2007 Annual Report

SECURITIES INVESTOR PROTECTION CORPORATION

SIPC

SECURITIES INVESTOR PROTECTION CORPORATION
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April 30, 2008

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Sir:

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

Respectfully,

Armando J. Bucelo, Jr.
Chairman

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"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.

Message from the Chairman

Armando J. Bucelo, Jr.

The year 2007 saw an event which has never previously occurred in the 37 year history of SIPC. During the year, SIPC was not called upon to initiate a customer protection proceeding for any SIPC member brokerage firm. Indeed, in the four year period from 2004 to 2007, SIPC was called upon to initiate proceedings for a total of only six brokerage firms. This is the lowest number of new proceedings during any four year period in our corporate history. As I have mentioned before in previous Annual Reports, I attribute this extraordinary result to the vigilance of the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the state regulators, who assure customers that their assets are properly segregated and that brokerage firms maintain capital adequacy.

SIPC's Board of Directors is constantly concerned that SIPC has sufficient resources to deal with any foreseeable circumstance. At year end, the SIPC Fund stood at an all time high. The low level of brokerage failures over the last few years has allowed our assets to grow, since those funds were not needed to satisfy new customer claims. Notwithstanding the record level of our financial resources, the Board chartered a new study of SIPC's capital adequacy by an outside consultant. I am pleased to report that the consultants have concluded that the size of the SIPC Fund is sufficient to meet SIPC's mission. The probability that the Fund will be exhausted in a one year period is very small.

The Board also instituted a new concept in 2007 for one of the Board meetings. In June, the Board convened in San Francisco, and held a two day meeting, rather than the usual one day format. In addition to the Board's usual business, the extended format allowed the Board to receive a detailed presentation from the Corporation's Risk Manager, and guest speakers were also invited. The securities industry's regulatory professionals were represented, and both the President and President-elect of the North American Securities Administrators Association gave presentations as well. In addition, the Board heard from an expert on what has commonly been called "excess-SIPC" protection for very large securities accounts. The format allowed the Board to learn of the concerns of both the member firms and regulators with respect to internet fraud, identity theft, and the processes in place to prevent abuse of customer assets. I intend to hold a similar Board meeting in the future to continue this valuable dialogue.

On the international front, SIPC continues to reach out to similar investor protection entities in order to deal with the future possibility of the collapse of a financial institution with cross-border implications. In October, SIPC hosted a signing ceremony for a Memorandum of Understanding with the Korea Deposit Insurance Corporation. In December, SIPC's President traveled to Cairo to consult with the relatively new Egyptian Investor Protection Fund.

SIPC's mission of investor protection is enhanced when both the benefits and limitations of the SIPC program are understood by investors. For many years, SIPC has funded public service announcements on radio and television to inform investors, and encourage investors to visit our website. For the third consecutive year, our public service announcements have won a Telly Award for ads explaining our work. These ads have aired around the nation, in both English and Spanish. I congratulate SIPC's creative consultants, The Hastings Group and Non Profit Productions, for once again producing exceptional work. Please visit www.sipc.org and view the most recent public service announcements in the Media Center.

On a personal note, I would like to publicly thank the four Board members who have retired from the Board this year. Deborah McWhinney, Noe Hinojosa, Tim Grant, and Emil Henry brought enormous energy, experience, and insight to the Board's deliberations during their tenure. SIPC was well served by their service and commitment to the investing public. I welcome our new directors, William Heyman, William Jasien, Mark Shelton, and David Nason to our Board. I look forward to their contributions to our critical mission of investor protection.

Armando J. Bucelo, Jr.
Chairman

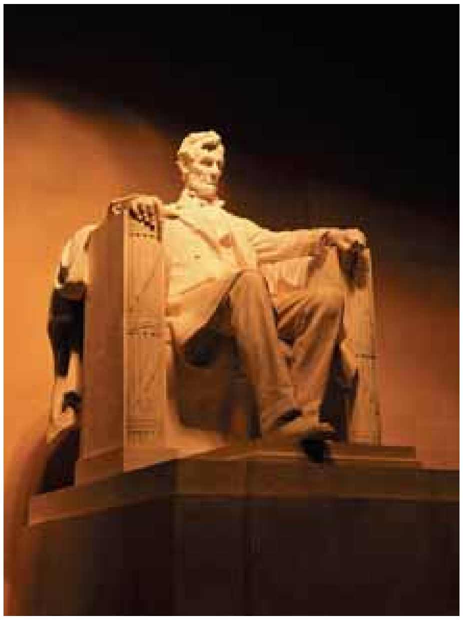
Overview of SIPC

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970, 15 U.S.C. § 78aaa *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 Financial Industry Regulatory Authority (FINRA)—and the Securities and Exchange Commission (SEC or Commission) 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 purposes. In cases where the court appoints SIPC 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 and Financial Markets Association (SIFMA), c/o Howard Press, 450 West First St., Roselle, NJ 07203, phone number (908)620-2547, and from the FINRA Book Store, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for FINRA orders is www.finra.org/resources/bookstore/index.htm and the phone number is (240)386-4200.

Directors & Officers

Directors

Armando J. Bucelo, Jr., Esq.
The Law Offices of
Armando J. Bucelo, Jr.
Chairman of the Board

Todd S. Farha
Vice Chairman

William H. Heyman
Vice Chairman and Chief
Investment Officer
The Travelers
Companies, Inc.

William S. Jasien
Senior Vice President
ING Financial
Advisers LLC

David G. Nason
Assistant Secretary for
Financial Institutions,
United States
Department of
the Treasury

Mark S. Shelton
Managing Director and
General Counsel
Legal & Compliance, US
UBS Financial
Services, Inc.

David J. Stockton
Director, Division of
Research and Statistics
Board of Governors
of the Federal
Reserve System

Officers

Stephen P. Harbeck
President

Josephine Wang
General Counsel
& Secretary

Philip W. Carduck
Vice President—
Operations & Finance

Customer Protection Proceedings

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

—Preamble to SIPA

In 2007, for the first time in SIPC's history, no customer protection proceedings were initiated (See Chairman's letter on page 3). This compares with the three new cases commenced in 2006. Over the last ten-year period, the annual average of new cases was five.

Since inception, SIPC has commenced 317 proceedings under SIPA. The 317 members represent less than one percent of the approximately 38,400 broker-dealers that have been SIPC members during the last thirty-seven years. Currently, SIPC has 5,435 members.

Of the 317 proceedings begun under SIPA to date, 296 have been completed, 18 involve pending litigation matters, and claims in 3 are being processed (See Figure I and Appendix III).

