SIPC

ANNUAL REPORT 2003

Securities Investor Protection Corporation

SECURITIES INVESTOR PROTECTION CORPORATION
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WWW.SIPC.ORG

April 30, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 5th St., N.W.
Washington, D.C. 20549

Dear Sir:

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

Respectfully,

W. R. Timken, Jr.

W. R. Timken, Jr.
Chairman

Contents

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

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

* Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934, and persons who are registered as a broker or dealer under section 78o(b)(11)(A) of Title 15 of the United States Code.

Message from the Chairman and Vice Chairman

W. R. Timken, Jr.

Armando J. Bucelo, Jr.

The year 2003 saw SIPC initiate customer protection proceedings for seven brokerage firms. The transfer of customer accounts and other satisfaction of customer claims in those cases are well under way. Three of the cases opened were small enough in scope that SIPC itself was appointed to serve as trustee. At the end of the year, the SIPC Fund stood at $1,249,000,000.

The Board of Directors continually reviews SIPC's financial condition, to make sure that SIPC has sufficient resources to protect investors. In the past, the Board periodically engaged independent consultants to assure us that the SIPC Fund was adequate to meet any foreseeable contingency. In 2003, we determined that SIPC should also have an independent ability to assess risks that might give rise to concern. Accordingly, SIPC has brought a Risk Manager on board to advise on any developments that could affect SIPC's financial capacity.

In 2003, SIPC took steps to assure that we could continue to protect the investing public even in the event that our main office was unavailable for any reason. We have established a business continuity office in Virginia which is fully equipped to operate the Corporation and continue uninterrupted investor protection for the securities markets. SIPC also joined the Financial and Banking Information Infrastructure Committee. This will help us to establish secure communications during emergencies, and keep us apprised of developments that could affect SIPC's mission.

In December of 2003, SIPC issued its first Investor Alert to warn investors that fraudulent actors have, in a limited number of instances, stolen the identity of a SIPC member brokerage firm. Unwitting investors, most of whom live outside the United States, have been convinced to send money to an address or bank account controlled by con artists, rather than the actual SIPC member. SIPC partnered with the North American Securities Administrators Association to warn investors of this activity. The Board was pleased to see widespread national and international distribution of this alert.

The year 2003 also marked the retirement of Michael E. Don, SIPC's President. Mr. Don joined SIPC in 1971, and held positions of increasing responsibility in our Legal Department until his designation as President in 1995. He guided SIPC through the largest brokerage liquidations in our history, and set a standard of excellence in service to the investing public. Mr. Don has been replaced as President by Stephen P. Harbeck, who joined SIPC's Legal Department in 1975, and was designated as General Counsel in 1995.

Finally, SIPC joined with the Securities Industry Association (SIA) to increase awareness of SIPC's role in protecting investor assets. The SIA made materials about SIPC available to investment professionals, and our hope is that this will engender a greater understanding of SIPC's role with the investors served by those professionals. Materials have also been made available to the public through the General Services Administration Federal Citizen Information Center in Pueblo, Colorado. We will expand our investor education efforts in 2004 with additional public service announcements, an overhaul of our website, an outreach to minority investors, and other initiatives.

W. R. Timken, Jr.

W. R. Timken, Jr.
Chairman

Armando J. Bucelo, Jr.
Vice Chairman

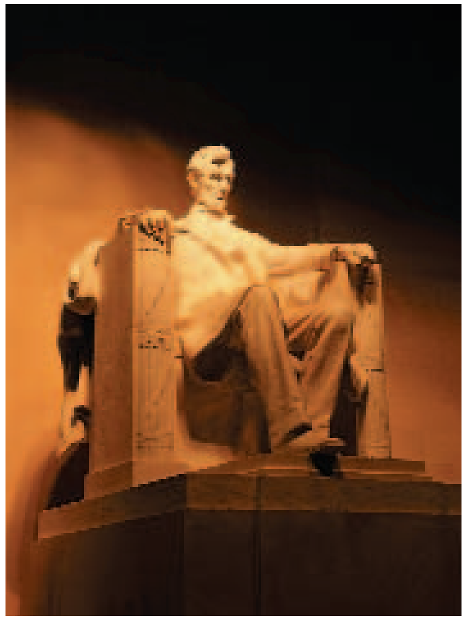
Overview of SIPC

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

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

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



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

The SIPC staff, numbering 31, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

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

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

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

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

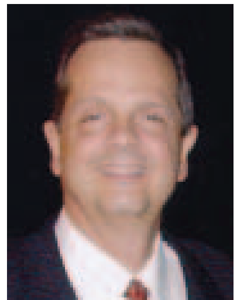
Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.

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

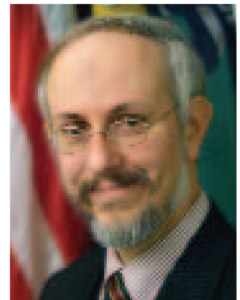
Directors & Officers

Directors

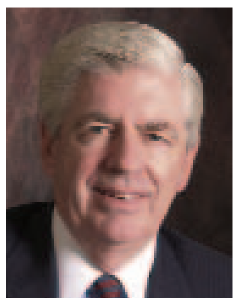
W. R. Timken, Jr.
Chairman
The Timken Company
Chairman of the Board



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

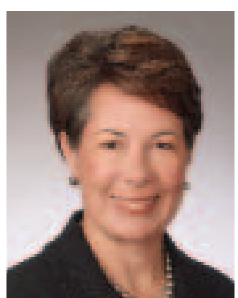


Wayne A. Abernathy
Assistant Secretary for
Financial Institutions,
United States
Department of the
Treasury



Thomas W. Grant
President
H.G. Wellington
& Co., Inc.

Noe Hinojosa, Jr.
Vice Chairman/Public
Finance Manager
Estrada Hinojosa &
Company, Inc.



Deborah D. McWhinney
President, Schwab
Institutional, Charles
Schwab & Co., Inc.

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

Officers

Stephen P. Harbeck
President

Josephine Wang
General Counsel
& Secretary

Philip W. Carduck
Vice President—
Operations & Finance

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

—Preamble to SIPA

Customer protection proceedings were initiated for seven SIPC members in 2003, bringing the total since SIPC's inception to 311 proceedings commenced under SIPA. The 311 members represent less than one percent of the approximately 37,000 broker-dealers that have been SIPC members during the last 33 years. Currently, SIPC has 6,466 members.

The seven new cases compare with five commenced in 2002. Over the last ten-year period, the annual average of new cases was seven.

