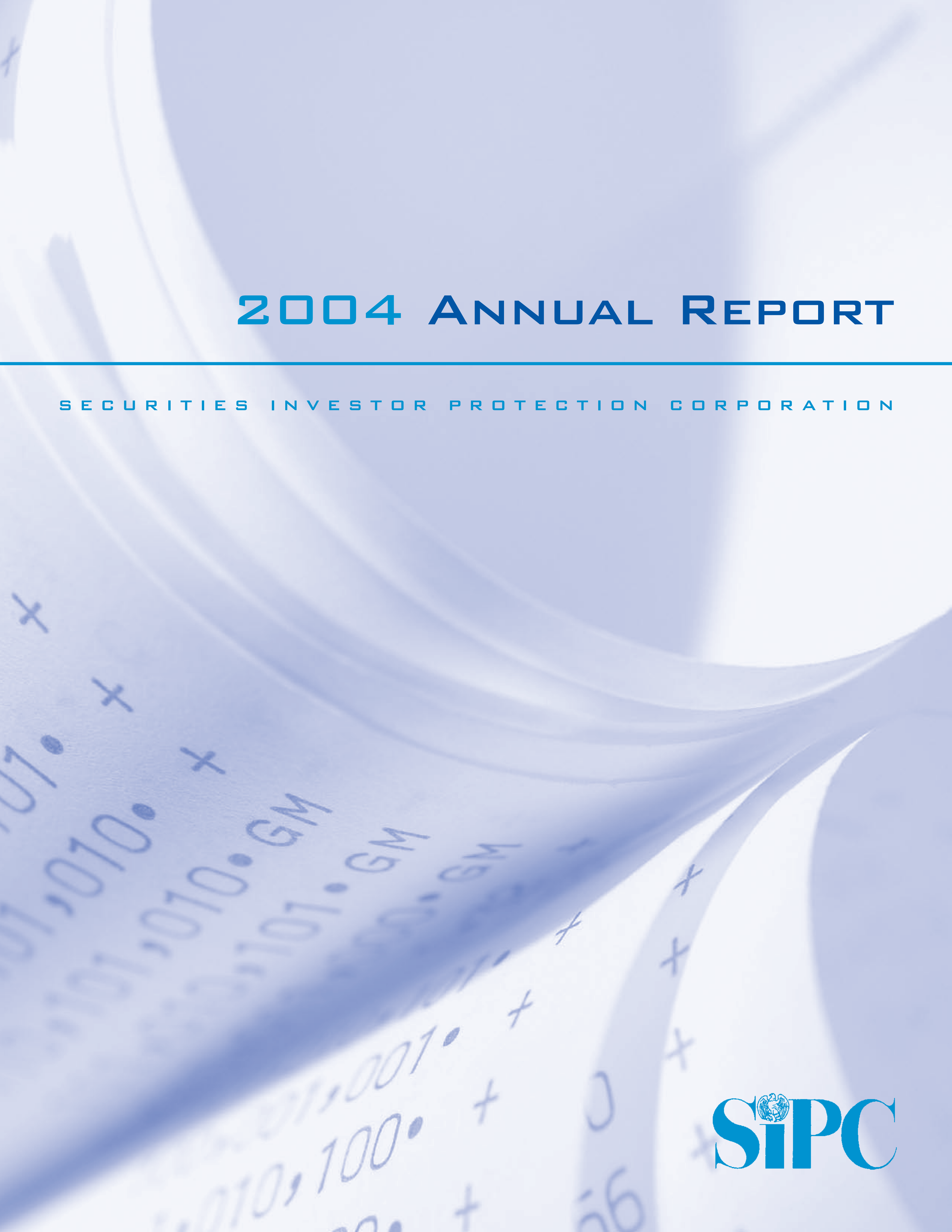

2004 Annual Report

SECURITIES INVESTOR PROTECTION CORPORATION

SIPC

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

April 29, 2005

The Honorable William H. Donaldson
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-fourth 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,

W. R. Timken, Jr.

W. R. Timken, Jr.
Chairman

Contents

"SIPC shall not be an agency or establishment of the United States Government . . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers* . . . ."

—Securities Investor Protection Act of 1970 Sec. 3(a)(1)(A) & (2)(A)

* Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934, and persons who are registered as brokers or dealers under section 15(b)(11)(A) of the Securities Exchange Act of 1934.

W. R. Timken, Jr.

Armando J. Bucelo, Jr.

SIPC and the securities industry have reason to regard 2004 as a landmark. Only two brokerage firms were the subject of customer protection proceedings during 2004. Only once before in SIPC's history has the number of brokerage firm failures been this low. Indeed, customer losses in one of those proceedings were very modest, allowing SIPC to initiate a direct payment procedure under the Securities Investor Protection Act. We believe that rigorous adherence to the Securities and Exchange Commission rules concerning net capital and the segregation of customer assets, as well as rigorous enforcement of those rules by the SEC and the securities industry self-regulators, has led to this outstanding result. Investor confidence in the securities markets is enhanced when investors know that the regulatory regime works.

SIPC is committed to having sufficient financial resources to protect investors, now and in the future. Although SIPC has the statutory ability to borrow funds from the federal government, it has never done so. The American taxpayer has never subsidized the SIPC program. We are pleased to report that at year end the SIPC Fund exceeded $1,287,000,000. This is the highest in SIPC's history. We can also assure you that the adequacy of SIPC's financial resources is under constant review at all levels of the Corporation. Late in 2003, to prepare for the unlikely possibility that the SIPC Fund falls below $1,000,000,000, the Board of Directors revised the SIPC Bylaws to permit immediate institution of revenue-based assessments in that event.

Another excellent development is the return of approximately $37,000,000 to SIPC from the trustee for the liquidation of MJK Clearing, Inc. SIPC had advanced these funds in 2001 to release securities from the control of a margin lender, so as to make the securities available for transfer to a solvent brokerage. Upon the transfer of the securities, new margin accounts were established for customers, and a new margin lender for the solvent brokerage paid the trustee the collective margin balance. This is an example of the ability of SIPC to provide "up front liquidity" to benefit customers. Return of the funds to SIPC was delayed by litigation; that litigation was successfully concluded in 2004.

Also in 2004, SIPC revamped its web site, and developed a complete Spanish version of the web site, to reach out to millions of Spanish speaking investors and their families. Please visit our web site at www.sipc.org and learn more about how SIPC protects customer accounts.

W. R. Timken, Jr.

W. R. Timken, Jr.
Chairman

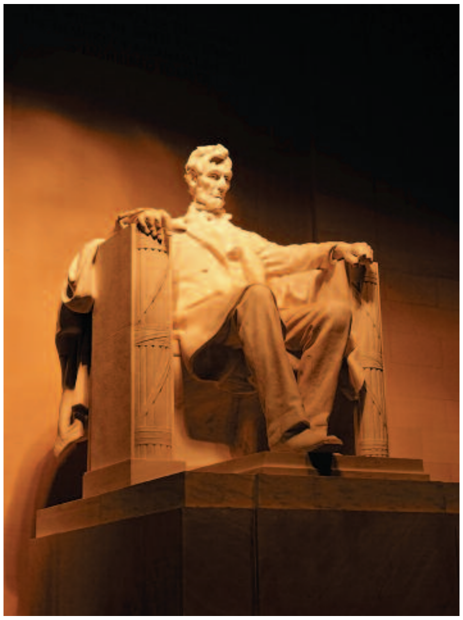
Armando J. Bucelo, Jr.
Vice Chairman

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970, 15 U.S.C. § 78 aaa *et seq.* (SIPA). Its purpose is to afford certain protections against loss to customers resulting from broker-dealer failure and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are $500,000 per customer, except that claims for cash are limited to $100,000 per customer.