During SIPC's 37-year history, cash and securities distributed for accounts of customers totaled approximately $15.7 billion. Of that amount, approximately $15.4 billion came from debtors' estates and $322.5 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 2007

Year	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07
Total proceedings commenced	24	40	30	15	8	4	7	4	6	5	10	8	7	9	12	8	4	5	6	8	8	13	3	2	4	7	10	6	9	5	12	5	7	2	1	3	0

Customer claims being processed (3)
Customer claims satisfied, litigation matters pending (18)
Proceedings completed (296)

Claims over the Limits

Of the more than 625,100 claims satisfied in completed or substantially completed cases as of December 31, 2007, a total of 349 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 349 claims, a net increase of nine during 2007, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $47.2 million, increased $8,120,000 during 2007. 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 87 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 92 percent of the total advanced in all 317 customer protection proceedings. The largest net advance in a single liquidation is $37.4 million in Sunpoint Securities, Inc. This exceeds the net advances in the 193 smallest proceedings combined.

In 28 proceedings SIPC advanced $340.9 million, or 67 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 2007
317 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	10	$217,154,231
5,000,001	$10,000,000	18	123,735,382
1,000,001	5,000,000	59	125,948,204
500,001	1,000,000	37	27,030,229
250,001	500,000	41	14,123,066
100,001	250,000	60	9,699,832
50,001	100,000	42	2,995,426
25,001	50,000	23	845,893
10,001	25,000	11	168,668
0	10,000	9	26,087
Net recovery		7	(13,991,621)*
			$507,735,397†

* 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 ($322,519,766) and for administration expenses ($185,215,631).

"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 219 members during the year brought the total membership to 5,435 at December 31, 2007. 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, 2007, there were 24 members who were subjects of uncured notices, 15 of which were mailed during 2007, five during 2006 and 2005, and four during the period 2003 through 2004. Subsequent filings and payments by one member left 23 notices uncured. SIPC has been advised by the SEC staff that: (a) seven member registrations have been canceled; and (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.

SIPC Fund

The SIPC Fund, Table V, on page 21, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.52 billion at year end, an increase of $119 million during 2007.

Tables III and IV, on page 9, present principal revenues and expenses for the years 1971 through 2007. The 2007 member assessments were $850,000 and interest from investments was $67.7 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1995, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995) from the securities business.

Appendix II, on page 23, is an analysis of revenues and expenses for the five years ended December 31, 2007.

TABLE II
SIPC Membership
Year Ended December 31, 2007

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
FINRA(b)	4,827	198	191
SIPC(c)	80	-	196(d)
Chicago Board Options Exchange Incorporated	300	18	11
American Stock Exchange LLC	119	12	16
NYSE Arca, Inc.(e)	19	1	19
Philadelphia Stock Exchange, Inc.	56	3	9
Chicago Stock Exchange, Incorporated	34	2	9
Boston Stock Exchange, Inc.	-	-	2
	5,435	234	453

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2007.

b. Effective July 30, 2007 the National Association of Securities Dealers, Inc. (NASD) and the regulatory functions of the New York Stock Exchange, Inc. (NYSE) merged to form the Financial Industry Regulatory Authority, Inc. (FINRA).

c. 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.

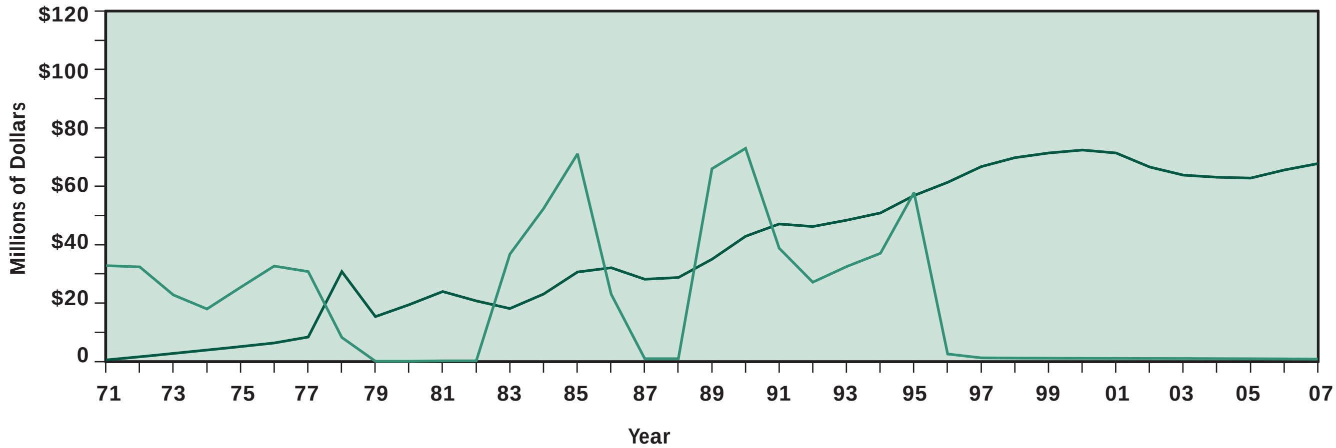
The "SIPC" designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.

d. 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.

e. Formerly the Pacific Stock Exchange, Inc.

[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-seven Years Ended December 31, 2007**



Member assessments and contributions: $736,091,330

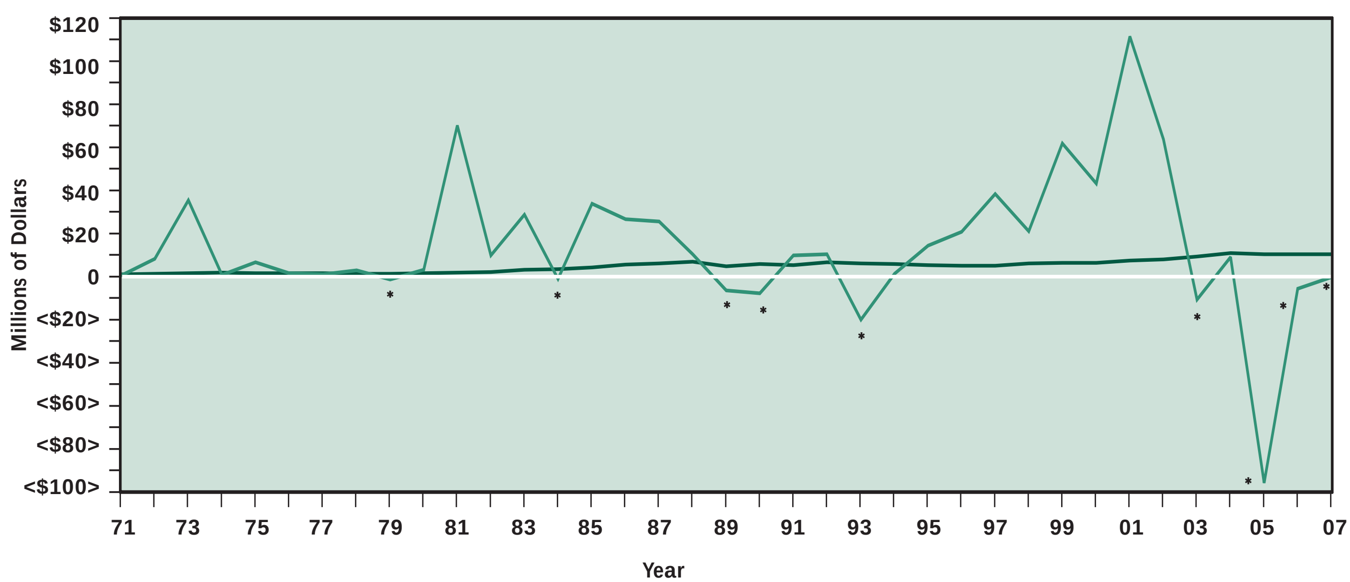
Interest on U.S. Government securities: $1,409,961,208

