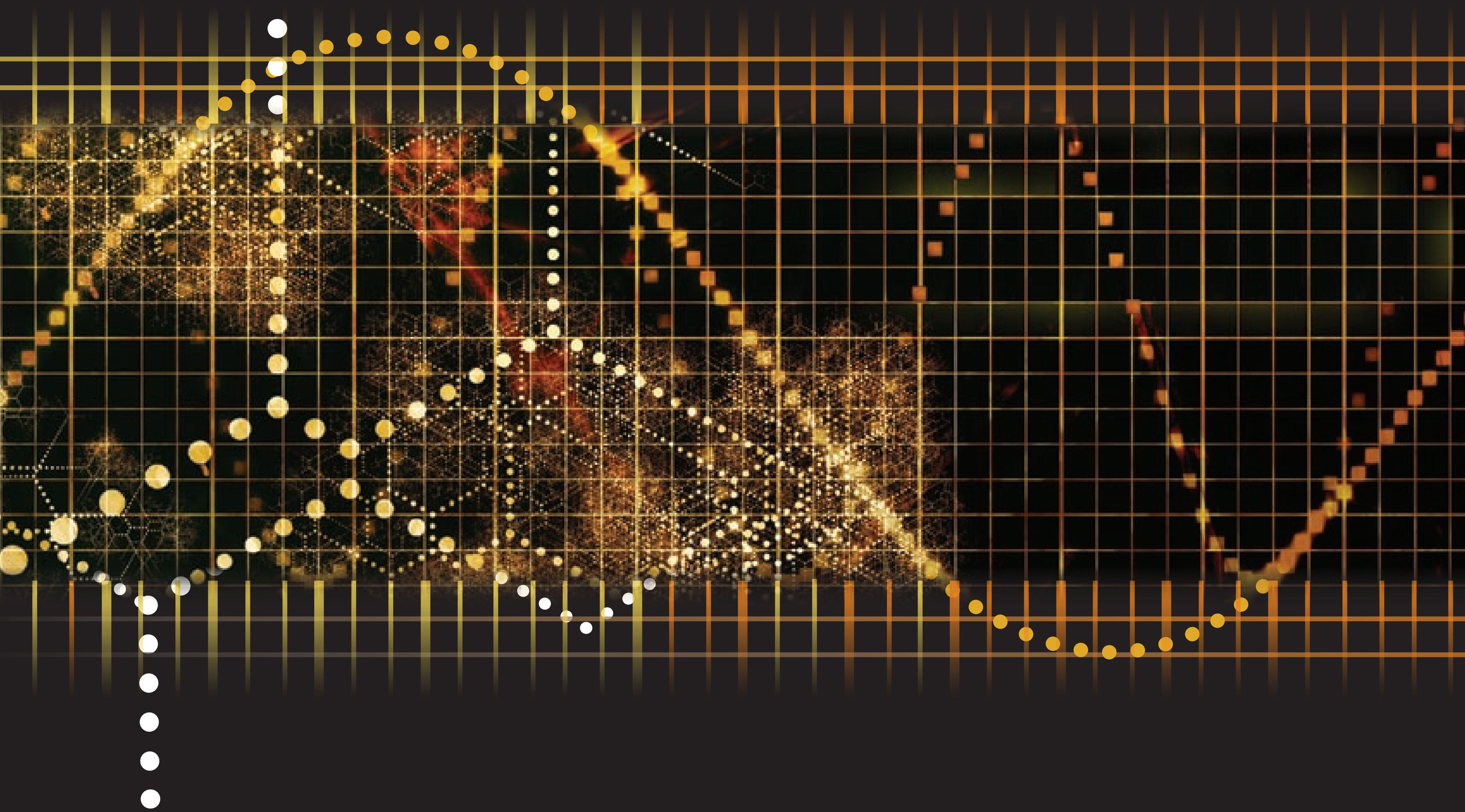
2008 Annual Report

Securities Investor Protection Corporation



SIPC

SECURITIES INVESTOR PROTECTION CORPORATION
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April 30, 2009

The Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Chairman Schapiro:

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

Respectfully,

Armando J. Bucelo, Jr.
Chairman

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 brokers or dealers under section 15(b)(11)(A) of the Securities Exchange Act of 1934.

ARMANDO J. BUCELO, JR.

What a difference a year makes. In 2007, SIPC recorded its first year without the need for initiating any customer protection proceedings whatsoever. In 2008, SIPC initiated three small liquidation proceedings, and two proceedings of unprecedented size and scope.

Lehman Brothers Inc.

The Lehman Brothers Inc. ("LBI") liquidation was preceded by the Chapter 11 filing of Lehman Brothers Holdings Inc. on September 15, 2008. The Holding Company owned a SIPC member brokerage firm, LBI, which in turn held securities customer accounts. In order to facilitate the sale of brokerage assets, SIPC initiated a customer protection proceeding on Friday, September 19th. On application by SIPC to the United States District Court for the Southern District of New York, LBI was placed in liquidation under the Securities Investor Protection Act ("SIPA"), and a trustee was appointed to oversee the liquidation of the firm. That day, upon removal of the proceeding by the District Court, the United States Bankruptcy Court for the Southern District of New York held an extended hearing and approved the sale of assets of LBI to Barclays Bank.

In a matter of weeks, the trustee for LBI transferred more than 135,000 customer accounts, which contained more than $140 billion in customer assets, to two broker-dealers, one of which was the brokerage arm of Barclays. As a result, many of the customers of the defunct firm were able to exercise control over their respective portfolios in a seamless way. In addition, over $2 billion of property was returned to scores of prime brokerage accountholders. While much remains to be done in every aspect of the LBI matter, the initial stages have proceeded very well.

Bernard L. Madoff Investment Securities LLC

The failure of Lehman Brothers Inc. was linked to the subprime mortgage situation and the accompanying broader financial turmoil. The failure of Bernard L. Madoff Investment Securities LLC, a registered securities broker-dealer and SIPC member, involved a very different problem: the theft of customer assets on an unprecedented scale. The firm was placed in SIPA liquidation and a trustee was appointed on December 15, 2008, after the principal of the firm, Bernard Madoff, confessed to having stolen customer property over a period of many years.

Unlike the LBI case, where customer records were accurate, it became apparent very early in the Madoff case that the customer statements Mr. Madoff had been sending to investors bore little or no relation to reality. The statements sent to customers were inaccurate when compared to the inventory of securities actually held by the brokerage firm. For that reason, it was not possible to transfer all or part of any customer's account to another, solvent brokerage firm. Instead, pursuant to SIPA, the trustee sought and received authority from the United States Bankruptcy Court for the Southern District of New York to publish a notice to customers and creditors, and to mail claim forms to them. This was accomplished on January 2, 2009. As this Annual Report goes to press, the trustee in the Madoff case has begun to satisfy customer claims with SIPC's funds.

SIPC's Finances

Although SIPC has reflected in its financial statements the total estimated obligations for all open SIPA proceedings, I would emphasize that the Corporation has sufficient funds to continue to perform its statutory functions. The Board of Directors has reinstituted assessments on the SIPC members based upon net operating revenues, in order to replenish anticipated expenditures in the ongoing liquidation proceedings.

SIPC stands ready to meet the challenges of the current economic environment and the Board is dedicated to making sure that SIPC has sufficient resources to accomplish its mission of investor protection.

Armando J. Bucelo, Jr.
Chairman

OVERVIEW OF SIPC

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

Congress acted swiftly, passing the Securities Investor Protection Act of 1970, 15 U.S.C. § 78aaa *et seq.* (SIPA). Its purpose is to afford certain protections against loss to customers resulting from broker-dealer failure and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are $500,000 per customer except that claims for cash are limited to $100,000 per customer.△

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

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

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

The SIPC staff, numbering 29, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purposes. In cases where the court appoints SIPC as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

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

△ See the series 100 Rules Identifying Accounts of "separate customers" of SIPC members.

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

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

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

Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934 and brokers or dealers registered under Section 15(b)(11)(A) of the Securities Exchange Act of 1934.