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman and the Vice Chairman are designated by the President from the public directors.



The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc.—and the Securities and Exchange Commission (SEC) report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding. This requires that SIPC apply to a Federal District Court for appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 30, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

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

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

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

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

Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934 and brokers or dealers registered under Section 15(b)(11)(A) of the Securities Exchange Act of 1934.

Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry Association, 120 Broadway, New York, NY 10271, and from the National Association of Securities Dealers, Inc., NASD Media Source, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for the NASD book orders is www.nasd.com/2370.htm

DIRECTORS

W. R. TIMKEN, JR.
Chairman
The Timken Company
Chairman of the Board

ARMANDO J. BUCELO, JR., ESQ.
The Law Offices of Armando J. Bucelo, Jr.
Vice Chairman

WAYNE A. ABERNATHY
Assistant Secretary for Financial Institutions, United States Department of the Treasury

THOMAS W. GRANT
President
H.G. Wellington & Co., Inc.

NOE HINOJOSA, JR.
Vice Chairman/Public Finance Manager
Estrada Hinojosa & Company, Inc.

OFFICERS

STEPHEN P. HARBECK
President

JOSEPHINE WANG
General Counsel & Secretary

PHILIP W. CARDUCK
Vice President—Operations & Finance

DEBORAH D. MCWHINNEY
President, Schwab Institutional, Charles Schwab & Co., Inc.

DAVID J. STOCKTON
Director, Division of Research and Statistics
Board of Governors of the Federal Reserve System

"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 two SIPC members in 2004, bringing the total since SIPC's inception to 313 proceedings commenced under SIPA. The 313 members represent less than one percent of the approximately 37,500 broker-dealers that have been SIPC members during the last 34 years. Currently, SIPC has 6,153 members.

The two new cases compare with seven commenced in 2003. Over the last ten-year period, the annual average of new cases was seven.

A trustee other than SIPC was appointed in one of the cases commenced during the year, and there was one direct payment proceeding. Customer protection proceedings were initiated for the following SIPC members:

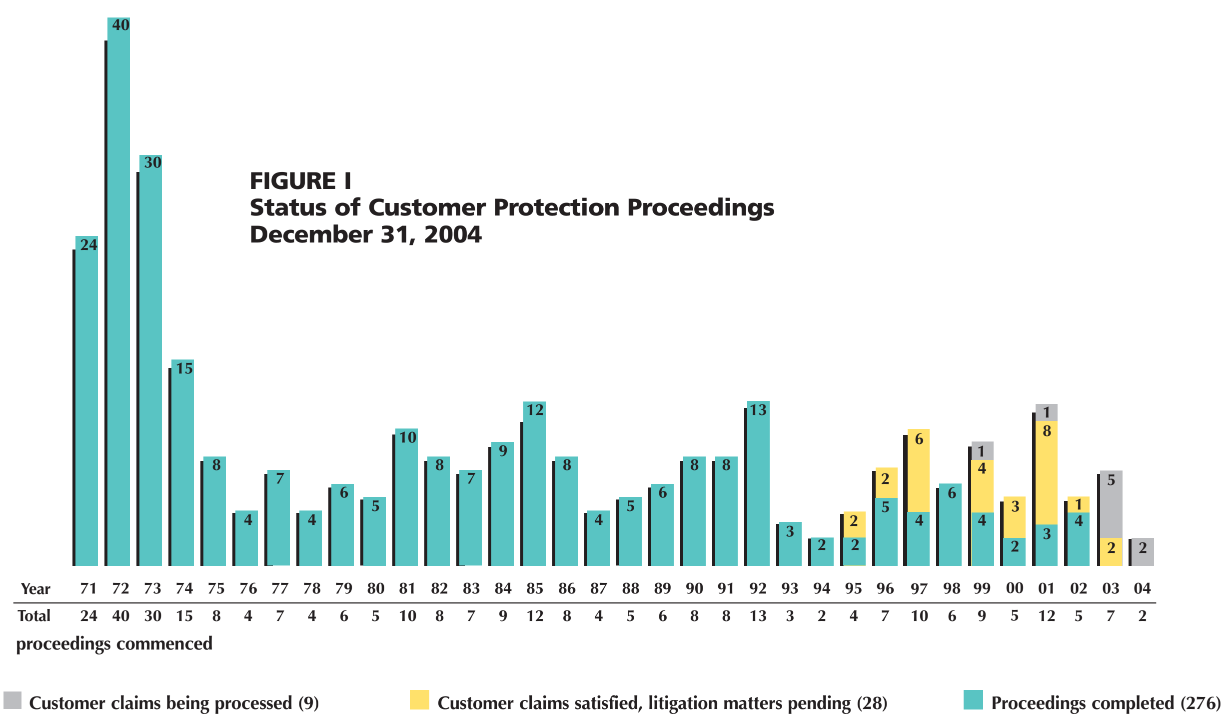
Member	Date Trustee Appointed
Nationwide Securities Corporation Valrico, FL (Direct Payment)	8/16/04†
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	12/03/04

†Date Notice Published

Of the 313 proceedings begun under SIPA to date, 276 have been completed, 28 involve pending litigation matters, and claims in 9 are being processed (See Figure I and Appendix II).

During SIPC's 34-year history, cash and securities distributed for accounts of customers totaled approximately $14.2 billion. Of that amount, approximately $13.8 billion came from debtors' estates and $375 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 2004



Claims over the Limits

Of the more than 623,300 claims satisfied in completed or substantially completed cases as of December 31, 2004, a total of 341 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 341 claims, a net increase of 2 during 2004, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $41.7 million, increased $1.0 million during 2004. These remaining claims approximate three-tenths of one percent of the total value of securities and cash distributed for accounts of customers in those cases.

SIPC Fund Advances

Table I shows that the 85 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 91 percent of the total advanced in all 313 customer protection proceedings. The largest net advance in a single liquidation is $75.2 million in MJK Clearing, Inc. This exceeds the net advances in the 228 smallest proceedings combined.

In 26 proceedings SIPC advanced $394.4 million, or 69 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 2004
313 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	11	$290,308,896
5,000,001	$10,000,000	15	104,054,905
1,000,001	5,000,000	59	124,897,984
500,001	1,000,000	35	25,283,012
250,001	500,000	42	14,477,962
100,001	250,000	60	9,713,600
50,001	100,000	41	2,921,976
25,001	50,000	24	895,893
10,001	25,000	11	168,668
0	10,000	9	26,087
Net recovery		6	(2,692,647)*
			$570,056,336†

* 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 ($374,545,645) and for administration expenses ($195,510,691).

