SIPC

SECURITIES INVESTOR PROTECTION CORPORATION

SEVENTH ANNUAL REPORT 1977

Contents

SIPC
SECURITIES INVESTOR PROTECTION CORPORATION
900 SEVENTEENTH STREET, N.W. • SUITE 800
WASHINGTON, D.C. 20006 • (202) 223-8400

March 21, 1978

The Honorable Harold M. Williams
Chairman
Securities and Exchange Commission
500 North Capitol Street, N. W.
Washington, D. C. 20549

Dear Chairman Williams:

On behalf of the Board of Directors I submit herewith the Seventh Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 7(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

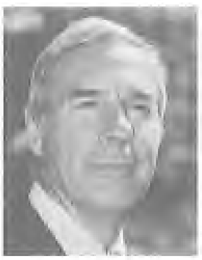
Hugh F. Owens

Hugh F. Owens
Chairman

SECURITIES INVESTOR PROTECTION CORPORATION

DIRECTORS

Hugh F. Owens*
Chairman



Jerome W. Van Gorkom
President, Trans Union
Corporation
Chicago, Illinois

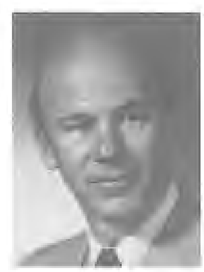
Vice Chairman

Ralph D. DeNunzio*
President and Chairman,
Executive Committee
Kidder Peabody & Co., Inc.
New York, New York

Brenton H. Rupple*
President, Robert W.
Baird & Co., Inc.
Milwaukee, Wisconsin

James L. Kichline
Director, Division of
Research and Statistics,
Board of Governors
of the Federal Reserve
System
Washington, D.C.

Michael A. Taylor*
Senior Vice President,
Paine, Webber,
Jackson & Curtis,
Incorporated
New York, New York



Robert H. Mundheim
General Counsel,
Department of the
Treasury
Washington, D.C.

*Nominated by President Carter; Senate confirmation pending.

STAFF OFFICERS

Lloyd W. McChesney
Vice President—Finance

John B. Bourne
Assistant Vice President—Finance

Thomas R. Cassella
Assistant Vice President—Finance

Theodore H. Focht
General Counsel—Secretary

Wilfred R. Caron
Associate General Counsel

INTRODUCTION

The Securities Investor Protection Corporation (SIPC) has 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, were acquired or simply went out of business. There were some which 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 (1970 Act). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, to promote investor confidence in the nation's securities markets. Currently, the limits of protection are $50,000 per customer, except that claims for cash are limited to $20,000 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, who is the Corporation's chief executive officer, and the vice-chairman are designated by the President from the public directors.

The SIPC staff, numbering 35, is composed of the Finance Department, headed by a Vice-President, and the Legal Department headed by the General Counsel. Their functions include initiating the steps leading to the liquidation of a member, advising the trustee, his counsel and accountants, reviewing claims, auditing distributions of property, and other activities pertaining to the Corporation's purpose.

The money required to protect customers beyond that which is available from the property in the possession of the failed broker-dealer is advanced by SIPC from a fund maintained for that purpose. The sources of money for the SIPC Fund are assessments on the securities business of SIPC members and interest on investments in United States Government securities. If the need arises, the Securities and Exchange Commission has the authority to lend SIPC up to $1 billion, which it, in turn, would borrow from the United States Treasury.

The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc. (NASD)—and the SEC periodically 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 have the member placed in liquidation. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out the liquidation.

Further information about the provisions for customer account protection are contained in a brochure, "An Explanation of the Securities Investor Protection Act of 1970," which is available from the Securities Industry Association, 20 Broad Street, New York, New York, 10005, and from the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D. C., 20006.

A booklet, "SIPC: A History and Explanation of Operations," is available from SIPC. It is a compilation of historical and explanatory material from previous annual reports and describes in some detail SIPC operations and the implementation of the 1970 Act.

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* Section 3(a)(2) of the 1970 Act excludes persons whose business as a broker-dealer consists exclusively of:

a. the distribution of shares of registered open-end investment companies or unit investment trusts,
b. the sale of variable annuities,
c. the business of insurance, or
d. the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts.

A MESSAGE FROM THE CHAIRMAN

An important milestone in SIPC's history was reached in 1977 when the SIPC Fund surpassed $150 million, enabling the Board of Directors to reduce assessment rates. Until that Fund level was achieved, SIPC was required by the 1970 Act to assess at the rate of not less than ½ of 1% of gross revenues from members' securities business.

The assessment rate was reduced from ½ to ¼ of 1% for the first six months of 1978. For the last six months, assessments will be suspended. In 1979 and thereafter, the annual assessment will be a nominal amount. The net effect will be a reduction in assessments for most members without impairing the financial integrity of the Fund. The changes have received SEC approval.

These assessment modifications were recommended to the Board by a special Task Force which I formed in 1976 to study the assessment structure. Prior to the Board's adoption of the recommendations, membership comment was solicited and it was evident from the responses that the proposed overall structure of the SIPC Fund level and assessments was received with favor by the vast majority of members. The Task Force members are to be heartily commended for a difficult job well done.

New Liquidations Increased in 1977

The relatively fast build-up of the Fund was made possible by the declining number of members placed in liquidation in recent years. The downward trend, which had occurred every year since 1972, was, however, reversed in 1977 when SIPC placed seven members in liquidation, compared with only four in 1976. Since five of the seven 1977 liquidations occurred in the latter half of the year, it is too early to estimate at this time how costly the 1977 failures will be. There appears to be no danger, however, that their total drain on the Fund will jeopardize the changes in the assessment structure.

While our new case load increased by seven, the number of liquidations which were closed in 1977 reached an all-time high of 21, raising the total to 74. For the first time, completed liquidations outnumber uncompleted ones.

Expenses in 1977 were somewhat lower than they were in 1976 in two broad categories: 1) net funds advanced to trustees to satisfy customer claims and for administration expenses, and, 2) the cost of SIPC's day-to-day operations. Following a reduction in staff in 1976 by eight employees, the staff was further reduced in 1977 by two, lowering the total to 35 employees, a 22% reduction in two years. A comparison of expenses in SIPC's seven years is presented on the last two pages of this report.

House Passes Amendments

An encouraging step was taken by the House of Representatives when it passed the amendments to the 1970 Act which the Board of Directors recommended to Congress in 1974. The amendments are designed to speed up the liquidation process, introduce economies, and increase customer protection to $100,000 with a $40,000 maximum for cash, up from $50,000 and $20,000, respectively. The Board feels very strongly that these amendments should be enacted and will continue to press for favorable action by the Senate. Prospects are good that this legislation will become law in 1978. A summary of the amendments is given on P. 12.

In January and February, 1977, SIPC presented three informational forums in New York, Chicago and San Francisco. The two-day forums were conducted for the regional staff personnel of the SEC and the self-regulatory organizations to keep them abreast of SIPC activities and new developments in the interpretation and implementation of the 1970 Act.

After seven years, SIPC remains in a solid financial condition. Most of the executive and professional employees have been with SIPC four years or more, so that we have an experienced and expert staff. The number of liquidations, although up somewhat in 1977, continues to be small compared with SIPC's earlier years. The financial burden which the membership bore for seven years has been significantly lightened, and beginning in 1979, barring unforeseen events, will be reduced to a nominal sum. SIPC is a mature organization now, well prepared, I believe, to continue to fulfill its mission of providing protection to the investing public.

Hugh F. Owens

Hugh F. Owens
Chairman

LIQUIDATION PROCEEDINGS

Seven members were placed in liquidation in 1977, raising the total since SIPC's inception to 128. These new cases represented an increase over 1976, when there were only four. It was the first year since 1972 that the number of new liquidations rose from one year to the next.

The members placed in liquidation were:

Member	Date Trustee Appointed
A. H. Speer Co. Wichita, Kansas	2/ 1/77
Swift, Henke & Co., Inc. Chicago, Illinois	3/15/77
Crystal Securities Corporation Mendham, New Jersey	9/16/77
I.E.S. Management Group, Inc. Irvington, New Jersey	9/27/77
James A. Finan & Co., Inc. Jersey City, New Jersey	11/ 2/77
Willis E. Burnside & Co., Inc. New York, New York	12/21/77
Brokers Trading, Inc. Minneapolis, Minnesota	12/22/77

The largest of the seven liquidations in terms of number of customers is I.E.S. Management Group, Inc., a company engaged in the selling of limited partnerships in real estate ventures. This is the first SIPC liquidation of a member engaged primarily in this kind of business. Almost 4,000 claim forms were mailed to customers, resulting in the filing of 1,650 claims. The full extent of cost to the SIPC Fund has not yet been ascertained.

The liquidation of A. H. Speer Co. was the largest of the seven in terms of cost to the SIPC Fund, as of December 31. More than $900,000 had been advanced for distribution for customer accounts, ranking it among the dozen most costly liquidations to date.