Further information about the pro-visions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry and Financial Markets Association (SIFMA), c/o Howard Press, 450 West First St., Roselle, NJ 07203, phone number (908)620-2547, and from the FINRA Book Store, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for FINRA orders is www.finra.org/resources/bookstore/index.htm and the phone number is (240)386-4200.

DIRECTORS & OFFICERS

Directors

ARMANDO J. BUCELO, JR., ESQ.
The Law Offices of
Armando J. Bucelo, Jr.
Chairman of the Board

TODD S. FARHA
Vice Chairman

WILLIAM H. HEYMAN
Vice Chairman and
Chief Investment Officer
The Travelers Companies, Inc.

WILLIAM S. JASIEN
Senior Vice President
ING Financial
Advisers LLC

DAVID G. NASON
Assistant Secretary for Financial
Institutions, United States
Department of the Treasury

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

DAVID J. STOCKTON
Director, Division of Research
and Statistics
Board of Governors of the
Federal Reserve System

Officers

STEPHEN P. HARBECK
President & CEO

JOSEPHINE WANG
General Counsel
& Secretary

PHILIP W. CARDUCK
Vice President—
Operations & Finance

CUSTOMER PROTECTION PROCEEDINGS

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

—Preamble to SIPA

Customer protection proceedings were initiated for five SIPC members in 2008, bringing the total since SIPC's inception to 322 proceedings commenced under SIPA. The 322 members represent less than one percent of the approximately 38,600 broker dealers that have been SIPC members during the last thirty-eight years. Currently, SIPC has 5,208 members.

The five new cases compares with no cases commenced in 2007. (See Chairman's letter on page 3). Over the last ten-year period, the annual average of new cases was five.

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

Member	Date Trustee Appointed
Hanover Investment Securities, Inc. Madisonville, LA (SIPC)	2/28/08
North American Clearing Inc. Longwood, Florida (Robert N. Gilbert, Esq.)	7/28/08
Great Eastern Securities, Inc. New York, NY (SIPC)	9/03/08
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	9/19/08
Bernard L. Madoff Investment Securities LLC New York, NY (Irving H. Picard, Esq.)	12/15/08

Of the 322 proceedings begun under SIPA to date, 308 have been completed, 7 involve pending litigation matters, and claims in 7 are being processed (See Figure 1 and Appendix 3).

During SIPC's 38-year history, cash and securities distributed for accounts of customers totaled approximately $160.0 billion. Of that amount, approximately $159.7 billion came from debtors' estates and $323.8 million came from the SIPC Fund (See Appendix 1).

FIGURE I

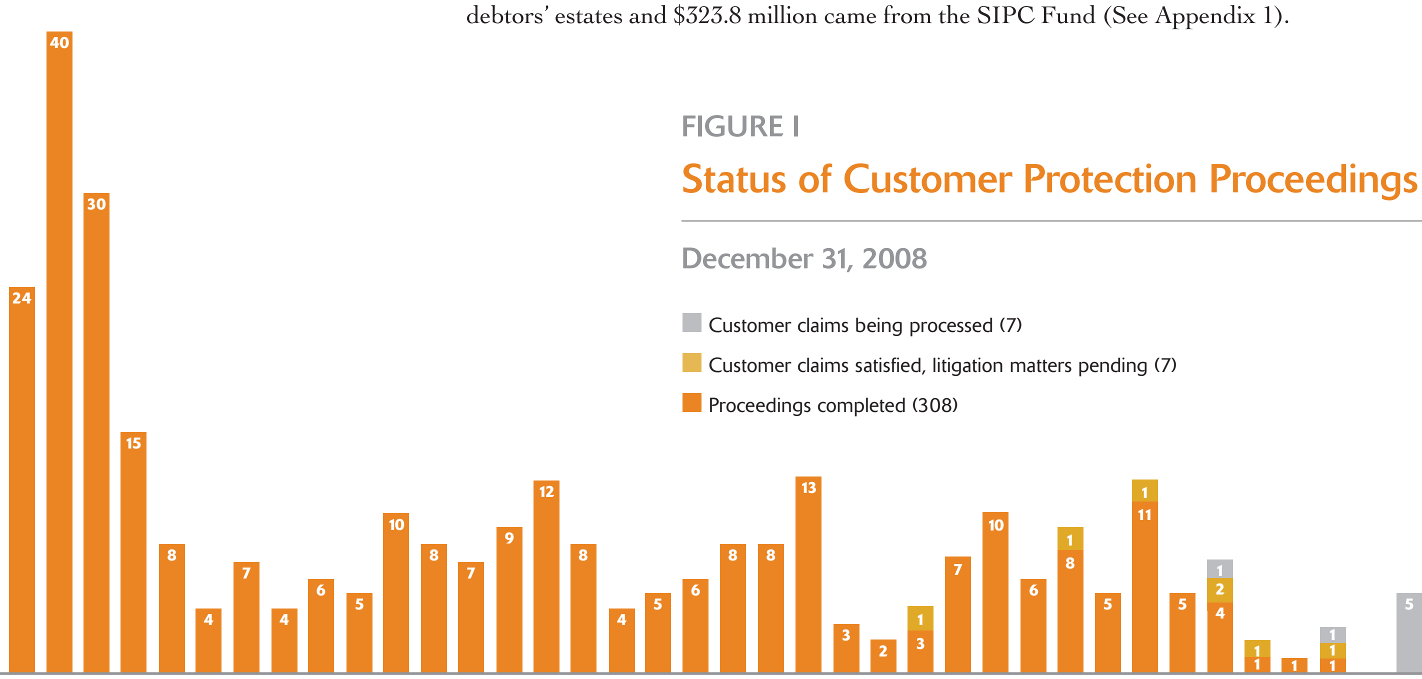
Status of Customer Protection Proceedings

December 31, 2008

Customer claims being processed (7)

Customer claims satisfied, litigation matters pending (7)

Proceedings completed (308)



Year	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08
Total	24	40	30	15	8	4	7	4	6	5	10	8	7	9	12	8	4	5	6	8	8	13	3	2	4	7	10	6	9	5	12	5	7	2	1	3	0	5

proceedings commenced

Claims over the Limits

Of the more than 625,100 claims satisfied in completed or substantially completed cases as of December 31, 2008, a total of 350 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 350 claims, a net increase of one during 2008, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $46.3 million, decreased $900,000 during 2008. These remaining claims approximate three-tenths of one percent of the total value of securities and cash distributed for accounts of customers in those cases.

SIPC Fund Advances

Table 1 shows that the 90 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 92 percent of the total advanced in all 322 customer protection proceedings. The largest net advance in a single liquidation is $37.4 million in Sunpoint Securities, Inc. This exceeds the net advances in the 194 smallest proceedings combined.

In 28 proceedings SIPC advanced $344.3 million, or 66 percent of net advances from the SIPC Fund for all proceedings.

TABLE I

Net Advances from the SIPC Fund

December 31, 2008
322 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$10,000,001	up	11	$226,861,729
5,000,001	$10,000,000	17	117,391,970
1,000,001	5,000,000	62	133,948,828
500,001	1,000,000	38	27,971,875
250,001	500,000	41	14,112,753
100,001	250,000	60	9,700,471
50,001	100,000	43	3,051,005
25,001	50,000	23	845,893
10,001	25,000	11	168,668
0	10,000	9	26,087
Net recovery		7	(13,991,621)*
			$520,087,658†

* 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 ($323,792,406) and for administration expenses ($196,295,252).

"SIPC SHALL . . .

impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may deem necessary . . . ."

—SIPA, Sec. 4(c)2

TABLE 2

SIPC Membership

Year Ended December 31, 2008

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
FINRA(b)	4,714	192	278
SIPC(c)	51	-	136(d)
Chicago Board Options Exchange Incorporated	274	26	10
American Stock Exchange LLC	83	4	12
NYSE Arca, Inc.(e)	19	4	4
NASDAQ OMX PHLX (f)	40	-	9
Chicago Stock Exchange, Incorporated	27	1	5
	5,208	227	454

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2008.