"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 313 members during the year brought the total membership to 6,153 at December 31, 2004. 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, 2004, there were 74 members who were subjects of uncured notices, 55 of which were mailed during 2004, nine during 2003 and 2002, and 10 during the period 1997 through 2001. Subsequent filings and payments by five members left 69 notices uncured. SIPC has been advised by the SEC staff that: (a) 3 member registrations have been canceled or are being withdrawn; and (b) 66 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 $1.29 billion at year end, an increase of $38 million during 2004.

Tables III and IV present principal revenues and expenses for the years 1971 through 2004. The 2004 member assessments were $1.0 million and interest from investments was $63.1 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, 2004.

TABLE II
SIPC Membership
Year Ended December 31, 2004

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,706	310	304
SIPC(b)	134	-	282(c)
Chicago Board Options Exchange Incorporated	487	34	113
New York Stock Exchange, Inc.	363	26	16
American Stock Exchange LLC	200	35	10
Pacific Stock Exchange, Inc.	81	22	16
Philadelphia Stock Exchange, Inc.	100	13	8
Chicago Stock Exchange, Incorporated	78	3	3
Boston Stock Exchange, Inc.	4	1	5
	6,153	444	757

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2004.

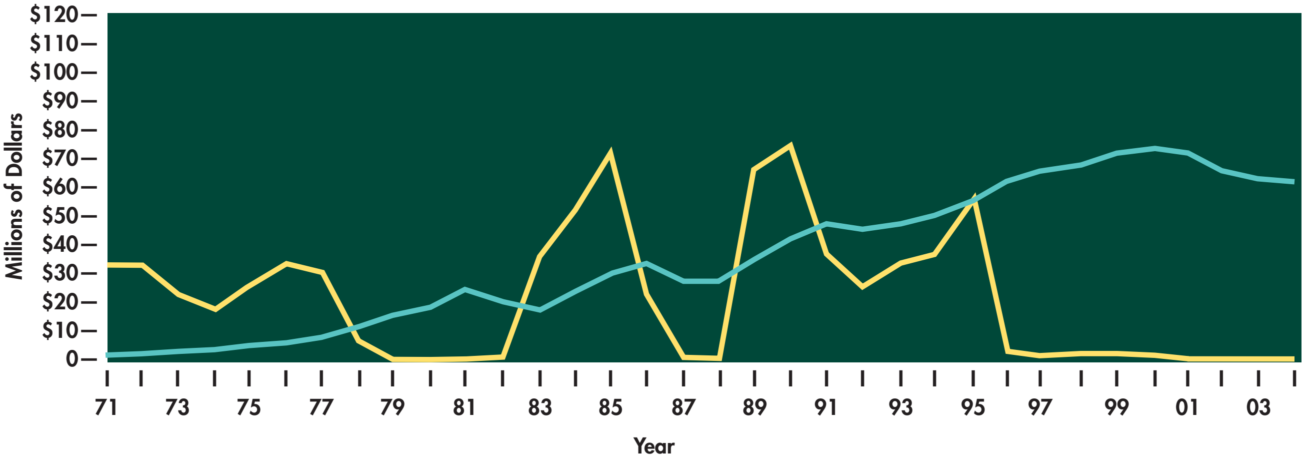
b. SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization.

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 Thirty-four Years Ended December 31, 2004**



Member assessments and contributions: $733,416,767

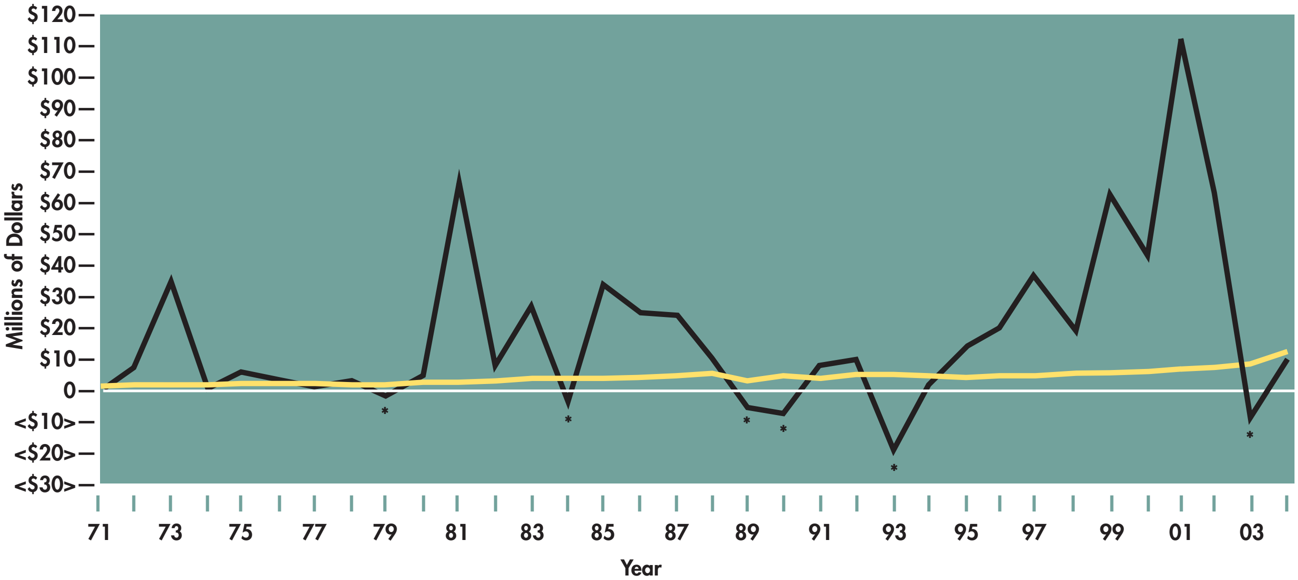
Interest on U.S. Government securities: $1,214,033,367

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).
1996-2004: $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-four Years Ended December 31, 2004**



Customer protection proceedings: $621,556,336 (Includes net advances of $570,056,336 and $52,200,000 of estimated costs to complete proceedings less estimated future recoveries of $700,000.)

Other expenses: $150,756,929

* Net recoveries

During 2004, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy decisions are summarized below:

In an appeal brought by SIPC and the SIPA trustee in *In re: New Times Securities Services, Inc. and New Age Financial Services, Inc.*, 371 F.3d 68 (2d Cir. 2004), the Second Circuit held that (a) the district court had properly determined that claimants who had given cash to the debtors to purchase shares in mutual funds that turned out not to exist had "customer" claims for securities, not cash, and (b) the district court had erred in determining that the claimants had customer claims for fictitious interest "earned" on the non-existent mutual funds. With respect to the first issue, the Second Circuit overruled the determination of the SIPA trustee that the customers had claims for cash eligible for SIPC advances up to the statutory limit of $100,000. The claimants objected, arguing that they had claims for securities eligible for SIPC advances up to $500,000. The Securities and Exchange Commission, which filed an *amicus* brief at the request of the court, supported the claimants' position. The court declined to adopt SIPC's interpretation of SIPA, which was consistent with a ruling by the Sixth Circuit on the same issue in another case. Instead deferring to the Commission, the Second Circuit held that treating the claims at issue as claims for securities would further the legitimate expectations of the customers. The court noted that "SIPC's approach does perhaps promote an arguably laudable policy goal—encouraging investors to research and monitor their investments (and their brokers) with greater care. This goal of greater investor vigilance, however, is not emphasized in the legislative history of SIPA." With respect to the second issue, the Second Circuit upheld the determination of the trustee that the value of the claims should be based upon the amount of money the customers paid to the debtors to purchase the non-existent mutual funds. Both SIPC and the Commission supported the trustee's argument that the value of the customers' claims should not include fictitious interest "earned" on the non-existent mutual funds, as reflected on bogus account statements generated by the debtors.

