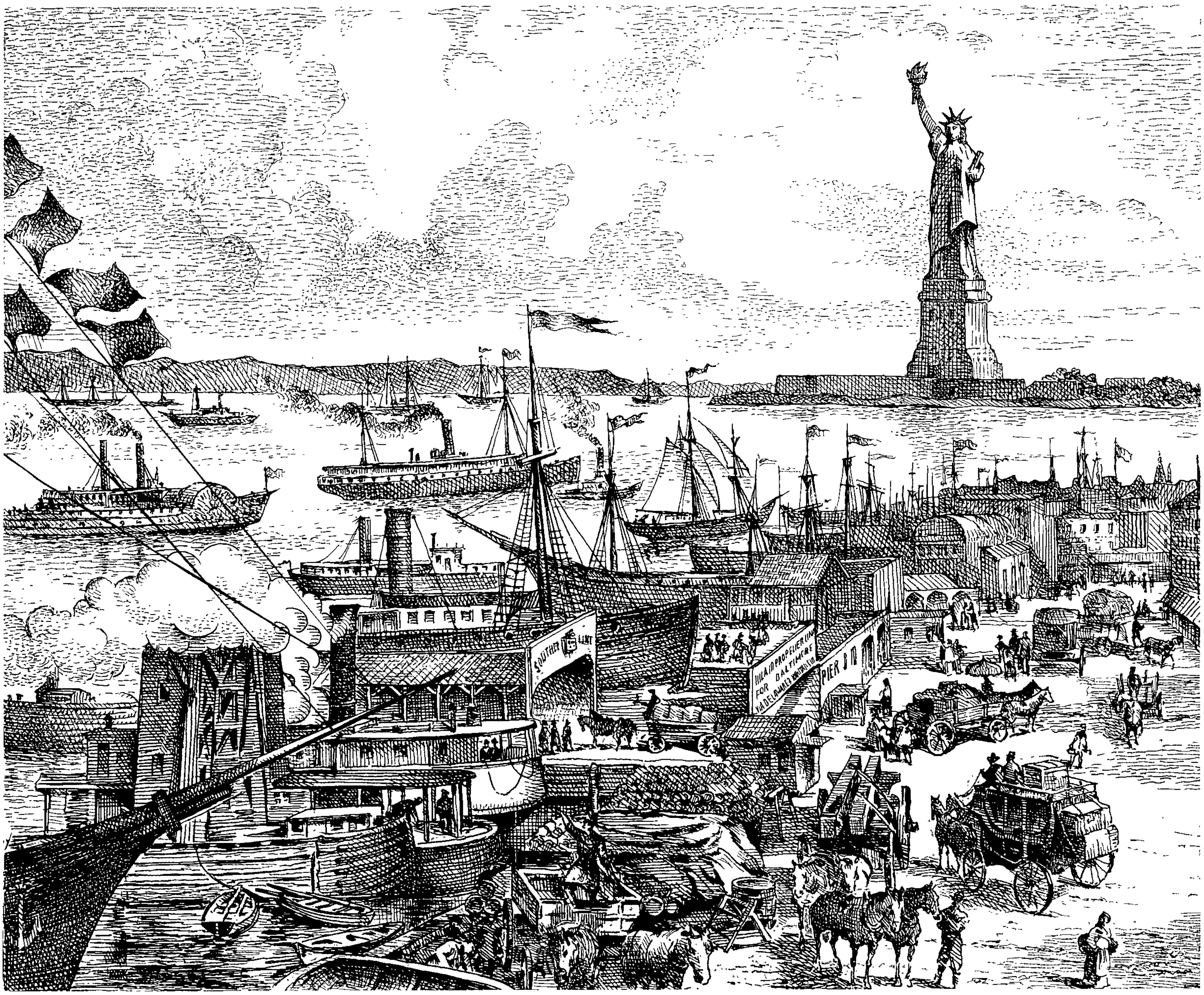
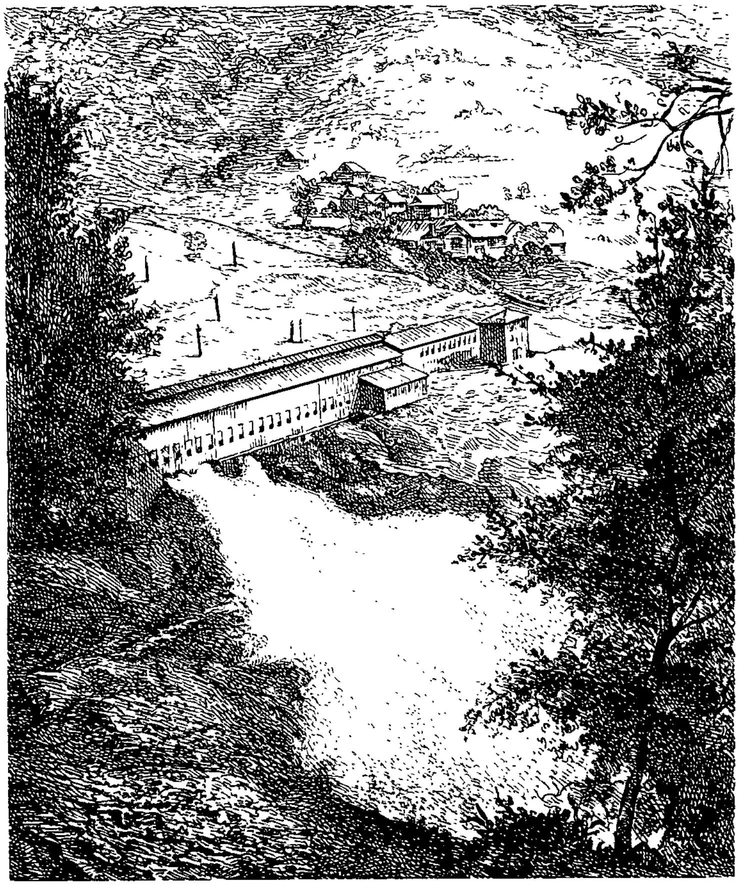


THE DEPOSITORY TRUST COMPANY

ANNUAL REPORT 1985

Depository Trust's primary role within the securities industry's overall contribution to capital formation in America is to add efficiency to settlements of transactions in the nation's new issue and secondary markets. Those markets and the growth of U.S. commercial and industrial strength in the century since Miss Liberty came to our shores are among the wonders of the modern world. We look back in the course of this report to a period when that strength was gathering force.

Front Cover: *In this view of the bustling harbor of New York nearly 100 years ago, the majestic Statue of Liberty, a recent gift from the people of France, stands forth as a universal symbol of liberty and economic opportunity.*



By illuminating buildings and powering machinery, electrical energy helped make possible the vigorous commercial growth of American cities. Activated in 1902, the Electra Powerhouse in Amador County, California, was the first provider of hydro-electric power to San Francisco. Through the Blue Lakes water storage system, an elaborate network of dams, reservoirs, and canals built in mountainous terrain, the driving force of the Mokelumne River was funneled through the turbines of five giant generators to produce 10,000 kilowatts of electricity. The financing of the Electra Powerhouse was arranged through a private syndicate organized by W. H. Crocker, the first president of the California bank, and Prince André Poniatowski, a financier and Polish aristocrat.

1985 ANNUAL REPORT

The Depository Trust Company, 7 Hanover Square, New York, NY 10004
212-709-1000

HIGHLIGHTS

At the End of the Year:	1985	1984
Participants	**522**	507
Broker-Dealers	**342**	335
Banks	**173**	165
Clearing Agencies	**7**	7
Eligible Security Issues	**262,081**	139,298
	(In Billions)	
Value of Securities on Deposit	**$2,010**	$1,437
Banks	**$1,497**	$1,074
Broker-Dealers	**$439**	$316
Other Depositories	**$74**	$47
	(In Billions)	
Number of Shares on Deposit	**54.5**	46.6
Banks	**26.6**	22.9
Broker-Dealers	**26.2**	22.3
Other Depositories	**1.7**	1.4
	(In Billions)	
Total Principal Amount of Debt Securities on Deposit	**$737.3**	$507.4
Banks	**$550.9**	$385.5
Broker-Dealers	**$152.5**	$103.2
Other Depositories	**$33.9**	$18.7
	(In Billions)	
Principal Amount of Municipal Bonds on Deposit	**$306.4**	$167.3
Banks	**$214.8**	$118.3
Broker-Dealers	**$83.6**	$47.4
Other Depositories	**$8.0**	$1.6
	(In Billions)	
Value of Securities Pledged for Collateral Loans	**$15.4**	$10.5
	(In Billions)	
Value of *FAST* Balance Certificates at Transfer Agents	**$784.0**	$580.2
Total for the Year:	(In Billions)	
Market Value of Book-Entry Deliveries	**$5,460**	$3,780
Cash Dividends and Interest Payments	**$95.2**	$74.3

A MESSAGE FROM MANAGEMENT

Improving, active markets for equity and debt securities during 1985 translated into a series of new records for Depository Trust. To mention only a few:

- The value of computerized book-entry deliveries of securities among Participants rose to $5.5 trillion for the year, a 44% increase over 1984's level, while the number of such deliveries increased 16% to 55.8 million.
- The value of securities in DTC custody rose to approximately $2 trillion at yearend 1985, up 40% from $1.4 trillion at yearend 1984.
- The number of shares on deposit was up 17% for the year, to 54.5 billion, and the face value of debt securities in custody rose 45%, to over $737 billion.