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

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

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

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

e. Formerly the Pacific Stock Exchange, Inc.

f. Formerly the Philadelphia Stock Exchange, Inc.

The net decrease of 227 members during the year brought the total membership to 5,208 at December 31, 2008. Table 2 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, 2008, there were 23 members who were subjects of uncured notices, 17 of which were mailed during 2008, three during 2007 and 2006, and three during the period 2003 through 2005. Subsequent filings and payments by three members left 20 notices uncured. SIPC has been advised by the SEC staff that: (a) two member registrations have been canceled; and (b) 18 are no longer engaged in the securities business and are under review by the SEC for possible revocation or cancellation of their registrations.

SIPC Fund

The SIPC Fund, Table 5, on page 23, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to $1.70 billion at year end, an increase of $177 million during 2008.

Tables 3 and 4, on pages 9 and 10, present principal revenues and expenses for the years 1971 through 2008. The 2008 member assessments were $816,000 and interest from investments was $67.6 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 2, on page 25, is an analysis of revenues and expenses for the five years ended December 31, 2008.

[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.

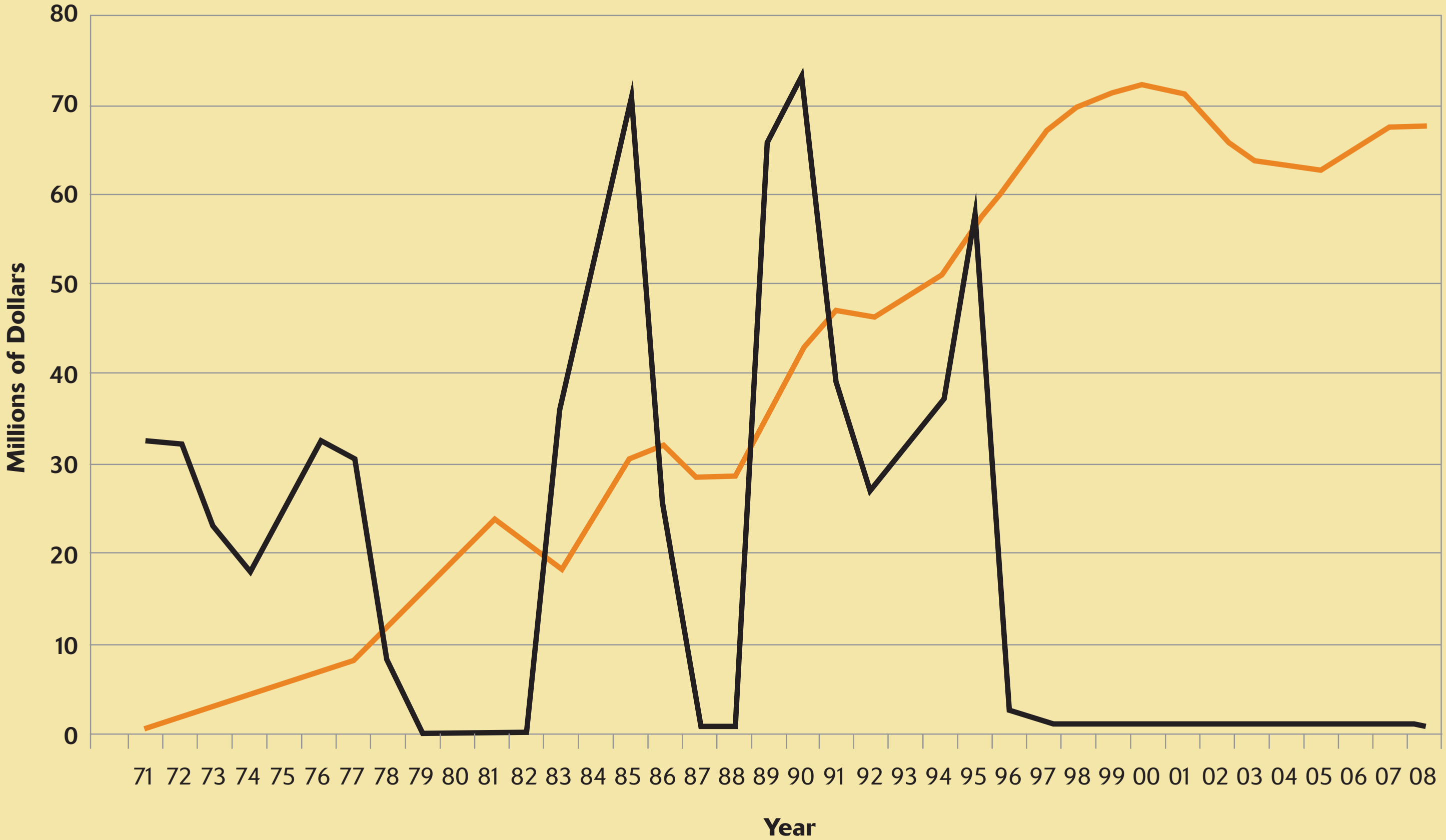
TABLE 3

SIPC Revenues for the Thirty-eight Years

Ended December 31, 2008

■ Member assessments and contributions: $736,907,652

■ Interest on U.S. Government securities: $1,477,562,339



History of Member Assessments*

1971: ½ of 1% plus an initial assessment of 1/8 of 1% of 1969 revenues ($150 minimum).
1972–1977: ½ of 1%.
January 1–June 30, 1978: ¼ of 1%.
July 1–December 31, 1978: None.
1979–1982: $25 annual assessment.
1983–March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986–1988: $100 annual assessment.
1989–1990: 3/16 of 1% ($150 minimum).
1991: .065% of members' net operating revenues ($150 minimum).
1992: .057% of members' net operating revenues ($150 minimum).
1993: .054% of members' net operating revenues ($150 minimum).
1994: .073% of members' net operating revenues ($150 minimum).
1995: .095% of members' net operating revenues ($150 minimum).
1996–2008: $150 annual assessment.

* Rates based on each member's gross revenues (net operating revenues for 1991–1995) from the securities business. Effective April 1, 2009 member assessments will be ¼ of 1% of member's net operating revenues ($150 minimum).