History of Member Assessments*

1971: ½ of 1% plus an initial assessment of 1⁄8 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).
1996-2007: $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-seven Years Ended December 31, 2007**



Customer protection proceedings: $519,935,397 (Includes net advances of $507,735,397 and $12,600,000 of estimated costs to complete proceedings less estimated future recoveries of $400,000.)

Other expenses: $181,566,136

* Net recoveries

During 2007, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy matters are summarized below:

In *SIPC v. Cheshier & Fuller, LLP (In re Sunpoint Securities, Inc.)*, 377 B.R. 513 (Bankr. E.D. Tex. 2007), the trustee sought reconsideration of an October 2006 judgment which awarded to the trustee the sum of $751,281.53 and post-judgment interest. On reconsideration, the court amended its findings and conclusions and increased the award to $1,023,535.97, plus post-judgment interest.

The debtor had engaged the defendant accounting firm to conduct audits of the brokerage and to prepare audit and other reports and opinions. During the engagement, a principal of the debtor misappropriated large amounts of customer money from the debtor's omnibus money market mutual fund account. The court found that the auditors improperly had failed to understand how the money market mutual fund account operated, failed to review the operating account check register after they learned of more than $1 million in related party transactions, made material omissions in the statement of financial condition, and noted a net capital deficiency, but failed to investigate properly the purported correction of the deficiency. The court determined that had the regulators known that the net capital deficiency had not been corrected or that $12 million in customer assets was missing, the debtor would have been required to cease operations.

The court concluded that the auditors were negligent and had made negligent misrepresentations in their reports. Because neither SIPC nor the debtor's customers relied on the reports or misrepresentations, it denied the claims of SIPC and the trustee to the extent asserted on behalf of customers. However, the court found that in negligently performing the audits, the auditors breached their duty of care to the debtor in its role as bailee of customer property. It further found that the auditors' negligence had caused approximately $13 million in actual damages to the estate. The court apportioned liability among the parties responsible for the harm and on reconsideration, increased the amount of the award to the trustee. The trustee and the auditors have cross-appealed. The auditors have posted a *supersedeas* bond. *Richardson v. Cheshier & Fuller, LLP*, Civ. Dkt. No. 6:07-cv-00256-MHS (E. D. Tex.).

In *Mishkin v. Gurian (In re Adler Coleman Clearing Corp.)*, Case No. 97 Civ. 3817 (S.D.N.Y. Jan. 8, 2007), the court granted summary judgment in favor of the trustee against Philip Gurian related to his role with a Bahamian entity, Roddy DiPrimo (DiPrimo).

The trustee sued Gurian, alleging that by means of several companies controlled by him, Gurian had engaged in illegal short-selling in stocks, market manipulation and related activities to the detriment of the debtor that performed the clearing functions with respect to the stocks in question. Having obtained multimillion dollar default judgments against the companies, the trustee moved for summary judgment against Gurian, seeking to hold him liable for the judgments. The trustee asserted that Gurian was a control person and the alter ego of the companies. Partial summary judgment in the amount of $200 million was rendered in the trustee's favor. On appeal, the court of appeals vacated the judgment and remanded the case to the district court. The court held that because issues are not litigated under a default judgment, there generally is no preclusive effect in other litigation. Thus, the trustee would need to prove the primary violations by the companies before liability could be imputed to Gurian. On remand to the district court, the trustee supplemented his previous summary judgment motion with evidence regarding Gurian's control of DiPrimo and his use of DiPrimo to engage in unlawful short selling of stocks. The district court granted the trustee's motion and on January 19, 2007, rendered judgment in his favor of up to $150 million. Gurian appealed. Gurian's whereabouts subsequently became unknown and in view of an outstanding warrant for his arrest, the trustee moved to dismiss the Second Circuit appeal based on the fugitive disentitlement doctrine, an equitable doctrine that limits the access of fugitives to the court system. The court granted the motion and dismissed the appeal on October 16, 2007. *Gurian v. Mishkin*, No. 07-0473-bk (2d Cir.).

Gurian posted no *supersedeas* bond, and the trustee took steps to enforce the judgment. In a collection suit against Gurian, the trustee alleged that Gurian had thwarted the trustee's attempts at post-judgment discovery and collection by moving and investing large amounts of money through nominees and offshore entities. The trustee identified several specific bank accounts and other assets controlled by Gurian, and moved the court for an injunction and a turnover order. Gurian argued that the court lacked jurisdiction and that, in any event, he could not be ordered to deliver the identified assets because he did not own them.

In granting the Trustee's motion, the district court affirmed the Magistrate's Report and Recommendation, finding that the court had jurisdiction and that Gurian had control over the various assets and was their actual or beneficial owner, nominees notwithstanding. The court ordered Gurian to turn over all deliverable assets to the trustee up to the amount of the $150 million judgment. *Mishkin v. Gurian (In re Adler Coleman)*, Adv. Pro. No. 97 Civ. 03817 (S.D.N.Y. July 20, 2007).

In *Mishkin v. Gurian (In re Adler Coleman)*, Case No. 97 Civ. 3817 (S.D.N.Y. Aug. 16, 2007), after Gurian failed to comply with the turnover order and failed to respond to an order to show cause, the court found Gurian to be in civil contempt and ordered a warrant issued for his arrest. The court also ordered Gurian to surrender his passport, and ordered him incarcerated until he complied or made a sufficient showing as to why he would not be able to comply with the court's previous orders.