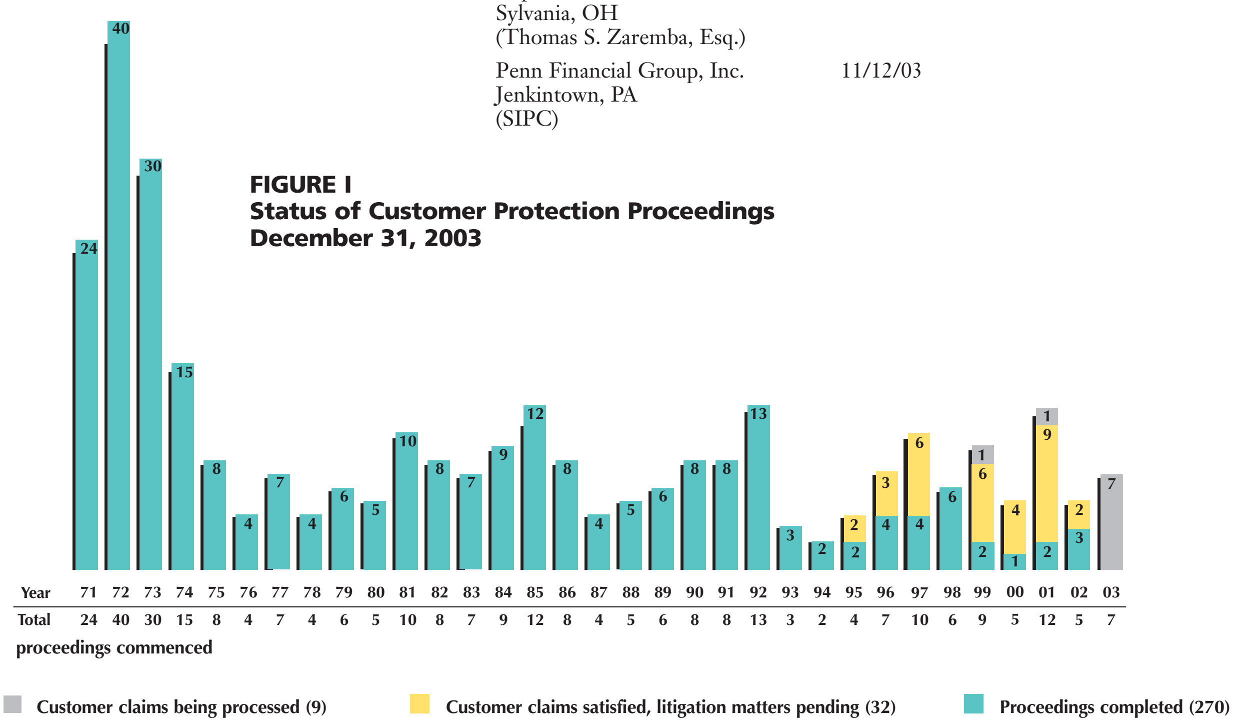
Trustees other than SIPC were appointed in four of the cases commenced during the year, and SIPC serves as trustee in three cases. Customer protection proceedings were initiated for the following SIPC members:

Member	Date Trustee Appointed
Rocky Mountain Securities & Investments, Inc. Denver, CO (John D. Shively, Esq.)	02/06/03
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	02/10/03
Weatherly Securities Corporation New York, NY (SIPC)	05/05/03
Cybervest Securities, Inc. Ft. Lauderdale, FL (SIPC)	05/28/03
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	09/08/03
Continental Capital Investment Services, Inc. & Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	09/29/03
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/12/03

Of the 311 proceedings begun under SIPA to date, 270 have been completed, 32 involve pending litigation matters, and claims in 9 are being processed (See Figure I and Appendix II).

During SIPC's 33-year history, cash and securities distributed for accounts of customers aggregated approximately $14.0 billion. Of that amount, approximately $13.6 billion came from debtors' estates and $424 million came from the SIPC Fund (See Appendix I).

FIGURE I
Status of Customer Protection Proceedings
December 31, 2003



Claims over the Limits

Of the more than 623,435 claims satisfied in completed or substantially completed cases as of December 31, 2003, a total of 339 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 339 claims, a net increase of 29 during 2003, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $40.7 million, increased $5.9 million during 2003. These remaining claims approximate two-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 81 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 91 percent of the total advanced in all 311 customer protection proceedings. The largest net advance in a single liquidation is $111.3 million in MJK Clearing, Inc. This exceeds the net advances in the 230 smallest proceedings combined.

In 25 proceedings SIPC advanced $413.6 million, or 70 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
December 31, 2003
311 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	11	$318,397,786
5,000,001	$10,000,000	14	95,246,441
1,000,001	5,000,000	56	123,250,386
500,001	1,000,000	34	24,619,915
250,001	500,000	42	14,451,112
100,001	250,000	61	9,818,009
50,001	100,000	42	3,017,237
25,001	50,000	25	945,177
10,001	25,000	10	147,450
0	10,000	10	36,087
Net recovery		6	(2,692,647)*
			$587,236,953†

* 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 ($423,908,408) and for administration expenses ($163,328,545).

Administration

With the advice and consent of the Senate, President Bush appointed three new SIPC directors. W. R. Timken, Jr., Chairman of The Timken Company, of Canton, Ohio, was appointed as a public director and Chairman. Thomas W. Grant, President of H. G. Wellington & Co., Inc. of New York, and Noe Hinojosa, Jr., Vice Chairman/Public Finance Manager of Estrada Hinojosa & Company, Inc., of Dallas, Texas, were appointed as new directors representing the securities industry. Mr. Grant and Mr. Hinojosa replace former securities industry directors Charles L. Marinaccio and Marianne C. Spraggins. In addition, Secretary of the Treasury John W. Snow has named Wayne A. Abernathy, Assistant Secretary for Financial Institutions, to replace Peter R. Fisher, who left the Treasury Department.

Stephen P. Harbeck, who was General Counsel and Secretary, has been elected President and Chief Executive Officer by the Board of Directors. He replaces Michael E. Don, who has retired on disability after 32 years of extraordinary and distinguished service. Mr. Don is the longest tenured employee in SIPC's history. Josephine Wang, who was SIPC's Senior Associate General Counsel, has been elected as General Counsel and Secretary.

"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 213 members during the year brought the total membership to 6,466 at December 31, 2003. 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, 2003, there were 49 members who were subjects of uncured notices, 22 of which were mailed during 2003, 14 during 2002 and 2001, and 13 during the period 1997 through 2000. Subsequent filings and payments by 14 members left 45 notices uncured. SIPC has been advised by the SEC staff that: (a) 4 member registrations have been canceled or are being withdrawn; and (b) 41 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

TABLE II
SIPC Membership
Year Ended December 31, 2003

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,776	274	289
SIPC(b)	153	-	256(c)
Chicago Board Options Exchange Incorporated	618	65	85
New York Stock Exchange, Inc.	378	30	14
American Stock Exchange LLC	233	36	13
Pacific Stock Exchange, Inc.	99	31	13
Philadelphia Stock Exchange, Inc.	123	28	12
Chicago Stock Exchange, Incorporated	78	6	1
Boston Stock Exchange, Inc.	8	1	1
	6,466	471	684

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2003.

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

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

c. This number reflects the temporary status of broker-dealers between the termination of membership in a self-regulatory organization and the effective date of the withdrawal or cancellation of registration under section 15(b) of the 1934 Act.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.25 billion at year end, a decrease of $11 million during 2003.

Tables III and IV present principal revenues and expenses for the years 1971 through 2003. The 2003 member assessments were $1.1 million and interest from investments was $63.8 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1995, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995) from the securities business.

Appendix III is an analysis of revenues and expenses for the five years ended December 31, 2003.