Much of the increase in debt securities stemmed from strong growth in DTC services to the municipal bond industry, which is in transition to an environment of largely automated clearance and settlement of muni trades. Here, too, a few statistics help to measure progress:

- At yearend, after more than doubling its list of eligible issues, DTC held over $306 billion in principal amount of municipal bonds for its Participants. That is about half the value of all muni bonds issued and outstanding in the United States.
- Some 70% of the value of all new municipal bond issues brought to market during 1985 was distributed using DTC's Underwriting Service. More than 99% in principal amount of these issues settled through the depository.
- 4,387 muni underwritings representing 68,137 serial and term bonds valued at $146.4 billion in principal amount were distributed through DTC in 1985, 1,194 in December alone.

Quantitative indicators of performance tell only part of the story, however. By enhancing existing services and adding to service options, DTC continued to boost "back-office" efficiency and cost savings through automation, thus helping Participants and their customers gain greater benefits from depository use.

The year also marked further progress in the depository's efforts to ease the burden of "exception processing" its Participants must perform—steps they take to serve their customers notwithstanding the fact that related securities had been deposited with DTC. These efforts include the processing of complete and partial calls of debt issues, the exercise of options to put securities by book-entry, and processing of tender and exchange offers. Although DTC's continuing assumption of exception processing tasks means greater expense for DTC, Participants benefit since DTC is able to achieve cost economics of scale unavailable to individual Participants.

You will find much more about these and other aspects of the depository's activity in the pages which follow. Together, they report the record for the year and show how much securities immobilization and depository book-entry delivery reduce costs, errors, and bottlenecks in the securities industry.

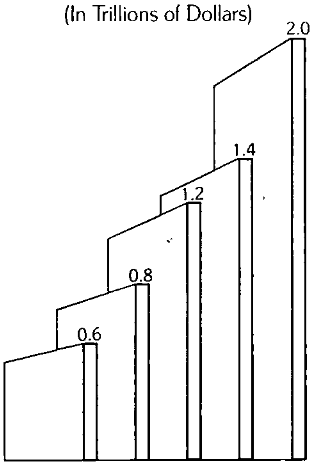
We wish to thank the members of DTC's staff, its Participants, and industry committees whose professionalism and interest made possible the record of accomplishment set forth in this report. In particular, we gratefully acknowledge the extraordinary display of Participant support which occurred last year and the support of many industry groups and individuals for DTC's efforts to improve various standards for securities operations performance and information transfer. These joint efforts hold the promise of more savings and less risk in future years for those engaged in the post-trade clearance and settlement process.

William T. Dentzer, Jr.
Chairman and Chief Executive Officer

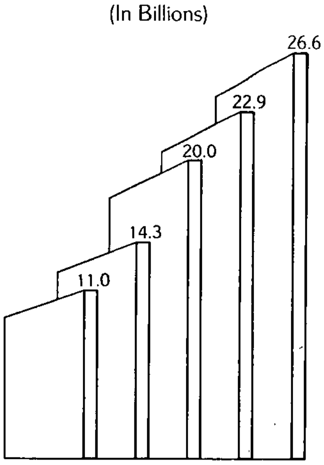
Conrad F. Ahrens
President and Chief Operating Officer

HISTORY, OWNERSHIP, AND POLICIES

Total Securities on Deposit
(In Trillions of Dollars)



Shares on Deposit from Banks
(In Billions)



The Depository Trust Company (DTC) was born out of the securities industry's paperwork crisis in the late 1960s, when processing problems caused a major disruption in the financial industry. Accordingly, the depository's first and continuing mandate is to provide efficient, secure, and accurate post-trade processing services for transactions in U.S. securities markets.

Three functions underlie DTC's effort to carry out this charge. First, the immobilization of its user Participants' securities in the depository reduces the need for Participants to maintain their own certificate safekeeping facilities. Second, a computerized book-entry system in which changes of ownership interest are recorded in the depository's records replaces costly, problem-prone physical delivery of securities for settlement. Third, the communications system through which DTC acts for its Participants with transfer agents across the country permits more efficient registration of certificates for those desiring them.

In 1968, the New York Stock Exchange (NYSE) initiated these functions through its Central Certificate Service (CCS), a securities depository established to serve NYSE member firms. Pursuant to plans developed by the *ad hoc* Banking and Securities Industry Committee in 1970–72, DTC was created in early 1973 to acquire the business of CCS and to expand the benefits of the depository approach to other areas of the financial industry, particularly the bank sector.

The initial sale of DTC stock by the NYSE to DTC bank Participants and other self-regulatory organizations representing broker-dealer Participants occurred in 1975, after various state laws restricting depository ownership had been amended. The stockholder base was broadened in 1976, when the NYSE acted to give broker-dealers the right to own DTC stock directly. These actions established the present nature of the depository as an organization owned by its users or their representatives.

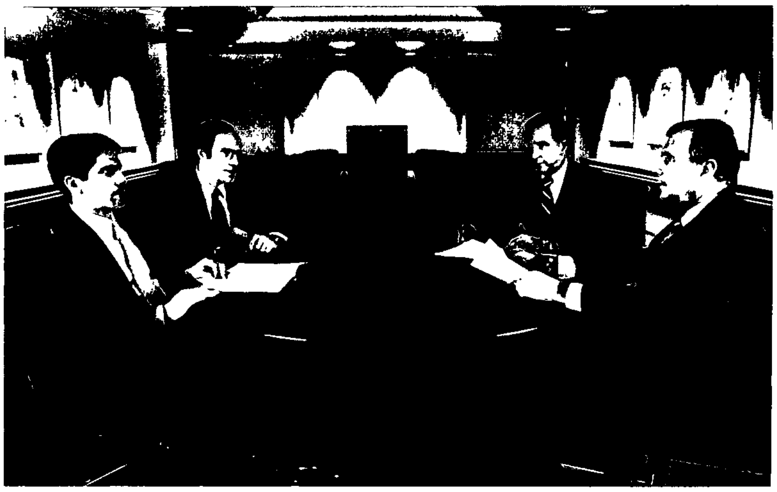
The Governance of the Depository

The procedures for the governance of Depository Trust are carefully framed to reflect the need for objectivity in serving diverse users in the financial community.

The right to purchase capital stock of the depository is based on a formula that takes into account each Participant's use of the depository during the preceding calendar year. The calculation of use is based 60% on fees paid to the depository during that year and 40% on the market value of long securities positions

Through a consultative process with Participants, DTC develops a Program Agenda every two years or so to help insure that its programs and priorities are driven by Participant needs.

In the depository's Board Room to discuss proposals for the 1985 – 87 Program Agenda are (from left) Ralph M. Mastrangelo, Senior Vice President, Morgan Guaranty Trust Company of New York; Stuart A. Fishbein, Comptroller, and Fred J. Hampton, Planning Consultant, both of DTC; and Timothy C. Crane, Vice President, Manufacturers Hanover Trust Company.



in DTC at the end of each month during the year. The purchase price of the DTC stock is based on its book value at yearend.

Each year, the amount of stock each Participant is entitled to purchase is recalculated to reflect annual variations in usage. Participants may purchase any, all, or none of the stock to which they are entitled, as they see fit.

The annual stock reallocation occurs prior to the annual stockholders meeting in late March so that stockholders will be able to vote newly acquired shares in the election of the Board of Directors, which takes place at that meeting. Elections are conducted under a system of cumulative voting so that no combination of stockholders controlling a simple majority of stock could elect all Directors. Representation on the Board is thereby made available to users from various sectors of the financial community in proportion to their use of the depository.

