

ANNUAL

1991

REPORT



SECURITIES INVESTOR PROTECTION CORPORATION



**SECURITIES INVESTOR PROTECTION CORPORATION**  
**805 FIFTEENTH STREET, N.W. SUITE 800**  
**WASHINGTON, D.C. 20005-2207**  
**(202) 371-8300**

April 30, 1992

The Honorable Richard C. Breeden  
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 Twenty-first 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,

A handwritten signature in black ink, appearing to read "James G. Stearns". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James G. Stearns  
Chairman

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

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

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



SIPC begins 1992 in the strongest financial position in our history. At the end of the year, the SIPC Fund balance was over \$678 million, and SIPC had two major achievements in 1991 designed to assure that we have the resources to promote investor confidence and to protect customers of SIPC members in the future.

The SIPC Board of Directors' decision to build the SIPC Fund to \$1 billion was implemented by the adoption in September of a new bylaw on assessments which will bring the SIPC Fund to the target balance of \$1 billion by April 1, 1997. SIPC will also substantially increase its available resources through an increase in its line of credit with a consortium of banks to \$1 billion. The confirmed line of credit of \$1 billion, twice the previous amount, will be in place in the second quarter of 1992.

The innovative approach to assessments taken in the new assessment bylaw was the result of the recommendations of the Task Force on Assessments appointed by the SIPC board to evaluate and develop recommendations on the assessment structure in order to build the SIPC Fund to \$1 billion. The Task Force was composed of a distinguished group of industry, government, and self-regulatory organization representatives. The Task Force recommended planned, steady growth by setting the assessment rate for each year based on projections of SIPC's expenses, interest income, industry earnings, and other relevant factors. The assessment rate will be set so as to achieve an annual fund growth of ten percent.

The modest rate of customer protection proceedings seen in recent years continued in 1991. In the year, SIPC was called upon to act to protect customers of only eight small members in six states across the nation. Three of those members met the criteria for SIPC to act as trustee and one was an "out-of-court" direct payment proceeding.

In May, John H. "Hank" Moelter, Senior Vice President, retired after 18 years of service at SIPC. Hank brought to SIPC a uniquely valuable combination of talents, common sense, accounting and finance expertise, and industry experience. We will miss Hank, but SIPC will continue to benefit from his many contributions to the SIPC program.

James G. Stearns  
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 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail 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, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The self-regulatory organization—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 protec-



tion proceeding. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 33, 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.

\*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.

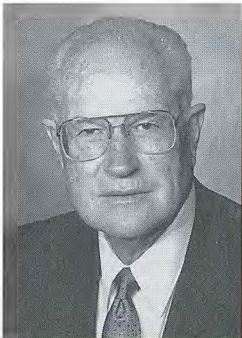
Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.

*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.*

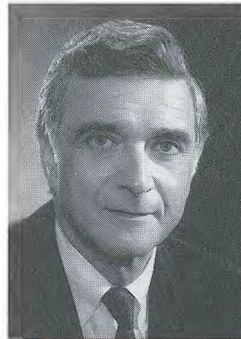




JAMES G. STEARNS  
*Chairman*



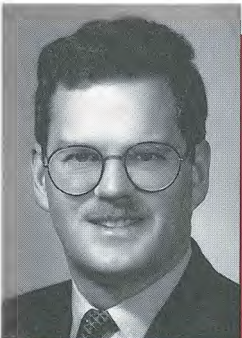
JESSE D. WINZENRIED  
*Vice Chairman*



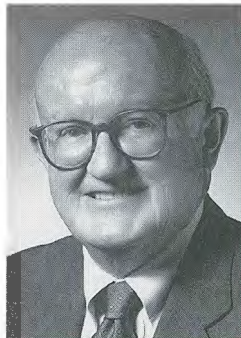
FRANK G. ZARB  
Chairman &  
Chief Executive Officer  
Smith Barney, Harris  
Upham & Co., Inc.



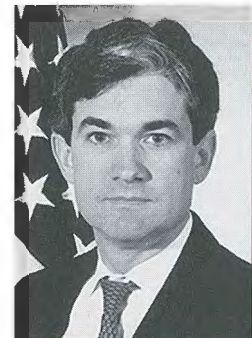
MICHAEL J. PRELL  
Director, Division of Research and  
Statistics  
Board of Governors of the Federal  
Reserve System



THOMAS J. HEALEY  
Partner  
Goldman Sachs & Co.



GEORGE H. PFAU, JR.  
Senior Vice President  
PaineWebber Incorporated



JEROME H. POWELL  
Assistant Secretary  
for Domestic Finance  
Department of the Treasury

Officers

THEODORE H. FOCHT  
President & General Counsel

MICHAEL E. DON  
Deputy General Counsel & Secretary

JOSEPH F. MARINO  
Vice President—Operations & Finance

## Customer Protection Proceedings

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

—Preamble to SIPA

Customer protection proceedings were initiated for eight SIPC members in 1991, bringing the total since SIPC's inception to 228 proceedings commenced under SIPA. The 228 members represent less than 1 percent of the approximately 28,800 broker-dealers that have been SIPC members during the last 21 years. Currently, SIPC has 8,153 members.

The eight new cases compare with eight commenced in 1990. Over the last ten-year period, the annual average of new cases was eight.

Trustees other than SIPC were appointed in four of the cases commenced during the year. SIPC serves as trustee in three cases and the other case is a direct payment proceeding. SIPC members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
John M. Sorenson & Co., Inc. Houston, Texas (SIPC)	1/22/91
Faitos & Co., Inc. Huntington, New York (Irving H. Picard, Esq.)	2/27/91
Gateway Securities, Inc. Greenwich, Connecticut (SIPC)	4/23/91
C. J. Wright & Company, Inc. Ocala, Florida (K. Rodney May, Esq.)	4/24/91
Pilgrim Planning Associates, Inc. Easton, Pennsylvania (SIPC)	5/23/91
Affiliated Security Brokers, Inc. Tyler, Texas (Wayne M. Secore, Esq.)	9/12/91
Cooper-Daher Securities, Inc. San Francisco, California (Direct Payment)	9/13/91*
T. L. Reed Securities, Inc. Irving, Texas (Jack L. Kinzie, Esq.)	10/08/91

\*Date notice published

Of the 228 proceedings begun under SIPA to date, 183 have been completed, 37 involve pending litigation matters, and claims in 8 are being processed (See Figure I and Appendix II).

During SIPC's twenty-one year history, cash and securities distributed for accounts of customers aggregated approximately \$1.8 billion. Of that amount, approximately \$1.6 billion came from debtors' estates and \$174 million came from the SIPC Fund (See Appendix I).