Arrest warrants also were ordered issued for Gurian's mother and others after they were held in contempt for failing adequately to respond to requests by the trustee for discovery relating to Gurian assets. *Mishkin v. Gurian (In re Adler Coleman)*, Case No. 06-80157-Civ-Ryskamp/Vitunac (S.D. Fla. July 9, 2007). The court ordered that a second warrant for the arrest of Gurian's mother be issued based upon her violation of various court orders as a result of her placement of a mortgage on certain property, her refusal to deposit the proceeds thereof and other funds in the court registry, and her failure to appear and testify concerning her actions. *Mishkin v. Gurian*, Case No. 06-80489-CIV-Ryskamp/Vitunac (S.D. Fla. July 26, 2007).

In *Linworth v. JGR Ventures*, Case No. 03cv2510 (S.D. Cal. Feb. 6, 2007), the court upheld the assignment of a member's interest in a limited liability company (LLC) to a trust for the benefit of the trustee for the liquidation of Consolidated Investment Services, Inc. (the CIS Trust).

In the 1990s, a group of real estate investors who had formed Stanford Square Investors LLC under an Operating Agreement which governed the company's operation, purchased a Palo Alto office building named Stanford Square. One of the members of the LLC was JGR Ventures, an entity controlled by Joan G. Rounds, who also was the president of Stanford Square Management Company (Stanford Management), the company that managed Stanford Square Investors LLC and its real estate. In June 2002, as a result of a settlement of a separate lawsuit between the CIS trustee and Rounds, JGR Ventures assigned its membership interest to the CIS Trust. The manager, Stanford Management, through Rounds, consented to the assignment.

Plaintiff Linworth LLC, another member of Stanford Square Investors LLC, sued for a declaration that the June 2002 assignment was invalid due to a failure to comply with the right-of-first-refusal provisions in the Operating Agreement. In ruling on the matter, the Court found doubtful that JGR Ventures could have complied with the right-of-first-refusal provision because the transfer resulted from the settlement of a an unliquidated litigation liability, which was never contemplated under the terms of the Operating Agreement. The court held that because the Operating Agreement vested sole discretion in the manager to consent to the assignment of a member's interest, and because the manager had consented, the assignment was effective. The court also awarded attorney's fees and costs pursuant to the terms of the Operating Agreement.

In *Snyder v. Floworks*, JAMS Ref. No. 1110008572 (Feb. 13, 2007) (Ambler, Arb.), an arbitrator ruled in favor of the CIS trustee and awarded him $1.5 million, plus interest. At issue was the amount to be paid to the trustee by the defendant for the right to receive fees and commissions the defendant acquired when it took over management of the earlier-mentioned Stanford Square Investors LLC and its real estate. The amount to be paid was determined by valuing the "manager's interest" under a provision of the LLC Operating Agreement.

In March 2002, Stanford Management assigned all of its rights as manager under the Operating Agreement to the CIS trustee, who had intended to have the trustee for the CIS Trust act as the new manager. The LLC's members elected defendant Floworks as manager instead. Under the terms of the Operating Agreement, any new manager was required to compensate the outgoing manager. The Operating Agreement also provided that if the parties could not agree on compensation in the matter, the dispute would be submitted to arbitration. After Floworks refused to negotiate or arbitrate with the CIS trustee, the trustee filed a declaratory action in federal district court.

The court ordered the matter to arbitration, which the parties agreed would be binding. The arbitrator found the trustee's experts persuasive and issued the award in favor of the trustee.

In *Snyder v. Floworks*, Case No. C-04-02926 RS (N. D. Cal. May 21, 2007), the CIS trustee moved in District Court to confirm the award of the arbitrator and to enter judgment thereon. The trustee also moved for certification of the judgment under 28 U. S. C. §1963 to allow it to be registered and enforced in other states. The defendant argued that the court lacked jurisdiction to confirm the award because the Operating Agreement's arbitration clause contained no express provision for entry of judgment by any court.

In ruling in favor of the trustee, the district court adopted the recommendations of the Magistrate Judge in full. In rejecting the defendant's argument, the Magistrate had found that although the Operating Agreement contained no provision regarding the finality of arbitration, both parties "clearly, unequivocally, and repeatedly had expressed their understanding and agreement" that the arbitration would be binding and subject to confirmation by the court. The Magistrate also found separate grounds for jurisdiction based on diversity and the portion of California Code of Civil Procedure providing for judicial confirmation of arbitration awards even if the arbitration agreement is silent on such review. The district court granted the trustee's motion to confirm the arbitration award for $1,811,669.08 in favor of the trustee, and ordered that judgment be entered and certified for registration in other jurisdictions.

In *Snyder v. Floworks*, Case No. C-04-02926 RMW (N. D. Cal. Aug. 22, 2007), Stanford Square Investors LLC moved to intervene or set aside the judgment. The LLC asserted that it was the real party in interest in the litigation between the trustee and Floworks. It asked the court to set aside the judgment on the asserted ground that the Operating Agreement was never validly adopted, and thus could not serve as the basis for the substitute manager compensation that was adjudged to be owed by Floworks to the trustee. The court expressed concern that the LLC's pleading was somewhat suspect and denied the motion to intervene as untimely and denied the motion to set aside the judgment.

SIPC v. SIPC.COM c/o SeriousNet, Claim No. FA0705000982722 (National Arbitration Forum June 27, 2007) (Richard, Arb.), and *SIPC v. Kevin Daste*, Claim No. FA0708001065829 (National Arbitration Forum Oct. 4, 2007) (Franklin, Arb.). In separate suits against two cybersquatters, SIPC, in its corporate capacity, obtained the transfer of certain domain names to it, based upon the respondents' infringement of SIPC's service marks.

SeriousNet, registrant of the domain name <sipc.com>, had established a web site under that domain name, which referred Internet users not only to SIPC, but to commercial web sites in various categories unrelated to SIPC. In April

2007, SIPC notified SeriousNet that its use of the domain name represented an infringement of SIPC's registered service marks of "SIPC" and its Official Symbol. SIPC instructed SeriousNet to cease and desist from continued use of the marks and requested it to transfer the registration of sipc.com to SIPC. Rather than respond, SeriousNet altered the web site to refer to "Secure Internet Privacy Corporation" and to suggest that the site was under development, with the intended goal of launching software for secure Internet privacy communication. The site added a hyperlink to the sipc.org web site.

In May 2007, SIPC filed a complaint against SeriousNet in the National Arbitration Forum requesting a transfer of the domain registration <sipc.com>. In June 2007, in *SIPC v. SIPC.COM*, the Arbitration Forum found that the domain name was identical to the registered service marks of SIPC; that SeriousNet had no legitimate interest in the domain name; and that SeriousNet's use of the domain name was in bad faith, namely to divert Internet users intending to reach information about SIPC to other unrelated sites.