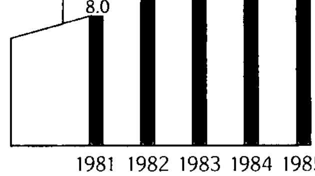
At the conclusion of the annual reallocation of DTC stock entitlements in March 1985, elections to purchase entitlements increased the number of stockholders to 129, comprising 43 broker-dealers, 81 banks, and five self-regulatory organizations and clearing agencies. The 43 broker-dealer stockholder Participants owned approximately 14% of DTC stock. The 81 bank Participants owned approximately 41.7% of DTC stock. The ownership interests of the self-regulatory organizations, which were required to sell stock to accommodate Participant elections to purchase, declined to approximately 35% for the New York Stock Exchange, 4.6% for the American Stock Exchange, and 4.6% for the National Association of Securities Dealers.

It is the depository's policy not to pay dividends to stockholders. This policy is based on the belief that distribution of depository ownership should not be viewed as an investment vehicle, but rather as a means by which diverse users may encourage DTC's responsiveness to their needs through the exercise of their cumulative voting rights. The make-up of the depository's Board of Directors reflects this effort to be, and to remain, responsive to user needs.

It is a further policy of DTC to limit profits and to return to users, whether or not they are stockholders, such revenues as the Board of Directors believes exceed the funds required for the depository's operation.

DTC is regulated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. As a member of the Federal Reserve System and as a New York State limited purpose trust company, DTC is also regulated by the Board of Governors of the Federal Reserve System and the New York State Banking Department.

Shares on Deposit from Broker-Dealers
(In Billions)



GROWTH IN 1985

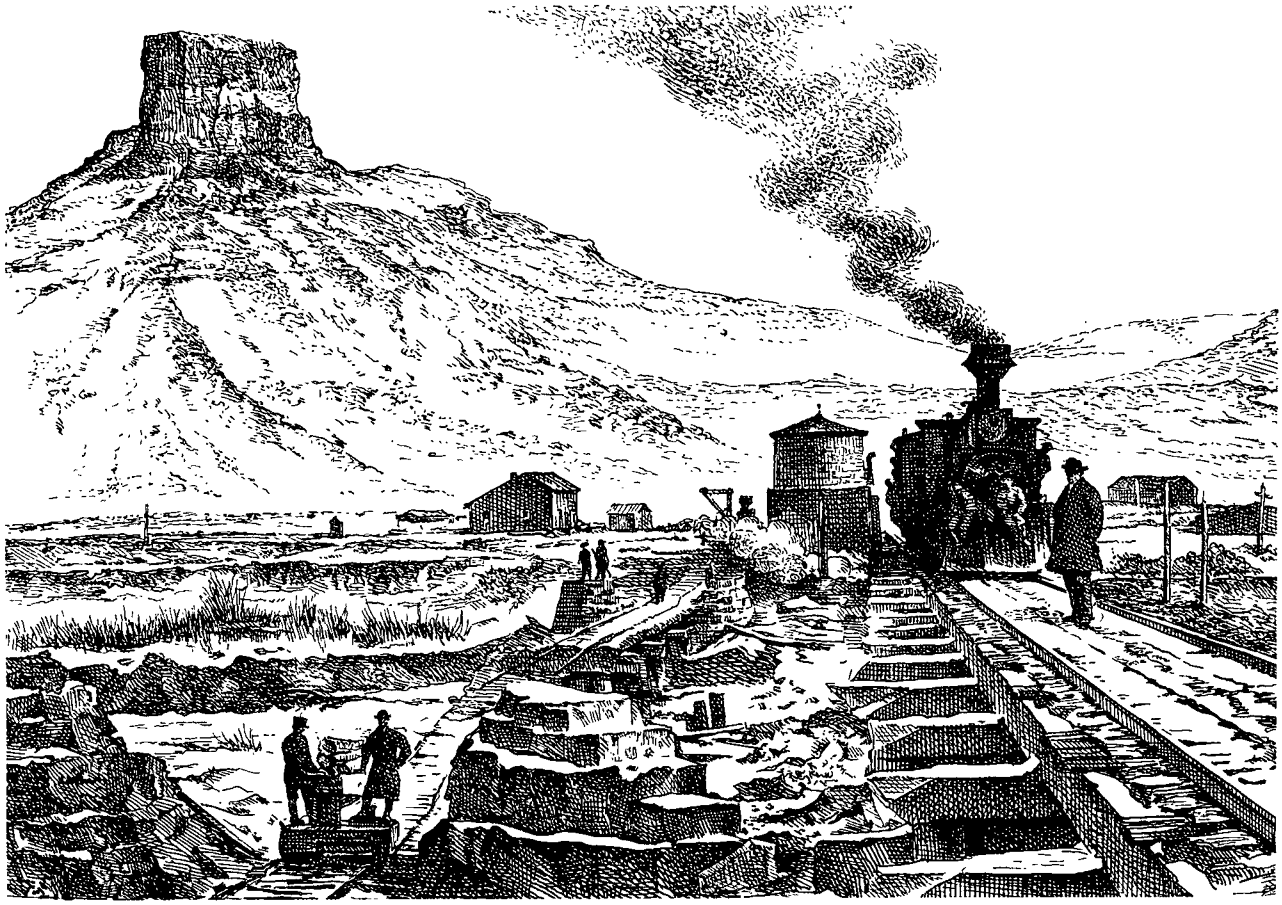
Trading volume and underwriting activity in the securities markets were strong during 1985. As a result, both DTC transaction volumes and securities on deposit experienced sharp growth. Average daily trading volume on the New York Stock Exchange (NYSE) was 109.2 million shares compared to 1984's 91.2 million, while the average number of NYSE trades daily increased 14% to 58,100. National Association of Securities Dealers Automated Quotation (NASDAQ) trading volume averaged 82.1 million shares daily, a 37% increase over 1984. In addition, $209.4 billion in principal amount of new municipal bonds was distributed nationwide in 1985, nearly double the value of the previous year's underwritings. The following are some key indicators of activity in the depository during 1985.

- The market value of securities on deposit at DTC rose 40% to $2.0 trillion from $1.4 trillion at yearend 1984. The number of shares on deposit—a better indicator of depository growth since it is not subject to fluctuations of equity prices—increased 17% to 54.5 billion.
- During 1985, DTC processed nearly 71.8 million individual transactions in connection with its primary services—deposits, deliveries, pledges, and withdrawals—for an average of 283,700 transactions per business day in these services. This volume represented a 12% increase from the 1984 level.
- Cash dividends, corporate interest, and municipal bond interest paid to DTC on securities held for Participants rose by 28% in 1985 to $95.2 billion from $74.3 billion for 1984.
- Cash dividend, corporate interest, and municipal bond interest payments received for Participants hit a single-day peak of $5.1 billion on July 1.
- Combined transactions in DTC's Institutional Delivery *(ID)* system for the confirmation, affirmation, and settlement of institutional trades increased 18% in 1985 to 28.5 million, up from 24.2 million transactions in 1984.
- The number of issues eligible for DTC's municipal bond program more than doubled to 220,054 from 106,163 at yearend 1984, while principal amount on deposit rose to $306.4 billion from $167.3 billion. Distributions through DTC of 4,387 muni underwritings representing $146.4 billion in principal amount were the chief contributors to growth in registered issues.
- Net deposits of securities (deposits minus withdrawals) averaged $1.6 billion per business day for all of 1985.
- The number of terminals hardwired to DTC's Participant Terminal System *(PTS)*, which provides access to most of DTC's basic services, rose to 774 from 691 at yearend 1984.

Bank participation remained a significant source of the depository's growth. The addition of 11 banks from nine states brought the number of direct bank Participants to 173—37 headquartered in New York State and 136 in 35 other states and the District of Columbia. At the same time, the number of banks known to be indirect users of DTC through correspondent relationships with direct bank Participants grew to at least 1,036 from 881 in 1984.

By yearend 1985, securities on deposit at DTC from banks had grown to include 26.6 billion shares plus $550.9 billion in principal amount of debt, up 16% and 43%, respectively, with a total value (equity plus debt) of nearly $1.5 trillion, up 39% from a year earlier. One hundred sixteen individual bank Participants each had more than $1 billion in securities on deposit. Direct and indirect Participants included 94 of the top 100 U.S. banks, measured by trust assets under management as reported by the Federal Reserve. Nine of these 94 banks also participated in another securities depository, as did the six other banks in the top 100.