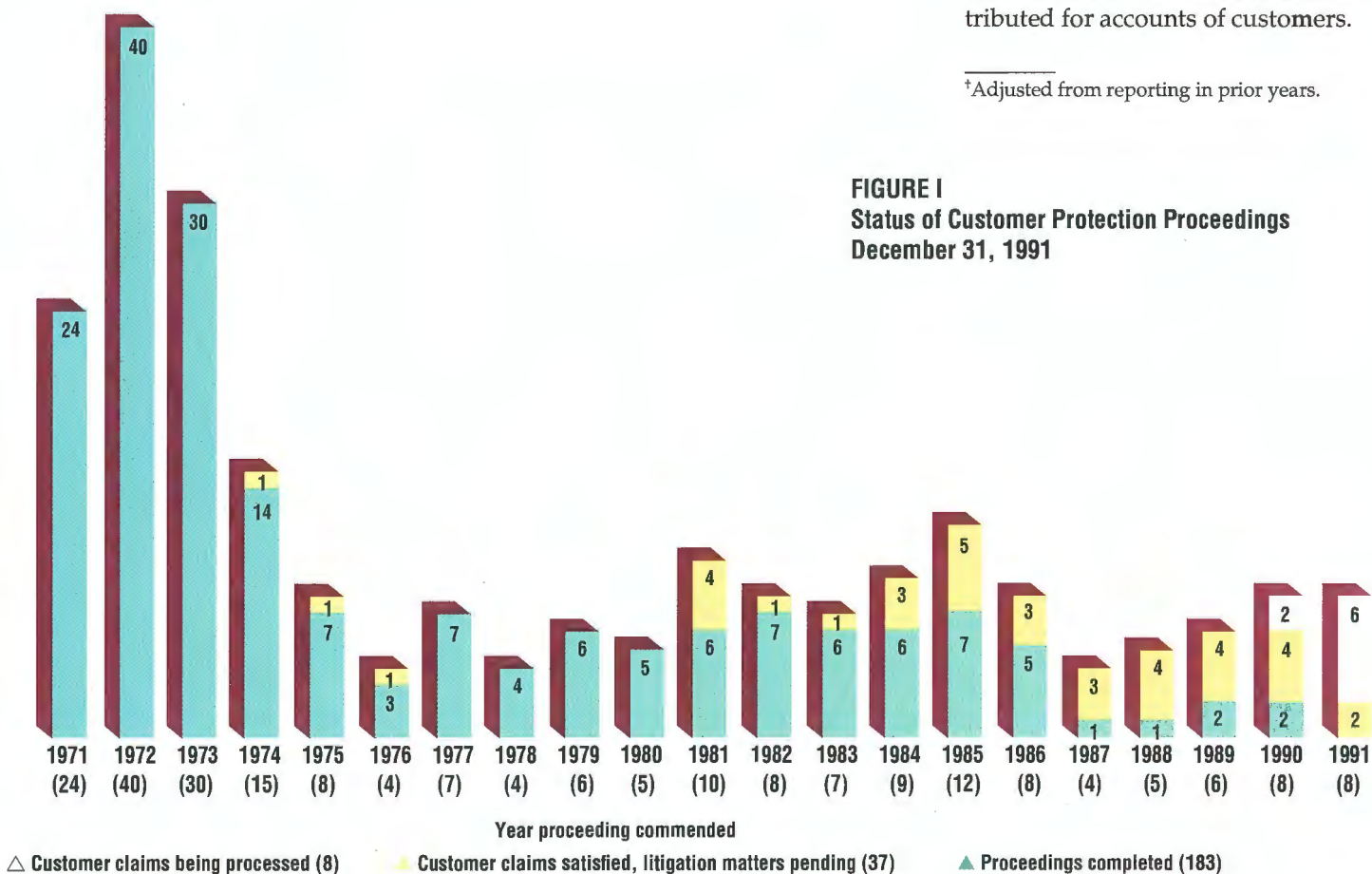
### Claims over the Limits

Of the more than 329,000<sup>†</sup> claims satisfied as of December 31, 1991, a total of 292 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 292 claims, a net decrease of one during 1991, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$21.2 million, decreased approximately \$3.3 million during 1991. These remaining claims approximate one percent of the total value of securities and cash distributed for accounts of customers.

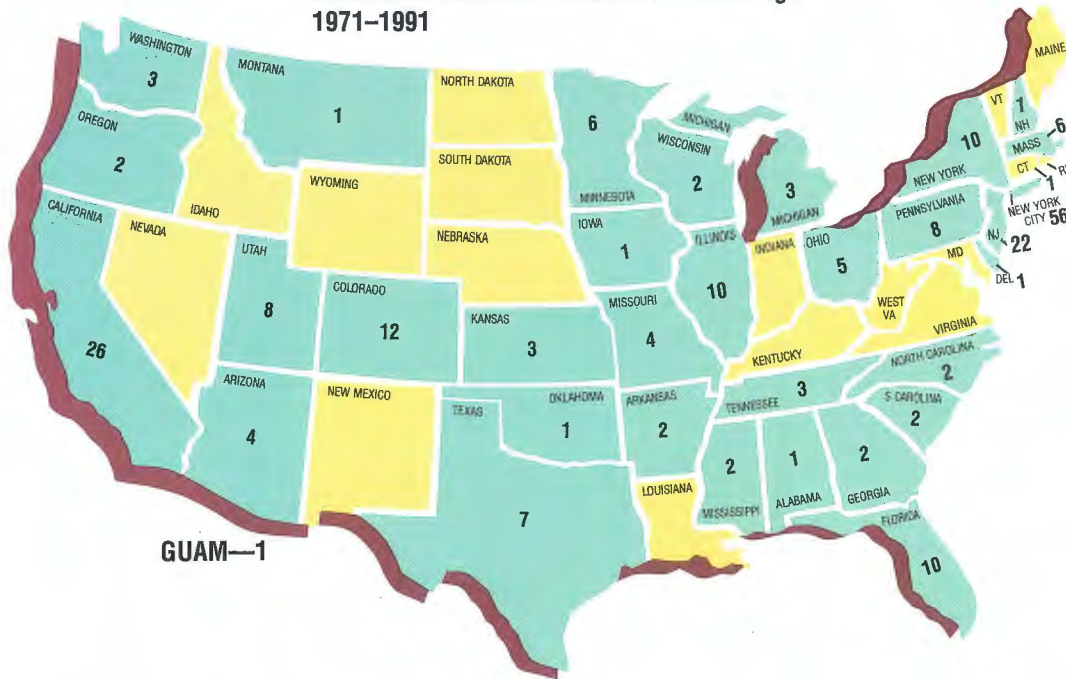
<sup>†</sup>Adjusted from reporting in prior years.

**FIGURE I**  
Status of Customer Protection Proceedings  
December 31, 1991





**FIGURE 2**  
**Location of Customer Protection Proceedings**  
**1971-1991**



**SIPC Fund Advances**

Table I shows that the 43 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for 84 percent of the total advanced in all 228 customer protection proceedings. The largest net advance in a single liquidation is \$31.7 million for Bell & Beckwith. This exceeds the net advances in the 162 smallest proceedings combined.

In eleven proceedings SIPC advanced \$130.9 million, or 55 percent of net advances from the SIPC Fund for all proceedings.

**TABLE I**  
**Net Advances from the SIPC Fund**  
**December 31, 1991**  
**228 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	4	\$ 86,460,265
5,000,001	\$10,000,000	7	44,437,901
1,000,001	5,000,000	32	67,364,858
500,001	1,000,000	23	16,346,979
250,001	500,000	33	11,034,085
100,001	250,000	50	8,134,016
50,001	100,000	38	2,725,418
25,001	50,000	19	701,200
10,001	25,000	8	115,547
0	10,000	10	36,089
Net recovery		4	(1,489,599)*
			<u>\$235,866,759†</u>

\*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 (\$174,834,104) and for administration expenses (\$61,032,655).

*Administration*

In January, 1991, President Bush nominated George H. Pfau, Jr., Senior Vice President, PaineWebber Incorporated, to serve as a SIPC director. After confirmation by the Senate, Mr. Pfau joined our board of directors as one of its industry members. Mr. Pfau has been associated with PaineWebber in its San Francisco office since 1978.

In May, 1991, J. H. "Hank" Moelter retired after eighteen years of loyal service to the corporation. At the time of his retirement Hank was serving as SIPC's Senior Vice President. Throughout his years with us he had assumed leadership roles in our Operations group. His knowledge and expertise were invaluable in developing and shaping the financial aspects of our work involving the liquidation proceedings of SIPC members.