In *Edward G. Murphy, Inc. Profit Sharing Plan, et al. v. Selheimer & Co., Inc. et al.*, No. 03-1829 (3d Cir. Apr. 6, 2004), the Third Circuit affirmed, without opinion, the orders of the bankruptcy and district courts upholding SIPC's determination denying "customer" status with respect to the claims of Mr. Murphy and two retirement plans. SIPC determined that (a) Mr. Murphy was not a customer because his securities formed part of the capital of Selheimer and (b) the two retirement plans were not customers because the sole beneficiary of those plans, Mr. Murphy, was ineligible for relief under SIPA. By order dated May 5, 2004, the Third Circuit denied Mr. Murphy's petition for rehearing.

In *In re MJK Clearing, Inc. (Ferris, Baker Watts, Inc. v. Stephenson)*, 371 F3d 397 (8th Cir. 2004), the Eighth Circuit affirmed the decisions of the district and bankruptcy courts that Ferris, Baker Watts, Inc. ("FBW") was not entitled to recover $18 million it transferred to the debtor as collateral for a stock loan transaction. The Eighth Circuit held that FBW was not entitled to imposition of a constructive trust or turnover of the funds because it could not trace its cash collateral into any property of the debtor's estate. In light of that holding, the court did not consider the SIPA trustee's powers under the strong-arm clause or the scope of customer property under SIPA.

In another action related to the *MJK* liquidation, *Ferris, Baker Watts, Inc. and James Stephenson v. Deutsche Bank Securities LTD, et al. and Deutsche Bank AG, et al.*, Civ. Nos. 02-3682 and 02-4845 (D. Minn. Nov. 5, 2004), the SIPA trustee and Ferris, Baker Watts, Inc. separately sued securities lenders, arguing violations of federal and state securities laws. In those actions, which were commenced in 2002, the plaintiffs alleged that the defendants had perpetrated a securities loan and market manipulation scheme, and the SIPA trustee alleged damages of more than $335 million. The plaintiffs subsequently amended their complaints to add RICO claims under New Jersey state law, and certain defendants moved to dismiss the additional claims based on choice of law principles. The court denied the partial motions to dismiss.

In *Mishkin v. Ageloff, et al. (In re Adler, Coleman Clearing Corp.)*, 299 F.Supp.2d 249 (S.D.N.Y. 2004), the district court granted the SIPA trustee's motion for summary judgment on the issue of the defendants' liability. The action was commenced by the trustee in 1997 against certain traders and brokers of Hanover Sterling & Co., an introducing broker for which the debtor served as clearing firm, to recover for losses suffered by the debtor due to defendants' alleged violations of federal securities laws and state common law fraud. The court agreed with the trustee that summary judgment was appropriate under the doctrine of collateral estoppel (issue preclusion) because the essential facts had been conclusively decided against the defendants by the bankruptcy court and in criminal court proceedings in which the defendants pled guilty to various charges of fraud, rigging initial public offerings, manipulation of stock prices and/or unauthorized trading. By order dated April 20, 2004, the court entered judgment, jointly and severally, against all but two of the defendants in the amount of $50 million, plus interest from February 27, 1995 to the date of the order. Previously, the trustee had reached a $65 million settlement with one of the defendants, which settlement was approved by the court in 2002, and had obtained a default judgment against a second defendant in the amount of $50 million in 1997. *Mishkin v. Ageloff, et al.*, 314 F.Supp.2d 354 (S.D.N.Y. 2004).

In *SEC v. Norman Rounds*, Civ. No. 03-M-0303 (CBS) (D. Colo. Apr. 12, 2004), the district court denied the defendant's motion to compel production of two documents prepared by SIPC's in-house counsel, rejecting the defendant's argument that any privilege was waived when the documents were disclosed to the Securities and Exchange Commission. The court held that the motion and related assertions of privilege had to be evaluated in light of the "close, on-going relationship between the Commission and SIPC" established by SIPA. In protecting the documents from discovery, the court relied on the "common interest" doctrine, which is an exception to the general rule that a privilege is waived when privileged information is disclosed to a third party. The court stated that "the SEC and SIPC shared a 'community of interest' with respect to the subject matter of these documents" and noted that while their mandates may be different, "it cannot be disputed that the Commission and SIPC share a common responsibility for protecting securities customers and promoting confidence in the securities markets."

In *In re Cambridge Capital LLC*, Case No. 01-01057-260 (Bankr. E.D.N.Y. March 16, 2004), the court upheld the determination of SIPC, as trustee, that a "customer" claim for securities missing from the customer's account as the result of unauthorized trading should be satisfied with securities. In so holding, the court rejected the customer's argument that he was entitled to cash equal to the filing date value of his portfolio.

In *In re Clark Melvin Securities Corp.*, Adv. Pro. No. 01-0101 (SEK) (Bankr. P.R. June 29, 2004), the bankruptcy court approved the SIPA trustee's settlement of a pre-petition action brought by the debtor against a number of banks, a former stockbroker-employee and his bookmaker to recuperate funds misappropriated from the accounts of the debtor and its customers. The stockbroker-employee admitted that he devised a scheme whereby checks were credited, accepted for payment, or cashed by the defendant banks with deficient or falsified endorsements. SIPC supported the settlement and the court approved it, over the objections of the debtor's former CEO and principal stockholder, and the debtor's former counsel. The settlement amount was in excess of $995,000.

In *In re Donahue Securities, Inc. and S.G. Donahue & Co., Inc. (SIPC, et al. v. Munninghoff Lange & Co., et al.)*, Case No. 01-1027, Adv. No. 02-1179 (Bankr. S.D. Ohio Nov. 23, 2004), an action by SIPC for negligent misrepresentation against the debtor's former accountants, the bankruptcy court granted the defendants' motion for summary judgment. The court found that because SIPC did not receive the audited financial statements prepared by the debtor's accountants, it could not establish reliance, a necessary element of a cause of action for negligent misrepresentation. SIPC and the Securities and Exchange Commission, which filed an *amicus* brief in support of SIPC, argued that reliance could be established by virtue of the regulatory system that requires the Commission and self-regulatory organizations, such as NASD, to notify SIPC of any financial difficulty that a broker-dealer may be facing. The court rejected this argument, concluding that "under the existing regulatory scheme SIPC relies on the SEC and NASD, not on the audit reports submitted to those entities." In so holding, the court relied on the decision of the New York Court of Appeals in *SIPC v. BDO Seidman LLP,* 746 N.E.2d 1042 (N.Y. 2001), in which the court concluded that the "no news is good news" theory of reliance was not sufficient for purposes of establishing a claim for misrepresentation.