The failure of Swift, Henke & Co., Inc., was notable because it was a long-established Chicago broker-dealer specializing in inter-broker transactions. The company failed when the prices of three stocks dropped precipitously and a number of customers did not pay for large purchases of those stocks. A total of $648,980 was advanced in the Swift, Henke case, a considerable portion of which it is anticipated will eventually be recovered.

The other liquidations are expected to be small to moderate in size in terms of the number of customer claims involved and the cost to the SIPC Fund.

Of 128 liquidations undertaken by SIPC to date, all but five have been completed or substantially completed—that is, all claims except problem claims have been satisfied. In those five, all of which were added in 1977, claims are still being processed.

The value of cash and securities distributed for accounts of customers of the seven liquidations begun in 1977 amounted to $3,845,738. The total distributed in all liquidations to date is approximately $279 million. Of that amount, approximately $234 million was from debtor estates and $45 million from SIPC advances.

Table I shows that the 10 debtors for which advances of more than $1 million have been made accounted for more than half of the total advanced in all 128 liquidations to date. The largest amount advanced to a single liquidation, $13.7 million for Weis Securities, was roughly double the aggregate amount advanced for the 85 smallest liquidations.

The five costliest liquidations to date are Weis Securities, Inc., New York, New York, $13.7 million; Christian-Paine & Co., Inc., Hasbrouck Heights, New Jersey, $3.3 million; J. Shapiro Company, Minneapolis, Minnesota, $2.6 million; Executive Securities Corporation, New York, New York, $2.1 million; and S. J. Salmon & Co., Inc., New York, New York, $1.6 million.

Claims Over the Limits

More than 104,000 customer claims had been satisfied as of December 31, 1977. Of that number, 169 were claims for cash or securities whose value was greater than the limits of protection provided by the 1970 Act—$50,000 per customer with a maximum of $20,000 for cash.

Those 169 claims reflect an increase of 26 during 1977, and represent approximately two-tenths of one percent of all claims. The total of the unsatisfied portion amounted to $3.3 million, which is an increase of $700,000 over the balance at the end of 1976, and represents approximately one percent of the value of securities and cash distributed for the accounts of customers.

The increases from 1976 to 1977 were attributable almost entirely to 10 customers of Swift, Henke & Co., Inc., whose claims exceeded the limit by $537,670, and to 11 customers of A. H. Speer Co., whose claims exceeded the limit by $154,898.

Table I

Net Advances from the SIPC Fund

As of December 31, 1977

128 Liquidations

Net Advances From	Net Advances To	Number of Liquidations	Amounts Advanced*
$5,000,001	up	1	$13,655,630
2,000,001	$5,000,000	3	7,949,618
1,000,001	2,000,000	6	7,832,547
500,001	1,000,000	12	9,239,251
250,001	500,000	21	7,408,301
100,001	250,000	34	5,120,542
50,001	100,000	29	2,100,245
25,001	50,000	12	438,197
10,001	25,000	3	46,621
- 0 -	10,000	7	37,079
		128	$53,828,031

*Includes advances for customers' claims, $44,991,794, and for administration expenses, $8,836,237.

Figure 1

Location of Members Placed in SIPC Liquidation

1971-1977

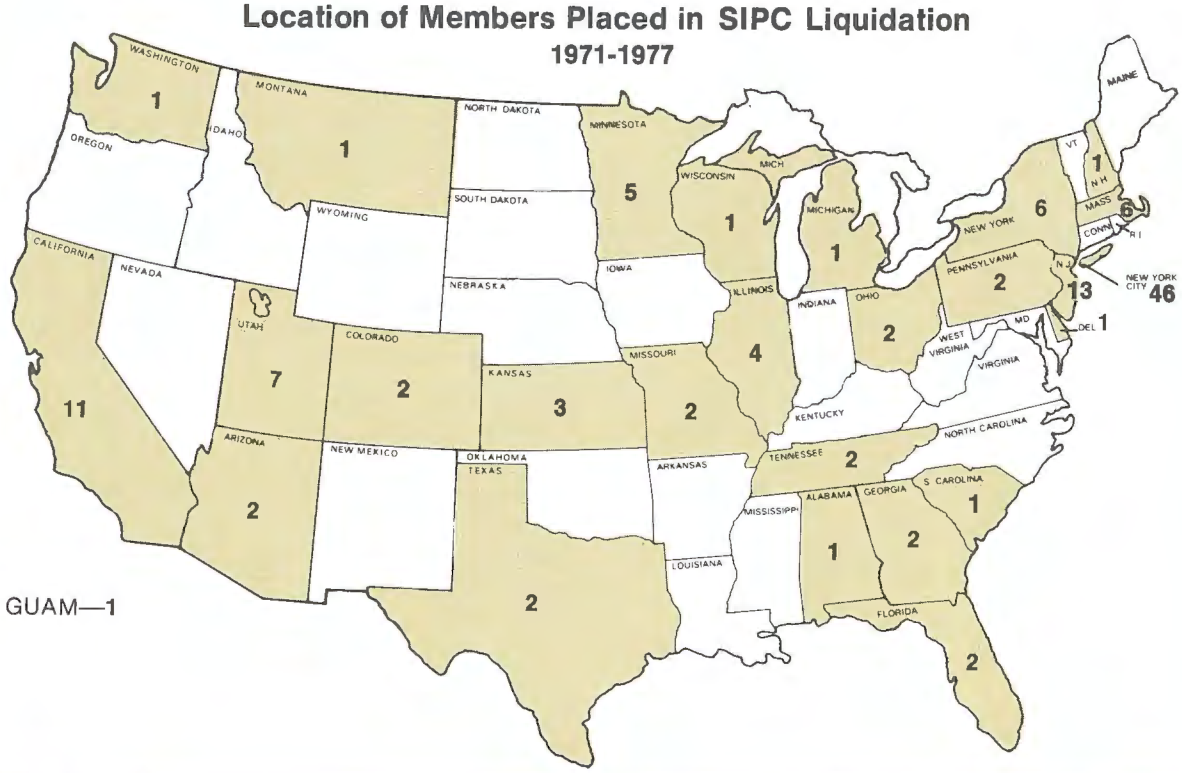
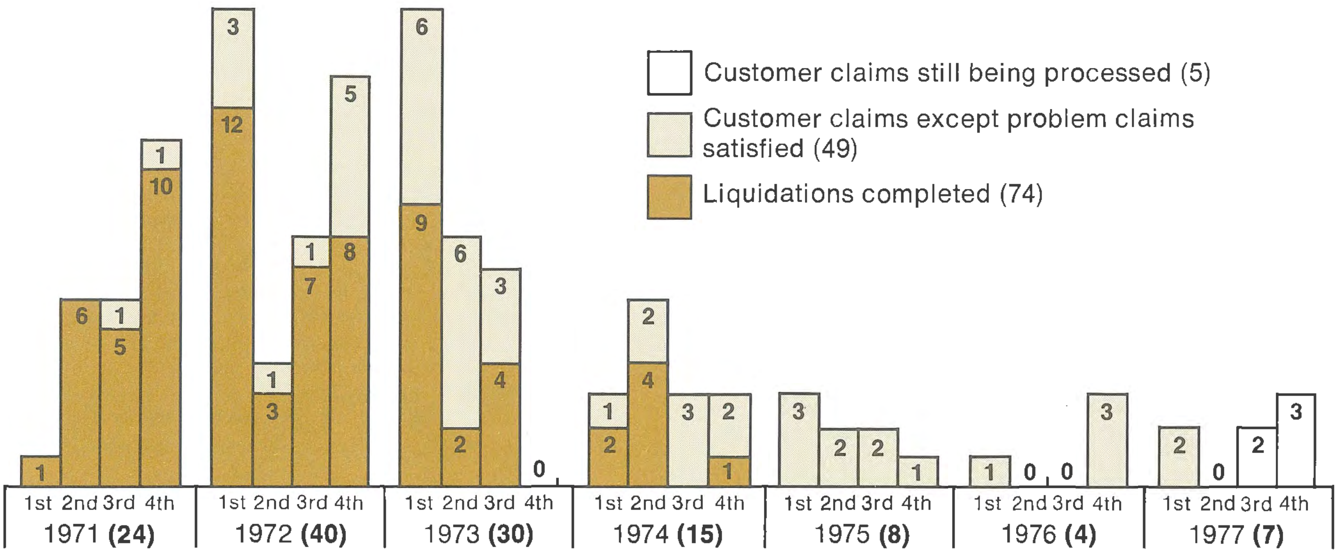


Figure 2

Trustees Appointed by Quarter and Status of Liquidation Proceedings



MEMBERSHIP, ASSESSMENTS AND THE SIPC FUND

Membership

As of December 31, 1977, the membership totaled 5,412. Table II reflects the number of members and their affiliation for purposes of collection of SIPC assessments at the end of the year, as well as the changes during the year. The net increase of 244 in SIPC membership during the year was primarily the result of a continuing influx of new stock options dealers.

Persons certifying that they met the membership exclusion provisions of the 1970 Act decreased by 72 to a total of 471 at year-end. This net decrease resulted from 80 brokers' withdrawal of their SEC registration and only eight newly certifying their exclusion from membership.