## Membership and the SIPC Fund

"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 1,805 members during the year brought the total membership to 8,153 at December 31, 1991. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

**TABLE II**  
**SIPC Membership**  
**Year Ended December 31, 1991**

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,414	229	100
SIPC(b)	709	422(c)	2,566(d)
Chicago Board Options Exchange Incorporated	1,317	147	54
New York Stock Exchange, Inc.	710	56	9
American Stock Exchange, Inc.	456	52	76
Pacific Stock Exchange, Inc.	257	39	6
Philadelphia Stock Exchange, Inc.	151	13	39
Midwest Stock Exchange, Inc.	120	20	2
Boston Stock Exchange, Inc.	19	1	1
Administrative Adjustments		69	
	<u>8,153</u>	<u>1,048</u>	<u>2,853</u>

**Notes:**

- The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1991.
- 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.
- This number reflects the temporary status of broker-dealers between the effective date of registration under section 15(b) of the 1934 Act and membership in a self-regulatory organization.
- 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.



### Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).<sup>1</sup> As of December 31, 1991, there were 155 members who were subjects of uncured notices, 131 of which were mailed during 1991, 22 during 1990 and one each during 1989 and 1988. Subsequent filings and payments by 12 members left 143 notices uncured. SIPC has been advised by the SEC staff that: (a) 26 member registrations have been cancelled or are being withdrawn; (b) 24 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 3 are expected to cure their delinquencies; and (d) 90 are being contacted by its regional offices or the affected examining authorities.

### SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities, amounted to \$678.8 million at year end, an increase of \$110.2 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971

through 1991. The 1991 member assessments were \$38.9 million and interest from investments was \$47.1 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1991, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991) from the securities business.

Appendix III is an analysis of revenues and expenses for the five years ended December 31, 1991.

<sup>1</sup>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.



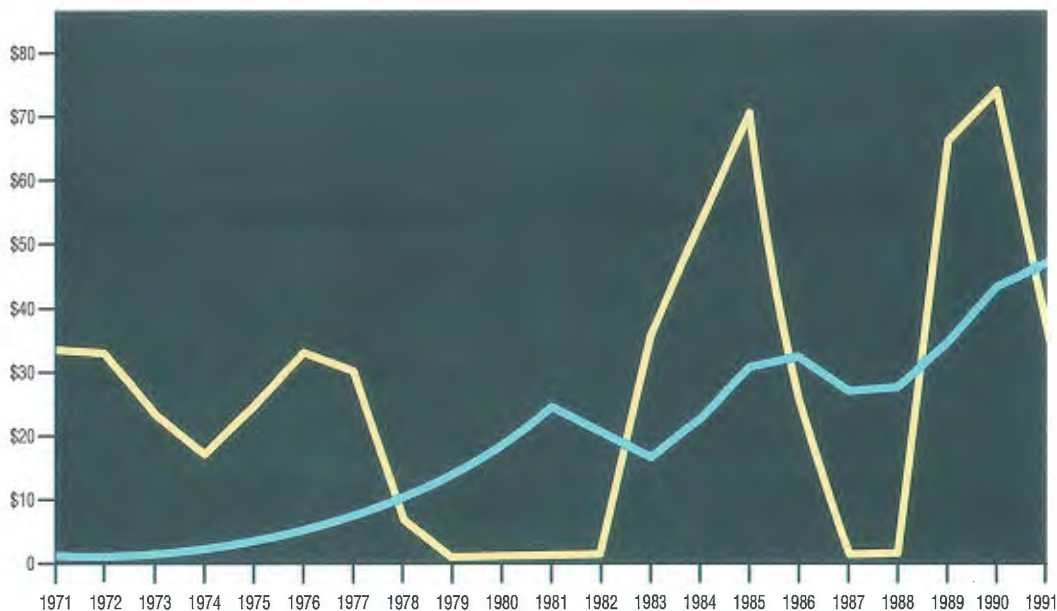
**TABLE III**  
**SIPC Revenues for the**  
**Twenty-one Years Ended**  
**December 31, 1991**

- Member assessments and contributions: \$567,039,908
- Interest on U.S. Government securities: \$405,525,759

**History of Member Assessments\***  
 1971: 1/2 of 1% plus an initial assessment of 1/6 of 1% of 1969 revenues, \$150 minimum.  
 1972-1977: 1/2 of 1%.  
 January 1-June 30, 1978: 1/4 of 1%.  
 July 1-December 31, 1978: None.  
 1979-1982: \$25 uniform annual assessment.  
 1983-March 31, 1986: 1/4 of 1% effective May 1, 1983 (\$25 minimum).  
 1986-1988: \$100 annual assessment.  
 1989-1990: 3/16 of 1% (\$150 minimum).  
 Fiscal years beginning in 1991: .065% of members' net operating revenues (\$150 minimum).

\*Rates based on each member's gross revenues (net operating revenues for 1991) from the securities business.

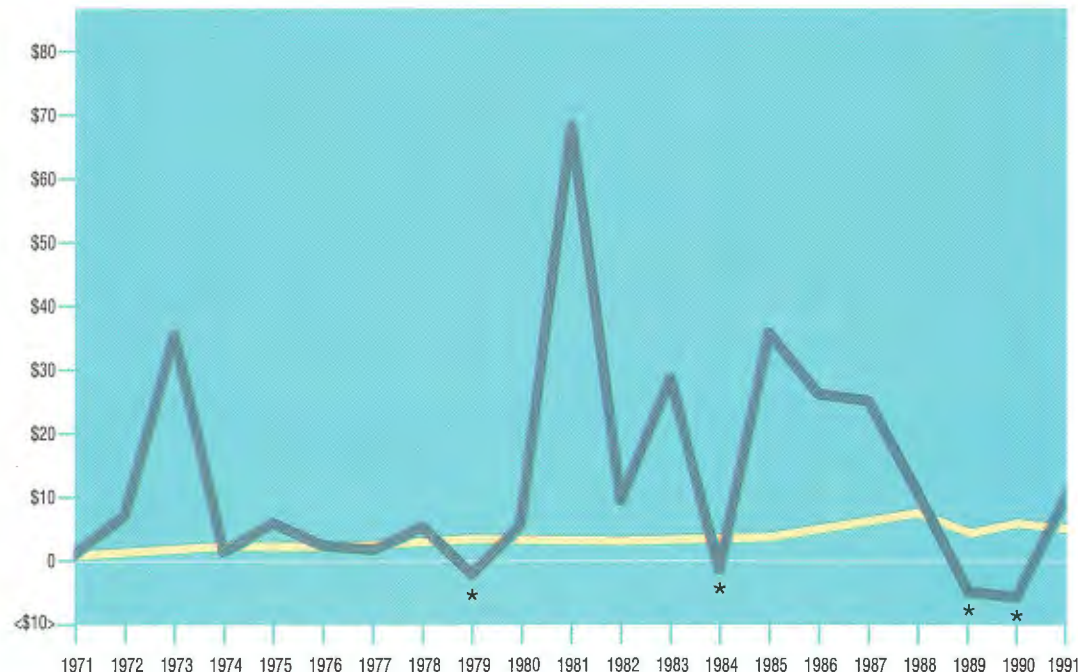
Millions of Dollars



**TABLE IV**  
**SIPC Expenses for the**  
**Twenty-one Years Ended**  
**December 31, 1991**

- Customer protection proceedings: \$257,366,759 (Includes net advances of \$235,866,759 less estimated future recoveries of \$3,400,000 and \$24,900,000 of estimated costs to complete proceedings.)
- Other expenses: \$62,575,788

Millions of Dollars



\* Net recoveries.



During 1991, SIPC and SIPC trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below.

In *SIPC v. Vigman*, No. 90-727 (Sup. Ct.), an action wherein SIPC and trustees for two broker-dealers in liquidation under SIPA alleged numerous violations of the antifraud provisions of the securities laws and of the Racketeer Influenced and Corrupt Organizations Act ("RICO") by various individuals, corporate entities related to them, and seven issuers of securities in which the two broker-dealers made markets, the United States Supreme Court granted the petition for certiorari on the issue whether SIPC need be a purchaser or seller of securities to have standing to bring the action under RICO. On March 24, 1992, without deciding this issue, the Court reversed on other grounds and remanded.