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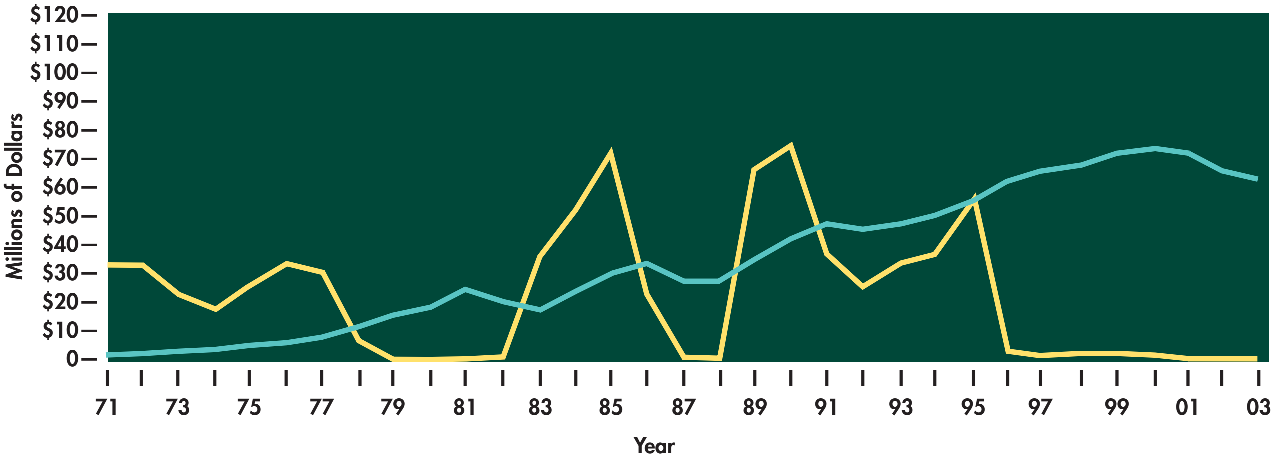
[1] 14(a) Failure to Pay Assessment, etc—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing 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-three Years Ended December 31, 2003**



Member assessments and contributions: $732,443,950

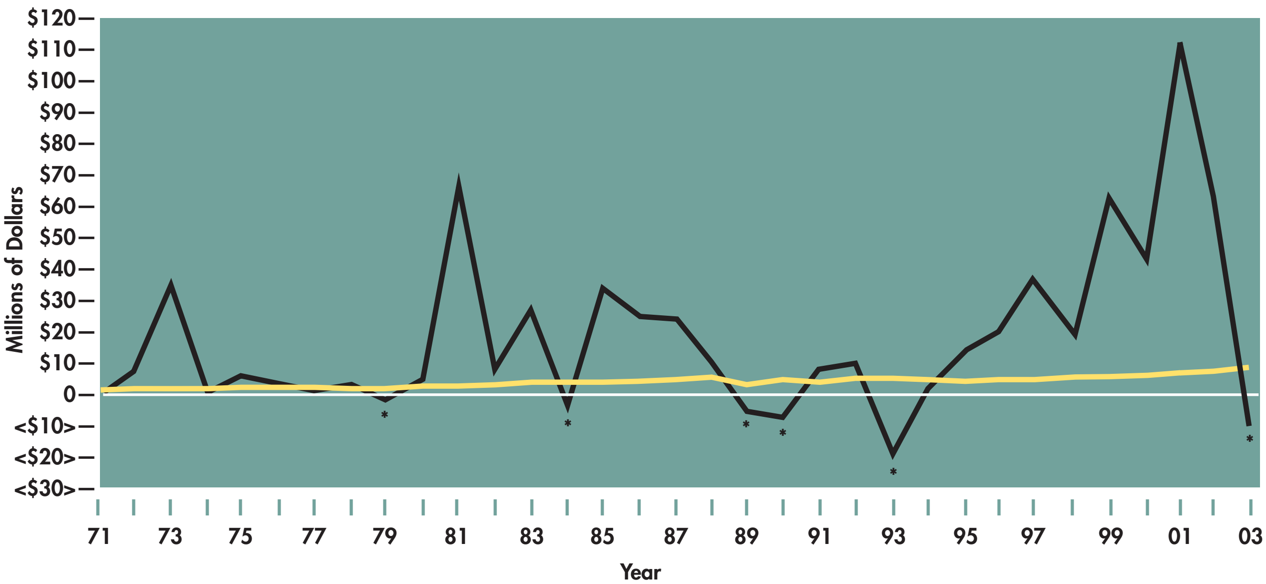
Interest on U.S. Government securities: $1,150,948,221

History of Member Assessments*

1971: ½ of 1% plus an initial assessment of ⅛ of 1% of 1969 revenues ($150 minimum).
1972-1977: ½ of 1%.
January 1-June 30, 1978: ¼ of 1%.
July 1-December 31, 1978: None.
1979-1982: $25 annual assessment.
1983-March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986-1988: $100 annual assessment.
1989-1990: 3/16 of 1% ($150 minimum).
1991: .065% of members' net operating revenues ($150 minimum).
1992: .057% of members' net operating revenues ($150 minimum).
1993: .054% of members' net operating revenues ($150 minimum).
1994: .073% of members' net operating revenues ($150 minimum).
1995: .095% of members' net operating revenues ($150 minimum).
1996-2003: $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-three Years Ended December 31, 2003**



Customer protection proceedings: $612,636,953 (Includes net advances of $587,236,953 and $60,400,000 of estimated costs to complete proceedings less estimated future recoveries of $35,000,000.)

Other expenses: $139,760,204

*** Net recoveries**

During 2003, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy decisions are summarized below:

In *Edward G. Murphy, Inc. Profit Sharing Plan—Edward G. Murphy, III, Trustee, et al. v. Selheimer & Co., Inc. and SIPC*, No. 02-6847 (E.D. Pa. Feb. 23, 2003), on appeal from the bankruptcy court, the district court upheld SIPC's determination denying "customer" status with respect to the claims of Mr. Murphy and two retirement plans. The district court found that the bankruptcy court had properly held that Mr. Murphy was not a customer under SIPA because his securities formed part of the capital of Selheimer. The court also upheld the bankruptcy court's finding that the customer claims of the two retirement plans were properly denied because Mr. Murphy, the sole beneficiary of those plans, was ineligible for relief under SIPA. The decision of the district court is on appeal to the Third Circuit Court of Appeals.

In *In re MJK Clearing, Inc. (Ferris, Baker Watts, Inc. v. Stephenson)*, 2003 WL 1824937 (D. Minn. April 7, 2003), the district court upheld the decision of the bankruptcy court finding that Ferris, Baker Watts, Inc. ("FBW") was not entitled to recover $18 million it transferred to the debtor as collateral for a stock loan transaction. The court rejected FBW's arguments that the cash collateral was not property of the bankruptcy estate or, in the alternative, that FBW was entitled to a constructive trust with respect to the funds. In addition, the court found no merit in FBW's arguments attacking the finding of the bankruptcy court that the cash in the debtor's possession on the filing date constituted "customer property" under SIPA. The decision of the district court is on appeal to the Eighth Circuit Court of Appeals.

In another action related to the *MJK* liquidation, *Stephenson, et al. v. Deutsche Bank AG, et al.*, 282 F. Supp. 2d 1032 (D. Minn. 2003), the SIPA trustee, Ferris, Baker Watts, Inc. and E*Trade Securities LLC brought three related actions against securities lenders. The plaintiffs alleged that the defendants had perpetrated a securities loan and market manipulation scheme, and in his action, the SIPA trustee alleged damages of more than $335 million. On the defendants' motions, the court dismissed certain of the plaintiffs' claims, but found that their allegations were sufficient to state a securities fraud claim under federal law, as well as common law fraud, private remedy for sale of unregistered securities and liability for false registration statements.