In another adversary proceeding in the *Donahue* liquidation, *In re Donahue Securities, Inc. and S.G. Donahue & Co., Inc. (Lutz v. Chitwood, et al.)*, 318 B.R. 667 (Bankr. S.D. Ohio 2004), the bankruptcy court dismissed the SIPA trustee's amended complaint for damages arising out of the alleged negligence and breach of fiduciary duty of three of the debtor's former employees. In the amended complaint, the trustee asserted claims as bailee of customer property and on behalf of SIPC, as subrogee of customer claims. The court held that none of the defendants owed a common law duty to customers to discover or prevent the fraud that had been perpetrated by the president of the debtor. In addition, the court held that the complaint failed to state a claim against the debtor's compliance officer for negligent supervision, finding that the compliance officer was not the employer and had no control over the actions of the debtor's president. The trustee has appealed the decision on the issue of whether the compliance officer owed a duty to the debtor's customers.

In *In re First Interregional Equity Corp.*, Adv. No. 97-02165 (SIPA) (RG) (Bankr. D.N.J. Feb. 24, 2004), the bankruptcy court, without written opinion, upheld the determination of the SIPA trustee denying the claimant's late-filed "customer" claim. The trustee and SIPC argued the well-settled principle that the six-month time bar contained in SIPA is "mandatory and absolute".

In *In re First Interregional Equity Corp.*, 03-CV-3362 (WGB) (Bankr. D.N.J. Aug. 17, 2004), the bankruptcy court dismissed an action brought by the SIPA trustee and the chapter 11 plan administrator for First Interregional Advisors Corp. (FIAC) for failure to state a claim upon which relief could be granted. Plaintiffs sought coverage under general liability and umbrella excess liability insurance policies for losses incurred as the result of the sale of phony leases by certain FIAC representatives and the representatives' subsequent misappropriation of payments from the phony leases for their own personal gain. The court found that conversion of the funds did not constitute "property damage" as defined under the policies because the phony leases were purchased with checks, bonds and account transfers and as such, there had been no loss of "tangible property".

In *In re Mason Hill & Co., Inc.*, 2004 WL 2659579 (Bankr. S.D.N.Y. Oct. 18, 2004), the bankruptcy court determined that the claimant had established a *prima facie* "customer" claim of unauthorized trading where, following his written instructions to liquidate his account, the debtor liquidated three securities in his account and used the proceeds to make unauthorized purchases. However, the court ordered the parties to trial on the issue of whether the claimant had ratified the unauthorized transactions by virtue of the fact that he failed to object in writing to the activity in his account. The court stated that ratification could not be established on the present record, but noted that "under appropriate circumstances, the failure to object to confirmation slips or monthly account statements may give rise to a ratification even in the absence of a contractual objection requirement."

In *In re New Times Securities Services, Inc. and New Age Financial Services, Inc.*, 318 B.R. 753 (Bankr. E.D.N.Y. 2004), the bankruptcy court upheld the determination of the SIPA trustee denying the "customer" claims of certain holders of promissory notes because persons who lend money to a debtor are expressly excluded from the definition of "customer" under SIPA. The claimants argued that they were customers because they had originally given cash to the debtor for the purpose of purchasing securities, notwithstanding that they subsequently authorized the debtor's principal to liquidate those securities for the purpose of entering into the promissory note transactions. The court rejected the claimants' argument, finding that they were not customers because they held promissory notes on the filing date. In so holding, the court stated that although the original deposit of cash might have given rise to customer status, "each transaction must be looked at separately to determine if it deserves SIPA protection." The court held that the fact that the debtor's principal defrauded the claimants did not change the result. The claimants have appealed the decision to the district court.

In an action in connection with the *Northstar Securities, Inc.* liquidation, *Quilling, et al. v. Compass Bank*, 2004 WL 2093117 (N D. Tex. Sept. 17, 2004), the district court granted in part and denied in part the motion of the defendant bank for summary judgment. The SIPA trustee commenced the action against Compass Bank seeking damages for negligence, conversion and aiding and abetting a breach of fiduciary duty for allowing a Northstar broker to deposit into his account at Compass checks made payable to Compass for the benefit of particular investors in a non-existent CD. The court ruled against the trustee on two main points: First, the court found that the discovery rule exception to the statute of limitations does not apply to claims based on negotiable instruments unless there is some proof of knowing participation by the bank. Second, the court found that checks made payable to "Compass Bank Account No. 39193248" were legally payable to the owner of that account, the Northstar broker. The trustee's claims that survived the motion total in excess of $200,000.

In *In re Park South Securities, LLC and Eberhard Investment Associates, Inc.*, No. 03-08024A (RDD) (Bankr. S.D.N.Y. Aug. 5, 2004), in a ruling from the bench, the bankruptcy court upheld the determination of the SIPA trustee denying the claimants' "customer" claim based on alleged unauthorized trading. The court found that the claim was properly denied because the claimant failed to make a timely written complaint regarding the alleged unauthorized trades.

In *In re Stratton Oakmont, Inc.*, No. 97-8074A (ALG) (Bankr. S.D.N.Y. June 10, 2004), the claimants objected to the SIPA trustee's denial of their "customer" claim based on alleged unauthorized trading and in their objection, asserted for the first time that additional trades were unauthorized. The bankruptcy court agreed with the trustee and SIPC that the claimants' allegations with respect to the additional trades did not constitute an amendment to their original claim, but instead amounted to a new claim. Because the new allegations were made long after the claims deadline, the claim was untimely. The court rejected the claimants' argument that mere mention of the additional trades in documentation submitted with their original claim was sufficient to put the trustee on notice of a potential claim based on those trades. In so holding, the Court stated that the "law is clear that amendments to SIPA claims are sparingly allowed, and that filing a timely complaint concerning one security does not permit a claimant to add other securities to the list."

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 122 of the 313 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 286 indictments have been returned in federal or state courts, resulting in 255 convictions to date.

Administrative and/or criminal action in 273 of the 313 SIPC customer protection proceedings initiated through December 31, 2004, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	61
Exclusive SEC Administrative Action	39
Exclusive Self-Regulatory Administrative Action	51
Criminal and Administrative Action	100
Criminal Action Only	22
Total	273

In the 251 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]	117	112
Bar from Association	346	225
Fines	Not Applicable	$11,363,781

Suspensions by self-regulatory authorities ranged from five days to a maximum of ten years. Those imposed by the SEC ranged from five days to a maximum of one year.

Bars against associated persons included exclusion from the securities business as well as bars from association in a principal or supervisory capacity.

The $11,363,781 in fines assessed by self-regulatory authorities were levied against 129 associated persons and ranged from $250 to $1,600,000.