In *In re Bell & Beckwith (McKenny v. McGraw)*, 937 F.2d 1104 (6th Cir. 1991), the court of appeals affirmed the district court's decision and held, among other things, (i) that the method of allocation and distribution of customer property proposed by the SIPA trustee was in concert with SIPA and (ii) that SIPC may recapture overpayments to customers to the extent SIPC made advances to the trustee to satisfy the claims of such customers.

In *SIPC v. Blinder, Robinson & Co.*, No. 90-1233 (10th Cir.), the court of appeals heard an appeal on September 19, 1991 of an order of the district court which had initiated the debtor's liquidation proceeding over the objection of the broker-dealer, which had filed for reorganization under Chapter 11 of the Bankruptcy Code. The district court stated that the filing of the Chapter 11 petition was sufficient grounds to grant SIPC's application. On April 13, 1992, the court of appeals affirmed the district court's holding and added that the district court's resolution of SIPC's application within one day did not violate the debtor's constitutional due process of rights.

In *In re Government Securities Corp. (Camp v. National Union Fire Insurance Company)*, No. 90-5356 (11th Cir.), the court of appeals heard an appeal on

March 7, 1991, of an order of the district court which had affirmed the bankruptcy court's order and held that (i) section 541(c)(1)(B) of the Bankruptcy Code applies to SIPA liquidation proceedings and thereby invalidates the automatic termination provision in the debtor's securities dealer blanket bond and (ii) the SIPA trustee was entitled to seek coverage for a possible loss under the bond. 111 B.R. 1007 (S.D. Fla. 1990). A decision is pending.

In *In re Blinder, Robinson & Co., Inc. (Keller v. Blinder)*, \_\_\_ B.R. \_\_\_, 1991 WL 276061 (D. Colo., December 23, 1991), the district court held, among other things, that a claimant who files a customer claim in a SIPA liquidation proceeding waives the right to a jury trial in a related adversary proceeding initiated by the SIPA trustee.

Also, in *In re Blinder, Robinson & Co., Inc. (Intercontinental Enterprises, Inc. v. Keller)*, Civil Action No. 90-K-1670 (D. Colo., July 1, 1991), the district court held that, although the SIPA trustee and his counsel failed the disinterestedness standard of SIPA and although both the trustee and his counsel were not forthright in disclosing the potential problem (representation of a creditor) for independent court review before their appointment, the bankruptcy court's ultimate conclusion that the trustee and his counsel would not be disqualified will be upheld. The district court noted the exigencies of modern legal practice, counsel's subsequent withdrawal from representing the potential creditor, and the fact that the liquidation proceeding had progressed to the point that appointing a new trustee and counsel would be a major disruption.

In *In re Investment Bankers, Inc. (Turner v. Davis, Gillenwater & Lynch)*, Adv. Proc. 82-M-0087 (Bankr. D. Colo., August 9, 1991), the bankruptcy court held the trustee is entitled to prejudgment and postjudgment interest on the amounts set aside by the court as preferential and fraudulent transfers, which included fees paid by the debtor to its attorney to resist the SIPA liquidation petition.

In *In re Fitzgerald, DeArman & Roberts, Inc. (Newsome v. Culp)*, Case No. 88-01859-W (SIPA) (Bankr. N.D. Okla.,

July 15, 1991), the bankruptcy court applied the D'Oench, Duhme doctrine (i.e., one who signs a facially unqualified note subject to an unwritten and unrecorded condition upon its repayment that is likely to mislead the banking authorities is estopped from asserting want of consideration as a defense) in favor of the SIPA trustee and granted judgment to the trustee on a note against a person who issued the note in a scheme to mislead securities regulators about the debtor's financial condition.

In *In re Waddell Jenmar Securities, Inc. (Steinman v. SIPC)*, 126 B.R. 935 (Bankr. E.D.N.C. 1991), the bankruptcy court held, among other things (1) that the deposit of an endorsed in blank authorization to draw funds from another broker-dealer, with the debtor's principal, who entered as payee the name not of the debtor but of an entity related to the debtor, was the deposit of cash with the debtor and not with the related entity and the claimant was entitled to receive the cash back; (2) that claimants whose checks were made payable to, and deposited with, an entity related to the debtor for the purpose of purchasing securities are not customers under SIPA because the checks were not deposited with the debtor, even though both entities were controlled by the same individual; and (3) that a claimant failed to meet her burden of proof to reach the special status of "customer" because her check with the notation of "For Stock Market Investments" was "entirely too vague to identify any securities which were to have been purchased" and she did not present any other evidence as to the intended purchase.

In *In re Investors Center, Inc.*, No. 089-0017-21 (Bankr. E.D.N.Y., January 31, 1991), the bankruptcy court held that customer claims which are based on unexecuted sales are limited to the return of the securities when no written confirmation of the sale was sent to the customer. The court stated that SIPC rules "essentially codify prior judicial determinations and were intended by Congress to have the full force and effect of the law."

Also, in *In re Investors Center, Inc.*, 129 B.R. 339 (Bankr. E.D.N.Y. 1991), the bankruptcy court held that a claimant

## Disciplinary and Criminal Actions

had a claim for cash and not for securities, where the claimant received a sale confirmation and that a subsequent unilateral cancellation of the sale by the broker-dealer did not change the nature of the claim.

In *In re First Ohio Securities Co.*, Case No. 590-0072 (Bankr. N.D. Ohio, December 23, 1991), the bankruptcy court held that a claimant has a claim for cash and not for securities where the claimed securities never existed.

In *In re Oberweis Securities, Inc. (SIPC v. Oberweis Securities, Inc.)*, Civil Action No. 90C 3466 and Adv. No. 90A 0486 (Bankr. N.D. Ill., December 31, 1991), the bankruptcy court held that a claimant had a claim for cash but not a claim for dividends where the debtor never invested the cash in mutual funds as requested and the customer never received confirmation of the purchase of the mutual funds.

In a matter arising out of the Fitzgerald DeArman & Roberts liquidation proceeding, in *United States of America v. Kelly Diane Pflieger a/k/a Roberts*, Case No. 91-CR-115-B (N.D. Okla., November 13, 1991), a claimant who filed a false customer claim in the liquidation proceeding was convicted of violating SIPA, 15 U.S.C. §78jjj(c)(1)(C)(vi).

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.

As a result of SEC and self-regulatory action in 1991, eight persons associated with members subject to SIPC proceedings were barred from association with any broker or dealer.

### Criminal and Administrative Actions

Criminal action has been initiated in 85 of the 228 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 200 indictments have been returned in federal or state courts, resulting in 164 convictions to date. As of December 31, 1991, sentencing was pending against 1 person who had been convicted.

Administrative and/or criminal action in 219 of the 228 SIPC customer protection proceedings initiated through December 31, 1991, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	57
Exclusive SEC Administrative Action	35
Exclusive Self-Regulatory Administrative Action	42
Criminal and Administrative Action	78
Criminal Action Only	7
Total	<u>219</u>

In the 212 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 <sup>1</sup>	112	103
Bar from Association	332	200
Fines	Not Applicable	\$3,433,800

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 \$3,433,800 in fines assessed by self-regulatory authorities were levied against 85 associated persons and ranged from \$250 to \$450,000.