DTC's broker-dealer participation also increased. At yearend

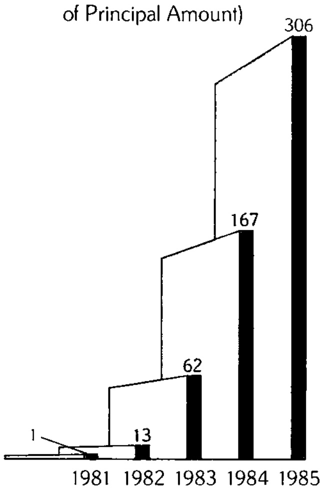


By efficiently conveying people and goods, the railroads spurred the settlement and commercial growth of hundreds of cities across America during the nineteenth century. By 1860, large Eastern cities were linked by 30,000 miles of track, although a transcontinental railroad remained a great national dream. Extensive state and local financing, massive federal government land grants, and millions raised in public offerings aided the railroad barons in creating the first transcontinental railroad. They blasted through mountains, laid track across deserts, and built trestles across canyons to link the Union Pacific with the Central Pacific in 1869. The railway workers pictured here in Green River, Wyoming, are only several hundred miles from Promontory Point, Utah, where the construction of the transcontinental line was completed.

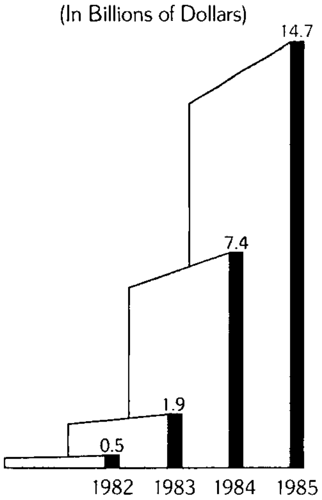
1985, there were 342 broker-dealer Participants in DTC, compared to 335 a year earlier. In addition, some 1,069 firms were served indirectly as correspondent broker-dealers by DTC through activity in the accounts of direct Participant broker-dealers. Broker-dealer securities on deposit included 26.2 billion shares and $152.5 billion in principal amount of debt, up 17% and 48%, respectively, with a total value (equity plus debt) of $439 billion, up 39% from yearend 1984. Of the direct broker-dealer Participants, 177 had their principal bases of operations in New York State; 165 were headquartered in 27 other states, the District of Columbia, and Canada.

MUNICIPAL BOND PROGRAM

Municipal Securities on Deposit
(In Billions of Dollars
of Principal Amount)



Total Municipal Bond Interest Paid To DTC for Participants
(In Billions of Dollars)



After a limited program begun in 1978, DTC in 1981 undertook a major municipal bond program in which the benefits of book-entry delivery and depository custody were made available to broker-dealers, banks, and other institutions involved in municipal securities transactions. In 1983, the Tax Equity and Fiscal Responsibility Act provided further momentum to that program by requiring tax-exempt bonds to be in registered form if they have a maturity of more than one year. Still more impetus was added by amendments to rules of the Municipal Securities Rulemaking Board, effective August 1, 1984 and February 1, 1985, generally requiring automated clearance and settlement of trades in municipal securities.

Under DTC's program, Participants may make deposits and withdrawals of bearer and registered bonds with DTC, with the securities eligible for all other depository services as well. The program offers a number of cost-saving benefits to users.

- Book-entry delivery both reduces "fails" and cuts delivery time, thereby trimming financing costs.
- The risk of loss to Participants during the handling and shipping of bearer bonds is sharply diminished.
- Labor-intensive operations of all types associated with the processing of munis are reduced, together with the costs related to those activities.
- Bonds can be immobilized substantially at the outset when an underwriting is distributed.
- Large amounts of bonds deposited in any issue enable the depository to reduce their number by combining registered bonds in large denomination ("jumbo") certificates and by converting bearer certificates not needed for possible future withdrawals into registered certificates when possible. Reduced depository costs resulting from these economies of scale are reflected in fees to Participants.
- The depository pays municipal bond interest on payable date.

By yearend 1985, 220,054 municipal issues had been made eligible and $306.4 billion in face amount was on deposit. Included were 105,485 registered issues totaling $200.5 billion in principal amount, up from 35,382 issues and $81.6 billion at yearend 1984. There were also 114,569 bearer and interchangeable issues valued at $105.9 billion in principal amount, up from 70,781 issues and $85.7 billion at yearend 1984. These bearer and registered issues represent muni issuers in 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, and Guam.

In 1985, DTC moved toward immobilizing all remaining bearer bond issues that trade. Through an arrangement with

The 4,387 muni underwritings representing 68,137 issues (CUSIP numbers) distributed through DTC in 1985 were the major contributor to the sharp increase in eligible muni issues.

Security measures designed to safekeep muni certificates are discussed at the depository's Registered Municipal Bond Vault by (from left) Pascal J. Mercurio, President, Q&R Clearing Corporation; Martin J. Flynn, Vice President, Securities Settlement Corporation; Jay J. Wilder, Senior Vice President, Bankers Trust Company; and John J. Colangelo, Vice President, DTC.

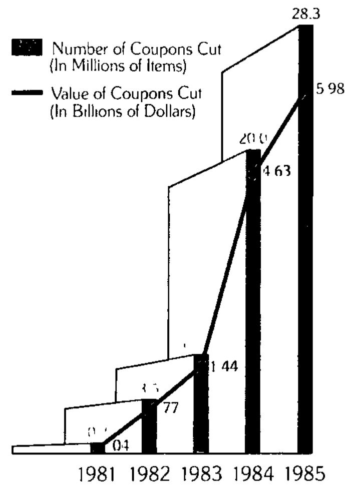
the National Securities Clearing Corporation (NSCC), DTC was notified daily of all bearer issues in which trades were reported to NSCC's Municipal Bond Comparison System. When these issues were not yet eligible for DTC services but had CUSIP numbers and a specified number of trades, the majority of them were made eligible by settlement date. Similarly, most ineligible bearer issues with CUSIP numbers and trading activity confirmed through DTC's Institutional Delivery *(ID)* system were made eligible by settlement date. Early in 1986, DTC lowered the minimum NSCC or *ID* activity needed to make an issue eligible, so that virtually all of these issues are made eligible by settlement date. For the year, the depository plans the net addition of over 100,000 bearer issues. By yearend, more than 350,000 municipal issues should be eligible for DTC services.

As the number of eligible municipal issues has grown, there has been corresponding growth in the amount of interest and redemption payments that DTC collects for its Participants (see graphs). The depository credits muni interest to affected Participant accounts on payable date in next-day funds. For redemptions of all maturing and called issues for which DTC has received prior notification and timely payment, the depository also credits Participant accounts on payable date in next-day funds.

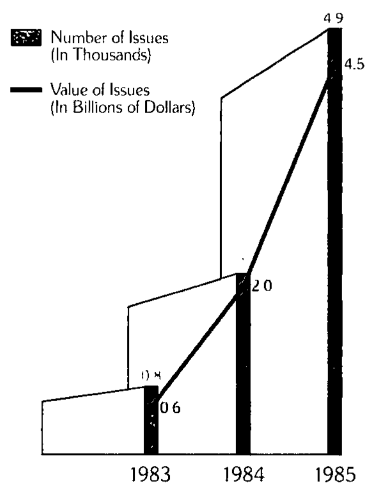
At yearend, average daily activity in municipal services was running at almost 18,500 book-entry deliveries, pledges, and pledge releases and over 7,000 deposits and withdrawals.

During 1985, underwriters distributed through DTC $146.4 billion in principal amount of 4,387 new muni issues comprising 68,137 separate serial and term bonds. Among these were 54 "book-entry-only" issues in principal amount of $2.6 billion, a more than tenfold increase in principal amount over 1984. Additional book-entry-only issues accommodated industry products in 1985 which insured to maturity portions of muni bond issues held in unit investment trust (UIT) portfolios or purchased in the secondary market by dealers and packaged for resale; by yearend, single certificates held by DTC for each of these issues totaled $1.7 billion in principal amount. Certificates

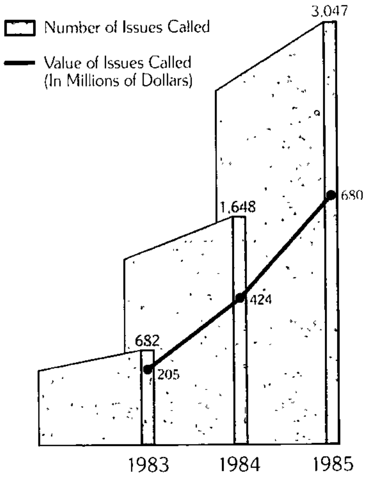
Bearer Municipal Bond Interest Paid to DTC for Participants