Similarly, in *SIPC v. Kevin Daste*, SIPC initiated an arbitration proceeding in August 2007 before the National Arbitration Forum against the registrant of the domain name <sipc.net>. The sipc.net web site referred users to SIPC, various securities entities, and other entities unrelated to the securities business. In October 2007, the Arbitration Forum issued an Order finding that the domain name was identical to the registered service marks of SIPC; that Daste had no legitimate interest in the domain name; and that Daste's use of the domain name was in bad faith. The Arbitration Forum ordered Daste to transfer the domain name <sipc.net> to SIPC. In both service mark matters, the orders became final and the domain names were transferred to SIPC.

Disciplinary and Criminal Actions

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 14(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 actions have been initiated in 128 of the 317 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 299 indictments have been returned in federal or state courts, resulting in 266 convictions to date.

Administrative and/or criminal actions in 282 of the 317 SIPC customer protection proceedings initiated through December 31, 2007, were accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Actions	61
Exclusive SEC Administrative Actions	41
Exclusive Self-Regulatory Administrative Actions	52
Criminal and Administrative Actions	101
Criminal Actions Only	27
Total	282

In the 255 customer protection proceedings in which administrative actions have been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	117	113
Bar from Association	352	231
Fines	Not Applicable	$11,483,781

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 $11,483,781 in fines assessed by self-regulatory authorities were levied against 130 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 FINRA 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 2007 SIPC maintained active files on one member referred in 2006 under Section 5(a). No additional referrals were received in 2007.

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.

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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, 2007 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 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 Company'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, 2007, and the changes in 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

McLean, VA
April 2, 2008

Securities Investor Protection Corporation

Statement of Financial Position
as of December 31, 2007

ASSETS	
Cash	$ 289,799
U.S. Government securities, at fair value and accrued interest receivable of ($18,753,015); (amortized cost $1,464,560,833) (Note 6)	1,521,967,640
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($167,929,869) (Note 4)	400,000
Other (Note 5 and Note 8)	1,697,016
	$1,524,354,455
LIABILITIES AND NET ASSETS	
Accrued benefit costs (Note 8)	$ 5,650,987
Accounts payable and other accrued expenses	683,568
Deferred rent	416,213
Estimated costs to complete customer protection proceedings in progress (Note 4)	12,600,000
	19,350,768
Net assets	1,505,003,687
	$1,524,354,455

Statement of Activities
for the year ended December 31, 2007

Revenues:	
Interest on U.S. Government securities	$ 67,673,900
Member assessments (Note 3)	852,025
	68,525,925
Expenses:	
Salaries and employee benefits (Note 8)	5,818,841
Legal and accounting fees (Note 4)	126,995
Credit agreement commitment fee (Note 5)	1,698,657
Rent (Note 5)	663,850
Other	2,007,620
	10,315,963
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(264,688)
	10,051,275
Total net revenues	58,474,650
Realized and unrealized gains on U.S. Government securities (Note 6)	63,088,803
Pension and postretirement benefit changes other than net periodic benefit costs (Note 8)	(1,007,696)
Increase in net assets	120,555,757
Net assets, beginning of year	1,384,447,930
Net assets, end of year	**$1,505,003,687**

The accompanying notes are an integral part of these statements.

Securities Investor Protection Corporation

Statement of Cash Flows
for the year ended December 31, 2007

Operating activities:		
Interest received from U.S. Government securities	$	62,874,679
Member assessments received		852,025
Advances paid to trustees		(9,730,786)
Recoveries of advances		6,847,394
Salaries and other operating activities expenses paid		(10,016,193)
Net cash provided by operating activities		50,827,119
Investing activities:		
Proceeds from sales of U.S. Government securities		145,750,398
Purchases of U.S. Government securities		(197,002,066)
Purchases of furniture and equipment		(15,738)
Net cash used in investing activities		(51,267,406)
Decrease in cash		(440,287)
Cash, beginning of year		730,086
Cash, end of year	**$**	**289,799**

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. § 78kkk(e) of SIPA and under § 501(c)(6) of the Internal Revenue Code. 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 $1,522,257,439.

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 $1 billion revolving lines of credit with a consortium of banks.

3. Member assessments

For calendar year 2007 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 21 proceedings in progress at December 31, 2007. Customer claims have been satisfied in 18 of these proceedings and in 3 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 $168.4 million for proceedings in progress (including direct payment proceedings of $102 thousand) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $168 million is not expected to be recovered.

The following table summarizes transactions during the year ended December 31, 2007 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$6,400,000	$21,300,000
Add:		
Provision for current year recoveries	500,000	—
Provision for estimated future recoveries	300,000	—
Provision for estimated costs to complete proceedings	—	500,000
Less:		
Recoveries	6,800,000	—
Advances to trustees	—	9,200,000
Balance, end of year	$ 400,000	$12,600,000

Customer payments and related expenses of direct payment proceedings are recorded as expenses as they are incurred.

Legal and accounting fees include fees and expenses of litigation related to proceedings.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2008 - $526,790; 2009 - $539,911; 2010 - $553,447; 2011 - $567,259; 2012- $581,485; 2013 - $595,988; 2014 - $610,905; 2015 - $417,490; for a total of $4,393,275 as of December 31, 2007. Additional rental based on increases in operating expenses and real estate taxes is required by the lease. The rent holiday of $41,567 and the leasehold improvement incentive of $345,300 are being amortized over the life of the lease.

On August 31, 2007 SIPC renewed its lease for additional office space in Fairfax, Virginia. The new five-year lease commences on August 1, 2008. Future minimum rentals for the space, expiring on July 31, 2013, are as follows: 2008 - $98,900; 2009 - $106,312; 2010 - $109,502; 2011 - $112,787; 2012 - $116,171; 2013 - $68,937; for a total of $612,609 as of December 31, 2007. Additional rental is based on increases in operating expenses including real estate taxes as required by the lease.

In March, 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 annum, and (ii) a $500 million, 3-year, revolving credit facility at .11% per annum, both paid quarterly. Additionally, fees ranging from .2% to .3% were paid to certain banks based on the level of their commitment.

In March, 2006, the $500 million, 364-day, revolving credit facility with a commitment fee of .09% per year was replaced by a new 3-year, $500 million revolving credit facility with commitment fees of .10% per year. Additionally, upfront fees averaging .14% were paid to certain banks.

In March, 2007, a new $500 million, 3-year revolving credit facility with a commitment fee of .10% per year was entered into, replacing the expiring March, 2004, 3-year credit agreement. Upfront fees ranging from .12% to .15% were paid to certain banks based on the level of their commitment.

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, 2007.

U.S. Government securities as of December 31, 2007, included gross unrealized gains of $57,424,316 and gross unrealized losses of $17,509.

