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)