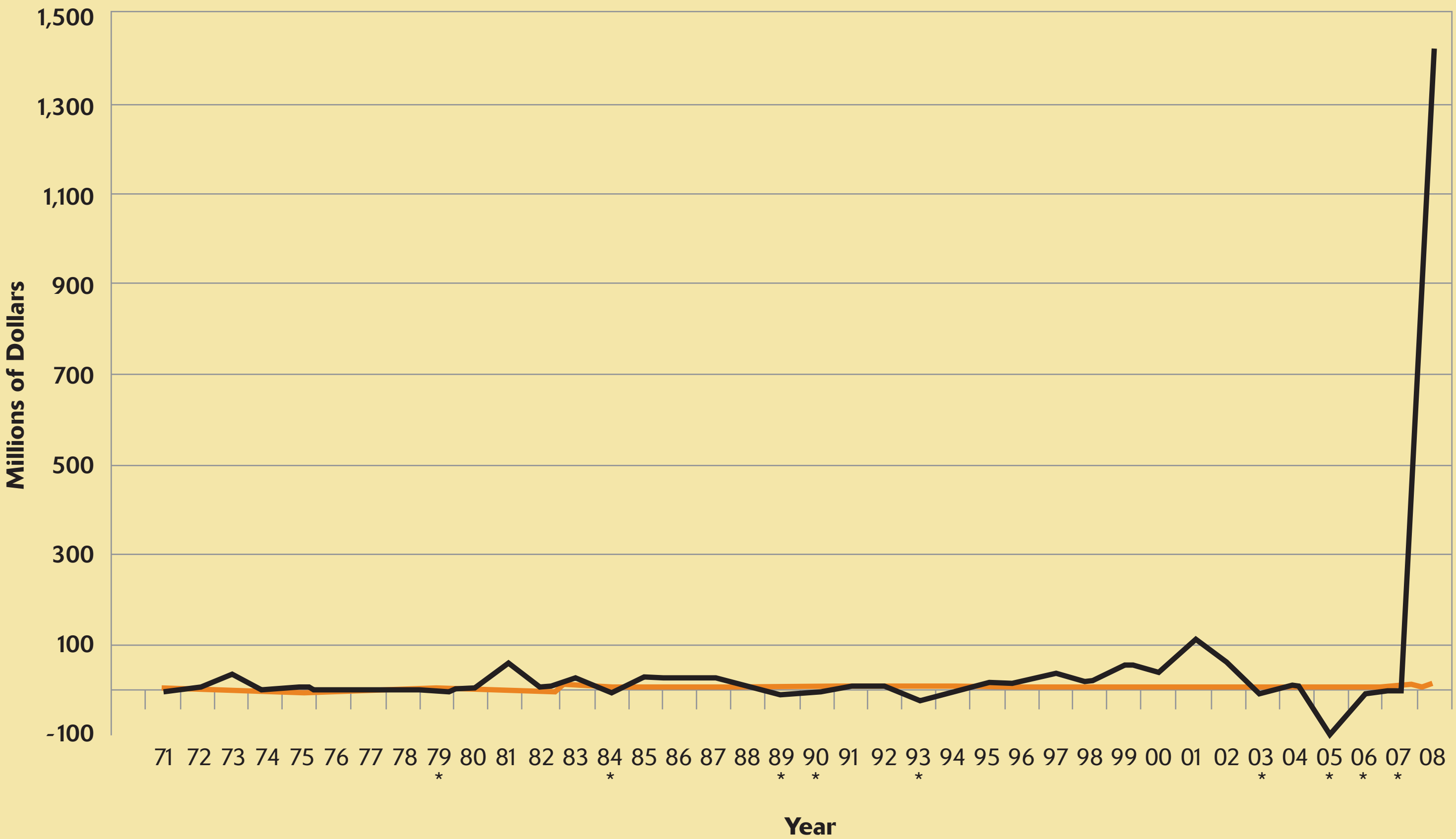
TABLE 4

SIPC Expenses for the Thirty-eight Years

Ended December 31, 2008

■ Customer protection proceedings: $1,943,887,658 (Includes net advances of $520,087,658 and $1,425,600,000 of estimated costs to complete proceedings less estimated future recoveries of $1,800,000.)

■ Other expenses: $194,259,117



* Net recoveries

During 2008, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy matters are summarized below:

In *In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.*, Adv. Pro. No. 03-3370 (Bankr. N.D. Ohio 2008), the trustee prevailed on four summary judgment motions involving objections by investors to the trustee's determination of their "customer" claims.

The first objection involved a claimant who failed to object to withdrawals from his account, received statements for three years showing a zero balance, was induced to invest in notes and other investments based on false information, but objected to the investments as unauthorized only after payments to him on the investments ceased. The Bankruptcy Court upheld the trustee's determination that the claimant was not a "customer" under SIPA, finding that the claim was for market loss that was not protected by SIPC or for fraud that at best could be pursued as a general creditor claim. The Court also found that no timely objection had been made to any allegedly unauthorized transactions.

In the second matter, funds were taken from the claimant's pension plan account and were invested through the debtors' parent company. The Court found that because the investments were made through the parent company, and not held at either of the debtors, the claimant was not a "customer" of the debtors eligible for protection.

The Court also upheld the denial of the claim by a claimant who failed to identify an account held for him at the debtors. Moreover, the two transactions referenced in the claim formed the basis of two other claims that had been filed by the claimant and family members and satisfied by the trustee.

In the last objection, the claimant submitted two claims, the first for loans made to the debtors' parent company, and the second, for shares of a security. The second claim was filed well after the claims bar date. The Court sustained the trustee's denial of the first claim on the ground that it was based on a transaction with the parent company, and not the debtors. Regarding the second claim, the Court upheld the denial of the claim on the ground that the claimant had possession of the shares, that market loss in the security was not protected under SIPA, and that, in any event, the claim properly had been denied as untimely.

In *Zaremba v. Pheasant (In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.)*, Adv. Pro. No. 05-3322 (Bankr. N.D. Ohio 2008), an action for turnover, an accounting, avoidance of various transfers, and denial of a "customer" claim submitted in the liquidation proceeding by the defendant, the Court granted the trustee's motion to dismiss the defendant's counterclaims and to strike the defendant's jury demand. The defendant had counterclaimed, asserting first that the complaint was not warranted under existing law and was filed only to harass or maliciously injure him, and second that the trustee had denied his customer claim in bad faith. In dismissing the first counterclaim, the Court found that the state statute relied upon provided no cause of action in federal court. The Court dismissed the second counterclaim because the defendant identified no viable legal theory for a cause of action in tort for asserted bad faith denial of a claim in a SIPA case. The Court struck the defendant's jury demand because by filing a claim in the debtors' liquidation, defendant had subjected himself to the Bankruptcy Court's jurisdiction and waived any right to a jury trial.

In *Zaremba v. Ello (In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.)*, 398 B.R. 583 (N.D. Ohio 2008), the District Court affirmed the Bankruptcy Court's issuance of a preliminary injunction prohibiting any disposal or encumbrance of certain real property by the defendant. The defendant was the romantic partner of a former employee of the debtors. After the employee was sued by the trustee, the employee bought and improved certain real property, which he titled in the name of the defendant. The trustee filed a fraudulent transfer action and sought to enjoin the defendant from encumbering or disposing of the property until the conclusion of the case against the employee. On appeal, the District Court found that the trustee had established a likelihood of success on the merits in the fraudulent transfer action and that the trustee could suffer irreparable harm in the form of a diminished asset pool in the absence of a preliminary injunction. The Court also affirmed the denial of a motion to intervene by the employee because he had no legal interest in the property.

In *Zaremba v. Davis (In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.)*, Adv. Pro. No. 05-3147 (Bankr. N.D. Ohio 2008), the trustee sued the former principal of the debtors for conversion and fraudulent misrepresentation after the principal pleaded guilty to various federal counts involving fraud and theft. In denying, in part, and granting, in part, a motion for summary judgment by the trustee, the Court found that the elements of a fraudulent misrepresentation claim differed from the elements of the defendant's fraud crimes, and thus admission to all elements was not made by the defendant by virtue of his guilty plea. However, the Court found that the elements of a conversion claim were satisfied with the defendant's admissions of various facts related to his crimes. The Court also found that the defendant was not a "customer" for SIPA purposes with respect to his loan of securities to the debtors' parent company.

In a suit by the trustee against the debtors' former legal counsel in *In re Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc.*, Adv. Pro. No. 03-3370 (Bankr. N.D. Ohio 2008), the Court denied without prejudice the trustee's motion to compel the law firm to comply with three document subpoenas issued under Rule 2004 of the Federal Rules of Bankruptcy Procedure. After the third subpoena was issued, the trustee commenced an adversary proceeding against the law firm. The firm objected to the subpoenas, claiming that the use of Rule 2004 was improper after the adversary proceeding was commenced. The firm also asserted the attorney-client privilege and work product doctrine, despite waivers obtained by the trustee from representatives of the debtors. The Court found that the trustee could not enforce the subpoenas under Rule 2004 because of the "pending proceeding" rule: the documents sought pursuant to the subpoenas related to the allegations of fraudulent conveyances in the trustee's adversary proceeding against the law firm and, as such, could only be sought under the Federal Rules of Civil Procedure applicable in an adversary proceeding. However, the Court held that most of the waivers of the attorney-client privilege presented by the trustee were valid and would apply to future discovery requests.

In *Mishkin v. Gurian (In re Adler, Coleman Clearing Corp.)*, Case No. 06-80157-Ryskamp/Vitunac (S.D. Fla. April 2008), the trustee held an uncollected multimillion judgment against the defendant's son for activity detrimental to the debtor. After having earlier stricken the defendant's pleadings and entered a default against her, the Court ordered final judgment against the defendant, avoided a transfer of real property by her son to her, authorized the trustee to levy the property and apply the sales proceeds towards the trustee's judgment against her son, ordered that a writ of execution be issued to the United States Marshals directing them to levy the property, permanently enjoined the defendant from any sale or encumbrance of the property, and taxed costs in the action to the defendant.