Members In or Approaching Financial Difficulty

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

Members on Active Referral

During the calendar year 2004 SIPC maintained active files on three members referred under Section 5(a). No referrals were received during the year and three active referrals had been carried forward from prior years. None 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 Independent Certified Public Accountants

To the Board of Directors of:
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (the Corporation) as of December 31, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, NY
March 3, 2005

Securities Investor Protection Corporation

Statement of Financial Position as of December 31, 2004

ASSETS	
Cash	$ 804,923
U.S. Government securities, at fair value including accrued interest receivable of $17,916,574; (amortized cost $1,233,822,909) (Note 6)	1,286,749,293
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($302,835,466) (Note 4)	700,000
Prepaid benefit costs (Note 8)	2,207,329
Other (Note 5)	2,244,818
	$1,292,706,363
LIABILITIES AND NET ASSETS	
Advances to trustees - in process (Note 4)	$ 288,439
Accrued benefit costs (Note 8)	3,819,353
Accounts payable and other accrued expenses	453,164
Estimated costs to complete customer protection proceedings in progress (Note 4)	52,200,000
	56,760,956
Net assets	1,235,945,407
	$1,292,706,363

Statement of Activities for the year ended December 31, 2004

Revenues:	
Interest on U.S. Government securities	$ 63,090,576
Member assessments (Note 3)	972,817
	64,063,393
Expenses:	
Salaries and employee benefits (Note 8)	5,118,345
Legal and accounting fees (Note 4)	383,843
Credit agreement commitment fee (Note 5)	2,864,300
Rent (Note 5)	619,450
Other	2,010,787
	10,996,725
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	8,919,384
	19,916,109
Total net revenues	44,147,284
Realized and unrealized losses on U.S. Government securities (Note 6)	(29,654,153)
Increase in net assets	14,493,131
Net assets, beginning of year	1,221,452,276
Net assets, end of year	**$1,235,945,407**

The accompanying notes are an integral part of these statements.

Securities Investor Protection Corporation

Statement of Cash Flows for the year ended December 31, 2004

Operating activities:	
Interest received from U.S. Government securities	$ 62,555,830
Member assessments received	973,142
Advances paid to trustees	(20,541,268)
Recoveries of advances	37,995,385
Salaries and other operating activities expenses paid	(13,237,710)
Net cash provided by operating activities	67,745,379
Investing activities:	
Proceeds from sales of U.S. Government securities	121,252,077
Purchases of U.S. Government securities	(188,530,026)
Purchases of furniture and equipment	(188,341)
Net cash used in investing activities	(67,466,290)
Increase in cash	279,089
Cash, beginning of year	525,834
Cash, end of year	**$ 804,923**

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

1. Organization and general

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970, primarily for the purpose of providing protection to customers of its members. SIPC is a nonprofit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 except for those persons excluded under SIPA.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. The "SIPC Fund" and SIPC's resources

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $1,287,554,216.

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 2004 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 37 proceedings in progress at December 31, 2004. Customer claims have been satisfied in 28 of these proceedings and in 9 proceedings customer claims and distributions are being processed.

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

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

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

SIPC has advanced a net of $303.5 million for proceedings in progress (including direct payment proceedings of $.1 million) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $302.8 million is not expected to be recovered.

The following table summarizes transactions during the year ended December 31, 2004 that results from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	**Estimated costs to complete**
Balance, beginning of year	$35,000,000	$60,400,000
Add:		
Provision for current year recoveries	3,000,000	—
Provision for estimated future recoveries	700,000	—
Provision for estimated costs to complete proceedings	—	12,300,000
Less:		
Recoveries	38,000,000	—
Advances to trustees	—	20,500,000
Balance, at year end	$ 700,000	$52,200,000

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

SIPC has monthly payments totaling $291,751 for office space on a ten-year lease expiring August 31, 2005. A new ten-year lease signed August 23, 2004 provides for minimum rental payments as follows: $165,744 for September 1, 2005 to December 31, 2005: 2006 - $501,376; 2007 - $513,944; 2008 - $526,790; 2009 - $539,911; 2010 - $553,447; 2011 - $567,259; 2012 - $581,485; 2013 - $595,988; 2014 - $610,905; 2015 - $417,491; for a total of $5,574,340 as of December 31, 2004. Additional rental based on increases in operating expenses, real estate taxes, and the Consumer Price Index is required by the lease.

On June 25, 2003 SIPC signed a five-year lease for additional office space in Fairfax Virginia, expiring July 31, 2008. Future minimum rentals for the space are as follows: 2005 - $87,601; 2006 - $90,230; 2007 - $92,936; 2008 - $55,150; for a total of $325,917 as of December 31, 2004. Additional rental based on increases in operating expenses including real estate taxes is required by the lease.

In March of 2004 SIPC entered into a $1 billion credit agreement with a consortium of banks, consisting of (i) a $500 million 364-day revolving credit facility with a commitment fee of .09% per year, and (ii) a $500 million 3-year revolving credit facility at .11% per year. Additionally, fees ranging from .2% to .3% were paid to certain banks based on the level of their commitment to this agreement. Included within Other assets is approximately $1.6 million of prepaid credit agreement fees. These fees will be amortized over the remaining life of this agreement.

In March of 2005, the $500 million 364-day revolving credit facility with a commitment fee of .09% per year was renewed for another year.

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, 2004.

U.S. Government securities as of December 31, 2004, included gross unrealized gains of $54,457,435 and gross unrealized losses of $1,531,051.

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

Increase in net assets	$14,493,131
Net decrease in estimated recoveries of advances to trustees	34,300,000
Unrealized loss on U.S. Government securities	29,747,574
Net decrease in estimated cost to complete customer protection proceedings	(8,200,000)
Increase in prepaid expenses	(2,639,981)
Net amortized discount on U.S. Government securities	(576,661)
Increase in payables and accrued expenses	486,510
Depreciation and amortization	161,437
Increase in accrued interest receivable on U.S. Government securities	(51,239)
Loss on disposal of assets	24,608
Net cash provided by operating activities	$67,745,379

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	$15,142,244	$3,661,679
Service cost	538,181	136,490
Interest cost	896,625	218,273
Actuarial loss (gain)	355,841	(427,029)
Benefits paid	(391,169)	(48,108)
Benefit obligation at end of year	$16,541,722	$3,541,305
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$11,486,360	-
Actual return on plan assets	1,482,665	-
SIPC contributions	1,800,000	-
Benefits paid	(391,169)	-
Fair value of plan assets at end of year	$ 14,377,856	-
Funded status	$(2,163,866)	$(3,541,305)
Unrecognized actuarial loss (gain)	4,220,017	(278,048)
Unrecognized prior service credit	(15,268)	-
Unrecognized prior service cost	166,446	-
Prepaid (accrued) benefit cost	$ 2,207,329	$(3,819,353)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31, 2004		
Discount rate	6.00%	6.00%
Expected return on assets	8.00%	-
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 2004. This rate was assumed to decrease gradually to 5% by 2010 and remain at that level thereafter.

	Pension Benefits	Other Postretirement Benefits
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$538,181	$136,490
Interest cost	896,625	218,273
Amortization of unrecognized actuarial loss	283,959	841
Amortization of prior service credit	(7,634)	-
Amortization of prior service cost	20,806	-
Expected return on assets	(993,029)	-
Benefit cost	$738,908	$355,604
DEFINED CONTRIBUTION PLAN		
SIPC contributions (60% of employee contributions, up to 3.6% of salary)	$112,587	

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 2004	$ 77,000	$ (63,000)
Effect on postretirement benefit obligation as of December 31, 2004	$710,000	$(590,000)

APPENDIX I Distributions for Accounts of Customers for the Thirty-four Years Ended December 31, 2004

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			
		Advances*	Recoveries*	Net	Total
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	606,593	40,785	(5,812)	34,973	641,566
2003	(643,242)△	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662)△	(37,700)	(49,362)	159,663
	$13,796,708	**$659,912**	**$(285,366)**	**$374,546**	**$14,171,254**

* Advances and recoveries not limited to cases initiated this year.

† Reflects adjustments to customer distributions in the John Muir & Co. customer protection proceeding based upon Trustee's final report.