### Members in or Approaching Financial Difficulty

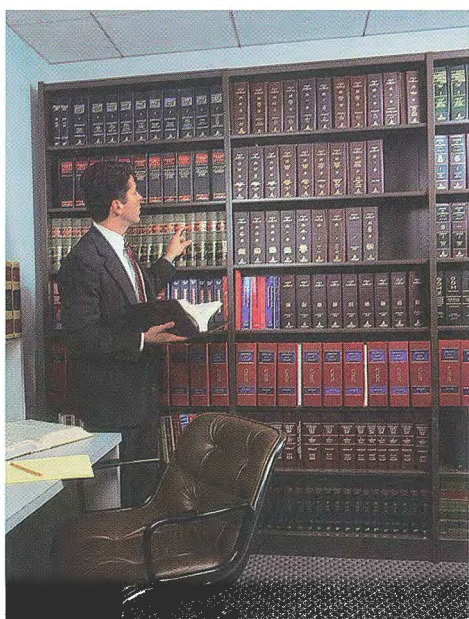
Section 5(a)(1) of SIPA requires the SEC or the self-regulatory organizations to immediately notify SIPC upon discovery of facts which indicate that a broker or dealer subject to their regulation is in or is approaching financial difficulty. The Commission, the securities exchanges and the NASD fulfill 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

SIPC maintained active files on 17 members referred under Section 5(a) during the calendar year 1991. Fourteen referrals were received during the year and 3 active referrals had been carried forward from prior years. Four of the 17 remained on active referral at year-end.

In addition to formal referral 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.

<sup>1</sup>Notices of suspension include those issued in conjunction with subsequent bars from association.





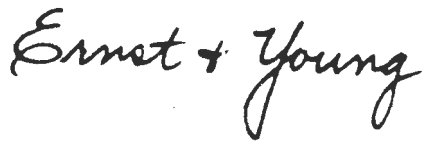
*Report of Ernst & Young  
Independent Auditors*

Board of Directors  
Securities Investor Protection Corporation

We have audited the accompanying statement of financial condition of Securities Investor Protection Corporation as of December 31, 1991, and the related statements of operations and fund balance 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 generally accepted auditing standards. 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 at December 31, 1991, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.



Washington, D.C.  
March 31, 1992

# Securities Investor Protection Corporation

## Statement of Financial Condition December 31, 1991

### ASSETS

Cash (Net of \$187,354 escrowed funds)	\$ 324,656
Estimated member assessments receivable (Note 3)	4,500,000
U.S. Government securities, at amortized cost and accrued interest receivable (\$12,656,023); (approximate market \$702,500,000)	678,444,553
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$141,715,301) (Note 4)	3,400,000
Other	271,465
	<hr/> <b>\$686,940,674</b>

### LIABILITIES AND FUND BALANCE

Advances to trustees — in process (Note 4)	\$ 74,936
Accounts payable and accrued expenses (Note 7)	1,342,618
Estimated costs to complete customer protection proceedings in progress (Note 4)	24,900,000
Member assessments received in advance (Note 3)	8,000,000
	<hr/> 34,317,554
Commitments (Note 5)	
Fund balance	652,623,120
	<hr/> <b>\$686,940,674</b>

## Statement of Operations and Fund Balance for the year ended December 31, 1991

### Revenues:

Interest on U.S. Government securities	\$ 47,074,838
Member assessments (Note 3)	38,851,496
	<hr/> 85,926,334

### Expenses:

Salaries and employee benefits (Note 7)	2,355,831
Legal and accounting fees (Note 4)	484,171
Credit agreement commitment fee (Note 5)	1,050,000
Rent (Note 5)	499,831
Other	768,453
	<hr/> 5,158,286

Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	9,861,915
	<hr/> 15,020,201

Excess revenues	70,906,133
Fund balance, beginning of year	581,716,987
	<hr/> Fund balance, end of year <b>\$652,623,120</b>

See notes to financial statements.



# Securities Investor Protection Corporation

## Statement of Cash Flows for the year ended December 31, 1991

Operating activities:	
Member assessments received	\$ 79,551,496
Interest received from U.S. Government securities	47,378,400
Advances paid to trustees	(15,720,503)
Recoveries of advances	4,324,039
Salaries and other operating activities expenses paid	(5,007,937)
<hr/>	
Net cash provided by operating activities	110,525,495
<hr/>	
Investing activities:	
Proceeds from sales of U.S. Government securities	653,693,350
Purchases of U.S. Government securities	(764,297,488)
Purchases of furniture and equipment	(39,973)
<hr/>	
Net cash used by investing activities	(110,644,111)
<hr/>	
Decrease in cash	(118,616)
Cash, beginning of year	443,272
<hr/>	
Cash, end of year	\$ 324,656

See notes to financial statements.

## Notes to Financial Statements

### 1. Organization

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.

### 2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$678,769,209.

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 \$1,000,000,000.

### 3. Member assessments

Effective January 1, 1989, member assessments were at a rate of  $\frac{3}{16}$ ths of 1% of gross revenues from the securities business, with a \$150 minimum. Effective January 1, 1991, for

members' fiscal years beginning in 1991, the assessment rate is .065% of net operating revenues from the securities business or \$150, whichever is greater. Assessments received in advance will be applied to future assessments and are not refundable except to terminated members.

### 4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 45 proceedings in progress at December 31, 1991. Customer claims have been satisfied in 37 of these proceedings and in 8 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 has advanced \$145.1 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$141.7 million is not expected to be recovered.

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

	<b>Customer Protection Proceedings</b>	
	<b>Advances to trustees, less allowance for possible losses</b>	<b>Estimated costs to complete</b>
Balance, beginning of year	\$5,700,000	\$28,800,000
Add:		
Estimated future recoveries	2,000,000	
Provision for estimated costs to complete proceedings		11,800,716
Less:		
Recoveries estimated previously	4,300,000	
Advances to trustees		15,700,716
<b>Balance, end of year</b>	<b>\$3,400,000</b>	<b>\$24,900,000</b>

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 effective September 1, 1987, at the rate of \$404,730 for the first five years and \$472,185 thereafter, total \$2,631,000. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease. Rent expense for 1991 totalled \$499,831.

A credit agreement effective March 31, 1989, with a consortium of banks provides SIPC with a \$500,000,000 revolving line of credit for a three-year period to and including March 31, 1992. Any outstanding borrowing by SIPC at the end of March 1992 must be repaid at a minimum in equal quarterly installments over the succeeding five years. A fee of  $\frac{1}{5}$  th of 1% per annum on the unused portion of the commitment is payable quarterly to the banks. Effective April 1, 1992, SIPC has entered into a new credit agreement with a consortium of banks to provide SIPC with a \$1 billion revolving line of credit.

## 6. Reconciliation of excess revenues with net cash provided by operating activities:

Excess revenues	\$ 70,906,133
Decrease in member assessments receivable	32,700,000
Increase in member assessments received in advance	8,000,000
Net decrease in estimated costs to complete customer protection proceedings	(3,900,000)
Net decrease in estimated recoveries of advances to trustees	2,300,000
Increase in amortized premium on U.S. Government securities	1,126,037
Increase in accrued interest receivable on U.S. Government securities	(822,475)
Increase in accounts payable and accrued expenses	109,007
<b>Other reconciling items</b>	<b>106,793</b>
<b>Net cash provided by operating activities</b>	<b>\$110,525,495</b>



## 7. Retirement Plans

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. Information regarding these plans, provided in accordance with Statement No. 87 of the Financial Accounting Standards Board, follows:

Defined benefit plan (actuarially determined*):	
Service cost-benefits earned during 1991	\$183,264
Interest accrued on Projected Benefit Obligation	297,055
Return on Plan assets	(737,675)
Net amortization and deferral	397,781
<u>Net pension expense</u>	<u>140,425</u>
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	
	56,379
<u>Total pension expense for 1991</u>	<u>\$196,804</u>

\*Assumptions used:

1. Discount rate	8%
2. Expected long-term rate of return	9%
3. Average compensation increase	5%
4. Cost of living adjustment	4%

As of January 1, 1992, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:	
Vested	\$3,070,541
Non-vested	288,234
	<u>3,358,775</u>
Effect of projected future salary increases	892,329
<u>Projected Benefit Obligation</u>	<u>4,251,104</u>
Market value of Plan assets	4,366,309
<u>Funded Status—Projected Benefit Obligation</u> less than the market value of Plan assets	<u>115,205</u>
Unrecognized net asset	280,111
	<u>(164,906)</u>
Prepaid pension expense	(7,770)
<u>Unrecognized net loss</u>	<u>\$ (172,676)</u>

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; the life insurance plan is noncontributory.