In *Stephenson v. El-Batrawi (In re MJK Clearing, Inc.)*, 524 F.3d 907 (8th Cir. 2008), the Court of Appeals affirmed the District Court's denial of the defendant's motion to set aside the default judgment against him, but vacated the default judgment and remanded the case for additional findings regarding the judgment amount. The trustee served the defendant with the complaint by various means, including by first class mail and by publication. More than three years after the defendant defaulted, the trustee moved for a default judgment for $67.5 million in damages. The defendant then made his first appearance and moved to set aside the default arguing that he never obtained actual notice of the proceeding and that he had meritorious defenses. In affirming the denial of the motion to set aside entry of default, the Court of Appeals found that the defendant had been effectively served with the complaint and that his assertions were inadequate to support the existence of any meritorious defense. The Court remanded the case with instructions for the district court to make specific findings regarding a damage award.

The Bankruptcy Court in *In re Lehman Brothers Inc.*, Case No. 08-01420 (Bankr. S.D.N.Y. 2008), granted a motion for leave to conduct discovery under Rule 2004 of the Federal Rules of Bankruptcy Procedure filed by certain former employees of the debtor ("movants"), who were participants under the debtor's deferred compensation plans. The trustee had denied their request to furnish a list of contact information for all other similarly situated persons, arguing that the movants were using Rule 2004 for the improper purpose of soliciting additional clients by the movants' law firm. The movants acknowledged that they wanted the names of others similarly situated to form a more robust group of jointly represented creditors. The Court found that such discovery, although in aid of soliciting individuals to join a creditor group, fit within the broad categories of permitted discovery under Rule 2004.

In *Friedman Billings Ramsey Group v. SIPC, et al. (In re Lehman Brothers Inc.)*, Case No. 08-01587 (JMP) (Bankr. S.D.N.Y. 2008), one week after the commencement of the liquidation proceeding, the plaintiff sued the trustee and SIPC seeking to compel the completion of a Master Repurchase Agreement that was executed between the debtor, an affiliate of the debtor, and the plaintiff by requiring the delivery to the plaintiff of a particular Fannie Mae mortgage-backed security. The plaintiff also sought emergency relief by filing a motion for a temporary restraining order. Upon SIPC's motion to dismiss and the trustee's opposition to the plaintiff's motion, the Bankruptcy Court, after oral argument, denied the motion for emergency relief because, among other things, the plaintiff did not prove a likelihood of success on the merits, and demonstrated no irreparable harm. Thereafter, the plaintiff reached agreement with the defendants to terminate its adversary proceeding.

DISCIPLINARY AND CRIMINAL ACTIONS

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 14(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

Criminal and Administrative Actions

Criminal actions have been initiated in 129 of the 322 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 300 indictments have been returned in federal or state courts, resulting in 269 convictions to date.

Administrative and/or criminal actions in 283 of the 322 SIPC customer protection proceedings initiated through December 31, 2008, were accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Actions	60
Exclusive SEC Administrative Actions	41
Exclusive Self-Regulatory Administrative Actions	53
Criminal and Administrative Actions	102
Criminal Actions Only	27
Total	283

In the 256 customer protection proceedings in which administrative actions have been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	117	113
Bar from Association	353	231
Fines	Not Applicable	$11,733,781

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 $11,733,781 in fines assessed by self-regulatory authorities were levied against 130 associated persons and ranged from $250 to $1,600,000.

Members In or Approaching Financial Difficulty

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

Members on Active Referral

SIPC maintained active files on four (4) members referred under section 5(a) during the calendar year 2008. One referral had been carried over from prior years.

Two referrals North American Clearing, Inc. and Great Eastern Securities, Inc., became SIPC proceedings during the year.

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

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

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Report of Independent Certified Public Accountants

To the Board of Directors of
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (SIPC) as of December 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SIPC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SIPC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2008, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

McLean, Virginia
April 30, 2009

Statement of Financial Position

as of December 31, 2008

ASSETS		
Cash	$	523,658
U.S. Government securities, at fair value and accrued interest receivable of ($19,011,988); (amortized cost $1,508,787,402) (Note 6)		1,698,516,300
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($83,749,433) (Note 4)		1,800,000
Other (Note 5 and Note 8)		974,067
		$1,701,814,025
LIABILITIES AND NET ASSETS		
Advances to trustees—in process (Note 4)	$	675,000
Accrued benefit costs (Note 8)		11,074,298
Accounts payable and other accrued expenses		641,250
Deferred rent		410,876
Estimated costs to complete customer protection proceedings in progress (Note 4)		1,425,600,000
		1,438,401,424
Net assets		263,412,601
		$1,701,814,025

The accompanying notes are an integral part of these statements.

Statement of Activities

for the year ended December 31, 2008

Revenues:		
Interest on U.S. Government securities	$	67,601,131
Member assessments (Note 3)		816,322
		68,417,453
Expenses:		
Salaries and employee benefits (Note 8)		6,461,396
Legal and accounting fees (Note 4)		173,804
Credit agreement commitment fee (Note 5)		1,686,889
Rent (Note 5)		707,604
Other		3,642,288
		12,671,981
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)		1,423,952,260
		1,436,624,241
Total net expenses		(1,368,206,788)
Realized and unrealized gain on U.S. Government securities (Note 6)		132,368,130
Pension and postretirement benefit changes other than net periodic pension costs		(5,752,428)
Decrease in net assets		(1,241,591,086)
Net assets, beginning of year		1,505,003,687
Net assets, end of year	**$**	**263,412,601**

The accompanying notes are an integral part of these statements.

Statement of Cash Flows

for the year ended December 31, 2008

Operating activities:	
Interest received from U.S. Government securities	$ 69,008,667
Member assessments received	816,322
Advances paid to trustees	(12,917,342)
Recoveries of advances	1,240,168
Salaries and other operating activities expenses paid	(12,188,519)
Net cash provided by operating activities	45,959,296
Investing activities:	
Proceeds from sales of U.S. Government securities	180,649,129
Purchases of U.S. Government securities	(226,237,196)
Purchases of furniture and equipment	(137,370)
Net cash used in investing activities	(45,725,437)
Increase in cash	233,859
Cash, beginning of year	289,799
Cash, end of year	**$ 523,658**

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

1. Organization and general

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

SIPC is exempt from income taxes under 15 U.S.C. § 78kkk(e) of SIPA and under § 501(c)(6) of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SIPC elects to defer the application of Financial Interpretation 48 ("FIN 48") under FASB Staff Position FIN 48-3, "Effective Date of FASB Interpretation No.48 for Certain Nonpublic Enterprises," until the period beginning January 1, 2009.

SIPC accounts for uncertain tax positions and other loss contingencies, including tax-related audits, in the normal course of our operations on our balance sheet. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," SIPC records a loss contingency for these matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. SIPC reviews loss contingencies routinely to ensure that appropriate liabilities are recorded on the balance sheet. SIPC adjusts these liabilities based on estimates and judgments made by management with respect to the likely outcome of these matters, including the effect of any applicable insurance coverage for litigation matters. The estimates and judgment could change based on new information, changes in laws or regulations, changes in management's plans or intentions, the outcome of legal proceedings, settlements or other factors.

2. The "SIPC Fund" and SIPC's resources

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $1,699,039,958.

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 maintained $1 billion revolving lines of credit with a consortium of banks, $500 million of which expired effective March 1, 2009.

3. Member assessments

For calendar year 2008 and through March 31, 2009 each member's assessment was $150. Effective April 1, 2009, each member's assessment is at the rate of ¼ of 1% 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 14 proceedings in progress at December 31, 2008. Customer claims have been satisfied in 7 of these proceedings and in 7 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.