Redemptions of Maturities and Complete Calls of Municipal Bonds



Lotteries for Partial Calls Of Municipal Bonds

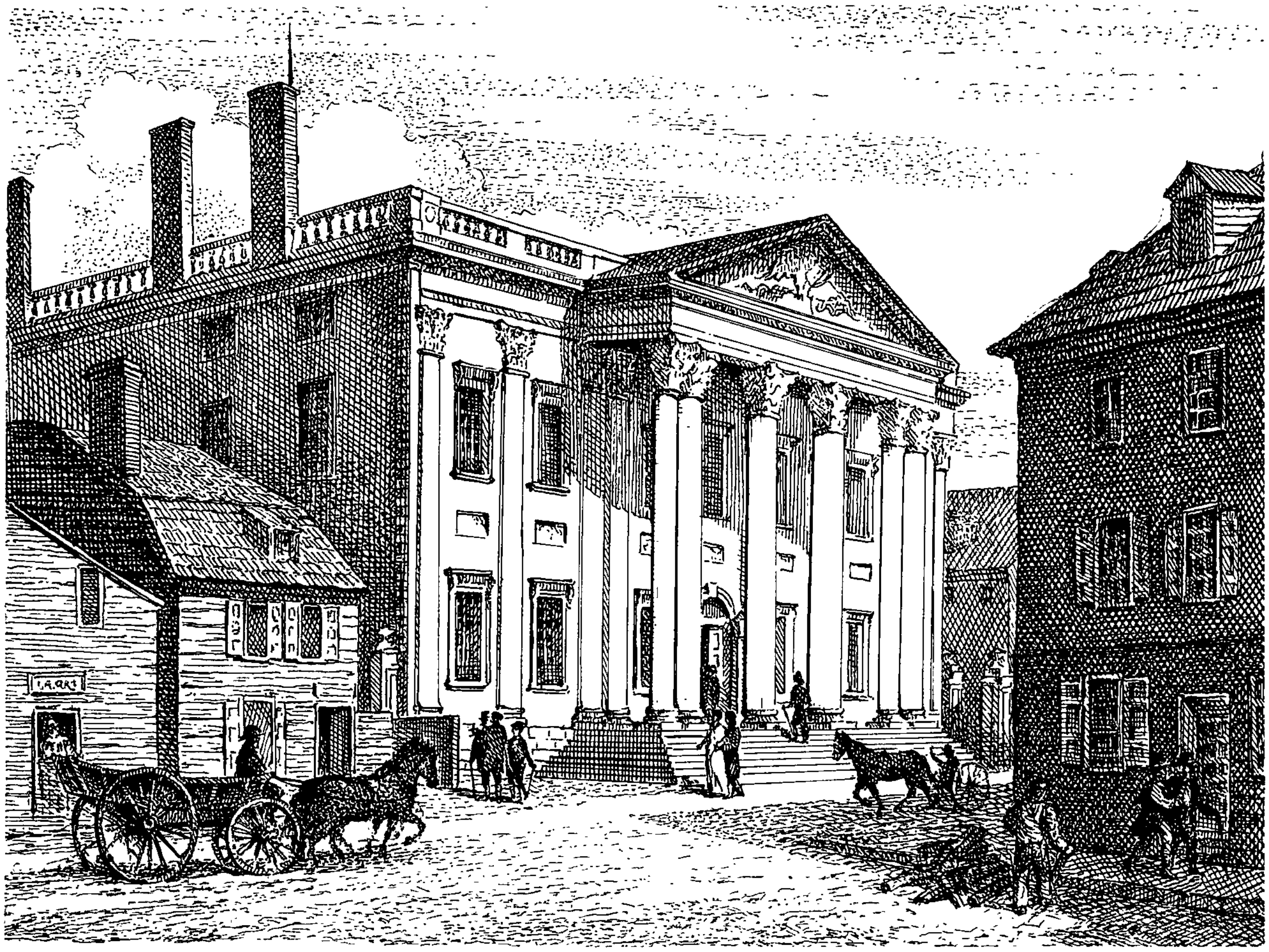


are not available to investors in book-entry-only issues.

Put bond units and custodial receipts, comprised of municipal bonds and put options, were introduced to the depository in 1984. By yearend 1985, 655 such issues totaling $1.4 billion in principal amount were on deposit at DTC.

Lotteries for bonds called in municipal issues have increased significantly during the last several years (see graph). In 1985, DTC held carefully designed call lotteries for 3,047 issues valued at $680 million, an 85% increase in number of issues and a 60% increase in value over 1984's 1,648 issues valued at $424 million. In December, the month of peak volume, DTC held call lotteries for 540 issues valued at $155 million.

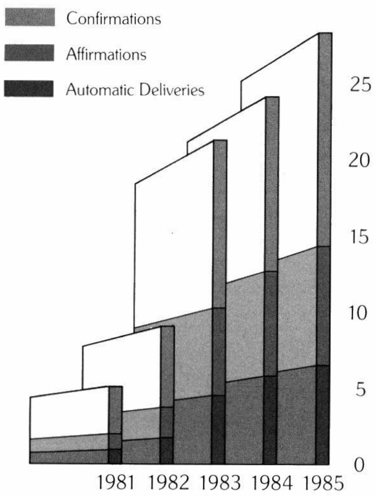
In 1985, DTC cut and shipped to paying agents more than 28 million muni coupons to get interest payments due its Participants, a 42% increase over the prior year's 20 million coupons (see graph on preceding page). This number would have been even larger but for the depository's continuing effort to exchange bearer for registered certificates in order to eliminate the need for processing coupons. Conversions of bearer bonds into larger denominations of the registered form exceeded 4.6 million certificates, resulting in millions of dollars of reduced processing and storage costs annually.



A symbol of both change and endurance in American banking, this stately building in Philadelphia was occupied by banks for more than 125 years beginning in 1797 with the Bank of the United States. In 1812, the wealthy American businessman Stephen Girard acquired the building to start his private Girard Bank, which later became the Girard National Bank. In 1926, the Girard National Bank merged into The Philadelphia National Bank, which became a DTC Participant in 1982. The building, no longer occupied by a bank, still stands in Philadelphia as a historic landmark.

INSTITUTIONAL USE OF SECURITIES DEPOSITORIES

Institutional Delivery *(ID)* System Use
(In Millions of Transactions)



The Institutional Market

Recognizing the benefits of depository services, banks have encouraged their institutional customers to authorize the deposit of their assets into the system. At the same time, institutional investors have initiated the deposit of their assets by so instructing their custodian banks. Accordingly, bank deposits of their own and other institutional assets into DTC increased by $423 billion in 1985.

The amount of institutional assets currently in the national depository system is estimated at almost $1.7 trillion. These assets, almost $1.5 trillion of which are on deposit with DTC and the balance distributed throughout the rest of the depository system, are in the accounts of approximately 1,300 U.S. banks that participate in depositories directly or indirectly.

For institutional assets other than those of banks, the continuing need is to acquaint officials in certain states with the benefits of depository participation—lower costs, reduced errors, increased flexibility, safety, and simplified operations. Investment company assets are now largely deposited with DTC. The remaining problem areas are with insurance companies and, to a lesser extent, public pension funds.

- **Deposit of Pension Fund Assets**

DTC bank Participants continued to deposit private pension fund assets into their DTC accounts throughout 1985; the great bulk of such assets have already been placed in the depository system by bank Participants.

Considerable growth also occurred in the area of state and municipal retirement systems. In the past, a major obstacle to depository usage by state and municipal pension funds arose from the fact that these pension funds are state regulated, with each state imposing its own restrictions. Most of these restrictions were enacted long before the depository system was developed, but many have now been modified to permit depository usage.

There are currently 46 states that have no regulatory or statutory bars to the use of book-entry systems and/or the depository system by state pension funds. Indeed, 42 of these states and the District of Columbia are known to have all or part of the state pension fund assets on deposit at DTC indirectly through their custodian banks. The remaining four states require that pension fund assets be physically domiciled within their state boundaries or be kept in the form of

Transactions in DTC's Institutional Delivery (ID) system for the automated confirmation, affirmation, and locked-in settlement of institutional trades increased 18% in 1985 to 28.5 million. Institutional assets on deposit increased 39% to nearly $1.5 trillion.

In Philadelphia reviewing ID growth in 1985 are (from left) W. Gresham O'Malley III, Senior Vice President & Secretary, Janney Montgomery Scott Inc.; Larry W. Rinne, Senior Vice President, Mellon Bank, N.A.; Kristine L. Werner, Securities Officer, DTC; and Frank Barone, Vice President, The Philadelphia National Bank.

physical certificates wherever they may be domiciled. DTC's efforts are directed at helping eliminate such restrictions.

- **Deposit of Insurance Company Assets**

The total value of insurance company assets on deposit at DTC continued to increase in 1985. Nevertheless, the dollar value remains relatively modest, both in comparison to the assets on deposit from other sectors of the institutional market and in relation to the total value of depository-eligible securities held by insurance companies throughout the United States.