In *In re Stratton Oakmont, Inc. (Miller v. Dorothy M. DeQuine Revocable Trust)*, 2003 WL 22698876 (S.D N.Y. Nov. 14, 2003), an appeal by the SIPA trustee and SIPC, the district court reversed the decision of the bankruptcy court finding that the claims at issue were claims for cash and as such, should be satisfied with cash. The claims were based on unauthorized trading in the claimants' accounts and the trustee determined that the claimants were entitled to the securities held in their accounts just prior to the unauthorized transactions. Thus, the trustee proposed to return to the claimants the securities that the debtor sold without their authorization and asked them to first return the proceeds of the unauthorized sales, as well as any securities the claimants held as a result of the unauthorized trading. The claimants objected because the securities to which they were entitled were virtually worthless. While the appellate court was "not unsympathetic to the grave financial losses the claimants sustained," it rejected their arguments and reinstated the trustee's determination. In so holding, the court stated that "whether customers have claims for securities or for cash hinges on what they expected to have in their accounts on the filing date. Here, Claimants' legitimate expectations were to have securities in their Stratton Oakmont accounts, albeit securities at a greater value." The court further determined that the "number of steps in the conversion—from stock to cash back to stock—does not change the fact that claimants have no property interest in the fruits of Stratton Oakmont's unlawful acts." With respect to the change in value between the date the stocks were converted and the date the claims would be paid, the court reiterated the well-established principle that "SIPA provides no shield from market fluctuations, however long the customer has been deprived of the securities."

In *In re Donahue Securities, Inc. and S.G. Donahue & Co., Inc. (SIPC, et al. v. Munninghoff Lange & Co., et al.)*, Case No. 01-1027, Adv. No. 02-1179 (Bankr. S.D. Ohio July 21, 2003), the bankruptcy court granted in part and denied in part a motion to dismiss an action brought by the SIPA trustee and SIPC against the debtor's former accountants. The plaintiffs claimed $6 million for alleged negligence and negligent misrepresentation related to the audits of the debtor performed by the defendants. The bankruptcy court dismissed the SIPA trustee's professional malpractice/negligence claim on the basis of *in pari delicto*, which is an equitable defense that bars a plaintiff from asserting a claim if the plaintiff bears fault for that claim. The court agreed with the defendants that the wrongdoing of Stephen Donahue, the former president and sole shareholder of the debtor, should be imputed to the debtor. Because the trustee stands in the shoes of the debtor, he could not assert any claim belonging to the debtor. The court also dismissed the negligent misrepresentation claims brought by the trustee, as bailee of customer property, and SIPC, as subrogee of customer claims. The court found that because the accountants did not know the identity of the debtor's customers, the trustee, in his capacity as bailee, and SIPC, as subrogee, were not members of the "limited class of third parties" to whom the accountants could be held liable. The court held that SIPC in its own right is a member of the limited class to whom the accountants owed a duty. Accordingly, SIPC, on its own behalf, could maintain an action against the accountants for negligent misrepresentation.

In another adversary proceeding in the *Donahue* liquidation, *In re Donahue Securities, Inc. and S.G. Donahue & Co., Inc. (Lutz v. Chitwood, et al.)*, 2003 WL 23198753 (Bankr. S.D. Ohio Oct. 2, 2003), the bankruptcy court dismissed the SIPA trustee's complaint for damages arising out of the alleged negligence of three of the debtor's former employees. The court dismissed the complaint on *in pari delicto* grounds, citing to its prior decision in the adversary proceeding against the debtor's former accountants. The SIPA trustee argued that the *in pari delicto* doctrine should not be applied in SIPA proceedings because the defense is inconsistent with the purpose and design of SIPA. In dismissing the complaint, the court stated that "[t]his is not to say that the Plaintiff's reasoning is unpersuasive. It is simply to say that this Court believes that its hands are tied until the Sixth Circuit determines that *in pari delicto* does not apply to a SIPA proceeding...." The court granted leave to the SIPA trustee to file an amended complaint asserting claims as bailee of customer property and on behalf of SIPC, as subrogee of customer claims.

In *In re First Interregional Equity Corp.*, 290 B.R. 265 (Bankr. D.N.J. 2003), the bankruptcy court upheld the SIPA trustee's determination denying "customer" status to a claimant who loaned bearer bonds to the debtor and in return, was to be paid a rate of interest in excess of the coupon rate. The court found that the transaction underlying the claim did not satisfy two factors that are "consistently emphasized" by the courts in determining customer status: (a) the transaction must have been related to investment, trading or participation in the securities market and (b) the transaction must have arisen out of the type of fiduciary relationship that generally characterizes the relationship between a broker-dealer and its customers. In addition, the court upheld the trustee's denial of the claimant's late-filed claim for other bonds. In so holding, the court rejected the argument that the late-filed claim was an amendment to the claimant's timely original filing and stated that the "six-month time bar contained in §78fff-2(a)(3) of SIPA is mandatory and absolute."

In *In re John Dawson & Associates, Inc.*, 289 B.R. 654 (Bankr. N.D. Ill. 2003), following a four day trial, the bankruptcy court upheld the SIPA trustee's determination denying the claimant's "customer" claim based on alleged unauthorized trading. The court found that the claim was properly denied because the claimant failed to make a timely written complaint regarding the alleged unauthorized trades in his account and, by failing to take action, he ratified a course of conduct resulting in a *de facto* grant of trading authorization to his broker. In so holding, the court stated that in the "context of unauthorized trading, prior ratifications of similar transactions and acquiescence or participation in a course of conduct will demonstrate that transactions were not unauthorized."

In *In re John Dawson & Associates, Inc. (Holland v. Cho, et al.)*, No. 01 A 00337 (Bankr. N.D. Ill. April 25, 2003), the bankruptcy court entered summary judgment for the SIPA trustee in the amount of $578,686 against certain of the debtor's former owners, officers and directors. The trustee alleged that the defendants breached their fiduciary duties to the debtor's creditors by transferring funds out of the debtor and creating fraudulent options and securities transactions between the debtor's proprietary accounts and certain customer accounts. In ruling for the trustee, the court held that corporate officers owe a fiduciary duty to the corporation's creditors when the corporation is insolvent and "[s]uch a fiduciary duty prohibits the dispositions of assets for the benefit of shareholders, insiders or preferred creditors on terms unfair to the corporation and its other creditors."

In another adversary proceeding in the *John Dawson* liquidation proceeding, *In re John Dawson & Associates, Inc. (Holland v. Cho, et al.)*, No. 00 A 01006 (Bankr. N.D. Ill. July 18, 2003), the bankruptcy court entered summary judgment for the SIPA trustee in the amount of $404,496 against two of the debtor's former officers, including the CEO. The trustee alleged that the transfer of $404,496 in funds from the debtor, via checks made payable to the defendants, constituted fraudulent transfers under federal and state law. In ruling for the trustee, the court stated that "where, as here, the party opposing the motion has asserted the Fifth Amendment privilege against incrimination, an adverse inference may be drawn from the assertion." Accordingly, the court found that the "circumstances of making so many transfers to themselves during the Debtor's insolvency, combined with the adverse inference that may be drawn from Defendants' refusal to explain the purpose of the transfers, leads to only one conclusion—that the Defendants intended to empty the coffers before their creditors were any wiser."