Information regarding these plans' funded status, provided in accordance with Statement No. 106 of the Financial Accounting Standards Board, follows:

Defined benefit postretirement plan (actuarially determined):	
Accumulated postretirement benefit obligation	
Currently retired employees	\$ 110,743
Fully eligible active employees	0
Other active employees	1,098,669
<u>Plan assets at fair value</u>	<u>0</u>
<u>Funded Status</u>	<u>1,209,412</u>
Unrecognized net from past experience different from that assumed and from changes in assumptions	
	(127,157)
<u>Accrued postretirement benefit expenses</u>	<u>\$1,082,255</u>

The net periodic postretirement benefit cost for 1991 included the following components:

Service cost—benefits earned during 1991	\$ 69,311
Interest on accumulated postretirement benefit obligation	69,115
Return on Plan assets	0
<u>Amortization of unrecognized net gain</u>	<u>(177)</u>
<u>Net periodic postretirement benefit expense for 1991</u>	<u>\$ 138,249</u>

For measurement purposes, a 16% annual rate of increase in the health care trend factor was assumed for 1991, and the rate was assumed to decrease gradually to 6% for 2001 and thereafter. The health care trend factor assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care trend factor by 1% in each year would increase the accumulated postretirement benefit obligation as of December 31, 1991, by about \$330,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1991, by about \$39,000.

The discount rate used in determining the accumulated postretirement benefit obligation was 8%.

**APPENDIX I** *Distributions for Accounts of Customers  
for the Twenty-One Years Ended December 31, 1991*  
(In Thousands of Dollars)

	From Debtor's Estates As Reported By Trustees	From SIPC		Net	Total
		Advances	Recoveries*		
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 <sup>†</sup>	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 <sup>†</sup>	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481) <sup>†</sup>	(10,244)	(15,725) <sup>†</sup>	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
	<u>\$1,627,700</u>	<u>\$279,315</u>	<u>\$(104,481)</u>	<u>\$174,834</u>	<u>\$1,802,534</u>

<sup>†</sup>Restated to reflect correction.

\*Recoveries not limited to cases initiated this year.

## APPENDIX II *Customer Protection Proceedings*

### PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Carolina First Securities Group, Inc. Winston-Salem, North Carolina (L. Bruce McDaniel, Esq.)	6/12/89	8/24/90	10/31/90	210	11	11
Lloyd Securities, Inc. Elkins Park, Pennsylvania (Robert E. Shields, Esq.)	6/02/61	6/06/90	12/22/90	500	163	1
Gateway Securities, Inc. Greenwich, Connecticut (SIPC)	12/17/79	4/23/91	4/23/91	3,216	121	23
C. J. Wright & Company, Inc. Ocala, Florida (K. Rodney May, Esq.)	10/17/85	4/24/91	4/24/91	1,500	120	
Pilgrim Planning Associates, Inc. Easton, Pennsylvania (SIPC)	6/21/79	5/22/91	5/23/91	2,834	104	9
Affiliated Security Brokers, Inc. Tyler, Texas (Wayne M. Secore, Esq.)	4/10/81	9/12/91	9/12/91	2,000	89	6
Cooper-Daher Securities, Inc. San Francisco, California (Direct Payment)	1/05/88		9/13/91 <sup>†</sup>	268	35	3
T. L. Reed Securities, Inc. Irving, Texas (Jack L. Kinzie, Esq.)	6/10/87	10/08/91	10/08/91	4,500	210	
<b>TOTAL 8 MEMBERS: PART A</b>				<b><u>15,028</u></b>	<b><u>853</u></b>	<b><u>53</u></b>

<sup>†</sup>Date notice published



December 31, 1991

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 55,982		\$55,982	\$ 384,248	\$ 78,921			\$ 305,327
			293,375	74,948			218,427
120,808	\$120,808		115,000	15,000			100,000
25,395		25,395	10,000	10,000			
4,751		4,751	268,641	15,000			253,641
8,875		8,875	123,011	13,411			109,600
			16,230	1,230			15,000
			37,546	37,546			
<u>\$215,811</u>	<u>\$120,808</u>	<u>\$95,003</u>	<u>\$1,248,051</u>	<u>\$246,056</u>			<u>\$1,001,995</u>

## APPENDIX II *Customer Protection Proceedings*

### PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Christian-Paine & Co., Inc. Carlton Cambridge & 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	12,572
Executive Securities Corp. New York, New York (Cameron F. MacRae, III, Esq.)	11/08/67	2/14/75	2/14/75	8,740	2,757	1,341
Institutional Securities of Colorado, Inc. Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/04/76	9,000	1,780	1,194
The Investment Bankers, Inc. Denver, Colorado (James H. Turner, Esq.)	10/23/80	7/10/81	7/15/81	2,500	1,939	1,189
First State Securities Corp. North Miami, Florida (Lawrence A. Schroeder, Esq.)	6/19/75	7/24/81	7/24/81 7/17/85*	3,064	936	824
Joseph Sebag, Incorporated Los Angeles, California (Eugene W. Bell, Esq.)	3/07/68	7/27/81	7/27/81	8,000	4,341	3,640
John Muir & Co. New York, New York (Harvey R. Miller, Esq.)	10/28/37	8/16/81	8/16/81	54,500	10,000 (Estimated)	16,000 (Estimated)
G. V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/08/82	4/15/82	600	50	23
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/05/83	2/10/83	10,500	6,888	6,523
California Municipal Investors, Inc. Los Angeles, California (Theodore B. Stolman, Esq.)	1/09/76	1/31/84	1/31/84	16,000	1,752	1,500

\*Successor Trustee

December 31, 1991

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 1,546,370	\$ 776,386	\$ 769,984	\$ 4,047,860	\$ 1,741,478	\$ 3,125	\$ 2,044,056	\$ 259,201
4,105,036	2,271,501	1,833,535	2,702,629	607,151	30,535	1,449,655	615,288
9,474,287	3,728,930	5,745,357	256,371	156,000		62,591	37,780
3,146,908	2,128,941	1,017,967	3,667,484				3,667,484
6,556,331	6,458,025	98,306	5,439,262	4,636,790	60,804	329,980	411,688
27,218,033	27,218,033		11,351,787	4,647,952		268,257	6,435,578
198,871,157	190,380,000	8,491,157	2			2	
16,227	16,227		1,400,936	803,294		391,048	206,594
80,755,000	80,755,000		31,722,352	6,786,229			24,936,123
40,175,297	37,153,288	3,022,009	(1)	(1)			



## APPENDIX II *Customer Protection Proceedings*

### PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Gattini & Co. New York, New York (William J. Rochelle, III, Esq.)	9/25/81	2/01/84	2/01/84	3,200	1,800	1,538
MV Securities, Inc., a/k/a Multi-Vest Securities, Inc. New York, New York (Lee S. Richards, III, Esq.)	4/08/76	3/14/84	3/14/84	8,246	1,338	1,338
Brentwood Securities, Inc. Los Angeles, California (SIPC)	7/18/77	8/31/84	2/07/85	754	129	82
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/01/75	4/08/85	5/08/85	23,800	4,700	3,601
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/06/85	5/17/85	1,350	63	13
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/01/75	7/30/85	8/13/85 2/17/87*	8,300	2,469	2,362
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/04/85	272	78	26
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/02/81	7/23/85	3/26/86	23,000	1,047	40
Cusack, Light & Company, Inc. West Orange, New Jersey (Frederick B. Lacey, Esq.)	3/22/83	6/25/86	6/25/86	1,404	256	256
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	12/04/84	11/05/86	11/05/86	550	18	3