Assessments

Revenues from member assessments aggregated $30,836,226 in 1977, a decrease of approximately $1,870,000 from the previous year.

Assessment revenues for the period since inception (December 30, 1970) through December 31, 1977 aggregated approximately $195,000,000.

Table II

SIPC Membership

December 31, 1977

Agent for Collection of SIPC Assessments	Number of SIPC Members: Added [a]	Terminated [a]	Total
National Association of Securities Dealers, Inc.	46	90	1,852
Chicago Board Options Exchange, Incorporated	92	118	1,103
SIPC [b]	466	303	820
New York Stock Exchange, Inc.	79	40	763
American Stock Exchange, Inc.	101	16	343
Midwest Stock Exchange, Inc.	43	20	204
Philadelphia Stock Exchange, Inc.	14	26	188
Pacific Stock Exchange, Inc.	39	11	101
Boston Stock Exchange, Inc.	8	19	27
Spokane Stock Exchange	—	1	9
Intermountain Stock Exchange	—	—	2
	888	644	5,412

Notes:

a. Excluding transfers (1,123) of persons to successor collection agents.

b. SIPC is the collection agent and the SEC is the examining authority for brokers and dealers that are not members of any self-regulatory organization.

Assessment revenues classified by principal collection agents are shown in Table III.

Delinquencies

There were 282 SIPC members who were delinquent in filing reports and/or paying assessments as of December 31, 1977, and had received notices under Section 10(a).[1] Notices to 181 of these members were mailed in 1977, 54 in 1976, and 47 during the years 1972 through 1975. The SEC has indicated that it will cancel or revoke the registration of such SIPC members, subject to any pending administrative proceedings. As of December 31, 1977 administrative proceedings by the SEC and/or self-regulatory organizations were pending against 21 of these members. Past experience indicates that the majority of SIPC members who fail to correct their filing or payment deficiencies have ceased operations.

The SIPC Fund

The SIPC Fund, as defined by the 1970 Act, consists of the aggregate of cash and investments in United States Government securities. At December 31, 1977, the SIPC Fund totaled $152,446,490, a $36,292,000 increase from the previous year-end.

[1] Section 10(a) states, in part, "—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 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 . . ."

DISCIPLINARY AND CRIMINAL ACTIONS TAKEN AGAINST PRINCIPALS AND ASSOCIATES OF MEMBERS PLACED IN LIQUIDATION

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(b) of the 1970 Act, the names of principals and others associated with members placed in liquidation under provisions of the Act. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by that organization. Trustees appointed to liquidate the member cooperate with SEC and law enforcement authorities in their investigations of possible violations of law.

As of December 31, 1977, administrative and/or criminal action had been initiated against principals or associated persons in 112 of the 128 SIPC liquidations commenced to that date.

As a result of action by self-regulatory organizations against persons associated with members in liquidation, seven individuals were barred from association with other members during 1977. The Commission barred 13 individuals from association with any broker or dealer and suspended three others.

Criminal indictments were returned against 35 persons associated with members in liquidation; 25 associated persons were convicted of criminal charges. Sentences imposed by the courts included suspended sentences of one to two years, probation for up to five years, and confinement ranging from 8 days to 8 years. Fourteen of those convicted in the federal courts were also fined an aggregate of $148,000.

Significant Criminal Actions

U.S. v. Sheldon J. Salmon et al.—In connection with one of the largest SIPC liquidations in terms of number of customers and total demand on the SIPC Fund, 14 indictments were returned by federal grand juries against 9 individuals associated with S. J. Salmon & Co., Inc. They were charged with conspiracy to defraud the investing public by manipulating and controlling the market prices of nine over-the-counter securities. Five former principals of the defunct securities firm were further charged with conspiracy to defraud SIPC by initiating a scheme whereby nominees, creditors, friends and relatives submitted a total of $500,000 in bogus claims to the SIPC trustee during liquidation of the firm in 1972.

Convictions have been returned against five former principals and four persons associated with the member in non-principal capacities. Three of the principals have been sentenced to prison terms on each of two counts of the indictments. The sentences also imposed a fine of

Table III
SIPC Assessments[a]

SIPC Collection Agents to Whom Assessments Are Paid

	NYSE	NASD	All other exchanges	SIPC[b]	Total
1971	$ 25,257,961	$ 3,790,129	$ 592,871	$3,149,233	$ 32,790,194[c]
1972	27,725,356	3,780,945	542,660	283,195	32,332,156[d]
1973	19,221,887	2,306,206	1,038,749	292,078	22,858,920
1974	15,065,938	1,701,231	1,052,449	208,015	18,027,633
1975	22,086,058	1,843,842	1,292,877	262,858	25,485,635
1976	26,840,473	3,453,997	1,917,274	497,466	32,709,210
1977	24,950,054	4,059,268	1,528,401	298,503	30,836,226
Cumulative	$161,147,727	$20,935,618	$7,965,281	$4,991,348	$195,039,974

Notes:

(a) The revenues do not purport to reflect the volume of business conducted on the respective exchanges or in the over-the-counter market.

(b) Received from persons who are not members of any exchange or the NASD and includes $3,011,925 contributed in 1971, from a special trust fund of the American Stock Exchange, Inc. Under a plan approved in 1974 and terminated in 1976, members used approximately $1,800,000 in 1974, $900,000 in 1975 and negligible amounts in 1976 to reduce their assessments otherwise due for those years.

(c) Includes $5,669,180 initial assessments (based on 1969 gross revenues).

(d) Includes $4,143,321 of 1971 revenues received in 1972 in excess of the December 31, 1971, accrual.

$10,000 on each of two of the convicted principals. Sentencing of the two remaining principals has been stayed pending further legal action. Three of the four non-principal associates received prison sentences and subsequent probation; the other was fined $1,500.

U.S. v. Robert Maguire et al.—In one of the major fraud cases involving members in SIPC liquidation, a federal grand jury returned a 77-count indictment against four principal officers and a consultant associated with Albert & Maguire Securities Co., Inc.

The indictment alleged that the five individuals devised a scheme to sell securities owned by customers of the firm, without the customers' permission, and deposit the proceeds into Albert & Maguire's capital account. Customer funds exceeding $398,000 were thus diverted into the Albert & Maguire account. The indictment also alleged that another $96,000 of securities were sold fraudulently.

Convictions have been returned against all five of those indicted. The president was sentenced to confinement for three months to eight years and a fine of $40,000. The executive vice president received a sentence of three years' imprisonment and a fine of $5,000. A director and founder of the firm was fined $30,000 and placed on probation for five years. The former comptroller and the consultant to the member were placed on probation for five years; the consultant was also fined $5,000.

Summary of Criminal and Administrative Actions

Since enactment of the Securities Investor Protection Act in December, 1970, criminal action has been initiated in 40 of the 128 SIPC liquidations. A total of 112 indictments have been returned in federal courts resulting in 77 convictions to date. As of December 31, 1977, trial or sentencing was pending against 35 persons who had been indicted or convicted.

Administrative and/or criminal action in 112 of the 128 SIPC liquidations initiated through December 31, 1977, was accomplished as follows:

Action Initiated	Number of Liquidations
1. Joint SEC/Self-Regulatory Administrative Action	31
2. Exclusive SEC Administrative Action	21
3. Exclusive Self-Regulatory Administrative Action	20
4. Criminal and Administrative Action	33
5. Criminal Action Only	7
Total	112

In the 105 liquidations in which administrative action has been effected, the following sanctions have been imposed against associated persons:

Sanction	SEC	Self-Regulatory Organizations
Suspension Only	18	24
Bar from Association	205	133
Fines	Not Applicable	$242,750

Suspensions by self-regulatory authorities ranged from five days to a maximum of five years. Those imposed by SEC ranged from 30 days to a maximum of one year.

Those barred from association with securities firms received statutory bars as well as bars from association in a principal or supervisory capacity. The $242,750 in fines assessed by self-regulatory authorities were levied against 32 associated persons and ranged from $250 to $50,000.

ASSESSMENT CHANGES: A Special Report

Important changes in the assessments of SIPC members were adopted by the Board of Directors in November and approved by the SEC on December 2, 1977. The revisions were based on recommendations of a special Task Force of industry and governmental representatives named by Chairman Owens to study the matter. The changes, which reduce assessments significantly for most members, went into effect January 1, 1978. They are:

1. The assessment rate applicable to SIPC members' gross revenues from the securities business for the period beginning January 1, 1978, and ending June 30, 1978, is reduced to ¼ of 1 percent; thereafter assessments are suspended through December 31, 1978.
2. Each member's assessment for 1979 and subsequent years will be the lesser of $25 or 1 percent of such member's gross revenues from the securities business.

The implementation of the changes was permitted under provisions of the 1970 Act once the SIPC Fund had reached $150 million. At the time assessments will be suspended in mid-1978 it is anticipated the Fund level will exceed $160 million.