In the Bernard L. Madoff Investment Securities LLC proceeding, the trustee, utilizing the customer records available from the computer files of the firm identified those accounts believed to be valid customers. In accordance with section 78lll (2) of SIPA, the definition of a "customer" includes a "person who has deposited cash with the debtor for the purpose of purchasing securities." The customer can be an individual, a corporation, a partnership, a pension plan or a "feeder fund." The trustee then calculated the "net cash" positions (cash deposited less cash withdrawn) for each customers' account and where available, this information was compared to other source documentation including banking records and customer portfolio files. Based on that valuation, the trustee determined the customer's net equity and maximum claim allowed under SIPA. Including administrative costs, management estimates that the total charges to SIPC for this case to be approximately $1.4 billion. As actual claims are processed, the trustee will determine the ultimate amount of payment for each claim. Claims can be disputed, which among other factors, could cause the ultimate amount of the claims to differ from the current estimate. Any changes in the estimate will be accounted for prospectively.

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 $82.5 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $80.7 million is not expected to be recovered.

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.

The following table summarizes transactions during the year ended December 31, 2008 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	**Estimated costs to complete**
Balance, beginning of year	$ 400,000	$ 12,600,000
Add:		
Provision for current year recoveries	800,000	—
Provision for estimated future recoveries	1,800,000	—
Provision for estimated costs to complete proceedings	—	1,426,600,000
Less:		
Recoveries	1,200,000	—
Advances to trustees	—	13,600,000
Balance, end of year	$ 1,800,000	$1,425,600,000

5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2009 - $539,911; 2010 - $553,447; 2011- 567,259; 2012 - $581,485; 2013 - $595,988; 2014 - $610,905; 2015 - $417,490; for a total of $3,866,485, as of December 31, 2008. Additional rental based on increases in operating expenses and real estate taxes is required by the lease. The rent holiday of $41,567 and the leasehold improvement incentive of $345,300 are being amortized over the life of the lease.

On August 31, 2007, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new five-year lease commenced August 1, 2008. Future minimum rentals for the space, expiring on July 31, 2013, are as follows: 2009 - $106,312; 2010 - $109,502; 2011 - $112,787; 2012 - $116,171; 2013 - $68,937; for a total of $513,709 as of December 31, 2008. Additional rental is based on increases in operating expenses including real estate taxes as required by the lease.

In March 2006 SIPC entered into a $500 million 3-year revolving credit facility with commitment fees of .10% per year. Additionally upfront fees averaging .14% were paid to certain banks. This facility expired in March 2009.

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

6. Fair value of securities

In 2008, SIPC adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with US GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 explains the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value of the U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2008. As a bid quote on U.S. Government securities vary substantially among market makers, the fair value bid quote is considered a level 2 input under SFAS No. 157. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of FASB Statement No. 157, *Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value at least once a year, to fiscal years beginning after November 15, 2008. SIPC elects to defer the application until the period beginning January 1, 2009.

U.S. Government securities as of December 31, 2008, included gross unrealized gains of $189,728,898 and no gross unrealized losses.

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

Decrease in net assets	$(1,241,591,086)
Net increase in estimated cost to complete customer protection proceedings	1,413,000,000
Realized and unrealized gain on U.S. Government securities	(132,368,130)
Increase in payables and accrued expenses	6,055,995
Net amortized discount on U.S. Government securities	1,527,672
Net decrease in estimated recoveries of advances to trustees	(1,400,000)
Decrease in prepaid expenses	710,340
Depreciation and amortization	148,640
Increase in accrued interest receivable on U.S. Government securities	(120,136)
Decrease in deferred rent	(5,337)
Loss on disposal of assets	1,338
Net cash provided by operating activities	$ 45,959,296

8. Pensions and other postretirement benefits

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. SIPC also has a supplemental non-qualified retirement plan for certain employees. The $198,369 year end market value of the supplemental plan is reflected in Other assets and as a deferred compensation liability in Accrued benefit costs. In addition SIPC has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually to reflect changes in gross premiums; the life insurance plan is noncontributory.

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

	Pension Benefits	Other Postretirement Benefits
Change in Benefit Obligation		
Benefit obligation at beginning of year	$21,299,634	$ 5,279,158
Service cost	642,564	157,372
Interest cost	1,310,967	344,099
Plan participants' contributions	–	18,053
Amendments	–	(3,214,704)
Actuarial loss (gain)	486,891	1,428,763
Benefits paid	(637,671)	(102,423)
Benefit Obligation at end of year	$23,102,385	$ 3,910,318
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 21,123,143	$ –
Actual return on plan assets	(5,608,698)	–
Employer contributions prior to measurement date	1,260,000	–
Employer contributions	–	84,370
Plan participants' contributions	–	18,053
Benefits paid	(637,671)	(102,423)
Fair value of plan assets at end of year	$16,136,774	$ –
Funded status	$ (6,965,611)	$ (3,910,318)
Employer contributions between measurement and statement date	–	–
Funded status at year end	$ (6,965,611)	$ (3,910,318)
Amounts Recognized in the Statement of Financial Position and Net Assets consist of:		
Current liabilities	$ –	$ (92,612)
Noncurrent liabilities	(6,965,611)	(3,817,706)
Net amount recognized in the Statement of Financial Position	$ (6,965,611)	$ (3,910,318)
Other Amounts Recognized within the Statement of Activities consist of:		
Net actuarial loss	$ 7,611,816	$ 1,425,064
Prior service cost	(58,098)	(3,226,354)
Pension and Postretirement benefit changes other than net periodic benefit costs	$ 7,553,718	$ (1,801,290)
Accumulated Benefit Obligation end of year	$20,442,324	$ 3,910,318
Weighted-average Assumptions for Disclosure as of December 31, 2008		
Discount rate	6.00%	6.00%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	9.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2017

	Pension Benefits	Other Postretirement Benefits
Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities		
Net Periodic Benefit Cost		
Service cost	$ 642,564	$ 157,372
Interest cost	1,310,967	344,099
Expected return on plan assets	(1,726,383)	–
Recognized prior service cost	58,098	11,650
Recognized actuarial loss	210,156	3,699
Net periodic benefit cost	$ 495,402	$ 516,820
Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities		
Net actuarial loss	$ 7,821,972	$ 1,428,763
Recognized actuarial loss	(210,156)	(3,699)
Prior service credit	–	(3,214,704)
Recognized prior service cost	(58,098)	(11,650)
Total recognized within the Statement of Activities	7,553,718	(1,801,290)
Total recognized in net benefit cost and within the Statement of Activities	$ 8,049,120	$ (1,284,470)
Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year		
Loss recognition	$ 1,034,069	$ 149,368
Prior service cost (credit) recognition	58,098	(389,686)
Total	$ 1,092,167	$ (240,318)
Effect of a 1% Increase in Trend on:		
Benefit Obligation	N/A	$ 568,524
Total Service Interest Cost	N/A	$ 90,382
Effect of a 1% Decrease in Trend on:		
Benefit Obligation	N/A	$ (467,754)
Total Service Interest Cost	N/A	$ (74,971)
Weighted-average Assumptions for Net Periodic Cost as of December 31, 2008		
Discount rate	6.25%	6.25%
Expected asset return	8.00%	N/A
Salary scale	4.00%	N/A
Health Care Cost Trent: Initial	N/A	10.00%
Health Care Cost Trent: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2013

For the pension plan the change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2008 the unrecognized net loss increased by 35.7% of the 12/31/2007 projected benefit obligation.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2008 by ($315,500)/$333,200 and (decreased)/increased the year-end projected benefit obligation by ($2.6)/$2.9 million.

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

9. Donated services

SIPC received contributed services of approximately $5,000,000 for public service announcements during the year ended December 31, 2008. These contributed services were not recognized as revenue in the financial statements as they would not have been purchased if they were not contributed and SIPC determined that the services did not create or enhance a nonfinancial asset.

Pension Plan Assets

Asset Category	Expected Long-Term Return	Target Allocation	Actual/Allocation 12/31/2008
Equity securities	10.25%	60–70%	65%
Debt securities	4.50%	40–30%	35%
TOTAL	8.00–8.50%	100%	100%

Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2009	$ 745,648	$ 95,400
2010	$ 1,010,257	$ 131,000
2011	$ 1,127,099	$ 153,900
2012	$ 1,363,143	$ 183,600
2013	$ 1,456,321	$ 196,100
2014–2018	$ 9,122,899	$ 1,292,300

Contributions

The company expects to contribute $4,000,000 to the pension plan and $95,400 to the postretirement benefit plan during 2009.