In *In re Klein, Maus & Shire, Inc.*, 301 B.R. 408 (Bankr. S.D.N.Y. 2003), the bankruptcy court upheld the SIPA trustee's determination denying "customer" status with respect to a claim based on unauthorized trading. Prior to commencement of the SIPA liquidation, the claimants had obtained a default judgment in the amount of $248,819 in arbitration against the debtor. The claimants argued that the SIPA trustee was bound by the arbitration award and should be barred from relitigating the issue of whether the debtor engaged in unauthorized trading in the claimants' account. The court rejected this argument, finding that the claimants had not satisfied the four elements of the doctrine of collateral estoppel required to grant preclusive effect to the arbitration award. In addition, the court found that the trustee had properly denied the claim because the claimants failed to show that they complained in writing on a timely basis to any of the trades in their account. Indeed, the court found that they did not take any action until the securities dropped in value. The court stated that "[i]f trades were unauthorized, it was incumbent upon the Claimants to complain in writing on a timely basis. The confirmation and account statements that the clearing broker sent to them gave them ample notice of their duty to complain."

In *In re Mason Hill & Co., Inc.*, Adv. Proc. No. 02-8030A (SMB) (Bankr. S.D N.Y. Dec. 10, 2003), the bankruptcy court upheld the determination of SIPC, as trustee, denying "customer" protection where the transaction giving rise to the claim was in essence a short-term loan. The court found that a memorandum of understanding between the claimant and the debtor was "essentially a promissory note" and used terms more consistent with the Uniform Commercial Code than SIPA (*e.g.*, the parties were referred to as the "Maker" and the "Holder" and the memorandum referred to "collateral"). The court further found that even if the claimant deposited cash for the purpose of purchasing securities, as required by the definition of "customer", the agreement that the debtor would provide a guarantee against trading losses was "plainly illegal" and a "claim based on the failure to honor the guarantee did not arise from the typical fiduciary relationship between a broker and his customer." The court also held that the claim would fail even if the claimant could demonstrate that he was a customer. Although the claimant argued that the debtor misappropriated his property, the court found no evidence of misappropriation. In addition, the court found that a claim based on alleged unauthorized trading was "doomed to failure" because the claimant did not object in writing to any of the trades in his account.

In *In re Meridian Asset Management, Inc. (SIPC v. Capital City Bank)*, 296 B.R. 243 (Bankr. N.D. Fla. 2003), the bankruptcy court dismissed an action brought by SIPC, on its own behalf and as trustee, against the bank at which the debtor and its principal officer had maintained accounts. In the action, SIPC asserted claims for, among other things, negligence, gross negligence and breach of fiduciary duty because the debtor and its principal officer had used the bank accounts to embezzle money from their investors. The court found that SIPC lacked standing to bring the action as trustee and representative of the debtor's estate because the theft was for the benefit of the debtor and its principal; their wrongs, which were imputed to the debtor's estate, precluded the trustee's claims. Although the court found that SIPC had standing as bailee of customer property, it nonetheless dismissed the action. The court found that because the debtor's investors were not the bank's customers and the bank did not have notice that the accounts were of a fiduciary nature, the bank was simply a depository that owed no fiduciary duty to the debtor's investors.

In *In re Montrose Capital Management Ltd.*, No. 01/8170 (CB) (Bankr. S.D.N.Y. Feb. 27, 2003), the bankruptcy court upheld the SIPA trustee's determination denying "customer" protection for a claim based on the debtor's failure to execute the claimant's order to sell securities. The court found that such a claim is, at best, a breach of contract claim entitled to general creditor status. The court further found that the claimant's NASD arbitration award against the debtor was not entitled to SIPA protection because it was premised on the debtor's alleged failure to execute.

Disciplinary and Criminal Actions

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

Criminal and Administrative Actions

Criminal action has been initiated in 121 of the 311 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 277 indictments have been returned in federal or state courts, resulting in 244 convictions to date.

Administrative and/or criminal action in 271 of the 311 SIPC customer protection proceedings initiated through December 31, 2003, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	59
Exclusive SEC Administrative Action	40
Exclusive Self-Regulatory Administrative Action	51
Criminal and Administrative Action	99
Criminal Action Only	22
Total	271

In the 249 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	117	112
Bar from Association	346	221
Fines	Not Applicable	$11,363,781

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

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

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

Members In or Approaching Financial Difficulty

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

Members on Active Referral

During the calendar year 2003 SIPC maintained active files on nine members referred under Section 5(a). Eight referrals were received during the year and one active referral had been carried forward from prior years. Three of the nine remained on active referral at year end.

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

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

Report of Independent Certified Public Accountants

To the Board of Directors of
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (the Corporation) as of December 31, 2003, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, NY
March 3, 2004

Securities Investor Protection Corporation

Statement of Financial Position
as of December 31, 2003

ASSETS	
Cash	$ 525,834
U.S. Government securities, at fair value and accrued interest receivable ($17,877,018); (amortized cost $1,165,917,060) (Note 6)	1,248,591,018
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($298,999,105) (Note 4)	35,000,000
Prepaid benefit costs (Note 8)	1,146,236
Other	663,634
	$1,285,926,722
LIABILITIES AND NET ASSETS	
Advances to trustees - in process (Note 4)	$ 14,939
Accrued benefit costs (Note 8)	3,511,858
Accounts payable and other accrued expenses	547,649
Estimated costs to complete customer protection proceedings in progress (Note 4)	60,400,000
	64,474,446
Net assets	1,221,452,276
	$1,285,926,722

Statement of Activities
for the year ended December 31, 2003

Revenues:	
Interest on U.S. Government securities	$ 63,774,335
Member assessments (Note 3)	1,083,178
	64,857,513
Expenses:	
Salaries and employee benefits (Note 8)	5,329,547
Legal and accounting fees (Note 4)	296,571
Credit agreement commitment fee (Note 5)	1,409,071
Rent (Note 5)	495,297
Other	1,737,052
	9,267,538
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(10,605,849)
	(1,338,311)
Total net revenues	66,195,824
Realized and unrealized loss on U.S. Government securities (Note 6)	(36,264,061)
Increase in net assets	29,931,763
Net assets, beginning of year	1,191,520,513
Net assets, end of year	**$1,221,452,276**

The accompanying notes are an integral part of these statements.

Securities Investor Protection Corporation

Statement of Cash Flows for the year ended December 31, 2003

Operating activities:	
Interest received from U.S. Government securities	$ 56,058,824
Member assessments received	1,013,178
Advances paid to trustees	(34,657,863)
Recoveries of advances	4,778,652
Salaries and other operating activities expenses paid	(9,322,073)
Net cash provided by operating activities	17,870,718
Investing activities:	
Proceeds from sales of U.S. Government securities	133,588,375
Purchases of U.S. Government securities	(151,978,377)
Purchases of furniture and equipment	(405,818)
Net cash used in investing activities	(18,795,820)
Decrease in cash	(925,102)
Cash, beginning of year	1,450,936
Cash, end of year	**$ 525,834**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Organization and general

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 $1,249,116,852.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed $1 billion. In addition, SIPC maintains a $1 billion revolving line of credit with a consortium of banks.