Task Force Broadly Based

The Task Force that made the recommendations enacted by the Board of Directors was chaired by Lloyd W. McChesney, SIPC Vice President - Finance, and consisted of 17 members broadly representative of the investment community and of the Federal Government. In addition to Mr. McChesney, the members were:

SIPC Members

Robert C. Hill, President, Bateman Eichler, Hill Richards, Inc., Los Angeles, California
Thomas L. Kempner, President, Loeb, Rhoades, Hornblower & Co., Inc., New York, New York; also Chairman of the Board, First Wall Street Settlement Corporation
Glenn R. Oxner, Senior Vice President, Interstate Securities Corporation, Charlotte, North Carolina
Robert A. Stephan, Senior Vice President, Robert W. Baird & Co., Inc., Milwaukee, Wisconsin
Allan L. Sher, Executive Vice President, Merrill Lynch, Pierce, Fenner & Smith, Inc., New York, New York
Joseph Paul Short, Partner, Arthurs, Lestrange & Short, Pittsburgh, Pennsylvania

Self-Regulatory Organizations

Robert M. Bishop, Senior Vice President, New York Stock Exchange, Inc.
Robert T. Eckenrode, Senior Vice President and Treasurer, American Stock Exchange, Inc.
Nicholas A. Giordano, Executive Vice President, Philadelphia Stock Exchange, Inc.
Bruce Simpson, Executive Vice President and Treasurer, Chicago Board Options Exchange, Incorporated
Frank J. Wilson, Senior Vice President and General Counsel, National Association of Securities Dealers, Inc.

Trade Associations

Adrian L. Banky, Senior Vice President and General Manager, Securities Industry Association
Donald R. Bonniwell, Jr., President, Bonniwell & Co., Inc., Chicago, Illinois, and President, National Municipal Securities Dealers Association

U.S. Government Agencies

Basil N. Petrou, Director, Office of Capital Markets Legislation, U.S. Department of the Treasury (Alternate: A. Gary Klesch, former Director, Office of Securities Market Policy)
Richard R. Puckett, Chief, Capital Markets Section, Board of Governors of the Federal Reserve System
Dr. J. Richard Zecher, Director of the Directorate of Economic and Policy Research, Securities and Exchange Commission

Members' Views Solicited

Before Board action was taken on the Task Force report recommendations, Chairman Owens solicited the membership for its views. Fifty-six responses were received, half of which fully supported the Task Force recommendations. The other half suggested alternatives to the recommended fund level or advocated special treatment of members in particular categories of the securities business.

REFERRAL OF MEMBERS IN OR APPROACHING FINANCIAL DIFFICULTY

Section 5(a)(1) of the 1970 Act requires the SEC or the self-regulatory organizations to notify SIPC immediately upon discovery of facts which indicate that a broker-dealer subject to their regulation is in or approaching financial difficulty. The Commission, the NASD and the exchanges fulfill this requirement through regulatory procedures which integrate inspection and reporting programs with an early-warning procedure for notifying SIPC. The primary objective of these programs is the early identification of those members which are in or approaching financial or operational difficulty and the initiation of action necessary to protect the investing public.

In furtherance of the continuing effort by the self-regulatory organizations to improve the effectiveness of the examination program and to provide for more efficient utilization of field examining staffs, the NASD, Midwest Stock Exchange, Pacific Stock Exchange and Boston Stock Exchange have agreed that the NASD will assume primary responsibility for examination of dually registered members of those regional exchanges for compliance with minimum financial responsibility rules.

41 Members on Referral

SIPC maintained active files on 41 Section 5(a) referrals during the year 1977. Seventeen new referrals were received during the year and 24 active referrals were carried forward from prior years. Of the 41, ten remained on active referral status at the end of the year.

In addition to referrals of members under Section 5(a), SIPC receives periodic reports from the Commission and from the self-regulatory organizations identifying those members which, although not considered to be in or approaching financial difficulty, are subject to closer-than-normal surveillance as a result of their failing to meet certain pre-established financial or operational standards.

LITIGATION

In 1977 litigation under the 1970 Act generated numerous judicial opinions. The following are those considered to be of particular interest and importance.

The U.S. Court of Appeals for the Second Circuit held that persons who enter into loan agreements with a broker-dealer whereby they lend securities to the broker in return for cash collateral equal to the market value of the shares are not "customers" under section 78fff(c)(2)(A)(ii) of the 1970 Act. Quoting *SEC v. F.O. Baroff Co., Inc.,* 497 F. 2d 280, 284 (2d Cir. 1974), the court stated that the loan agreements do not bear "the indicia of the fiduciary relationship between a broker and his public customer, but rather the characteristics of, at most, an ordinary debtor-creditor relationship." The claimants maintained neither investment nor trading accounts with the broker. *SIPC v. Executive Securities Corp.,* 556 F. 2d 98 (2d Cir. 1977).

The U.S. Court of Appeals for the Third Circuit held that, although the claims of customers in 1970 Act liquidations are generally assignable for value, assignments will not be given effect if in conflict with equitable principles. *SEC v. Albert & Maguire Securities Co., Inc.,* 560 F. 2d 569 (3d Cir. 1977). In that case, the debtor broker-dealer converted its customer's securities via forged stock powers, and the forged signatures were subsequently guaranteed by a bank. In reliance on the bank's guarantee, the issuer cancelled the certificates and issued new ones to bona fide purchasers. The debtor's customers demanded their shares from the issuer and also filed a claim for protection in the 1970 Act proceeding. The bank made good the issuer's liability to the customers under its statutory obligations as indemnitor, and in exchange took an assignment of the customers' claims for 1970 Act protection. The court refused to give effect to the assignment because it would be inequitable to allow the bank to shift its losses to SIPC and customers of the debtor.

In the Weis Securities, Inc. liquidation the United States District Court held that, even assuming subordinated lenders were fraudulently induced by Weis to enter into subordinated agreements with it, the subordination agreements will be enforced according to their terms so that claims of the customers and general creditors will be paid before anything is distributed to the subordinated lenders. *In re Weis Securities,* 425 F. Supp. 212 (S.D.N.Y. 1977). The subordinated lenders have appealed this decision to the United States Court of Appeals for the Second Circuit (No. 77-6034).

In a related case, Weis' trustee brought an action to recover funds in two bank accounts Weis maintained with the defendant bank which claimed its right to set off these funds against an outstanding subordinated loan owed by Weis. Although the bank had expressly waived its right of set off when it subordinated the loan, it sought to rescind the waiver because Weis had fraudulently concealed its true financial condition during and after the loan negotiations. The United States District Court held that the bank "be held to its express waiver of the right to set off" and ordered that the funds in the bank accounts be turned over to the Weis trustee. *Redington v. Exchange National Bank,* No. 75 C 2661 (E.D. Ill., November 8, 1977).

Suit Against Accountants Appealed

Also, in the Weis liquidation, Weis' trustee and SIPC brought an action against Weis' accountants alleging violations of the accountants' duties under section 17 of the Securities Exchange Act of 1934 which required Weis to file certified reports of its financial condition with the regulatory authorities. In *Redington v. Touche Ross & Co.,* 428 F. Supp. 483 (S.D.N.Y. 1977), the United States District Court held that section 17 of the 1934 Act imposed no duty on Weis' accountants and, in any event, gave no right of action to Weis' trustee and SIPC against the accountants for violations of their alleged duties under that section. The Weis trustee and SIPC have appealed this decision to the United States Court of Appeals for the Second Circuit (No. 77-7183).

In one case the court held that a delivery of securities to a broker with an order to sell, followed by confirmations of the sale to the customer and the entry of a corresponding credit in the customer's account, creates a claim for cash under section 78fff(f)(1)(A) of the 1970 Act and not a claim for the securities. *SIPC, SEC v. Morgan, Kennedy & Co., Inc.,* 3 Bankr. Ct. Dec. 15 (S.D.N.Y., February 14, 1977).

Decisions on Open Contracts

It was held in another case that the claims of broker-dealers for completion of open contractual commitments with the debtor firm may not be allowed (i) where the trade in question remained open for more than 30 days prior to the institution of the liquidation proceedings ("filing date") or (ii) where the contract was partially completed on the filing date. *SIPC v. Executive Securities Corp.,* 75 Civ. 733 (S.D.N.Y., Feb. 23, 1977).

In another case the bankruptcy court held that a claim of a broker-dealer for completion of an open contractual commitment with the debtor may not be allowed where the claiming broker-dealer has closed out the debtor's failure to receive before the close of business on the filing date, even though the proceeds of the close-out transaction have not been received. *SEC v. Memme & Co., Inc.,* Fed. Sec. L. Rep. ¶96,153 (S.D.N.Y., August 19, 1977).

PROPOSED AMENDMENTS TO THE 1970 ACT: An Update

The House of Representatives passed and sent to the Senate a bill which incorporates virtually all the amendments to the Securities Investor Protection Act of 1970 which the SIPC Board of Directors proposed in 1974.