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

Increase in net assets	$120,555,757
Unrealized gain on U.S. Government securities	(63,088,803)
Net decrease in estimated cost to complete customer protection proceedings	(8,700,000)
Net decrease in estimated recoveries of advances to trustees	6,000,000
Net amortized premium on U.S. Government securities	(4,350,577)
Increase in payables and accrued expenses	480,835
Increase in accrued interest receivable on U.S. Government securities	(448,644)
Decrease in prepaid expenses	212,890
Depreciation and amortization	160,201
Increase in deferred rent	4,802
Loss on disposal of assets	658
Net cash provided by operating activities	$ 50,827,119

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 a supplemental non-qualified retirement plan for certain employees. The $195,338 year end market value of the supplemental plan is reflected in Other assets and as a deferred compensation liability in Accrued benefit costs. In addition SIPC 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.

The provisions of Statement of Financial Accounting Standard No. 158 (FAS 158) (an amendment of FAS 132, 106, and 87) requires SIPC to recognize in the Statement of Financial Position the overfunded or underfunded status of the plans as an asset or liability in the Statement of Financial Position and to recognize the funded status in the year in which the change occurs through the Statement of Activities. In addition, SIPC is required to recognize within the Statement of Activities, gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period and which are not being recognized as net periodic benefit costs.

	Pension Benefits	Other Postretirement Benefits
Change in Benefit Obligation		
Benefit obligation at beginning of year	$19,337,878	$ 4,752,607
Service cost	658,238	152,966
Interest cost	1,143,346	282,984
Plan participants' contributions	-	11,372
Amendments	184,452	-
Actuarial loss (gain)	648,231	145,911
Benefits paid	(672,511)	(66,682)
Benefit Obligation at end of year	$21,299,634	$ 5,279,158
Change in Plan Assets		
Fair value of plan assets at beginning of year	$19,912,391	$ -
Actual return on plan assets	1,383,263	-
Employer contributions prior to measurement date	500,000	-
Employer contributions	-	55,310
Plan participants' contributions	-	11,372
Benefits paid	(672,511)	(66,682)
Fair value of plan assets at end of year	$21,123,143	$ -
Funded status	$ (176,491)	$(5,279,158)
Employer contributions between measurement and statement date	-	-
Funded status at year end	$ (176,491)	$(5,279,158)
Amounts Recognized in the Statement of Financial Position and Net Assets consist of:		
Current liabilities	$ -	$ (73,828)
Noncurrent liabilities	(176,491)	(5,205,330)
Net amount recognized in the Statement of Financial Position	$ (176,491)	$(5,279,158)
Amounts Recognized within the Statement of Activities consist of:		
Net actuarial loss	$ 726,745	$ 145,911
Prior service cost	146,690	(11,650)
Pension and postretirement benefit changes other than net periodic benefit costs	$ 873,435	$ 134,261
Accumulated Benefit Obligation end of year	$18,649,635	$ 5,279,158

Weighted-average Assumptions for Disclosure as of December 31, 2007

	Pension Benefits	Other Postretirement Benefits
Discount rate	6.25%	6.25%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	10.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2013

Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities

Net Periodic Benefit Cost		
Service cost	$ 658,238	$ 152,966
Interest cost	1,143,346	282,984
Expected return on plan assets	(1,600,377)	-
Recognized prior service cost	37,762	11,650
Recognized actuarial loss	138,600	-
Net Periodic Benefit Cost	377,569	$ 447,600
Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities		
Net actuarial gain	865,345	-
Recognized actuarial loss	(138,600)	-
Prior service cost	184,452	-
Recognized prior service cost	(37,762)	-
Total recognized within the Statement of Activities	873,435	-
Total recognized in net benefit cost and within the Statement of Activities	$ 1,251,004	-
Amounts Expected to be Recoginzed in Net Periodic Cost in the Coming Year		
Loss recognition	$ 210,155	$ -
Prior service cost recognition	58,098	11,650
Total	$ 268,253	$ 11,650
Effect of a 1% Increase in Trend on:		
Benefit Obligation	N/A	$ 944,037
Total Service Interest Cost	N/A	$ 87,903
Effect of a 1% Decrease in Trend on:		
Benefit Obligation	N/A	$ (800,830)
Total Service Interest Cost	N/A	$ (72,988)
Weighted-average Assumptions for Net Periodic Cost as of December 31, 2007		
Discount rate	6.00%	6.00%
Expected asset return	8.00%	N/A
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	10.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2012

For the pension plan the change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2007 the unrecognized net loss increased by 3.8% of the 12/31/2006 projected benefit obligation.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2007 by ($333,200)/$322,700 and (decreased)/increased the year-end projected benefit obligation by ($2.6)/$2.9 million.

The expected return on the pension plan assets was determined based on historical and expected future returns of the various asset classes, using the target allocations described below.

Pension Plan Assets

Asset Category	Expected Long-Term Return	Target Allocation	Actual/Allocation 12/31/2007
Equity securities	10.25%	60–70%	66%
Debt securities	4.50%	40–30%	34%
TOTAL	8.00–8.50%	100%	100%

Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2008	$ 658,287	$ 76,100
2009	$ 813,638	$ 110,100
2010	$ 1,038,018	$ 152,600
2011	$ 1,151,061	$ 174,500
2012	$ 1,366,411	$ 216,600
2013–2017	$ 8,569,867	$ 1,542,804

