022		168,520	118,810
356,114,251	351,482,341	4,631,910	34,536,147	9,210,488		23,314,668	2,010,991
212,375,982	207,839,387	4,536,595	9,941,953	2,610,075		7,331,878	
			2,908,495	462,879		1,579,580	866,036

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
Selheimer & Co. Ambler, PA (Direct Payment)	9/17/67		9/08/97†	84	11	2
Chimneyville Investments Group, Incoporated Jackson, MS (SIPC)	1/25/95	9/01/98	9/03/98	168	34	13
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	189	13
Bishop, Allen, Inc. New York, NY (Direct Payment)	4/19/63		1/29/99†	1,125	27	3
CPA Advisors Network, Inc. Providence, RI (Edward J. Bertozzi Jr., Esq.)	10/27/80	12/29/98	2/12/99	1,400	72	44
Duke & Co., Inc. New York, NY (Elizabeth Page Smith, Esq.)	11/02/79	3/19/99	3/24/99	24,000	528	20
R. D. Kushnir & Co. Northbrook, IL (SIPC)	4/14/89	6/02/99	7/14/99	13,328	56	5
GFB Securities, Inc. East Meadow, NY (Gilbert Backenroth, Esq.)	10/24/94	9/14/99	9/15/99	3,368	159	9
Bestrade, Inc., f/k/a/ Bluestone Securities, Inc. El Monte, CA (SIPC)	11/04/97	3/02/00	3/02/00	1,804	18	3
TOTAL 19 MEMBERS: PART B				**219,635**	**35,269**	**88,335**

†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
			$ 102,340	$ 13,377			$ 88,963
$ 707,428	$ 686,157	$ 21,271	198,343	91,417			106,926
1,876	1,876		503,038	353,998		$ 23,589	125,451
			108,871	11,456		83,135	14,280
1,652,810	1,628,516	24,294	5,773,740	1,018,932		4,754,808	
285,317		285,317	2,252,349	1,789,701		12,976	449,672
31,783		31,783	2,068,252	1,377,922		449,319	241,011
			1,746,042	894,957		755,692	95,393
13,329		13,329	223,594	63,422		148,720	11,452
$1,347,937,775	**$1,303,042,223**	**$44,895,552**	**$96,070,067**	**$39,567,054**		**$48,563,982**	**$7,939,031**

APPENDIX II

Customer Protection Proceedings

PART C: Proceedings Completed in 2001 (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
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
Cressida Capital, Inc./ Norfolk Securities Corp. New York, NY (Elizabeth Page Smith, Esq.)	6/16/93	11/04/97	11/07/97	7,355	523	80
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
Michael William Ribant, d/b/a Trinity Capital San Diego, CA (SIPC)	10/26/92	11/16/98	11/16/98	82	51	42
TOTAL 4 MEMBERS 2001				**22,209**	**4,719**	**3,512**
TOTAL 254 MEMBERS 1973-2000(d)				**1,346,002**	**354,345**	**341,372**
TOTAL 258 MEMBERS 1973-2001				**1,368,211**	**359,064**	**344,884**

*Successor Trustee

December 31, 2001

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 57,953,449	$ 48,274,645	$ 9,678,804	$ 3,565,155	$ 3,565,155			
311,073	309,855	1,218	2,487,575	2,054,011		$ 432,458	$ 1,106
12,390,534	12,036,252	354,282	3,962,269	3,330,256			632,013
855,189	840,427	14,762	2,409,148	114,155		1,592,491	702,502
71,510,245	**61,461,179**	**10,049,066**	**12,424,147**	**9,063,577**		**2,024,949**	**1,335,621**
1,972,940,063	**1,802,502,815**	**170,437,248**	**234,134,452**	**76,321,848**	**$1,392,776**	**63,587,561**	**92,832,267**
$2,044,450,308	**$1,863,963,994**	**$180,486,314**	**$246,558,599**	**$85,385,425**	**$1,392,776**	**$65,612,510**	**$94,167,888**

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:	22	Members — Customer Claims and Distributions Being Processed	375,528	30,033	189,150
Part B:	19	Members — Customer Claims Satisfied, Litigation Matters Pending	219,635	35,269	88,335
		Sub-Total	595,163	65,302	277,485
Part C:	258	Members — Proceedings Completed	1,368,211	359,064	344,884
		TOTAL	**1,963,374**	**424,366**	**622,369**

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.