The major exceptions were the sections which would have ended the exclusion from membership of those broker-dealers engaged solely in the sale of mutual funds, unit investment trusts, variable annuities or insurance, or rendering investment advice to investment companies or insurance company separate accounts. A companion recommendation, which would have required inclusion of revenues from sales of mutual funds in the assessment base, was also deleted.

The Board of Directors, recognizing the great importance of the many improvements to the SIPC program which are contained in the amendments, will continue its efforts to obtain final passage of the legislation by urging favorable Senate action in 1978.

The key provisions of the amendments are designed to speed up the liquidation process, make it possible to deliver accounts to customers as they were when the member went out of business (within the limits of protection) and increase the dollar limits of protection. For the benefit of new members and others who may not be familiar with the bill's provisions, here is a summary:

Three Methods Recommended

Three different methods of satisfying customer claims would be permitted, instead of only the one provided for under the present law. Large cases would be handled much as they are now; that is, by a court-appointed trustee. Several improvements, however, which are discussed below, would be introduced.

In medium-size cases SIPC would be permitted to act as trustee. These would be cases in which it appears that the obligations to general creditors and subordinated lenders are less than $750,000 and there are fewer than 500 customers.

In smaller cases—those in which it appears that the claims of all customers will aggregate less than $250,000—a third method would be available. SIPC would be allowed to make payments directly to customers if it appeared that such direct payments would cost SIPC less than following the court-appointed trustee method.

In cases where a trustee is appointed—whether it be SIPC or someone outside the Corporation—the liquidation procedures would be substantially improved. One of the chief improvements would permit the trustee to acquire securities in order to deliver accounts to customers as they were when the member went out of business. Under the present law the trustee is not empowered to replace securities which, for a variety of reasons, are missing. On these claims the customer receives cash in lieu of securities based on the price on the date the court is petitioned to appoint a trustee, or a receiver, if one was appointed prior to the appointment of a SIPC trustee.

Bank Loans Handled Differently

The proposed amendments would permit the trustee to pay or guarantee bank loans collateralized by proprietary or customer securities, including securities hypothecated by virtue of margin agreements. They would also permit the trustee to purchase securities, with SIPC's approval, so long as that can be done in a fair and orderly market. Margin customers would be permitted to pay their debit balances and receive the securities in their accounts.

Another major change in the law would empower the trustee to transfer accounts in bulk to other broker-dealers if SIPC determines that the cost would be less than carrying out the liquidation in the usual fashion, account by account.

The limits of protection would be raised from the present $50,000 per customer, no more than $20,000 of which may be for cash, to $100,000, with a limit of $40,000 for claims for cash.

The bill provides for a minimum assessment of $25 per annum through December 31, 1979 and thereafter up to $150 per annum as set from time to time by SIPC bylaw.

ADMINISTRATION

Directors

President Carter has nominated Hugh F. Owens to a second three-year term on the Board of Directors and has indicated that upon Senate confirmation, he will reappoint him as Chairman. At the same time the President re-appointed to a second term Ralph D. DeNunzio, President and Chairman of the Executive Committee, Kidder, Peabody & Co., Inc., New York, New York.

The President also named two new directors representing the securities industry: Brenton H. Rupple, President, Robert W. Baird & Co., Inc., Milwaukee, Wisconsin; and Michael A. Taylor, Senior Vice President, Paine, Webber, Jackson & Curtis, Incorporated, New York, New York. They replace Glenn E. Anderson, President, Carolina Securities Corporation, Raleigh, North Carolina; and Henry W. Meers, Vice Chairman, White, Weld & Co., Inc., Chicago, Illinois. Mr. Anderson was a member of the original SIPC Board appointed in 1971 and Mr. Meers had been a director since 1972.

All of the above appointments are subject to confirmation by the U.S. Senate.

Robert H. Mundheim, General Counsel, Department of the Treasury, was appointed to the Board by Treasury Secretary Blumenthal, replacing Jerry Thomas, former Under Secretary of the Treasury, who resigned.

SIPC Expenses

Expenses in 1977 were $2,441,537, which was $614,806 less than expenses in 1976. Of the total, $1,032,066 was for provision for losses on advances to trustees. Actual advances during the year totaled $3,621,739; however, recoveries amounted to $2,589,673. A total of $1,409,471 was incurred in administrative expense—the day-to-day operations of the Corporation—a reduction of $85,334. It was the third year in a row that administrative expenses were lower than the preceding year. Appendix II presents an analysis of expenses.

FINANCIAL STATEMENTS

ACCOUNTANTS' REPORT

To the Board of Directors
Securities Investor Protection Corporation
Washington, D. C.

We have examined the statement of financial condition of Securities Investor Protection Corporation as at December 31, 1977 and 1976, and the related statements of operations and fund balance and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Note 4 to the financial statements, the liquidation costs to be incurred in subsequent years for liquidations in progress are not presently determinable; accordingly, no amounts have been provided therefor in the accompanying financial statements.

In our opinion, subject to the effect of the matter discussed above, the aforementioned financial statements present fairly the financial position of Securities Investor Protection Corporation as at December 31, 1977 and 1976, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. LEIDESDORF & CO.

New York, N.Y.
February 24, 1978

SECURITIES INVESTOR PROTECTION CORPORATION

STATEMENT OF FINANCIAL CONDITION
December 31, 1977 and 1976

ASSETS

	1977	1976
Cash, operating and collection accounts	$ 255,804	$ 693,336
Estimated member assessments receivable (Note 3)	7,500,000	7,500,000
U.S. Government securities, at amortized cost and accrued interest receivable (1977 - $2,626,104, 1976 - $1,655,319); (approximate market 1977 - $151,196,000, 1976 - $116,920,000)	152,190,686	115,460,842
Advances to trustees for liquidations in progress, less allowance for possible losses (1977 - $38,181,843, 1976 - $43,491,300) (Note 4)	473,883	—
Furniture and equipment, at cost, less accumulated depreciation (1977 - $56,784, 1976 - $45,729), and leasehold improvements at amortized cost	61,024	71,480
Other	2,803	3,941
	$160,484,200	$123,729,599

LIABILITIES AND FUND BALANCE

	1977	1976
Advances to trustees - in process (Note 4)	$ 53,466	$ 90,364
Accounts payable and accrued expenses	58,668	65,847
	112,134	156,211
Commitments (Note 4)		
Fund balance	160,372,066	123,573,388
	$160,484,200	$123,729,599

STATEMENT OF OPERATIONS AND FUND BALANCE
for the years ended December 31, 1977 and 1976

	1977	1976
Revenues:		
Member assessments (Note 3)	$ 30,836,226	$ 32,709,210
Interest on U.S. Government securities	8,395,045	6,350,313
Interest on assessments	8,944	7,262
	39,240,215	39,066,785
Expenses:		
Administrative:		
Salaries and employee benefits	1,040,009	1,130,594
Legal and accounting fees	40,808	35,524
Rent	101,111	103,974
Other	227,543	224,713
	1,409,471	1,494,805
Provision for possible losses on advances to trustees, net of recoveries (1977 - $2,589,673, 1976 - $804,013) (Note 4)	1,032,066	1,561,538
	2,441,537	3,056,343
Excess revenues	36,798,678	36,010,442
Fund balance, beginning of year	123,573,388	87,562,946
Fund balance, end of year	$160,372,066	$123,573,388

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1977 and 1976

	1977	1976
Cash provided from (used in) operations:		
Provided:		
Member assessments	$30,836,226	$31,209,210
Interest on U.S. Government securities	7,568,594	5,369,673
Interest on assessments	8,944	7,262
	38,413,764	36,586,145
Used:		
Administrative expenses	(1,402,648)	(1,471,946)
Advances to trustees, net of recoveries (1977 - $2,115,790, 1976 - $804,013)	(1,542,847)	(1,619,123)
	(2,945,495)	(3,091,069)
	35,468,269	33,495,076
Other uses of cash:		
Purchases of U.S. Government securities, net	(35,903,393)	(32,985,973)
Miscellaneous	(2,408)	(1,064)
Increase (decrease) in cash	(437,532)	508,039
Cash, beginning of year	693,336	185,297
Cash, end of year	$ 255,804	$ 693,336

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Securities Investor Protection Corporation (SIPC) was created by an Act of Congress on December 30, 1970, primarily for the purpose of providing protection to customers of its members. SIPC is a non-profit 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 and all persons who are members of a national securities exchange except for those persons excluded under the Act.

2. The "SIPC Fund"

The "SIPC Fund," as defined by the Act, consisted of the following at December 31, 1977 and 1976:

	1977	1976
Cash	$ 255,804	$ 693,336
U.S. Government securities	152,190,686	115,460,842
	$152,446,490	$116,154,178

In the event that the SIPC Fund is or may reasonably appear to be insufficient for the purposes of the Act, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection the Commission is authorized to issue to the Secretary of the Treasury, notes or other obligations in an aggregate amount not to exceed $1,000,000,000.