△ Reflects adjustments to customer distributions in the MJK Clearing, Inc. customer protection proceeding based upon Trustee's revised allocation.

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
Churchill Securities, Inc. Suffern, NY (Edwin B. Mishkin, Esq.)	7/13/79	11/30/99	12/13/99	5,200	848	634
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	12/20/94	1/16/01	1/16/01	3,833	235	80
Weatherly Securities Corporation New York, NY (SIPC)	9/08/82	5/05/03	5/05/03	11,157	171	9
Cybervest Securities, Inc. Ft. Lauderdale, FL (SIPC)	8/13/96	4/21/03	5/28/03	1,066	79	6
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	9/08/03	9/08/03	18,281	393	5
Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	10/09/59	8/25/03	9/29/03	19,636	325	1
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356	80	8
Nationwide Securities Corporation Valrico, FL (Direct Payment)	1/29/92		8/16/04†	1,629	17	2
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	4/26/00	12/03/04	12/03/04	100,000△		
TOTAL 9 MEMBERS: PART A				**161,158**	**2,148**	**745**

†Date notice published

△Estimate

December 31, 2004

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$12,328,364	$1,811,674		$ 9,977,684	$ 539,006
$576,223	$345,620	$230,603	3,611,004	392,922		2,627,790	590,292
	240,897	121,802	842,335	284,233		517,529	40,573
19,568	19,568		1,018,851	386,914		568,429	63,508
229,938		229,938	815,155	581,886		233,269	
			1,012,189	983,389			28,800
			1,211,305	64,614		969,944	176,747
			21,218	16,272		2,141	2,805
			50,000	50,000			
$825,729	**$606,085**	**$582,343**	**$20,910,421**	**$4,571,904**		**$14,896,786**	**$1,441,731**

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
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	797	49	33
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	134	24
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,378	362
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	5,299

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 741,687,706	$ 711,744,281	$29,943,425	$ 8,000,000			$ 4,000,000	$ 4,000,000
5,063,287	860,265	4,203,022	6,955,419	$ 6,955,419			
1,606,964	886,282	720,682	11,042,369	2,361,291		7,438,470	1,242,608
694,584	14,999	679,585	3,870,252	1,143,949		1,547,458	1,178,845
12,292,245	8,075,332	4,216,913	16,311,554	8,069,012		628,452	7,614,090
8,767	8,730	37	327,734	40,105		168,520	119,109
360,383,598	351,960,822	8,422,776	35,694,385	10,368,725		23,314,669	2,010,991

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
W. S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	6/26/91	3/07/97	3/12/97	25,600	6,658	21,645
Cygnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/30/91	8/26/97	8/26/97	346	60	24
Selheimer & Co. Ambler, PA (SIPC)	9/17/67		9/08/97† 6/28/02 *	84	11	3
CPA Advisors Network, Inc. Providence, RI (Edward J. Bertozzi Jr., Esq.)	10/27/80	12/29/98	2/12/99	1,400	72	45
John Dawson & Associates Chicago, IL (J. William Holland, Esq.)	10/30/72	4/08/99	4/13/99	6,750	126	14
R. D. Kushnir & Co. Northbrook, IL (SIPC)	4/14/89	6/02/99	7/14/99	13,328	56	6
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,535	9,738

†Date notice published
*6/28/02 Direct Payment proceeding converted to SIPC as Trustee proceeding

December 31, 2004

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 216,229,127	$ 209,226,415	$ 7,002,712	$ 9,941,953	$ 2,610,075		$ 7,331,878	
152,657	127,657	25,000	3,084,981	657,027		1,579,580	$ 848,374
			320,809	69,651		162,195	88,963
8,300,972	6,812,312	1,488,660	(395,514)			(395,514)	
1,447,122	1,327,077	120,045	5,795,756	5,121,963		673,793	
868,901	497,052	371,849	3,730,027	2,834,697		449,319	446,011
359,783,567	353,191,553	6,592,014	36,462,119	7,592,136		12,660,094	16,209,889

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
New Times Securities Services, Inc., and New Age Financial Services, Inc. Melville, NY (James W. Giddens, Esq.)	4/19/95	2/16/00	5/18/00	3,668	898	346
Meridian Asset Management, Inc. Tallahassee, FL (SIPC)	9/25/91	7/26/00	7/31/00	1,173	117	10
Klein, Maus & Shire, Inc. New York, NY (Irving H. Picard, Esq.)	10/02/87	8/28/00	9/06/00	750	66	22
MPI Financial Columbus, OH (SIPC)	3/10/98	1/29/01	1/29/01	4,780	229	19
Cambridge Capital, LLC Garden City, NY (SIPC)	4/11/97	1/24/01	2/02/01	2,745	154	35
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	5/08/89	2/26/01	3/06/01	26,395	7,117	3,371
MJK Clearing, Inc. Minneapolis, MN (James P. Stephenson, Esq.)	4/01/81	9/27/01	9/27/01	210,500	26,948	173,465

December 31, 2004

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,044,827	$ 890,596	$ 154,231	$ 25,566,173	$ 4,731,306		$ 15,778,057	$ 5,056,810
31,597	2,200	29,397	1,459,929	117,227		1,182,702	160,000
			4,024,212	885,366		2,632,554	506,292
42,974		42,974	1,024,049	89,138		470,052	464,859
443,902	438,540	5,362	2,134,710	945,510		1,189,200	
109,564,502	105,687,792	3,876,710	8,749,043	4,660,868			4,088,175
10,120,787,645	10,115,927,245	4,860,400	75,210,712	25,061,440		50,149,272	

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
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos-Bonet, Esq.)	10/24/60	10/17/01	10/17/01	1,903	36	14
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	5/15/96	10/30/01	10/30/01	22,879	330	13
Krieger Financial Services, Inc. Delray Beach, FL (Howard J. Berlin, Esq.)	9/09/98	11/01/01	11/01/01	1,355	97	7
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	313	24
Mason Hill & Co., Inc. New York, NY (SIPC)	11/28/95	3/27/02	3/27/02	1,580	69	11
Rocky Mountain Securities & Investments, Inc. Denver, CO (John D. Shively, Esq.)	8/22/80	2/06/03	2/06/03	5,426	653	3,837
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	7/24/00	2/05/03	2/10/03	2,278	302	21
TOTAL 28 MEMBERS: PART B				508,610	77,957	278,125

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 33,033		$ 33,033	$ 1,071,324	$ 258,400			$ 812,924
215,250		215,250	2,882,568	485,298		$ 2,001,910	395,360
			2,261,129	1,681,129		400,000	180,000
			1,914,178	446,545			1,467,633
1,398	$ 1,046	352	1,380,304	357,165		893,825	129,314
58,925,796	58,300,000	625,796	6,406,598	1,003,707		4,899,790	503,101
1,108,122	1,108,122		7,530,153	2,076,036		5,104,326	349,791
$12,000,718,543	**$11,927,088,318**	**$73,630,225**	**$282,756,926**	**$90,623,185**		**$144,260,602**	**$47,873,139**