Contributions

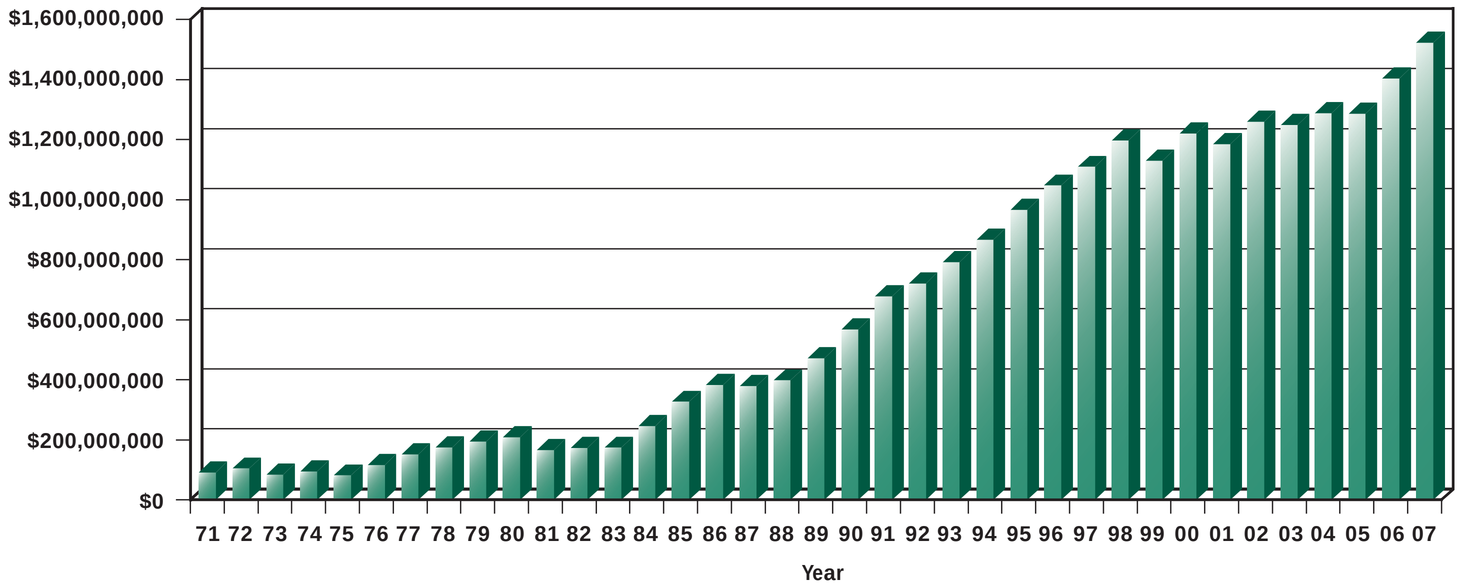
The company expects to contribute $1,260,000 to the pension plan and $76,100 to the postretirement benefit plan during 2008.

Defined Contribution Plan

2007 SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$ 130,244

SIPC Fund Comparison

TABLE V **Inception to December 31, 2007**



APPENDIX I

Distributions for Accounts of Customers for the Thirty-seven Years Ended December 31, 2007

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			Total
		Advances*	Recoveries*	Net	
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
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
2005	(24,245)○	1,175	(4,342)	(3,167)	(27,412)
2006	1,635,006	2,653	(51,942)	(49,289)	1,585,717
2007	1,167	7,054	(6,624)	430	1,597
	$15,408,636	**$670,794**	**$(348,274)**	**$322,520**	**$15,731,156**

* 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.

○ Reflects adjustment to distribution of customer assets subsequently determined not held by Donahue Securities, Inc.

APPENDIX II Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2007

	2007	2006	2005	2004	2003
Revenues:					
Interest on U.S. Government securities	$ 67,670,369	$65,487,278	$ 62,754,357	$63,085,146	$63,770,520
Member assessments and contributions	852,025	894,941	927,597	972,817	1,083,178
Interest on assessments	3,531	2,929	3,947	5,430	3,815
	68,525,925	66,385,148	63,685,901	64,063,393	64,857,513
Expenses:					
Salaries and employee benefits	5,818,841	5,439,474	5,244,719	5,118,345	5,329,547
Legal fees	51,033	257,329	347,240	347,793	261,121
Accounting fees	75,962	72,277	48,333	36,050	35,450
Credit agreement commitment fee	1,698,657	2,164,497	2,218,971	2,864,300	1,409,071
Professional fees—other	342,549	179,575	164,602	184,882	274,056
Other:					
Assessment collection cost	15,416	9,492	7,984	10,788	5,257
Depreciation and amortization	160,201	160,453	150,247	161,437	107,274
Directors' fees and expenses	71,107	67,492	31,124	55,835	42,114
Insurance	32,184	30,970	30,621	28,988	23,955
Investor education	369,927	324,029	343,022	342,600	172,518
Imaging expenses*	115,200	57,440	74,442	290,296	92,972
Office supplies and expense*	70,629	85,457	132,282	149,968	112,636
EDP and internet expenses	435,441	352,902	338,582	378,024	346,386
Postage	9,619	11,165	11,040	15,050	16,773
Printing & mailing annual report	30,965	32,793	32,692	33,461	35,457
Publications and reference services	173,713	155,887	145,311	149,725	149,526
Rent—office space	663,850	678,667	631,764	619,450	495,297
Telephone	66,890	70,127	68,933	71,227	40,055
Travel and subsistence	92,668	122,258	156,671	126,827	146,201
Personnel recruitment			10,104	2,608	160,923
Miscellaneous	21,111	16,813	15,463	9,071	10,949
	2,328,921	2,175,945	2,180,282	2,445,355	1,958,293
	10,315,963	10,289,097	10,204,147	10,996,725	9,267,538
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(2,435,817)	(48,468,436)	(2,192,756)	(37,187,364)	14,942,466
Cash	(816,131)	(2,452,686)	(1,147,479)	(14,345,975)	2,002,437
	(3,251,948)	(50,921,122)	(3,340,235)	(51,533,339)	16,944,903
Administration expenses	2,098,243	(31,319,949)	17,565,057	30,564,773	10,186,525
	(1,153,705)	(82,241,071)	14,224,822	(20,968,566)	27,131,428
Net change in estimated future recoveries	6,000,000	85,300,000	(91,000,000)	34,300,000	(35,000,000)
	4,846,295	3,058,929	(76,775,178)	13,331,434	(7,868,572)
SIPC as Trustee:					
Securities	2,237,551	1,382,472	184,354	1,798,260	507,105
Cash	1,391,181	249,601	(9,714)	367,371	354,548
	3,628,732	1,632,073	174,640	2,165,631	861,653
Administration expenses	(97,104)	454,596	810,987	1,601,101	1,369,116
	3,531,628	2,086,669	985,627	3,766,732	2,230,769
Direct payments:					
Securities	52,561		(585)	2,141	351,208
Cash				2,805	166,612
	52,561		(585)	4,946	517,820
Administration expenses	4,828	188,282		16,272	14,134
	57,389	188,282	(585)	21,218	531,954
Net change in estimated cost to complete proceedings	(8,700,000)	(11,000,000)	(19,900,000)	(8,200,000)	(5,500,000)
	(264,688)	(5,666,120)	(95,690,136)	8,919,384	(10,605,849)
	10,051,275	4,622,977	(85,485,989)	19,916,109	(1,338,311)
Total net revenues	58,474,650	61,762,171	149,171,890	44,147,284	66,195,824
Realized and unrealized gain (loss) on U.S. Government securities	63,088,803	(18,597,798)	(39,972,573)	(29,654,153)	(36,264,061)
Effect of adoption of recognition provisions of FASB Statement No. 158		(3,861,167)			
Pension and postretirement benefit changes other than net periodic benefit costs	(1,007,696)				
Increase in net assets	$120,555,757	$39,303,206	$109,199,317	$14,493,131	$29,931,763

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

APPENDIX III 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
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	68
Financial World Corporation Overland Park, KS (SIPC)	9/13/96	1/12/06	1/17/06	1,383	111	7
Salomon Grey Financial Corp. Dallas, TX (Direct Payment)	1/26/98		11/28/06†	15,032	177	4
TOTAL 3 MEMBERS: PART A				36,051	613	79