3. Estimated member assessments receivable and assessment revenues

General assessments on gross revenues from the securities business, payable quarterly, were at the rate of ½% through December 31, 1977 and are ¼% for the period January 1 through June 30, 1978. Assessments have been suspended for the period July 1 through December 31, 1978. Beginning in 1979 each member's annual general assessment will be the lesser of $25.00 or 1% of gross revenues from the securities business.

4. Advances to trustees and commitments

Trustees had been appointed under the Act for 128 SIPC members as of December 31, 1977, 7 of which were appointed during 1977 and 4 during 1976. At that date 74 liquidations had been completed, 21 in 1977 and 17 in 1976. Data presently available from the trustees for liquidations in progress are inconclusive and no determination of the amounts which will be required for advances to satisfy customer claims, or for the liquidation expenses which will be incurred in these cases, is possible at this time; accordingly, no provision has been made therefor in the accompanying financial statements.

Advances to trustees for liquidations in progress represent net amounts disbursed and amounts currently payable. SIPC provides a 100% allowance for all advances to trustees. Amounts of unexpended advances, as well as any expended advances for which SIPC has subrogated rights, may be recovered by SIPC. Recoveries are applied as a reduction of the advances to trustees and the allowance for possible losses on advances. Amounts which subsequently may be returned are not presently determinable. The balance of $473,883 shown as Advances to trustees for liquidations in progress represents an amount recoverable pursuant to a court order entered December 21, 1977.

5. Retirement Plan

SIPC has a non-contributory retirement plan covering all employees. SIPC's policy is to fund pension expense accrued. Pension expense was $98,000 in 1977 and $96,000 in 1976.

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART A: Customer Claims and Distributions Being Processed by Trustees

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
THIRD QUARTER 1977					
Crystal Securities Corporation, Mendham, New Jersey (Bernard Hellring, Esq.)	1/ 6/60	9/16/77	9/16/77	55	25
I.E.S. Management Group, Inc., Irvington, New Jersey (Michael R. Griffinger, Esq.)	6/17/70	6/ 9/77	9/27/77	3,900	1,651
FOURTH QUARTER 1977					
James A. Finan & Co., Inc., Jersey City, New Jersey (Bruce I. Goldstein, Esq.)	2/ 2/76	8/10/77	11/ 2/77	200	5
Willis E. Burnside & Co., Inc., New York, New York (Thomas Ungerland, Esq.)	10/13/46	12/20/77	12/21/77		
Brokers Trading Inc., Minneapolis, Minnesota (Timothy M. Heaney, Esq.)	12/23/76	12/16/77	12/22/77		
TOTAL 5 MEMBERS: PART A				4,155	1,681

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers To Whom Notices and Claim Forms Were Mailed	Responses Received
THIRD QUARTER 1971					
Security Planners Ltd., Inc., Boston, Massachusetts (William C. Foehl, Esq.)	2/12/68	3/18/71	8/ 6/71	300	150
FOURTH QUARTER 1971					
Securities Northwest, Inc., Seattle, Washington (George W. McBroom, Esq.)	6/23/71	12/ 7/71	12/ 7/71	940	117
FIRST QUARTER 1972					
JNT Investors, Inc., New York, New York (Jerry B. Klein)	6/17/70	2/15/72	2/15/72	1,572	938
C. H. Wagner & Co., Inc., Boston, Massachusetts (Thomas J. Carens, Esq.)	6/23/69	2/22/72	2/28/72	14,000	839
White & Co., Inc., St. Louis, Missouri (Hugh S. Hauck)	3/ 5/47	3/23/72	3/30/72	150	59
SECOND QUARTER 1972					
John E. Samuel & Co., White Plains. New York (Henry J. Smith, Esq.)	5/ 9/62	2/ 3/72	5/30/72	350	10
THIRD QUARTER 1972					
Kenneth Bove & Co., Inc., New York, New York (William W. Golub, Esq.)	5/17/66	5/25/72	8/17/72	12,500	6,332

December 31, 1977

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 1,961	1			$ 74,062			$ 3,519	$ 70,543	12
				109,829	$ 17,026			92,803	12
				5,000	5,000				
				5,000	5,000				
$ 1,961	1			$ 193,891	$ 27,026		$ 3,519	$ 163,346	24
$ 516	2			$ 212,103	$ 13,000		$ 164,428	$ 34,675	147
67,575	17	$ 26,596	8	66,856		$ 31,823	1,875	33,158	47
1,805,662	927	150,979	140	374,235	140,433	19,863	22,994	190,945	146
54,889	8			1,140,300	69,312	9,886	72,847	988,255	253
2,229	1			508,035	76,783		385,031	46,221	49
		10,775	1	374,929	54,464	271,547	36,955	11,963	76
2,524,223	6,891	993,659	2,969	926,589		11,948	201,041	713,600	3,480

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
FOURTH QUARTER 1972					
Equitable Equities, Inc., New York, New York (Herbert S. Camitta, Esq.)	2/ 4/70	10/13/72	10/13/72	134	69
Albert & Maguire Securities Co., Inc., Philadelphia, Pennsylvania (Donald M. Collins, Esq.)	9/ 9/68	10/19/72	10/19/72	5,181	1,310
Havener Securities Corp., New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	900	533
C. I. Oren & Co., Inc., New York, New York (Martin R. Gold, Esq.)	11/10/68	10/13/72	10/26/72	345	61
First Eastern Investment Corp., Red Bank, New Jersey (Burton Peskin, Esq.)	1/29/58	12/11/72	12/11/72	700	59
FIRST QUARTER 1973					
Provident Securities, Inc., New York, New York (Harvey R. Miller, Esq.)	3/16/69	1/23/73	2/ 2/73 9/10/75*	2,100	850
Frank & Drake, Inc., New York, New York (Daniel F. Callahan, Esq.)	1/ 8/69	2/22/73	2/22/73	1,900	428
Custodian Security Brokerage Corp., New York, New York (Lyonel E. Zunz, Esq.)	4/25/71	3/ 6/73	3/ 7/73	673	67
Morgan Kennedy & Co., Inc., New York, New York (Eugene L. Bondy, Jr., Esq.)	1/19/66	3/ 9/73	3/13/73	3,114	1,446
Lexington Capital Corp., New York, New York (Peter H. Morrison, Esq.)	11/19/69	3/21/73	3/26/73	1,918	628
Pacific Western Securities, Inc., Los Angeles, California (Edwin M. Lamb)	8/ 7/66	3/26/73	3/28/73	3,023	521
SECOND QUARTER 1973					
J. Shapiro Co., Minneapolis, Minnesota (William T. Dolan, Esq.)	7/31/68	4/13/73	4/13/73	32,730	11,820
Oxford Securities, Ltd., New York, New York (Lewis Kruger, Esq.)	12/ 8/71	1/19/73	4/17/73 3/ 3/76*	2,100	181
P & H Associates, New York, New York (Edward Brodsky, Esq.)	9/23/70	3/13/73	4/17/73	2,201	450
Weis Securities, Inc., New York, New York (Edward S. Redington, Esq.)	8/ 1/65	5/24/73	5/30/73	55,026	34,000

† In the administration of the estate, funds used to pay customers' free credit balances or cash in lieu of securities were not segregated as to source.

* Successor Trustee

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 128,362	45			$ 80,465		$ 27,604	$ 16,034	$ 36,827	33
804,617	520	$ 1,193,557	943	826,448			703,540	122,908	656
292,542	84	511,715	321	416,399	$ 202,416	24,044	16,368	173,571	233
1,800	1			211,551	100,836	33,581	33,710	43,424	42
20,700	8			81,898			24,571	57,327	38
229,976	742			909,976	283,176		303,953	322,847	654
424,052	224			112,309	43,612		35,618	33,079	55
1,219	3			134,272	81,634		29,927	22,711	17
1,664,435	1,642			946,006	491,964	23,085	211,380	219,577	688
378,558	432			317,733	100,700	48,314	50,886	117,833	157
280,827	158	79,179	118	1,291,026	219,185	18,163	930,075	123,603	359
17,212,512	10,357			2,575,930	525,097	33,004	1,350,859	666,970	3,626
35,993	88	1,163	5	52,388	12,928	332	24,330	14,798	48
221,307	310			329,617	72,713	15,337	69,417	172,150	406
145,995,088	34,000 (Estimated)	30,078,893	34,000 (Estimated)	13,655,630			13,655,630†		33,500 (Estimated)