As in the case of public pension funds, a major obstacle to depository custody of securities owned by insurance companies is the framework of statutes and regulations in the various states. Many states permit depository usage at the discretion of the state insurance commissioners, but in some other states the problem is statutory—typically in the form of a requirement that the assets be physically domiciled within the state or that they be kept in the form of physical certificates wherever domiciled.

Currently, 42 states and the District of Columbia are known to authorize their domestic insurance companies to deposit assets out of state. The remaining eight states—Arkansas, California, Louisiana, New Mexico, South Dakota, Utah, West Virginia, and Wyoming—have laws or restrictions that require domestic insurers to maintain assets within their domiciliary state. DTC continues to work with the insurance industry to eliminate these restrictions on depository usage, and the Securities and Exchange Commission in 1985 renewed its efforts toward this end.

While state barriers have made the insurance sector of the financial industry the slowest to adapt to depositories, 726 insurers were reported to be using at least some depository services indirectly through their agent banks at yearend. These companies had assets on deposit totaling approximately $133.2 billion in market value, up from $103.6 billion for 703 companies a year earlier.

- **Deposit of Investment Company Assets**

Deposits of investment company assets have grown steadily over the past seven years as custodian banks began fully utilizing depository services. Also, as more securities are made eligible at DTC, particularly municipal bonds, custodian banks are able to deposit eligible portions of mutual fund portfolios. With these developments and renewed investor interest in mutual funds, investment company assets at DTC in 1985 grew to an estimated $120 billion.

Institutional Delivery *(ID)* System

The Institutional Delivery *(ID)* system is a method for reporting and settling trades initiated by institutions in a manner which reduces cost and increases assurance of timely settlement. Its most important features are that it introduces a single entity to coordinate all settlement activity among broker-dealers, institutions, and agents and that it offers convenient electronic, automated methods to accomplish this.

- *ID* coordinates the many steps that have to be taken by broker-dealers, agents, and institutions from trade confirmations through final settlement, helping to insure that each party takes the right action at the right time.
- *ID* can eliminate redundant paperwork and the delivery

"fails" that lead to repeat paperwork and associated costs.

Briefly stated, the system works as follows:

(1) A broker-dealer executing an institutional trade furnishes DTC with trade details (price, quantity, date, etc.), which the depository then passes on to the broker-dealer's customer, the institution, and the customer's agent in a form that is recognized as a legal confirmation.

(2) If the *ID* Confirmation accurately reflects the institution's order, the institution or the agent sends an acknowledgment (*ID* affirmation) to DTC. If the *ID* Confirmation is faulty (i.e., does not agree with the institution's records of its order), the institution can act early enough in the settlement cycle so that the broker-dealer can enter the appropriate corrections into the *ID* system. If the trade details reported by the broker-dealer are insufficient to generate an *ID* Confirmation, DTC will notify the broker-dealer so that the problem may be resolved early enough for timely settlement.

(3) Upon receipt of the affirmation, DTC forwards instructions to both the agent and the broker-dealer to prepare for settlement.

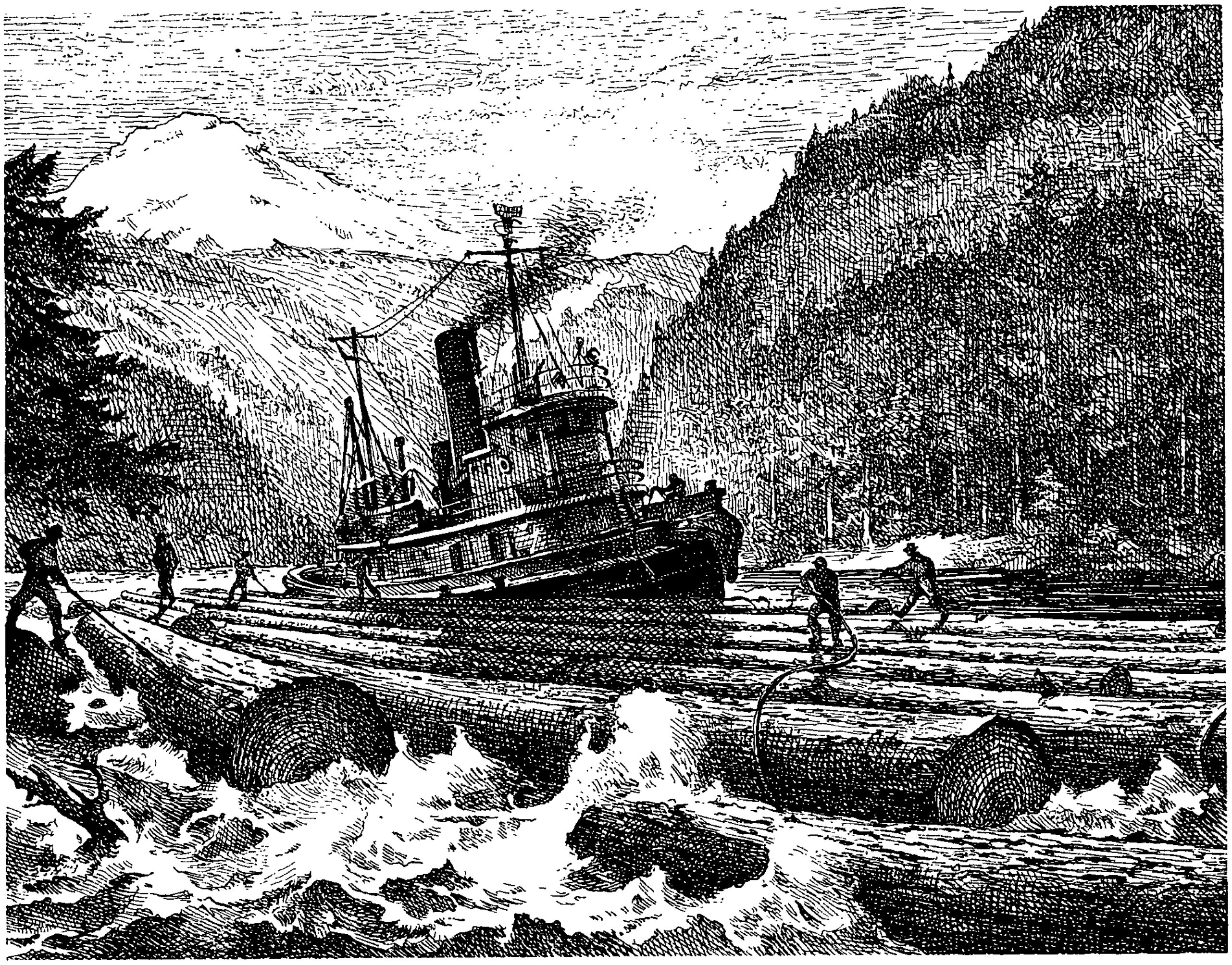
(4) If the deliverer has enough securities in its DTC account and authorizes the settlement of the trade, the depository will complete the delivery by book-entry automatically on the morning of settlement date and process the related money settlement as directed.

(5) If the security is not DTC-eligible, the deliverer and receiver settle the transaction outside the depository system. In such cases, although delivery must be by physical means rather than book-entry, instructions provided by DTC in its role as a clearinghouse for instructions can help insure that delivery and payment will be successfully completed by the scheduled settlement date.

One of the many benefits of *ID* is that institutions may no longer have to send letters of authorization to their agents to authorize each trade for settlement. The *ID* affirmation together with use of the Standard Letter of Agreement eliminates the time-consuming effort of preparing individual authorizations and communications to agents through the mails or special communications links.

ID growth continued in 1985. Average monthly volume of *ID* Confirmations processed through the system rose to over 1.3 million for the fourth quarter, up approximately 30% from the comparable 1984 period. At the same time, the number of participating institutions, broker-dealers, and agents increased 10% to 6,520 from a year earlier.

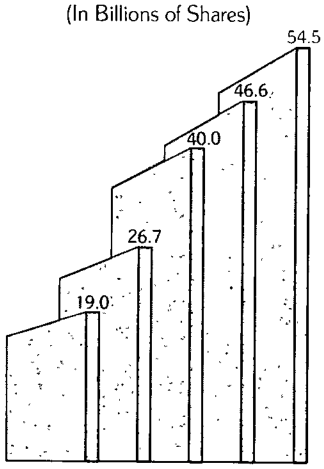
An earlier two-part amendment of Municipal Securities Rulemaking Board Rule G-15 has led to growing use of the *ID* system to settle institutional trades in municipals. Under the first part, effective August 1, 1984, customer trades have to be confirmed and affirmed through the use of *ID* or an equivalent system. Trade settlement for depository-eligible issues must be completed by book-entry under the second part of the amendment, which became effective February 1, 1985. These rule changes were designed to reduce the cost of post-trade processing of municipal securities in the same way that use of *ID* has benefited corporate securities processing.