\*Successor Trustee

December 31, 1991

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 2,750,154	\$ 2,440,612	\$ 309,542	\$ 1,788,264	\$ 1,071,602		\$ 556,938	\$ 159,724
22,857,100	19,883,133	2,973,967					
38,069	36,452	1,617	1,193,878	599,850			594,028
421,455,227	397,836,433	23,618,794	26,395,628	6,736,106	\$ 1,107	7,483,186	12,175,229
5,131,925	1,298,503	3,833,422	2,760,215			2,760,215	
6,038,508	5,962,405	76,103	8,703,536	1,285,860		7,013,546	404,130
2,076,196	1,427,215	648,981	623,458	177,128		446,330	
830,854	48,443	782,411	1,000,059	745,797		185,083	69,179
6,884,574	6,749,988	134,586	1,651,814	849,487		78,436	723,891
497,231	456,349	40,882	533,580	9,360		410,770	113,450

## APPENDIX II *Customer Protection Proceedings*

### PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28	8
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,368	2,403
H. B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/08/57	10/20/87	10/20/87	18,000	5,237	4,372
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	1/05/83	3/21/88	3/21/88	2,885	176	44
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	407	368
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (P. David Newsome, Jr., Esq.)	12/18/63	6/28/88	6/28/88	52,219	20,000	30,376
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	7/08/85	9/08/88	9/08/88	16,500	392	15
Investors Center, Inc. Hauppauge, New York (Irving H. Picard, Esq.)	3/01/84	2/28/89	3/07/89	55,000	10,268	700
Waddell-Jenmar Securities, Inc. Chapel Hill, North Carolina (SIPC)	9/19/83	1/22/88	4/10/89	245	20	6
Fitzgerald, Talman, Inc. Denver, Colorado (SIPC)	6/16/83	11/01/89	11/01/89	7,800	11	16



December 31, 1991

Total	Distributions From Debtor's Estate		SIPC Advances				
	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$ 227,358	\$ 40,878		\$ 65,000	\$ 121,480
\$ 35,461,457	\$ 32,735,697	\$ 2,725,760	8,109,953			6,178,104	1,931,849
108,978,845	106,204,000	2,774,845	125,000	125,000			
21,430		21,430	774,500	313,493		430,620	30,387
85,866		85,866	3,767,116	2,211,707			1,555,409
137,718,074	132,071,748	5,646,326	5,631,354	665,000		280,726	4,685,628
67,234	62,822	4,412	125,745	93,052		16,741	15,952
1,193,780	675,833	517,947	3,838,396	2,051,839		834,289	952,268
59,169		59,169	421,333	142,060		17,125	262,148
10,000	10,000		101,394	72,303		29,091	

**APPENDIX II** *Customer Protection Proceedings*  
**PART B: Customer Claims Satisfied, Litigation Matters Pending**

<b>Member and Trustee By Date of Appointment</b>	<b>Date Registered as Broker-Dealer</b>	<b>Filing Date</b>	<b>Trustee Appointed</b>	<b>Customers<sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed</b>	<b>Responses<sup>(a)</sup> Received</b>	<b>Total Customer Claims Satisfied</b>
Williams Financial Group, Inc. Spokane, Washington (Joseph A. Esposito, Esq.)	6/01/87	12/07/89	12/07/89	30	24	3
Oberweis Securities Inc. Chicago, Illinois (J. William Holland, Esq.)	12/27/78	7/10/89	6/18/90	48,000	334	92
First Ohio Securities Company Cleveland, Ohio (William Appleton, Esq.)	1/09/85	6/22/90	6/22/90 4/19/91*	900	200	117
Blinder, Robinson & Co., Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/01/90	215,000	64,770	61,334
D F W Clearing, Inc. Fort Worth, Texas (Robert G. Richardson, Esq.)	1/15/89	9/17/90	9/17/90	77,051	5,554	5,447
John M. Sorenson & Co., Inc. Houston, Texas (SIPC)	6/25/84	1/22/91	1/22/91	248	36	16
Faitos & Co., Inc. Huntington, New York (Irving H. Picard, Esq.)	9/03/87	2/27/91	2/27/91	700	90	49
<b>TOTAL 37 MEMBERS: PART B</b>				<b><u>701,908</u></b>	<b><u>161,140</u></b>	<b><u>159,431</u></b>

\*Successor Trustee

December 31, 1991

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$ 378,919	\$ 45,364		\$ 281,055	\$ 52,500
\$ 127,814	\$ 127,814		1,531,288	1,178,699		70,938	281,651
231,223		\$ 231,223	3,435,430	549,646		2,823,482	62,302
31,757,003	24,500,000 (Estimated)	7,257,003	6,168,244	4,868,244		350,000	950,000
785,180	138,768	646,412	2,152,772	1,482,075		46,104	624,593
344		344	302,480	15,000			287,480
19,249	15,349	3,900	1,553,084	209,791		1,226,129	117,164
<u>\$1,156,941,152</u>	<u>\$1,083,567,895</u>	<u>\$73,373,257</u>	<u>\$143,883,480</u>	<u>\$44,918,234</u>	<u>\$95,571</u>	<u>\$36,129,497</u>	<u>\$62,740,178</u>



## APPENDIX II *Customer Protection Proceedings*

### PART C: Proceedings Completed in 1991

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
Equitable Equities, Inc. New York, New York (Robert E. Smith, Esq.)	2/04/70	10/13/72	10/13/72 2/15/78*	134	69	54
Havener Securities Corp. New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	906	551	368
Llorens Associates Inc. New York, New York (Lloyd Frank, Esq.)	4/01/70	6/18/74	7/01/74	548	93	54
OTC Net, Incorporated Denver, Colorado (Glen E. Keller, Jr., Esq.)	8/10/78	6/03/82	6/09/82	38,500	15,796	14,107
Southeast Securities of Florida, Inc. Hoboken, New Jersey (David J. Sheehan, Esq.)	11/16/81	1/31/84	2/13/84	20,000	11,658	11,658
First Interwest Securities Corp. Denver, Colorado (Glen E. Keller, Jr., Esq.)	4/25/83	6/07/84	6/07/84	6,785	2,621	6,140
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/03/85	5/03/85	1,650	365	331
Brittenuum & Associates, Inc. Little Rock, Arkansas (James Dowden, Esq.)	12/04/75	1/28/86	1/30/86	2,100	212	86
Beacon Securities, Inc. Hilton Head, South Carolina (William G. Hays)	4/15/83	10/29/85	5/02/86	74	70	17
Richard Wallace Humphries d/b/a/ Humphries & Company, Inc. San Francisco, California (Direct Payment)	3/23/87		9/26/89 <sup>†</sup>	3	3	3

\*Successor Trustee

<sup>†</sup>Date notice published

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 281,802	\$ 126,647	\$ 155,155	\$ 66,848		\$13,987	\$ 16,034	\$ 36,827
1,334,651	816,929	517,722	262,442	\$ 168,581			93,861
115,211	36,827	78,384	178,149	121,916	214	17,814	38,205
20,826,866	17,426,419	3,400,447	(395,824)	(395,824)			
30,877,729	28,883,867	1,993,862	2,146,386	767,905		420,523	957,958
3,249,898	2,810,046	439,852	736,624	287,391		190,240	258,993
4,872,780	4,130,400	742,380	765,749			765,749	
25,497,906	23,275,481	2,222,425					
310,212	207,944	102,268	2,474,877	712,528			1,762,349
			99,020	812			98,208