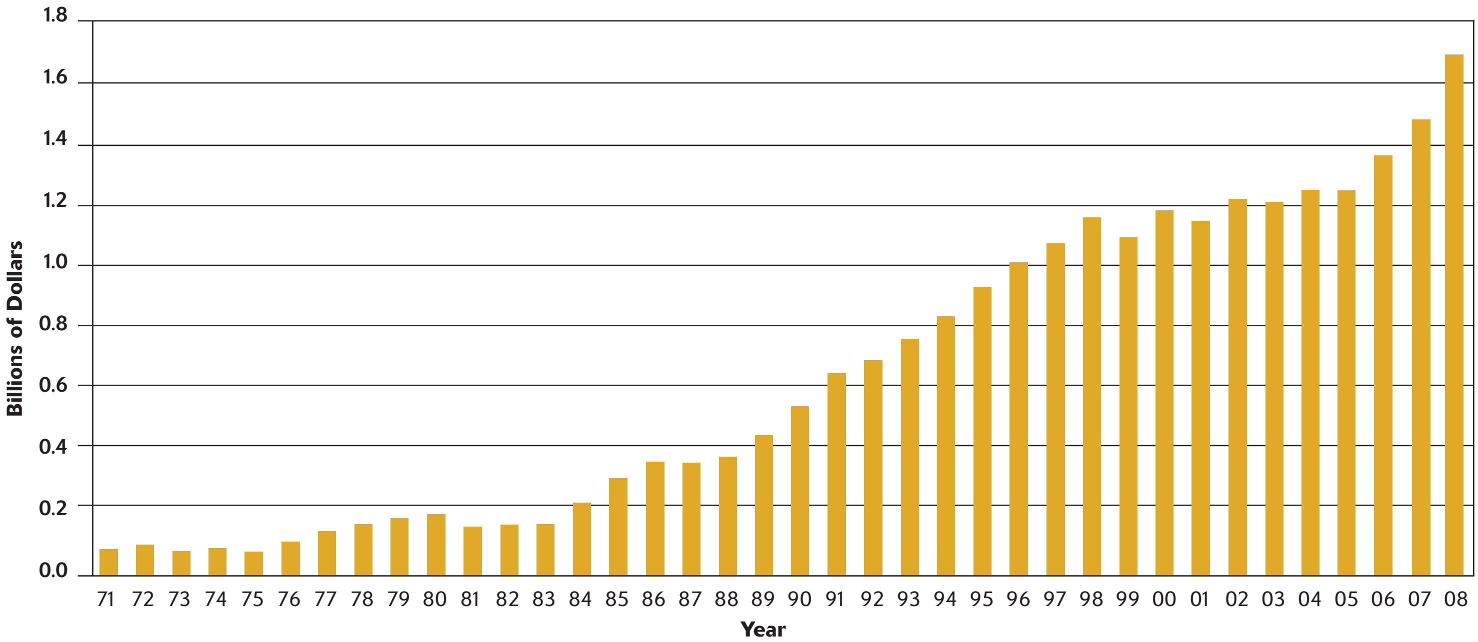
Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$ 135,286

TABLE 5

SIPC Fund Comparison

Inception to December 31, 2008



APPENDIX 1 DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

for the Thirty-eight Years Ended December 31, 2008 (In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			Total
		Advances*	Recoveries*	Net	
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)†	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	606,593	40,785	(5,812)	34,973	641,566
2003	(643,242)△	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662)△	(37,700)	(49,362)	159,663
2005	(24,245)○	1,175	(4,342)	(3,167)	(27,412)
2006	1,635,006	2,653	(51,942)	(49,289)	1,585,717
2007	1,167	7,054	(6,624)	430	1,597
2008	144,265,058	1,982	(709)	1,273	144,266,331
	$159,673,694	**$672,776**	**$(348,983)**	**$323,793**	**$159,997,487**

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

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

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

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

APPENDIX 2 ANALYSIS OF SIPC REVENUES AND EXPENSES
for the Five Years Ended December 31, 2008

	2008	2007	2006	2005	2004
Revenues:					
Interest on U.S. Government securities	$ 67,597,794	$ 67,670,369	$65,487,278	$ 62,754,357	$63,085,146
Member assessments and contributions	816,322	852,025	894,941	927,597	972,817
Interest on assessments	3,337	3,531	2,929	3,947	5,430
	68,417,453	68,525,925	66,385,148	63,685,901	64,063,393
Expenses:					
Salaries and employee benefits	6,461,396	5,818,841	5,439,474	5,244,719	5,118,345
Legal fees	88,987	51,033	257,329	347,240	347,793
Accounting fees	84,817	75,962	72,277	48,333	36,050
Credit agreement commitment fee	1,686,889	1,698,657	2,164,497	2,218,971	2,864,300
Professional fees—other	179,957	342,549	179,575	164,602	184,882
Other:					
Assessment collection cost	9,127	15,416	9,492	7,984	10,788
Depreciation and amortization	148,640	160,201	160,453	150,247	161,437
Directors' fees and expenses	101,207	71,107	67,492	31,124	55,835
Insurance	32,544	32,184	30,970	30,621	28,988
Investor education	1,907,599	369,927	324,029	343,022	342,600
Imaging expenses	104,760	115,200	57,440	74,442	290,296
Office supplies and expense	143,778	70,629	85,457	132,282	149,968
EDP and internet expenses	366,148	435,441	352,902	338,582	378,024
Postage	16,814	9,619	11,165	11,040	15,050
Printing & mailing annual report	31,493	30,965	32,793	32,692	33,461
Publications and reference services	160,067	173,713	155,887	145,311	149,725
Rent—office space	707,604	663,850	678,667	631,764	619,450
Telephone	73,258	66,890	70,127	68,933	71,227
Travel and subsistence	283,452	92,668	122,258	156,671	126,827
Personnel recruitment	10,625			10,104	2,608
Miscellaneous	72,819	21,111	16,813	15,463	9,071
	4,169,935	2,328,921	2,175,945	2,180,282	2,445,355
	12,671,981	10,315,963	10,289,097	10,204,147	10,996,725
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	296,456	(2,435,817)	(48,468,436)	(2,192,756)	(37,187,364)
Cash	(2,610,108)	(816,131)	(2,452,686)	(1,147,479)	(14,345,975)
	(2,313,652)	(3,251,948)	(50,921,122)	(3,340,235)	(51,533,339)
Administration expenses	9,884,474	2,098,243	(31,319,949)	17,565,057	30,564,773
	7,570,822	(1,153,705)	(82,241,071)	14,224,822	(20,968,566)
Net change in estimated future recoveries	(1,400,000)	6,000,000	85,300,000	(91,000,000)	34,300,000
	6,170,822	4,846,295	3,058,929	(76,775,178)	13,331,434
SIPC as Trustee:					
Securities	3,862,296	2,237,551	1,382,472	184,354	1,798,260
Cash	(276,003)	1,391,181	249,601	(9,714)	367,371
	3,586,293	3,628,732	1,632,073	174,640	2,165,631
Administration expenses	1,194,506	(97,104)	454,596	810,987	1,601,101
	4,780,799	3,531,628	2,086,669	985,627	3,766,732
Direct payments:					
Securities		52,561		(585)	2,141
Cash					2,805
		52,561		(585)	4,946
Administration expenses	639	4,828	188,282		16,272
	639	57,389	188,282	(585)	21,218
Net change in estimated cost to complete proceedings	1,413,000,000	(8,700,000)	(11,000,000)	(19,900,000)	(8,200,000)
	1,423,952,260	(264,688)	(5,666,120)	(95,690,136)	8,919,384
	1,436,624,241	10,051,275	4,622,977	(85,485,989)	19,916,109
Total net (expenses) revenues	(1,368,206,788)	58,474,650	61,762,171	149,171,890	44,147,284
Realized and unrealized gain (loss) on U.S. Government securities	132,368,130	63,088,803	(18,597,798)	(39,972,573)	(29,654,153)
Effect of adoption of recognition provisions of FASB Statement No. 158			(3,861,167)		
Pension and postretirement benefit changes other than net periodic benefit costs	(5,752,428)	(1,007,696)			
(Decrease) increase in net assets	$(1,241,591,086)	$120,555,757	$39,303,206	$109,199,317	$14,493,131

APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers [b] To Whom Notices and Claim Forms Were Mailed	Responses [b] Received	Customers [b] Receiving Distributions
Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	10/09/59	08/25/03	09/29/03	19,636	325	77
Financial World Corporation Overland Park, KS (SIPC)	09/13/96	01/12/06	01/18/06	1,383	112	8
Hanover Investment Securities, Inc. Madisonville, LA (SIPC)	08/30/82	02/28/08	02/28/08	826	92	32
North American Clearing, Inc. Longwood, FL (Robert N. Gilbert, Esq.)	11/15/95	05/27/08	07/28/08	43,383	1,541	22
Great Eastern Securities, Inc. New York, NY (SIPC)	03/01/72	08/26/08	09/03/08	16,102	234	
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	03/27/65	09/19/08	09/19/08	925,000	1,365	135,500
Bernard L. Madoff Investment Securities LLC New York, NY (Irving H. Picard, Esq.)	01/19/60	12/11/08	12/15/08	8,112*		
TOTAL 7 MEMBERS: PART A				**1,014,442**	**3,669**	**135,639**

* Mailed on 01/02/09.

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,828,620	$ 1,625,973	$ 202,647	$ 6,844,648	$5,095,643		$ 632,650	$ 1,116,355
			668,180	60,138		562,023	46,019
9,087		9,087	3,598,017	21,808		3,447,512	128,697
10,706,137	10,656,041	50,096	2,750,000	2,750,000			
			55,579	55,579			
144,256,562,949	144,250,000,000	6,562,949	1,500,000	1,500,000			
2,312,224		2,312,224	964,000	964,000			
$144,271,419,017	**$144,262,282,014**	**$9,137,003**	**$16,380,424**	**$10,447,168**		**$4,642,185**	**$1,291,071**

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	02/27/95	02/27/95	102,000	19,841	59,650
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,535	9,738
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	05/08/89	02/26/01	03/06/01	26,395	7,117	3,371
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	09/08/03	09/08/03	18,281	392	12
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356	81	38
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	04/26/00	11/30/04	12/03/04	103,690	3,063	1,382
Paul L. Forchheimer & Co. New York, NY (SIPC)	08/08/52	12/12/06	12/12/06	109	14	11
TOTAL 7 MEMBERS: PART B				**273,065**	**35,043**	**74,202**

Distribution of Assets Held by Debtor (c)			SIPC Advances				
Total	**For Accounts of Customers**	**Administration Expenses**	**Total Advanced**	**Administration Expenses**	**Contractual Commitments**	**Securities**	**Cash**
$ 748,359,400	$ 711,744,281	$ 36,615,119	$ 6,625,198			$ 3,312,599	$ 3,312,599
359,898,390	353,191,553	6,706,837	37,466,443	$ 15,036,466		6,220,088	16,209,889
7,341,244	2,407,482	4,933,762	8,415,208	5,077,033			3,338,175
823,083	591,394	231,689	3,187,519	1,632,987		1,554,532	
250,000	250,000		2,558,149	114,110		1,916,313	527,726
1,162,635	611,523	551,112	6,724,569	5,845,934		878,635	
198,211	145,623	52,588	1,191,923	25,000		1,123,927	42,996
$1,118,032,963	**$1,068,941,856**	**$49,091,107**	**$66,169,009**	**$27,731,530**		**$15,006,094**	**$23,431,385**

PART C: Proceedings Completed in 2008

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
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	07/16/81	10/16/95	10/17/95	2,866	139	20
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	01/17/86	08/28/96	08/28/96	2,067	156	34
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	01/08/87	01/24/97	01/29/97	22,630	3,378	362
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	09/03/77	03/06/97	03/10/97	11,097	5,416	5,299
John Dawson & Associates, Inc. Chicago, IL (SIPC)	10/30/72	04/08/99	04/13/99 05/17/07*	6,750	126	17
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos-Bonet, Esq.)	10/24/60	10/17/01	10/17/01	1,903	36	15
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	05/15/96	10/30/01	10/30/01	23,000	330	13

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

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 5,653,628	$ 295,000	$ 5,358,628	$ 10,093,775	$ 9,528,511		$ 565,264	
1,029,732	1,012,806	16,926	6,449,980	4,376,342		1,892,602	$ 181,036
8,240,356	3,989,732	4,250,624	15,079,204	9,758,862		406,902	4,913,440
362,070,597	351,184,237	10,886,360	36,550,490	8,893,888		27,201,211	455,391
2,116,480	1,994,809	121,671	7,325,898	6,713,355		612,543	
1,142,798	995,217	147,581	882,532	380,497			502,035
571,713	293,588	278,125	2,899,476	795,794		2,103,682	

PART C: Proceedings Completed in 2008

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
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	321	26
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	07/24/00	02/05/03	02/10/03	2,278	302	22
Rocky Mountain Securities & Investments, Inc. Denver, CO (John D. Shively, Esq.)	08/22/80	02/06/03	02/06/03	5,426	653	3,837
Austin Securities, Inc. Forest Hills, NY (SIPC)	12/12/85	04/14/05	04/14/05	1,911	108	20
Salomon Grey Financial Corporation Dallas, TX (Direct Payment)	01/26/98		11/28/06+	15,033	177	4
TOTAL 12 MEMBERS 2008				**105,201**	**11,142**	**9,669**
TOTAL 296 MEMBERS 1973–2007(d)				**1,760,177**	**400,077**	**541,257**
TOTAL 308 MEMBERS 1973–2008				**1,865,378**	**411,219**	**550,926**

+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**
$ 242,775	$ 235,000	$ 7,775	$ 1,791,149	$ 676,614		$ 1,114,535	
3,855,806	3,816,023	39,783	9,417,175	5,220,077		3,964,176	$ 232,922
59,256,742	58,300,000	956,742	5,432,618	1,257,461		3,599,790	575,367
2,013 ,146	1,882,914	130,232	2,358,926	200,257		929,769	1,228,900
			102,647	50,085		52,562	
446,193,773	**423,999,326**	**22,194,447**	**98,383,870**	**47,851,743**		**42,443,036**	**8,089,091**
14,158,086,376	**13,918,470,853**	**239,615,523**	**339,154,355**	**110,264,811**	**$1,388,427**	**119,310,153**	**108,190,964**
$14,604,280,149	**$14,342,470,179**	**$261,809,970**	**$437,538,225**	**$158,116,554**	**$1,388,427**	**$161,753,189**	**$116,280,055**

APPENDIX 3 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:	7 Members — Customer Claims and Distributions Being Processed	1,014,442	3,669	135,639
Part B:	7 Members — Customer Claims Satisfied, Litigation Matters Pending	273,065	35,043	74,202
	Sub-Total	1,287,507	38,712	209,841
Part C:	308 Members — Proceedings Completed	1,865,378	411,219	550,926
	TOTAL	**3,152,885**	**449,931**	**760,767**

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.

Distribution of Assets Held by Debtor [c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 144,271,419,017	$ 144,262,282,014	$ 9,137,003	$ 16,380,424	$ 10,447,168		$ 4,642,185	$ 1,291,071
1,118,032,963	1,068,941,856	49,091,107	66,169,009	27,731,530		15,006,094	23,431,385
145,389,451,980	145,331,223,870	58,228,110	82,549,433	38,178,698		19,648,279	24,722,456
14,604,280,149	14,342,470,179	261,809,970	437,538,225	158,116,554	$ 1,388,427	161,753,189	116,280,055
$159,993,732,129	**$159,673,694,049**	**$320,038,080**	**$520,087,658**	**$196,295,252**	**$1,388,427**	**$181,401,468**	**$141,002,511**

SiPC

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