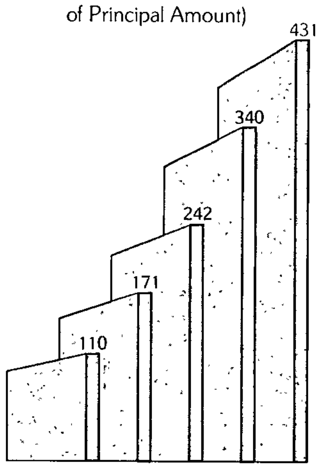
An essential part of logging, or the harvesting of trees, is transporting the timber to processing plants where it is turned into building lumber or paper. In this turn-of-the-century log drive in the Pacific Northwest, a tugboat helps move logs downstream from forest to sawmill as lumberjacks leap nimbly from log to log to prevent jams.

BASIC SERVICES

Equity Securities on Deposit
(In Billions of Shares)



Corporate Debt Securities on Deposit
(In Billions of Dollars of Principal Amount)



There are several basic services Depository Trust performs for Participants.

- It accepts *deposits* of eligible securities for *custody*.
- It makes computerized book-entry *deliveries* of securities immobilized in its custody.
- It makes computerized book-entry *pledges* of securities in its custody.
- It provides for *withdrawals* of securities on a routine or an urgent basis.

These services allow a Participant to deposit securities with DTC for safekeeping, deliver them conveniently to another party on the books of the depository, collect payment from the other party for the securities delivered, and withdraw certificates desired by any of its customers.

It is the massive use of these services by Participants that creates the economies of scale which offer low-cost processing and speed to users without sacrifice of security and accuracy. Participants instructed DTC to execute nearly 71.8 million of these transactions in 1985, up 12% from 64.1 million in 1984.

Increasingly, these instructions are in automated form, further reducing labor-intensive work for both Participants and DTC.

Eligible Issues

The number of issues eligible for DTC services rose to 262,081 by the end of 1985, 220,054 of which were municipal securities issues; 114,569 of these municipals were bearer or interchangeable issues, and 105,485 were registered issues; included were 655 units or custodial receipts with associated put options. The expansion was part of DTC's plan to apply the benefits of book-entry delivery and certificate immobilization to an increasing portion of the securities held by Participants.

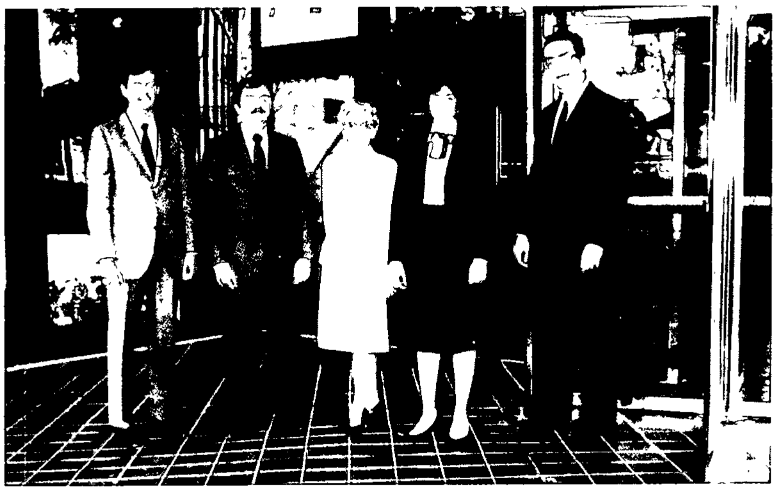
The 42,027 corporate, money market, and U.S. government issues eligible at the end of 1985 comprised: 2,927 common and preferred stocks listed on the New York, American, and other stock exchanges; 12,633 equity issues traded over-the-counter; 8,492 issues of listed and unlisted corporate debt securities; 640 U.S. Treasury and Federal Agency issues; 571 warrants; 623 issues represented by American Depositary Receipts; 10,846 unit investment trusts; 389 unit issues; and 4,906 certificates of deposit.

Deposits

Deposits of certificates can be made in any eligible security issue at DTC's office or at various bank and clearing corporation offices across the country which cooperate as DTC Depository Facilities. During 1985, DTC processed daily an average of 25,400 deposits involving 75,500 registered cer-

In 1985, DTC processed 71.8 million transactions in its basic services—deposits, deliveries, pledges, and withdrawals of securities.

In St. Petersburg for a conference on securities industry use of depository services are (from left) John W. Waechter, Executive Vice President, William R. Hough & Co.; John E. Nolan, Vice President, Raymond, James & Associates, Inc.; Patricia B. Guerard, Trust Operations Manager, Landmark Union Trust Bank; Lynn S. Brenman, Senior Securities Officer, and Glenn E. Mangold, Vice President, both of DTC.



tificates. Bearer municipal bond activity added on average another 1,600 deposits per day, involving 24,500 certificates.

Deliveries

Deliveries in the settlement of securities transactions may be with or without an accompanying money payment, depending upon the Participant's instructions. In 1985, DTC processed 55.8 million computer book-entry deliveries among Participants, including deliveries between brokers and clearing corporations, an increase of 16% over 1984, when more than 48 million deliveries were processed. The value of book-entry deliveries in 1985 was $5.5 trillion, a 44% increase over last year's $3.8 trillion.

Pledges

This program allows Participants to make book-entry pledges of securities on deposit with DTC to banks and other entities that have agreed to accept pledges through DTC as collateral for bank loans, to secure letters of credit, or for other purposes.

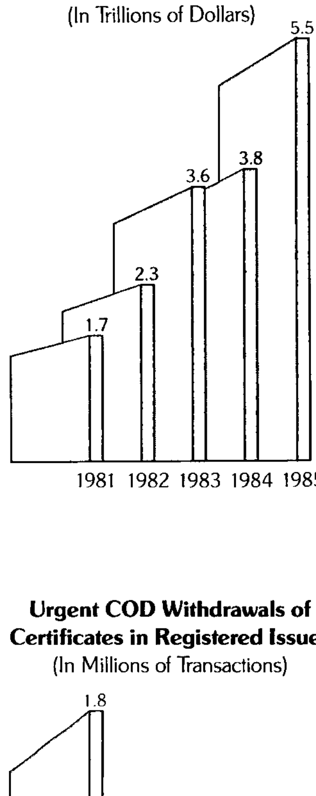
At yearend 1985, the value of outstanding pledges totaled $25.8 billion, up 63% from yearend 1984. This figure includes $15.4 billion pledged as collateral for bank loans and letters of credit, a 51% increase from 1984; $8.3 billion pledged by banks and brokers to The Options Clearing Corporation, primarily to meet collateralization requirements on call option sales, a 57% increase; and $2.1 billion pledged by banks to the Federal Reserve Bank of New York for the potential purpose of securing advances at the discount window and intraday overdrafts. Twenty-one of the 98 pledgees participating in this program had over $100 million each in securities pledged to them for these purposes.

Certificate Withdrawals

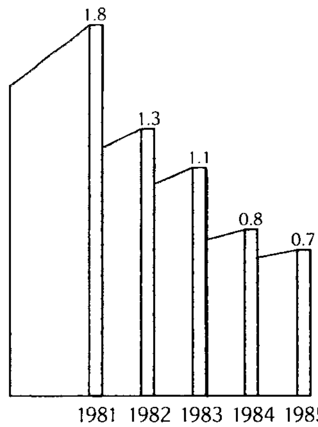
Certificate withdrawals from DTC can be accomplished in either of two ways:

(1) Withdrawals-by-Transfer (WTs), in which securities are transferred routinely to the name of a Participant's customer or any other name. Normally, the newly registered certificates requested by Participants are available to them one week after DTC has received the Withdrawal-by-Transfer instructions.