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$10,471,470,062	$10,457,325,303	$ 14,144,759	$170,111,881	$ 17,156,885		$127,646,924	$ 25,308,072
1,347,937,775	1,303,042,223	44,895,552	96,070,067	39,567,054		48,563,982	7,939,031
11,819,407,837	11,760,367,526	59,040,311	266,181,948	56,723,939		176,210,906	33,247,103
2,044,450,308	1,863,963,994	180,486,314	246,558,599	85,385,425	$1,392,776	65,612,510	94,167,888
$13,863,858,145	**$13,624,331,520**	**$239,526,625**	**$512,740,547**	**$142,109,364**	**$1,392,776**	**$241,823,416**	**$127,414,991**

APPENDIX III Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2001

	2001	2000	1999	1998	1997
Revenues:					
Interest on U.S. Government securities	$ 71,308,629	$72,373,421	$ 71,424,040	$69,839,676	$66,656,807
Member assessments and contributions	1,083,173	1,108,632	1,136,318	1,186,279	1,339,584
Interest on assessments	6,507	2,643	3,149	4,737	5,948
	72,398,309	73,484,696	72,563,507	71,030,692	68,002,339
Expenses:					
Salaries and employee benefits	4,234,246	3,516,593	3,119,030	2,890,318	2,629,970
Legal fees	93,435	225,684	375,095	274,539	66,469
Accounting fees	87,439	29,000	26,400	24,300	22,900
Credit agreement commitment fee	1,258,049	1,244,268	1,412,722	1,251,315	1,017,332
Professional fees—other†	165,489	105,492	177,694	350,562	81,109
Other:					
Assessment collection cost	7,339	8,705	8,038	11,149	7,589
Bank fees	1,223	580	805	(1,235)	2,329
Depreciation and amortization	115,669	106,520	122,639	109,986	119,341
Directors fees and expenses	20,436	35,773	20,997	31,414	15,754
Insurance	28,820	20,367	19,809	19,414	17,385
Investor education†	129,563	53,522			
Office supplies and expense	243,254	236,038	225,020	229,010	172,689
Postage	14,858	13,639	17,134	16,332	12,962
Printing & mailing annual report	37,131	36,542	38,000	37,934	91,526
Publications and reference services	128,493	92,175	94,789	85,661	95,383
Rent—office space	475,010	447,309	430,353	430,743	419,905
Telephone	31,672	30,275	24,008	26,101	23,313
Travel and subsistence	245,435	225,124	160,739	155,820	215,075
Miscellaneous	7,004	13,828	9,582	12,938	23,088
	1,485,907	1,320,397	1,171,913	1,165,267	1,216,339
	7,324,565	6,441,434	6,282,854	5,956,301	5,034,119
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities*	105,096,495	21,697,329	17,018,143	2,284,516	16,994,249
Cash*	6,321,647	291,122	19,785,643	719,902	(171,914)
	111,418,142	21,988,451	36,803,786	3,004,418	16,822,335
Administration expenses	7,556,143	12,009,397	9,061,034	12,784,379	11,663,353
	118,974,285	33,997,848	45,864,820	15,788,797	28,485,688
Net change in estimated future recoveries	(14,400,000)	1,750,000	(1,350,000)	2,000,000	1,500,000
	104,574,285	35,747,848	44,514,820	17,788,797	29,985,688
SIPC as Trustee:					
Securities	1,687,819	1,004,794	1,509,251	(208,428)	585,813
Cash	152,839	(162,720)	1,464,091	75,962	197,712
	1,840,658	842,074	2,973,342	(132,466)	783,525
Administration expenses	882,629	1,166,120	169,902	583,148	22,043
	2,723,287	2,008,194	3,143,244	450,682	805,568
Direct payments:					
Securities	38,923	83,135		7,912	49,505
Cash	144,368	2,919	123,190	7,370	183,822
	183,291	86,054	123,190	15,282	233,327
Administration expenses	90,019	94,963	16,993	25,046	9,972
	273,310	181,017	140,183	40,328	243,299
Net change in estimated cost to complete proceedings	3,900,000	5,300,000	14,000,000	2,700,000	7,300,000
	111,470,882	43,237,059	61,798,247	20,979,807	38,334,555
	118,795,447	49,678,493	68,081,101	26,936,108	43,368,674
Total net (expenses) revenues	(46,397,138)	23,806,203	4,482,406	44,094,584	24,633,665
Realized and unrealized gain or (loss) on U.S. Government securities	21,344,414	59,031,530	(85,017,167)	38,094,997	29,026,426
Increase (decrease) in net assets	**$(25,052,724)**	**$82,837,733**	**$(80,534,761)**	**$82,189,581**	**$53,660,091**

*1999 Securities and Cash advances restated within those categories

†2000 Professional fees—other and Investor education restated within those categories

SECURITIES INVESTOR PROTECTION CORPORATION

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

Website: www.sipc.org