3. Member assessments

For calendar year 2003 each member's assessment is $150. Assessments received in advance will be applied to future assessments, or refunded to the member after it fulfills certain requirements.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 41 proceedings in progress at December 31, 2003. Customer claims have been satisfied in 32 of these proceedings and in 9 proceedings customer claims and distributions are being processed.

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

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

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

SIPC has advanced a net of $334.1 million for proceedings in progress (including direct payment proceedings of $.1 million) to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $299.0 million is not expected to be recovered.

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

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year		$65,900,000
Add:		
Provision for current year recoveries	$ 4,800,000	
Provision for estimated future recoveries	35,000,000	
Provision for estimated costs to complete proceedings		28,600,000
Less:		
Recoveries	4,800,000	
Advances to trustees		34,100,000
Balance, at year end	$35,000,000	$60,400,000

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

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

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

5. Commitments

Future minimum annual rentals for office space under a ten-year lease, expiring August 31, 2005 are as follows: 2004 - $437,628; 2005 - $291,752; for a total of $729,380 as of December 31, 2003. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease.

On June 25, 2003, SIPC signed a five-year lease for additional office space in Fairfax Virginia, expiring July 31, 2008. Future minimum rentals for the space are as follows: 2004 - $85,050; 2005 - 87,601; 2006 - $90,230; 2007 - $92,936; 2008 - $55,150; for a total of $410,967 as of December 31, 2003. Additional rental is based on increases in operating expenses, including real estate taxes.

On March 31, 1999, SIPC entered into a $1 billion credit agreement with a consortium of banks, consisting of (i) a $250 million 364-day revolving credit facility with a commitment fee of .09% per year, and (ii) a $750 million 5-year revolving credit facility at .11% per year. Effective March 31, 2000, this agreement was amended to extend the $1 billion facilities forward one year with the same commitment fee rate.

On March 29, 2001, SIPC entered into a new $250 million 364-day revolving credit facility with a consortium of banks. This facility requires SIPC to pay a commitment fee of .09% per year. This facility was renewed on March 28, 2002 with the same commitment fee rate.

In March of 2004, these existing lines of credit were terminated by SIPC. On that same date, SIPC entered into a new $1 billion credit agreement with a consortium of banks, consisting of (i) a $500 million 364-day revolving credit facility with a commitment fee of .09% per year, and (ii) a $500 million 3-year revolving credit facility at .11% per year. Additionally, fees ranging from .2% to .3% were paid to certain banks based on the level of their commitment to this new agreement.

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, 2003.

U.S. Government securities as of December 31, 2003, included gross unrealized gains of $84,107,721 and gross unrealized losses of $1,433,763.

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

Increase in net assets	$29,931,763
Realized and unrealized loss on U.S. Government securities	36,264,061
Net increase in estimated recoveries of advances to trustees	(35,000,000)
Increase in amortized premium on U. S. Government securities	(8,267,093)
Net decrease in estimated cost to complete customer protection proceedings	(5,500,000)
Increase in prepaid expenses	(711,051)
Decrease in accrued interest receivable on U.S. Government securities	471,668
Increase in accounts payables and accrued expenses	417,807
Depreciation	107,274
Other reconciling items	156,289
Net cash provided by operating activities	$17,870,718

8. Pensions and Other Postretirement Benefits

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

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

	Pension Benefits	Other Postretirement Benefits
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$12,816,581	$3,835,521
Service cost	487,894	185,915
Interest cost	820,435	247,817
Actuarial loss (gain)	1,387,771	(568,803)
Benefits paid	(370,437)	(38,771)
Benefit obligation at end of year	$15,142,244	$3,661,679
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 8,135,785	-
Actual return on plan assets	2,221,012	-
SIPC contributions	1,500,000	-
Benefits paid	(370,437)	-
Fair value of plan assets at end of year	$11,486,360	-
Funded status	$ (3,655,884)	$(3,661,679)
Unrecognized actuarial loss	4,637,770	149,821
Unrecognized prior service credit	(22,902)	-
Unrecognized prior service cost	187,252	-
Prepaid (accrued) benefit cost	$ 1,146,236	$(3,511,858)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31, 2003		
Discount rate	6.00%	6.00%
Expected return on assets	8.00%	-
Rate of compensation increase	5.00%	-

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. This rate was assumed to decrease gradually to 5% by 2009 and remain at that level thereafter.

	Pension Benefits	Other Postretirement Benefits
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 487,894	$185,915
Interest cost	820,435	247,817
Amortization of unrecognized actuarial loss	347,905	33,116
Amortization of prior service credit	(7,634)	-
Amortization of prior service cost	20,806	-
Expected return on assets	(710,303)	-
Benefit cost	$ 959,103	$466,848
DEFINED CONTRIBUTION PLAN		
SIPC contributions (60% of employee contributions, up to 3.6% of salary)	$109,441	

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

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components in 2003	$120,000	$ (90,000)
Effect on postretirement benefit obligation as of December 31, 2003	$750,000	$(620,000)

APPENDIX I

Distributions for Accounts of Customers for the Thirty-three Years Ended December 31, 2003

(In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			
		Advances*	**Recoveries***	**Net**	**Total**
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	608,444	40,785	(5,812)	34,973	643,417
2003	(643,242)△	22,729	(4,425)	18,304	(624,938)
	$13,587,683	**$671,574**	**$(247,666)**	**$423,908**	**$14,011,591**

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

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

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

APPENDIX II Customer Protection Proceedings

PART A: Customer Claims and Distributions Being Processed [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Churchill Securities, Inc. Suffern, NY (Edwin B. Mishkin, Esq.)	7/13/79	11/30/99	12/13/99	5,200	847	525
Spectrum Investment Services, Inc. Mishawaka, IN (SIPC)	12/20/94	1/16/01	1/16/01	3,833	235	57
Rocky Mountain Securities & Investments, Inc. Denver, CO (John D. Shively, Esq.)	8/22/80	2/06/03	2/06/03	5,426	653	3,837
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	7/24/00	2/05/03	2/10/03	2,278	298	12
Weatherly Securities Corporation New York, NY (SIPC)	9/08/82	5/05/03	5/05/03	11,157	164	1
Cybervest Securities, Inc. Ft. Lauderdale, FL (SIPC)	8/13/96	4/21/03	5/28/03	1,066	79	
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	9/08/03	9/08/03	18,281	357	
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	71	
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356		
TOTAL 9 MEMBERS: PART A				**67,233**	**2,704**	**4,432**

December 31, 2003

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$10,962,729	$1,781,144		$ 9,181,585	
$ 83,768	$ 4,254	$ 79,514	3,352,755	387,922		2,627,790	$ 337,043
58,644,545	58,300,000	344,545	6,176,069	788,542		4,887,000	500,527
59,735	59,735		4,924,720	1,578,855		3,000,128	345,737
			49,284	35,000			14,284
			139,170	139,170			
99,173		99,173	50,000	50,000			
			120,000	120,000			
			10,000	10,000			
$58,887,221	**$58,363,989**	**$523,232**	**$25,784,727**	**$4,890,633**		**$19,696,503**	**$1,197,591**