APPENDIX II Customer Protection Proceedings

PART C: Proceedings Completed in 2004 [(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
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
Duke & Co., Inc. New York, NY (Elizabeth Page Smith, Esq.)	11/02/79	3/19/99	3/24/99	22,314	528	21
GFB Securities, Inc. East Meadow, NY (Gilbert Backenroth, Esq.)	10/24/94	9/14/99	9/15/99	3,368	160	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
Montrose Capital Management Ltd. New York, NY (Irving H. Picard, Esq.)	5/29/97	12/05/01	12/07/01	2,031	49	10
The Regency Group, Inc. New York, NY (SIPC)	11/23/98	5/03/02	5/03/02	2,611	103	11
TOTAL 6 MEMBERS 2004				**39,954**	**1,413**	**120**
TOTAL 270 MEMBERS 1973-2003(d)				**1,425,187**	**361,544**	**345,127**
TOTAL 276 MEMBERS 1973-2004				**1,465,141**	**362,957**	**345,247**

December 31, 2004

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 12,057,287	$ 2,517,120	$ 9,540,167	$ 8,909,440	$ 8,909,440			
2,350,285	353,933	1,996,352	1,066,417	892,463		$ 12,976	$ 160,978
914,981	503,306	411,675	1,475,433	1,113,434		361,999	
51,518	32,500	19,018	271,723	145,018		126,705	
100,272		100,272	1,464,710	547,564		519,702	397,444
			163,795	147,347		15,186	1,262
15,474,343	**3,406,859**	**12,067,484**	**13,351,518**	**11,755,266**		**1,036,568**	**559,684**
2,046,819,103	**1,865,607,228**	**181,211,875**	**253,037,471**	**88,560,336**	**$1,388,932**	**66,828,182**	**96,260,021**
$2,062,293,446	**$1,869,014,087**	**$193,279,359**	**$266,388,989**	**$100,315,602**	**$1,388,932**	**$67,864,750**	**$96,819,705**

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:	9	Members — Customer Claims and Distributions Being Processed	161,158	2,148	745
Part B:	28	Members — Customer Claims Satisfied, Litigation Matters Pending	508,610	77,957	278,125
		Sub-Total	669,768	80,105	278,870
Part C:	276	Members — Proceedings Completed	1,465,141	362,957	345,247
		TOTAL	**2,134,909**	**443,062**	**624,117**

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, 2004

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 825,729	$ 606,085	$ 582,343	$ 20,910,421	$ 4,571,904		$ 14,896,786	$ 1,441,731
12,000,718,543	11,927,088,318	73,630,225	282,756,926	90,623,185		144,260,602	47,873,139
12,001,544,272	11,927,694,403	74,212,568	303,667,347	95,195,089		159,157,388	49,314,870
2,062,293,446	1,869,014,087	193,279,359	266,388,989	100,315,602	$1,388,932	67,864,750	96,819,705
$14,063,837,718	**$13,796,708,490**	**$267,491,927**	**$570,056,336**	**$195,510,691**	**$1,388,932**	**$227,022,138**	**$146,134,575**

APPENDIX III Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2004

	2004	2003	2002	2001	2000
Revenues:					
Interest on U.S. Government securities	$63,085,146	$63,770,520	$66,526,852	$71,308,629	$72,373,421
Member assessments and contributions	972,817	1,083,178	1,050,096	1,083,173	1,108,632
Interest on assessments	5,430	3,815	4,630	6,507	2,643
	64,063,393	64,857,513	67,581,578	72,398,309	73,484,696
Expenses:					
Salaries and employee benefits	5,118,345	5,329,547	4,495,570	4,234,246	3,516,593
Legal fees	347,793	261,121	71,382	93,435	225,684
Accounting fees	36,050	35,450	72,298	87,439	29,000
Credit agreement commitment fee	2,864,300	1,409,071	1,228,902	1,258,049	1,244,268
Professional fees—other†	184,882	274,056	506,555	165,489	105,492
Other:					
Assessment collection cost	10,788	5,257	7,731	7,339	8,705
Depreciation and amortization	161,437	107,274	101,059	115,669	106,520
Directors fees and expenses	55,835	42,114	19,112	20,436	35,773
Insurance	28,988	23,955	20,370	28,820	20,367
Investor education†	342,600	172,518	253,217	129,563	53,522
Imaging expenses△	290,296	92,972			
Office supplies and expense*△	149,968	112,636	117,859	79,698	77,172
EDP and internet expenses*	378,024	346,386	134,058	137,185	159,446
Postage	15,050	16,773	18,540	14,858	13,639
Printing & mailing annual report	33,461	35,457	37,484	37,131	36,542
Publications and reference services	149,725	149,526	137,275	128,493	92,175
Rent—office space	619,450	495,297	483,757	475,010	447,309
Telephone	71,227	40,055	28,439	31,672	30,275
Travel and subsistence	126,827	146,201	153,887	245,435	225,124
Personnel recruitment*	2,608	160,923	37,191	27,594	
Miscellaneous	9,071	10,949	8,889	7,004	13,828
	2,445,355	1,958,293	1,558,868	1,485,907	1,320,397
	10,996,725	9,267,538	7,933,575	7,324,565	6,441,434
Customer protection proceedings:					
Net (recoveries from) advances to:					
Trustees other than SIPC:					
Securities	(37,187,364)	14,942,466	529,017	105,096,495	21,697,329
Cash	(14,345,975)	2,002,437	29,402,976	6,321,647	291,122
	(51,533,339)	16,944,903	29,931,993	111,418,142	21,988,451
Administration expenses	30,564,773	10,186,525	8,455,180	7,556,143	12,009,397
	(20,968,566)	27,131,428	38,387,173	118,974,285	33,997,848
Net change in estimated future recoveries	34,300,000	(35,000,000)	16,000,000	(14,400,000)	1,750,000
	13,331,434	(7,868,572)	54,387,173	104,574,285	35,747,848
SIPC as Trustee:					
Securities	1,798,260	507,105	4,078,910	1,687,819	1,004,794
Cash	367,371	354,548	532,294	152,839	(162,720)
	2,165,631	861,653	4,611,204	1,840,658	842,074
Administration expenses	1,601,101	1,369,116	1,076,410	882,629	1,166,120
	3,766,732	2,230,769	5,687,614	2,723,287	2,008,194
Direct payments:					
Securities	2,141	351,208	169,026	38,923	83,135
Cash	2,805	166,612	260,727	144,368	2,919
	4,946	517,820	429,753	183,291	86,054
Administration expenses	16,272	14,134	97,713	90,019	94,963
	21,218	531,954	527,466	273,310	181,017
Net change in estimated cost to complete proceedings	(8,200,000)	(5,500,000)	3,100,000	3,900,000	5,300,000
	8,919,384	(10,605,849)	63,702,253	111,470,882	43,237,059
	19,916,109	(1,338,311)	71,635,828	118,795,447	49,678,493
Total net revenues (expenses)	44,147,284	66,195,824	(4,054,250)	(46,397,138)	23,806,203
Realized and unrealized (loss) gain on U.S. Government securities	(29,654,153)	(36,264,061)	60,876,221	21,344,414	59,031,530
Increase (decrease) in net assets	**$14,493,131**	**$29,931,763**	**$56,821,971**	**$(25,052,724)**	**$82,837,733**

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

*2000–2002 Office supplies & expense, EDP and interest expense, and Personnel recruitment restated within those categories

△2003 Office supplies & expense and Imaging expenses restated within those categories

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