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
SECOND QUARTER 1973 (Cont'd)					
Smith & Medford, Inc., Atlanta, Georgia (William Green, Esq.)	9/ 2/70	5/31/73	6/ 1/73	1,705	525
R.S. Emerson Co., Agana, Guam (Hyman B. Rosenzweig**)	6/11/67	5/18/72	6/22/73	200	106
THIRD QUARTER 1973					
Duvest Corporation, Jersey City, New Jersey (Ralph M. Lowenbach, Esq.)	9/13/72	9/ 4/73	9/ 4/73	1,087	179
Associated Underwriters, Inc., Salt Lake City, Utah (Richard L. Blanck, Esq.)	7/ 8/70	9/11/73	9/11/73 10/23/73*	150	45
Busec Securities Corp., Buena Park, California (Harold L. Orchid, Esq.)	8/10/69	9/13/73	9/14/73	575	65
FIRST QUARTER 1974					
Parker Jackson & Co., Inc., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	5/24/63	2/ 7/74	2/14/74	2,400	1,103
SECOND QUARTER 1974					
Memme & Co., Inc., New York, New York (Edward Farman, Esq.)	8/ 6/65	8/ 6/73	4/15/74	300	29
Christian-Paine & Co., Inc. Carlton Cambrige & Co., Inc. Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	7,884
THIRD QUARTER 1974					
Llorens Associates, Inc., New York, New York, (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93
Investment Securities Corp., Clayton, Missouri (Martin M. Green, Esq.)	11/ 8/69	7/ 8/74	7/ 8/74	1,400	490
Financial House, Inc., Detroit, Michigan (David Robb, Esq.)	3/ 9/55	9/17/74	9/18/74	1,958	708
FOURTH QUARTER 1974					
Henry C. Atkeison, Jr., d/b/a Ambassador Church Finance Development Group, Inc.; d/b/a Atalbe Christian Credit Association, Inc., Brentwood, Tennessee (Fred D. Bryan)	4/18/70	11/ 7/74	12/17/74	531	115
Universal Underwriting Service, Inc., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	8/28/71	11/25/74	12/26/74	5,500	1,100

* Successor Trustee
** Deceased

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 150,798	298			$ 275,968	$ 72,576	$ 25,685	$ 172,458	$ 5,249	272
20,648	20			187,339			176,344	10,995	60
56,442	124	$ 20,631	42	47,887	21,996		9,773	16,118	72
12,575	10			82,031	36,720		10,650	34,661	32
5,975	4			124,822	30,428		94,282	112	75
42,899	417			119,278	67,642	963	26,929	23,744	154
70	6			68,056	36,753	7,562	4,300	19,441	14
763,856	12,561	16	3	3,252,679	946,297	3,125	2,044,056	259,201	6,571
31,174	40			70,816	14,574	214	17,823	38,205	30
515,614	388			351,519	5,000	81,078	181,751	83,690	162
431,422	226			910,811	225,295	38	568,250	117,228	284
6,860	11			89,917	65,507		22,243	2,167	17
109,816	574			166,035	59,093	11,375	31,130	64,437	164

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
FIRST QUARTER 1975					
R. L. Whitney Securities, Inc., New York, New York (Thomas Ungerland, Esq.)	1/ 29/72	2/ 6/75	2/ 6/75	1,877	440
Executive Securities Corp., New York, New York (Cameron F. MacRae III, Esq.)	11/ 8/67	2/14/75	2/14/75	8,740	2,757
G. H. Sheppard & Co., Inc., New York, New York (Jerome M. Selvers, Esq.)	4/ 4/73	3/ 4/75	3/25/75	175	27
SECOND QUARTER 1975					
Saxon Securities Corp., New York, New York (Joseph O. Barton)	11/27/68	1/24/75	4/ 1/75	685	81
Horvat, Maniscalco & Co., Bergenfield, New Jersey (Lawrence E. Jaffe, Esq.)	9/ 5/71	4/25/75	4/25/75	1,093	221
THIRD QUARTER 1975					
Ben Campo, d/b/a Campo & Co., Phoenix, Arizona (Ronald E. Warnicke, Esq.)	4/ 7/71	3/ 8/73	7/11/75	257	16
Investors Security Corp., Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	5/ 8/66	9/15/75	9/15/75	4,300	244
FOURTH QUARTER 1975					
Westco Financial Corp., Denver, Colorado (William J. Fisher)	6/12/62	11/11/75	11/12/75	890	89
FIRST QUARTER 1976					
J. S. Roberts & Co., Westfield, New Jersey (Michael M. Marx)	8/26/70	2/ 2/76	2/11/76	696	74
FOURTH QUARTER 1976					
Institutional Securities of Colorado, Inc., Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,760
E. J. Albanese & Co., Inc., New York, New York (Joseph O. Barton)	10/29/75	10/28/76	11/ 4/76	750	43
Stilwell, Coker & Co., Inc., Charleston, South Carolina (Norman W. Stevenson, Esq.)	10/ 9/73	12/16/76	12/16/76	539	77
FIRST QUARTER 1977					
A. H. Speer Co., Wichita, Kansas (Thomas R. Brunner)	12/12/75	1/24/77	2/ 1/77	1,500	202
Swift, Henke & Co., Inc., Chicago, Illinois (J. William Holland, Esq.)	5/30/65	3/14/77	3/15/77	1,350	186
TOTAL 49 MEMBERS: PART B				207,563	79,527

Distributions of Properties Held by Trustees				SIPC Advances to Trustees					
Specifically Identifiable		Single and Separate Fund							
Value	Number Customers	Value	Number Customers	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash in Lieu of Securities	Free Credit Balances	Number of Customers
$ 256,039	271	$ 480,797	199	$ 286,917			$ 267,122	$ 19,795	201
2,268,426	1,218			2,121,009	$ 25,531	$ 30,535	1,449,655	615,288	1,341
11,071	6			154,456	60,436	8,950	26,866	58,204	15
19,226	40			19,040	9,874		4,463	4,703	11
910	2			802,596	33,125		726,052	43,419	250
				50,009	14,768		30,237	5,004	6
800	1			159,146	11,943		71,956	75,247	13
1,920	2			6,498	4,650		1,848		1
				100,000			100,000		2
1,603,804	847	353,757	38	1,025,374		3,826	644,040	377,508	481
3,694	18	913	7	57,859			35,237	22,622	14
120,453	28	7,863	8	328,101	5,408		274,153	48,540	51
				936,115			8,750	927,365	117
2,091,817	74	44,949	11	648,980			336,509	312,471	99
$180,673,391	73,646	$33,955,442	38,813	$37,987,953	$4,235,869	$741,882	$25,678,346	$7,331,856	55,219

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART C: Liquidations Completed

1977 Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Howard Carlton, Inc., New York, New York (Clark J. Gurney, Esq.)	4/ 8/71	138	$ 276,160
Stan Ingram & Associates, Los Angeles, California (Harold L. Orchid, Esq.)	6/ 8/71	40	15,252
Financial Equities, Ltd., Los Angeles, California (Gilbert Robinson, Esq.)	11/ 8/71	549	467,638
E. P. Seggos & Co., Inc., New York, New York (Clark J. Gurney, Esq.)	12/14/71	297	205,517
Kelly, Andrews & Bradley, Inc., New York, New York (Edwin L. Gasperini, Esq.*)	12/21/71	127	138,130
Mid-Continent Securities Co., Inc., Wichita, Kansas (Thomas R. Brunner)	1/ 3/72	415	906,825
F. O. Baroff Co., Inc., New York, New York (Edward S. Davis, Esq.)	1/ 6/72	1,336	1,850,462
Parker, England & Co., Inc., Hicksville, New York (John R. Dunne, Esq.)	4/20/72	182	120,904
G. M. Stanley & Co., Inc., New York, New York (Winthrop J. Allegaert, Esq.)	7/18/72	236	125,068
Holt, Murdock Securities, Inc., Helena, Montana (Thomas F. Dowling, Esq.)	7/26/72	112	203,272
Trio Securities, Inc., New York, New York (Bernard L. Augen)	10/ 3/72	69	11,658
Bovers, Parnass & Turel, Inc., Jersey City, New Jersey (Edward J. Rosner, Esq.)	10/19/72	381	497,408
N. F. James & Co., Inc., Jersey City, New Jersey (Milton Rosenkranz, Esq.)	2/ 9/73	107	165,564
Teig Ross, Inc., Bloomington, Minnesota (Lawrence Perlman, Esq.)	2/26/73	3,098	2,200,344
First Minneapolis Investment Corp., Minneapolis, Minnesota (John T. Hale, Esq.)	3/ 2/73	427	450,181
Howard Lawrence & Co., Inc., New York, New York (Grant S. Lewis, Esq.)	1/11/74	285	125,282
Equidyne, Salt Lake City, Utah (Reed L. Martineau, Esq.)	2/ 7/74	278	59,022
Harper Johnson Co., Inc., New York, New York (David P. Prescott, Esq.)	4/ 8/74	10	5,991
London Securities, Ltd., New York, New York (Edward Brodsky, Esq.)	4/22/74	6	1,588
McMahon & Hoban, Inc., Chicago, Illinois (J. Kirk Windle, Esq.)	4/26/74	354	847,012
Dow Financial, Inc., Irvine, California (Eugene W. Bell, Esq.)	11/11/74	315	538,872
TOTAL 21 MEMBERS 1977		8,762	9,212,150
TOTAL 53 MEMBERS 1973-1976(b)		14,295	14,760,692
TOTAL 74 MEMBERS 1973-1977		23,057	$23,972,842