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Adler, Coleman Clearing Corp. New York, NY (Edwin B. Mishkin, Esq.)	12/27/84	2/27/95	2/27/95	102,000	19,841	59,650
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	7/16/81	10/16/95	10/17/95	2,866	139	20
MBM Investment Corporation Houston, TX (Tony M. Davis, Esq.)	9/02/92	6/03/96	6/03/96	797	49	33
A. R. Baron & Co., Inc. New York, NY (James W. Giddens, Esq.)	11/04/91	7/03/96	7/11/96	7,826	555	264
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	1/17/86	8/28/96	8/28/96	2,067	134	24
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	1/08/87	1/24/97	1/29/97	22,630	3,378	349
Vision Investment Group, Inc. Williamsville, NY (SIPC)	3/01/91	2/03/97	2/03/97	1,739	153	67
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	9/03/77	3/06/97	3/10/97	11,097	5,416	5,297

December 31, 2003

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 741,465,962	$ 711,744,281	$29,721,681	$ 8,000,000			$ 4,000,000	$ 4,000,000
5,060,761	860,265	4,200,496	6,392,963	$ 6,392,963			
1,606,964	886,282	720,682	10,805,156	2,124,078		7,438,470	1,242,608
11,023,731	2,360,981	8,662,750	9,158,158	9,158,158			
672,468	14,999	657,469	3,394,953	668,650		1,547,458	1,178,845
11,935,123	8,075,332	3,859,791	15,991,845	7,916,513		628,452	7,446,880
8,767	8,730	37	327,435	40,105		168,520	118,810
358,947,663	351,482,341	7,465,322	35,413,719	10,088,059		23,314,669	2,010,991

APPENDIX II Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
W. S. Clearing Inc. Glendale, CA (Charles D. Axelrod, Esq.)	6/26/91	3/07/97	3/12/97	25,600	6,658	22,726
Cygnet Securities, Inc. Waldwick, NJ (John J. Gibbons, Esq.)	8/30/91	8/26/97	8/26/97	346	61	16
Selheimer & Co. Ambler, PA (SIPC)	9/17/67		9/08/97† 6/28/02 *	84	11	3
CPA Advisors Network, Inc. Providence, RI (Edward J. Bertozzi Jr., Esq.)	10/27/80	12/29/98	2/12/99	1,400	72	45
Duke & Co., Inc. New York, NY (Elizabeth Page Smith, Esq.)	11/02/79	3/19/99	3/24/99	24,000	528	21
John Dawson & Associates Chicago, IL (J. William Holland, Esq.)	10/30/72	4/08/99	4/13/99	6,750	126	26
R. D. Kushnir & Co. Northbrook, IL (SIPC)	4/14/89	6/02/99	7/14/99	13,328	56	5
GFB Securities, Inc. East Meadow, NY (Gilbert Backenroth, Esq.)	10/24/94	9/14/99	9/15/99	3,368	160	9

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

December 31, 2003

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 213,129,344	$ 207,839,387	$ 5,289,957	$ 9,941,953	$ 2,610,075		$ 7,331,878	
144,223		144,223	2,908,495	462,879		1,579,580	$ 866,036
			282,860	31,702		162,195	88,963
8,238,060	6,841,824	1,396,236	(395,514)			(395,514)	
349,131	29,714	319,417	1,016,259	699,830		12,976	303,453
1,276,908	1,276,908		5,232,656	4,558,863		673,793	
868,901	497,052	371,849	3,206,011	2,310,681		449,319	446,011
704,139	292,464	411,675	1,467,798	894,957		572,841	

APPENDIX II Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,535	9,738
Bestrade, Inc., f/k/a/ Bluestone Securities, Inc. El Monte, CA (SIPC)	11/04/97	3/02/00	3/02/00	1,804	18	3
New Times Securities Services, Inc., and New Age Financial Services, Inc. Melville, NY (James W. Giddens, Esq.)	4/19/95	2/16/00	5/18/00	3,668	898	331
Meridian Asset Management, Inc. Tallahassee, FL (SIPC)	9/25/91	7/26/00	7/31/00	1,173	117	9
Klein, Maus & Shire, Inc. New York, NY (Irving H. Picard, Esq.)	10/02/87	8/28/00	9/06/00	750	66	22
MPI Financial Columbus, OH (SIPC)	3/10/98	1/29/01	1/29/01	4,780	229	19
Cambridge Capital, LLC Garden City, NY (SIPC)	4/11/97	1/24/01	2/02/01	2,745	154	35
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	5/08/89	2/26/01	3/06/01	26,395	7,117	6,598

December 31, 2003

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 359,460,079	$ 353,191,553	$ 6,268,526	$ 33,785,531	$ 4,915,548		$ 12,660,094	$16,209,889
46,626	32,500	14,126	274,090	144,885		129,205	
1,090,493		1,090,493	22,443,507	3,186,820		12,899,167	6,357,520
30,447	2,200	28,247	1,459,929	117,227		1,182,702	160,000
			4,024,212	885,366		2,632,554	506,292
			984,479	49,569		470,052	464,858
5,362		5,362	2,316,489	702,289		1,474,876	139,324
108,813,597	105,687,792	3,125,805	8,577,875	4,489,700			4,088,175

APPENDIX II Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
MJK Clearing, Inc. Minneapolis, MN (James P. Stephenson, Esq.)	4/01/81	9/27/01	9/27/01	210,500	26,946	172,915
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos-Bonet, Esq.)	10/24/60	10/17/01	10/17/01	1,903	36	14
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	5/15/96	10/30/01	10/30/01	22,879	330	13
Krieger Financial Services, Inc. Delray Beach, FL (Howard J. Berlin, Esq.)	9/09/98	11/01/01	11/01/01	1,355	97	2
Montrose Capital Management Ltd. New York, NY (Irving H. Picard, Esq.)	5/29/97	12/05/01	12/07/01	2,032	49	10
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	313	23
Mason Hill & Co., Inc. New York, NY (SIPC)	11/28/95	3/27/02	3/27/02	1,580	69	10
The Regency Group, Inc. New York, NY (SIPC)	11/23/98	5/03/02	5/03/02	2,611	103	11
TOTAL 32 MEMBERS: PART B				542,547	78,414	278,308

December 31, 2003

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 9,928,941,866	$ 9,912,645,820	$16,296,046	$111,281,087	$ 4,248,996		$ 93,142,347	$13,889,744
33,033		33,033	1,042,999	230,075			812,924
96,012		96,012	2,882,568	485,298		2,001,910	395,360
			1,820,427	1,420,427		400,000	
80,992		80,992	1,371,910	452,906		519,702	399,302
			1,605,489	256,918			1,348,571
2,208	1,671	537	1,214,441	221,497		863,630	129,314
			95,261	83,297		11,964	
$11,754,032,860	**$11,663,772,095**	**$90,260,765**	**$308,325,041**	**$69,848,331**		**$175,872,840**	**$62,603,870**