†Date notice published

December 31, 2007

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$1,314,742	$1,181,865	$132,877	$6,232,436	$4,483,431		$ 632,650	$1,116,355
			632,519	60,138		562,023	10,358
			102,008	49,446		52,562	
$1,314,742	**$1,181,865**	**$132,877**	**$6,966,963**	**$4,593,015**		**$1,247,235**	**$1,126,713**

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
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	156	34
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,378	362
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
John Dawson & Associates, Inc. Chicago, IL (SIPC)	10/30/72	4/08/99	4/13/99 5/17/07*	6,750	126	14

*Date Trustee Other than SIPC proceeding converted to SIPC as Trustee proceeding

December 31, 2007

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 748,359,400	$ 711,744,281	$36,615,119	$ 6,625,198			$ 3,312,599	$ 3,312,599
5,538,488	265,000	5,273,488	8,475,118	$ 7,879,854		595,264	
1,029,732	14,999	1,014,733	6,446,862	3,375,415		1,892,602	1,178,845
8,836,543	4,585,919	4,250,624	15,230,199	9,702,973		421,423	5,105,803
362,059,051	351,184,237	10,874,814	36,798,555	9,141,953		27,201,211	455,391
1,875,351	1,725,923	149,428	6,021,270	5,796,492		224,778	

APPENDIX III 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
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,535	9,738
Donahue Securities, Inc. Cincinnati, OH (Douglas L. Lutz, Esq.)	5/08/89	2/26/01	3/06/01	26,395	7,117	3,371
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos-Bonet, Esq.)	10/24/60	10/17/01	10/17/01	1,903	36	15
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	5/15/96	10/30/01	10/30/01	22,879	330	13
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	321	26
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

December 31, 2007

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 359,898,390	$ 353,191,553	$ 6,706,837	$ 37,382,244	$14,952,267		$ 6,220,088	$16,209,889
7,419,298	2,461,423	4,957,875	8,371,675	5,033,500			3,338,175
1,142,798	995,217	147,581	936,757	434,722			502,035
571,945	293,588	278,357	2,899,829	796,147		2,001,910	101,772
24,984		24,984	1,914,178	446,545			1,467,633
59,256,105	58,300,000	956,105	5,422,644	1,319,753		3,599,790	503,101

APPENDIX III 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
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	7/24/00	2/05/03	2/10/03	2,278	302	21
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	9/08/03	9/08/03	18,281	392	12
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356	81	38
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	4/26/00	11/30/04	12/03/04	103,690	3,063	1,382
Austin Securities, Inc. Forest Hills, NY (SIPC)	12/12/85	4/14/05	4/14/05	1,911	107	21
Paul L. Forchheimer & Co., Inc. New York, NY (SIPC)	8/08/52	12/12/06	12/12/06	109	14	12
TOTAL 18 MEMBERS: PART B				**363,112**	**46,007**	**83,865**

December 31, 2007

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 2,563,518	$ 2,560,203	$ 3,315	$ 9,394,610	$ 4,757,512		$ 4,379,756	$ 257,342
802,968	5,080	797,888	2,703,256	864,449		1,838,807	
			2,745,576	114,110		1,916,313	715,153
640,924	74,247	566,677	6,532,641	5,654,006		878,635	
1,924,002	1,595,386	328,616	2,446,198			929,769	1,516,429
78,362	71,804	6,558	1,118,104	25,000		1,093,104	
$1,562,021,859	**$1,489,068,860**	**$72,952,999**	**$161,464,914**	**$70,294,698**		**$56,506,049**	**$34,664,167**

Customer Protection Proceedings

PART C: Proceedings Completed in 2007

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
New Time 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
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	12/20/94	1/16/01	1/16/01	3,833	236	81
Cambridge Capital, LLC Garden City, NY (SIPC)	4/11/97	1/24/01	2/02/01	2,745	154	36
MJK Clearing, Inc. Minneapolis, MN (James P. Stephenson, Esq.)	4/01/81	9/27/01	9/27/01	210,500	27,005	172,915
Weatherly Securities Corporation New York, NY (SIPC)	9/08/82	5/05/03	5/05/03	13,364	223	11
TOTAL 5 MEMBERS 2007				**234,110**	**28,516**	**173,389**
TOTAL 291 MEMBERS 1973-2006(d)				**1,526,067**	**371,561**	**367,868**
TOTAL 296 MEMBERS 1973-2007				**1,760,177**	**400,077**	**541,257**

December 31, 2007

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 1,093,290	$ 893,050	$ 200,240	$ 26,191,551	$ 5,258,316		$ 14,874,433	$ 6,058,802
797,549	713,087	84,462	3,540,058	695,747		2,532,252	312,059
1,082,265	23,831	1,058,434	2,022,828	414,431		1,473,450	134,947
11,861,252,494	11,826,953,087	34,299,407	(11,294,488)	(11,294,488)			
997,296	475,516	521,780	1,028,155	378,975		608,607	40,573
11,865,222,894	**11,829,058,571**	**36,164,323**	**21,488,104**	**(4,547,019)**		**19,488,742**	**6,546,381**
2,292,714,317	**2,089,326,224**	**203,388,093**	**317,815,416**	**114,874,937**	**$1,388,427**	**99,898,918**	**101,653,134**
$14,157,937,211	**$13,918,384,795**	**$239,552,416**	**$339,303,520**	**$110,327,918**	**$1,388,427**	**$119,387,660**	**$108,199,515**

APPENDIX III 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:	3 Members —	Customer Claims and Distributions Being Processed	36,051	613	79
Part B:	18 Members —	Customer Claims Satisfied, Litigation Matters Pending	363,112	46,007	83,865
	Sub-Total		399,163	46,620	83,944
Part C:	296 Members —	Proceedings Completed	1,760,177	400,077	541,257
	TOTAL		**2,159,340**	**446,697**	**625,201**

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, 2007

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,314,742	$ 1,181,865	$ 132,877	$ 6,966,963	$ 4,593,015		$ 1,247,235	$ 1,126,713
1,562,021,859	1,489,068,860	72,952,999	161,464,914	70,294,698		56,506,049	34,664,167
1,563,336,601	1,490,250,725	73,085,876	168,431,877	74,887,713		57,753,284	35,790,880
14,157,937,211	13,918,384,795	239,552,416	339,303,520	110,327,918	$1,388,427	119,387,660	108,199,515
$15,721,273,812	**$15,408,635,520**	**$312,638,292**	**$507,735,397**	**$185,215,631**	**$1,388,427**	**$177,140,944**	**$143,990,395**

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