## APPENDIX II *Customer Protection Proceedings*

### PART C: Proceedings Completed in 1991

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Total Customer Claims Satisfied
J. L. Henry & Co. Coral Gables, Florida (Direct Payment)	2/14/86		9/26/89 <sup>†</sup>	95	3	3
Underhill Associates, Inc. Red Bank, New Jersey (Direct Payment)	10/31/74		4/03/90 <sup>†</sup>	3	1	1
K. A. Knapp & Co., Inc. Grand Rapids, Michigan (Direct Payment)	3/22/83		9/06/90 <sup>†</sup>	1	1	1
<b>TOTAL 13 MEMBERS 1991</b>				<b>70,799</b>	<b>31,443</b>	<b>32,823</b>
<b>TOTAL 170 MEMBERS 1973–1990(b)</b>				<b>479,705</b>	<b>142,834</b>	<b>137,108</b>
<b>TOTAL 183 MEMBERS 1973–1991</b>				<b>550,504</b>	<b>174,277</b>	<b>169,931</b>

<sup>†</sup>Date notice published

### PART D: Summary

		Customers <sup>(a)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(a)</sup> Received	Customers Receiving Distributions
<b>Part A:</b>	8 Members—Customer Claims and Distributions Being Processed	15,028	853	53
<b>Part B:</b>	37 Members—Customer Claims Satisfied, Litigation Matters Pending	701,908	161,140	159,431
	Sub-Total	716,936	161,993	159,484
<b>Part C:</b>	183 Members—Proceedings Completed	550,504	174,277	169,931
	<b>Total</b>	<b>1,267,440</b>	<b>336,270</b>	<b>329,415</b>

#### Notes:

- (a) Notices and claim forms are commonly sent to all persons who, from the debtor's records, may have been customers. This is done so that potential claimants may be advised of the proceeding.  
 (b) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.



December 31, 1991

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$ 65,210	\$ 1,275			\$ 63,935
			218,103	110		\$ 168,846	49,147
			5,506	189		5,317	
\$ 87,367,055	\$ 77,714,560	\$ 9,652,495	6,623,090	1,664,883	\$ 14,201	1,584,523	3,359,483
515,473,776	466,296,826	49,176,950	84,112,138	14,203,482	1,167,075	35,610,371	33,131,210
<u>\$602,840,831</u>	<u>\$544,011,386</u>	<u>\$58,829,445</u>	<u>\$90,735,228</u>	<u>\$15,868,365</u>	<u>\$1,181,276</u>	<u>\$37,194,894</u>	<u>\$36,490,693</u>

Distributions From Debtor's Estate			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 215,811	\$ 120,808	\$ 95,003	\$ 1,248,051	\$ 246,056			\$ 1,001,995
1,156,941,152	1,083,567,895	73,373,257	143,883,480	44,918,234	\$ 95,571	\$36,129,497	62,740,178
1,157,156,963	1,083,688,703	73,468,260	145,131,531	45,164,290	95,571	36,129,497	63,742,173
602,840,831	544,011,386	58,829,445	90,735,228	15,868,365	1,181,276	37,194,894	36,490,693
<u>\$1,759,997,794</u>	<u>\$1,627,700,089</u>	<u>\$132,297,705</u>	<u>\$235,866,759</u>	<u>\$61,032,655</u>	<u>\$1,276,847</u>	<u>\$73,324,391</u>	<u>\$100,232,866</u>

### APPENDIX III *Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1991*

	1991	1990	1989	1988	1987
<b>Revenues:</b>					
Interest on U.S. Government securities	\$46,962,755	\$ 42,827,097	\$ 34,965,465	\$28,680,924	\$28,161,228
Member assessments and contributions	38,851,496	73,029,832	66,046,991	988,079	935,368
Interest on assessments	112,083	66,936	111,675	10,196	20,533
	<u>85,926,334</u>	<u>115,923,865</u>	<u>101,124,131</u>	<u>29,679,199</u>	<u>29,117,129</u>
<b>Expenses:</b>					
Salaries and employee benefits	2,355,831	3,120,435	1,974,100	1,801,726	1,652,073
Legal fees	466,021	208,874	417,695	2,484,989	1,959,731
Accounting fees	18,150	31,400	19,000	19,000	14,900
Credit agreement commitment fee	1,050,000	1,052,135	1,227,634	1,300,009	1,300,000
Rent—office space	499,831	459,323	436,817	418,644	377,291
<b>Other:</b>					
Assessment collection direct cost	19,373	23,439	22,992	19,741	2,230
Custodian fees	39,867	35,330	28,827	27,735	33,215
Depreciation and amortization	98,290	108,174	126,931	119,459	103,299
Directors fees and expenses	23,194	14,272	11,337	10,830	7,698
Insurance	21,908	18,885	19,228	21,401	15,217
Office supplies and expenses	138,464	118,980	176,666	163,652	163,694
Postage	21,539	17,982	13,058	15,777	15,534
Printing & mailing annual report	61,270	60,845	54,928	58,587	26,231
Professional fees—other	101,730	233,044	43,689	66,236	52,845
Publications and reference services	59,545	58,817	53,555	45,643	47,617
Telephone	15,214	13,818	12,469	14,308	14,063
Travel and subsistence	149,072	153,089	92,503	141,625	190,169
Miscellaneous	18,987	4,510	8,359	11,128	15,441
	<u>768,453</u>	<u>861,185</u>	<u>664,542</u>	<u>716,122</u>	<u>687,253</u>
	<u>5,158,286</u>	<u>5,733,352</u>	<u>4,739,788</u>	<u>6,740,490</u>	<u>5,991,248</u>
<b>Customer protection proceedings:</b>					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	(170,044)	(19,733)	(76,793)	(3,558)	1,106
Securities	2,440,407	(7,174,535)	(967,860)	352,513	9,650,120
Cash	384,308	6,325,814	(14,742,160)	(2,791,862)	8,114,967
	<u>2,654,671</u>	<u>(868,454)</u>	<u>(15,786,813)</u>	<u>(2,442,907)</u>	<u>17,766,193</u>
Administration expenses	7,577,331	6,125,694	9,355,168	5,001,525	9,402,908
	<u>10,232,002</u>	<u>5,257,240</u>	<u>(6,431,645)</u>	<u>2,558,618</u>	<u>27,169,101</u>
Net change in estimated future recoveries	2,300,000		1,500,000	2,100,000	(3,500,000)
	<u>12,532,002</u>	<u>5,257,240</u>	<u>(4,931,645)</u>	<u>4,658,618</u>	<u>23,669,101</u>
SIPC as Trustee:					
Securities	17,125	29,092	18,161	412,318	
Cash	873,011	50,000	25,953	117,147	62,060
	<u>890,136</u>	<u>79,092</u>	<u>44,114</u>	<u>529,465</u>	<u>62,060</u>
Administration expenses	258,547	120,580	71,383	196,956	241,012
	<u>1,148,683</u>	<u>199,672</u>	<u>115,497</u>	<u>726,421</u>	<u>303,072</u>
Direct payments:					
Securities		174,164			
Cash	80,000	131,290	18,000	35,500	
	<u>80,000</u>	<u>305,454</u>	<u>18,000</u>	<u>35,500</u>	
Administration expenses	1,230	3,546	2,087	10,154	6,000
	<u>81,230</u>	<u>309,000</u>	<u>20,087</u>	<u>45,654</u>	<u>6,000</u>
Net change in estimated cost to complete proceedings					
	<u>(3,900,000)</u>	<u>(13,500,000)</u>	<u>(1,700,000)</u>	<u>4,800,000</u>	<u>1,500,000</u>
	<u>9,861,915</u>	<u>(7,734,088)</u>	<u>(6,496,061)</u>	<u>10,230,693</u>	<u>25,478,173</u>
	<u>15,020,201</u>	<u>(2,000,736)</u>	<u>(1,756,273)</u>	<u>16,971,183</u>	<u>31,469,421</u>
Excess revenues (expenses)	<u>\$70,906,133</u>	<u>\$117,924,601</u>	<u>\$102,880,404</u>	<u>\$12,708,016</u>	<u>\$ (2,352,292)</u>