APPENDIX II Customer Protection Proceedings

PART C: Proceedings Completed in 2003 [a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Total Customer Claims Satisfied
Primeline Securities Corporation Wichita, KS (Todd Connell, Esq.)	12/20/84	1/09/98	1/09/98	4,453	251	31
Chimneyville Investments Group, Incoporated Jackson, MS (SIPC)	1/25/95	9/01/98	9/03/98	168	34	13
Texas Capital Securities Houston, TX (Direct Payment)	11/15/89		11/17/99†	4,216	85	6
First Madison Securities, Inc. Boca Raton, FL (Direct Payment)	10/13/95		8/24/01†	647	32	5
Thomas M. Couch, Inc. d/b/a Couch & Co., Inc. New York, NY (Direct Payment)	10/03/86		9/07/01†	2,150	88	5
Millennium Securities Corp New York, NY (Direct Payment)	3/16/93		2/12/02†	7,054	115	4
J.P. Gibbons & Co., Inc. New York, NY (Direct Payment)	5/17/96		7/22/02†	1,163	46	5
Capital Planning Associates, Inc. South Plainfield, NJ (Direct Payment)	5/14/84		8/05/02†	1,843	35	5
TOTAL 8 MEMBERS 2003				**21,694**	**686**	**74**
TOTAL 262 MEMBERS 1973-2002(d)				**1,403,493**	**360,858**	**345,053**
TOTAL 270 MEMBERS 1973-2003				**1,425,187**	**361,544**	**345,127**

†Date notice published

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,068,642	$ 540,846	$ 527,796	$ 726,123	$ 726,123			
749,855	714,408	35,447	298,488	191,562			$ 106,926
			255,482	19,979			235,503
			210,458	14,663		$ 162,733	33,062
24,200	24,200		91,789	18,798		39,287	33,704
			475,698	63,711		267,734	144,253
2,608	2,608		40,469	12,591		15,767	12,111
237	237		48,291	14,345		30,937	3,009
1,845,542	**1,282,299**	**563,243**	**2,146,798**	**1,061,772**		**516,458**	**568,568**
2,044,883,847	**1,864,264,460**	**180,619,387**	**250,980,387**	**87,527,809**	**$1,388,932**	**66,323,299**	**95,740,347**
$2,046,729,389	**$1,865,546,759**	**$181,182,630**	**$253,127,185**	**$88,589,581**	**$1,388,932**	**$66,839,757**	**$96,308,915**

APPENDIX II

Customer Protection Proceedings

PART D: Summary

			Customers (b) To Whom Notices and Claim Forms Were Mailed	Responses (b) Received	Customers(b) Receiving Distributions
Part A:	9	Members — Customer Claims and Distributions Being Processed	67,233	2,704	4,432
Part B:	32	Members — Customer Claims Satisfied, Litigation Matters Pending	542,547	78,414	278,308
		Sub-Total	609,780	81,118	282,740
Part C:	270	Members — Proceedings Completed	1,425,187	361,544	345,127
		TOTAL	**2,034,967**	**442,662**	**627,867**

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, 2003

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 58,887,221	$ 58,363,989	$ 523,232	$ 25,784,727	$ 4,890,633		$ 19,696,503	$ 1,197,591
11,754,032,860	11,663,772,095	90,260,765	308,325,041	69,848,331		175,872,840	62,603,870
11,812,920,081	11,722,136,084	90,783,997	334,109,768	74,738,964		195,569,343	63,801,461
2,046,729,389	1,865,546,759	181,182,630	253,127,185	88,589,581	$1,388,932	66,839,757	96,308,915
$13,859,649,470	**$13,587,682,843**	**$271,966,627**	**$587,236,953**	**$163,328,545**	**$1,388,932**	**$262,409,100**	**$160,110,376**

APPENDIX III Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2003

	2003	2002	2001	2000	1999
Revenues:					
Interest on U.S. Government securities	$63,770,520	$66,526,852	$ 71,308,629	$72,373,421	$ 71,424,040
Member assessments and contributions	1,083,178	1,050,096	1,083,173	1,108,632	1,136,318
Interest on assessments	3,815	4,630	6,507	2,643	3,149
	64,857,513	67,581,578	72,398,309	73,484,696	72,563,507
Expenses:					
Salaries and employee benefits	5,329,547	4,495,570	4,234,246	3,516,593	3,119,030
Legal fees	261,121	71,382	93,435	225,684	375,095
Accounting fees	35,450	72,298	87,439	29,000	26,400
Credit agreement commitment fee	1,409,071	1,228,902	1,258,049	1,244,268	1,412,722
Professional fees—other†	274,056	506,555	165,489	105,492	177,694
Other:					
Assessment collection cost	5,257	7,731	7,339	8,705	8,038
Depreciation and amortization	107,274	101,059	115,669	106,520	122,639
Directors fees and expenses	42,114	19,112	20,436	35,773	20,997
Insurance	23,955	20,370	28,820	20,367	19,809
Investor education†	172,518	253,217	129,563	53,522	
Office supplies and expense△	205,608	117,859	79,698	77,172	70,930
EDP and internet expenses△	346,386	134,058	137,185	159,446	154,895
Postage	16,773	18,540	14,858	13,639	17,134
Printing & mailing annual report	35,457	37,484	37,131	36,542	38,000
Publications and reference services	149,526	137,275	128,493	92,175	94,789
Rent—office space	495,297	483,757	475,010	447,309	430,353
Telephone	40,055	28,439	31,672	30,275	24,008
Travel and subsistence	146,201	153,887	245,435	225,124	160,739
Personnel recruitment△	160,923	37,191	27,594		
Miscellaneous	10,949	8,889	7,004	13,828	9,582
	1,958,293	1,558,868	1,485,907	1,320,397	1,171,913
	9,267,538	7,933,575	7,324,565	6,441,434	6,282,854
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities*	14,942,466	529,017	105,096,495	21,697,329	17,018,1436
Cash*	2,002,437	29,402,976	6,321,647	291,122	19,785,643
	16,944,903	29,931,993	111,418,142	21,988,451	36,803,78
Administration expenses	10,186,525	8,455,180	7,556,143	12,009,397	9,061,034
	27,131,428	38,387,173	118,974,285	33,997,848	45,864,820
Net change in estimated future recoveries	(35,000,000)	16,000,000	(14,400,000)	1,750,000	(1,350,000)
	(7,868,572)	54,387,173	104,574,285	35,747,848	44,514,820
SIPC as Trustee:					
Securities	507,105	4,078,910	1,687,819	1,004,794	1,509,251
Cash	354,548	532,294	152,839	(162,720)	1,464,091
	861,653	4,611,204	1,840,658	842,074	2,973,342
Administration expenses	1,369,116	1,076,410	882,629	1,166,120	169,902
	2,230,769	5,687,614	2,723,287	2,008,194	3,143,24
Direct payments:					
Securities	351,208	169,026	38,923	83,135	
Cash	166,612	260,727	144,368	2,919	123,190
	517,820	429,753	183,291	86,054	123,190
Administration expenses	14,134	97,713	90,019	94,963	16,993
	531,954	527,466	273,310	181,017	140,183
Net change in estimated cost to complete proceedings	(5,500,000)	3,100,000	3,900,000	5,300,000	14,000,000
	(10,605,849)	63,702,253	111,470,882	43,237,059	61,798,247
	(1,338,311)	71,635,828	118,795,447	49,678,493	68,081,101
Total net (expenses) revenues	66,195,824	(4,054,250)	(46,397,138)	23,806,203	4,482,406
Realized and unrealized gain or (loss) on U.S. Government securities	(36,264,061)	60,876,221	21,344,414	59,031,530	(85,017,167)
Increase (decrease) in net assets	**$29,931,763**	**$56,821,971**	**$(25,052,724)**	**$82,837,733**	**$(80,534,761)**

*1999 Securities and Cash advances restated within those categories

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

△1999–2002 Office supplies & expense, EDP and interest expense, and Personnel recruitment restated within those categories

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