* Deceased

Distributions of Properties Held by Trustees			SIPC Advances to Trustees				
	Single and Separate Fund and General Estate						
Customers' Specifically Identifiable	Customers And Others	Administration Expenses	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances
$ 152,300	$ 56,413	$ 67,447	$ 9,889			$ 207	$ 9,682
3,293	500	11,459	64,744	$ 22,292		33,364	9,088
352,092		115,546	285,481	136,798		110,894	37,789
55,335	99,544	50,638	54,937			28,485	26,452
28,427	9,048	100,655	124,194	42,375		7,280	74,539
264,469	454,871	187,485	556,102			467,833	88,269
1,276,923	21,202	552,337	1,488,795	363,050	$137,790	752,475	235,480
9,666	99,403	11,835	56,365	22,481		20,658	13,226
	111,603	13,465	110,986	87,418		22,080	1,488
48,440	58,794	96,038	193,911	6,178		80,646	107,087
4,164	5,062	2,432	114,105	33,776	868	72,883	6,578
21,322	207,060	269,026	172,274		41,411	36,725	94,138
	52,512	113,052	1,311,015	134,252		1,125,454	51,309
2,057,639	8,908	133,797	324,943	168,152		60,711	96,080
391,295	1,523	57,363	114,046	31,426	10,000	70,039	2,581
84,161	11,817	29,304	469,634	170,918		61,741	236,975
41,385	9,460	8,177	96,578	61,625		16,892	18,061
488		5,503	25,375	20,182			5,193
	150	1,438	25,613	21,276		2,337	2,000
45,103	645,188	156,721	256,152			66,693	189,459
28,941	308,803	201,128	491,578			271,977	219,601
4,865,443	2,161,861	2,184,846	6,346,717	1,322,199	190,069	3,309,374	1,525,075
9,306,452	2,807,459	2,646,781	9,299,470	3,251,143	342,038	3,073,455	2,632,834
$14,171,895	$4,969,320(c)	$4,831,627	$15,646,187	$4,573,342	$532,107	$6,382,829	$4,157,909

APPENDIX I

MEMBERS PLACED IN LIQUIDATION UNDER THE 1970 ACT

PART D: Summary

	Responses Received/ Customers Receiving Distributions	Total
Part A: 5 Members—Customer Claims and Distributions Being Processed by Trustees	1,681 [a]	$ 1,961
Part B: 49 Members—Customer Claims (Except Problem Claims) Have Been Satisfied	79,527 [a]	214,628,833
Sub-Total	81,208	214,630,794
Part C: 74 Members—Liquidations Completed	23,057 [d]	23,972,842
TOTAL	104,265	$238,603,636

Notes:

[a] Trustees commonly send notices and claim forms to all persons who, from the debtor's records, may have been customers. This is done so that these potential claimants may be advised of the proceeding.

[b] Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.

[c] Includes $75,053 for open contractual commitments and $204,585 paid to general creditors other than SIPC.

[d] Number of customers receiving securities and/or cash.

[e] To be reported at completion of the liquidation.

Distributions of Properties Held by Trustees			SIPC Advances to Trustees				
	Single and Separate Fund and General Estate						
Customers' Specifically Identifiable	Customers And Others	Administration Expenses	Total Advanced	Administration Expenses	Open Contractual Commitments	Cash In Lieu of Securities	Free Credit Balances
$ 1,961		(e)	$ 193,891	$ 27,026		$ 3,519	$ 163,346
180,673,391	$33,955,442	(e)	37,987,953	4,235,869	$ 741,882	25,678,346	7,331,856
180,675,352	33,955,442		38,181,844	4,262,895	741,882	25,681,865	7,495,202
14,171,895	4,969,320	$4,831,627	15,646,187	4,573,342	532,107	6,382,829	4,157,909
$194,847,247	$38,924,762	$4,831,627	$53,828,031	$8,836,237	$1,273,989	$32,064,694	$11,653,111

APPENDIX II

Analysis of SIPC Revenues and Expenses and Trustees' Distributions

	1971	1972
Revenues:		
Member assessments and contributions	$32,790,194	$32,332,156
Interest:		
U.S. Government securities	490,042	1,674,257
Assessments	—	—
	33,280,236	34,006,413
Expenses:		
Administrative:		
Salaries and employee benefits:		
Salaries	178,036	411,075
FICA taxes	4,509	10,681
D.C. and Federal unemployment tax	1,548	3,680
Group health and life insurance	5,785	6,222
Contribution to Employees' Retirement Trust	—	43,400
Other employee benefits	—	2,404
	189,878	477,462
Assessment collection direct costs	35,780	24,047
Credit agreement commitment fee	236,527	292,223
Legal fees	70,987	76,574
Accounting fees	22,074	70,169
Other:		
Printing and mailing annual and interim reports	—	23,901
Directors fees and expenses	8,609	6,096
Travel and subsistence	4,154	23,981
Personnel recruitment	3,790	5,832
Rent - office space	10,849	34,073
Depreciation and amortization	1,548	10,923
Insurance	2,549	3,137
Postage	1,069	3,471
Office supplies and expense	13,140	25,920
Telephone and telegraph	4,583	17,966
Custodian fees	4,538	15,940
Relocation	—	—
Miscellaneous	9,805	30,914
	64,634	202,154
Preparation costs - potential major liquidations	156,328	—
Start-up expense - attorneys' and accountants' fees and printing expenses related to credit agreement and assessment procedures	127,632	—
	903,840	1,142,629
Provision for possible losses on advances to trustees:		
For completion of open contractual commitments (net recoveries)	51,675	135,183
Cash in lieu of securities (net recoveries)	173,012	3,489,969
Free credit balances	176,132	3,717,741
	400,819	7,342,893
Administration expenses	74,981	765,991
	475,800	8,108,884
	1,379,640	9,251,513
Excess revenues (expenses)	$31,900,596	$24,754,900
Trustees' distributions for the accounts of customers (rounded to nearest thousand dollars):		
From debtors' estates (including securities)	271,000	9,300,000
From SIPC advances (net recoveries)	401,000	7,343,000
	$ 672,000	$16,643,000

for Accounts of Customers for the Seven Years Ended December 31, 1977

1973	1974	1975	1976	1977	Total
$ 22,858,920	$18,027,633	$25,485,635	$32,709,210	$30,836,226	$195,039,974
2,771,131	3,914,782	5,126,165	6,350,313	8,395,045	28,721,735
10,938	16,311	24,982	7,262	8,944	68,437
25,640,989	21,958,726	30,636,782	39,066,785	39,240,215	223,830,146
705,424	900,858	965,631	946,255	859,938	4,967,217
25,362	32,511	34,083	34,514	30,521	172,181
6,503	8,597	7,046	6,892	6,335	40,601
11,167	18,387	31,324	32,809	32,828	138,522
44,700	35,900	71,000	96,000	98,000	389,000
6,384	10,828	13,794	14,124	12,387	59,921
799,540	1,007,081	1,122,878	1,130,594	1,040,009	5,767,442
13,916	11,124	10,035	9,439	8,760	113,101
240,625	189,931	103,472	—	—	1,062,778
44,388	86,991	6,256	22,624	26,808	334,628
20,313	21,520	8,800	12,900	14,000	169,776
21,671	13,076	15,529	11,926	11,513	97,616
6,667	8,260	5,678	3,200	2,610	41,120
55,587	62,320	66,119	49,745	53,625	315,531
14,312	15,131	21,830	4,896	4,202	69,993
45,227	91,903	92,955	103,974	101,111	480,092
12,865	12,093	13,362	13,278	12,664	76,733
4,073	4,452	4,299	6,176	7,270	31,956
3,013	5,221	4,430	6,567	6,690	30,461
35,946	65,667	47,549	54,153	55,255	297,630
25,533	32,906	28,147	28,964	25,694	163,793
18,523	18,691	17,610	14,812	16,521	106,635
36,439	—	—	—	—	36,439
25,986	26,071	13,293	21,557	22,739	150,365
305,842	355,791	330,801	319,248	319,894	1,898,364
—	—	—	—	—	156,328
—	—	—	—	—	127,632
1,424,624	1,672,438	1,582,242	1,494,805	1,409,471	9,630,049
693,142	167,769	223,250	(26,574)	29,544	1,273,989
27,868,208	(2,273,231)	3,129,514	565,401	(888,179)	32,064,694
3,144,691	1,883,472	1,393,839	224,966	1,112,270	11,653,111
31,706,041	(221,990)	4,746,603	763,793	253,635	44,991,794
3,755,307	864,867	1,798,915	797,745	778,431	8,836,237
35,461,348	642,877	6,545,518	1,561,538	1,032,066	53,828,031
36,885,972	2,315,315	8,127,760	3,056,343	2,441,537	63,458,080
($ 11,244,983)	$19,643,411	$22,509,022	$36,010,442	$36,798,678	$160,372,066
170,672,000	21,582,000	6,379,000	19,901,000	5,462,000	233,567,000
31,706,000	(222,000)	4,746,000	764,000	254,000	44,992,000
$202,378,000	$21,360,000	$11,125,000	$20,665,000	$ 5,716,000	$278,559,000