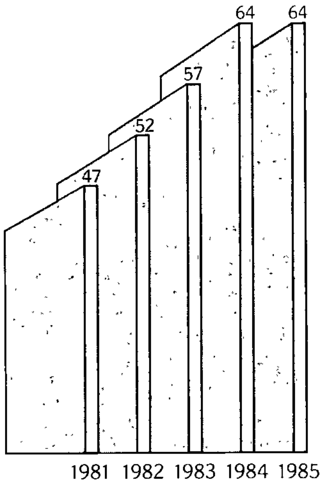
Value of Deliveries
(In Trillions of Dollars)



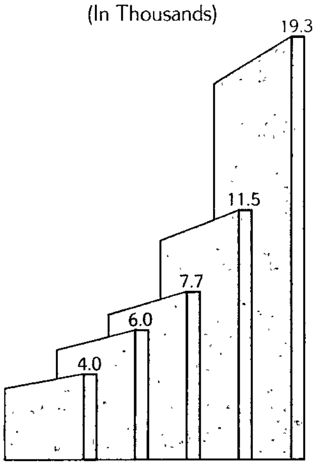
Urgent COD Withdrawals of Certificates in Registered Issues
(In Millions of Transactions)



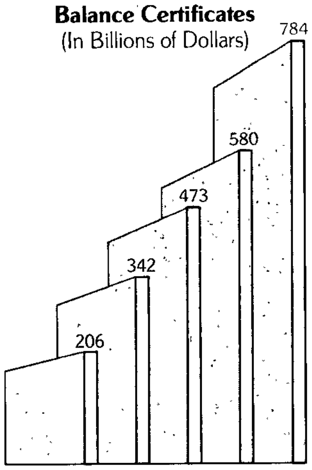
Number of *FAST* Transfer Agents



Number of *FAST* Issues
(In Thousands)



Value of *FAST* Balance Certificates
(In Billions of Dollars)



(2) Urgent Certificate-on-Demand (COD) withdrawals, in which certificates are usually released to the requesting Participant within three hours.

In 1985, DTC processed an average of 25,300 WTs per day, for total routine withdrawal instructions of 6.4 million, requiring 7.0 million certificates. During the same period, the depository processed an average of 2,800 urgent CODs each day for registered securities, for a total of 696,500 requests satisfied by about 2.1 million certificates. Bearer municipal bond withdrawals, which are processed as urgent CODs, added to this volume another 890 CODs each day (or over 225,900 for the year satisfied by almost 2.0 million certificates).

As the chart on the preceding page illustrates, the steady decline in the total number of CODs for all registered issues—from nearly 1.8 million in 1981 to fewer than 700,000 in 1985—despite the huge increase in eligible issues and trading volume, reflects the industry's increasing use of depository book-entry delivery over physical delivery.

DTC's Fast Automated Securities Transfer *(FAST)* program provides an alternative method of processing both types of certificate withdrawals. The *FAST* program is described more fully in the section that follows.

Fast Automated Securities Transfer

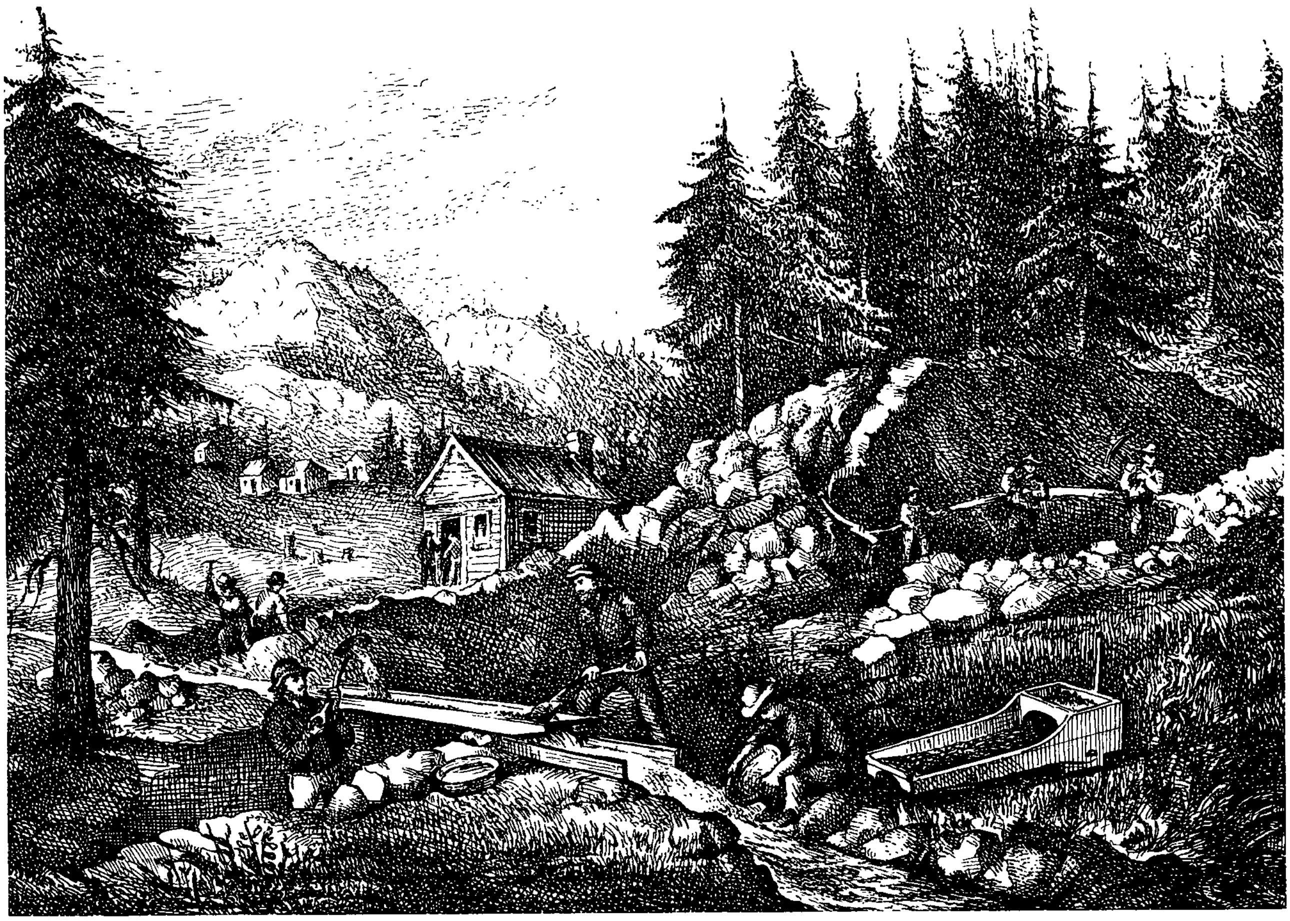
DTC initiated *FAST* to eliminate the cost of unnecessary creation, movement, and storage of certificates needed for withdrawals.

Under the *FAST* program, DTC leaves securities with transfer agents in the form of balance certificates registered in the depository's nominee name, Cede & Co. The balance certificates are adjusted daily for DTC deposit and withdrawal activity.

The Withdrawal-by-Transfer (WT) portion of the *FAST* program is designed only for routine withdrawals; agents can fulfill Participant requests for registered certificates within normal transfer turnaround time, usually three business days.

The full *FAST* program is designed to include urgent Certificate-on-Demand (COD) withdrawals as well as routine WTs. Transfer agents that subscribe to the full program must make the COD certificates requested by Participants available to DTC the morning following overnight instructions and twice each day on two hours' notice. Because the full program covers both types of withdrawals, it permits DTC to eliminate its entire vault supply of Cede & Co. certificates in the issues subject to the program. However, some Cede & Co. certificates in *FAST* issues must be retained by the depository for CODs when agents perform only routine *FAST* withdrawals in those issues.

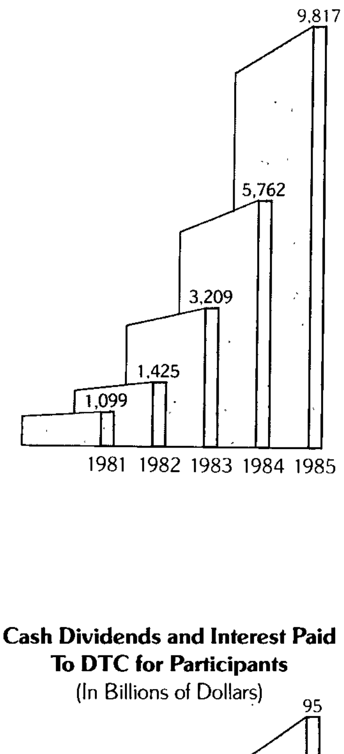
In 1985, 64 transfer agents—23 in the full program and 41 in the WT-only portion—participated in *FAST*. As of December 31, agents in the full *FAST* program held balance certificates in 17,083 issues valued at $587.4 billion; agents in the WT-only portion held certificates in 2,265 issues valued at $196.6 billion, making a total of $784.0 billion in 19,348 issues in *FAST*. The same number of agents had held certificates in 11,542 issues valued at $580.2 billion as of December 31, 1984.



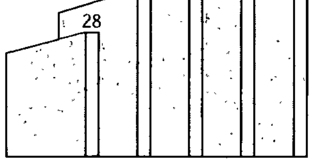
The lure of gold was especially strong when the economy was ailing in the mid-nineteenth century, and thousands of venturesome souls hazarded wilderness trails or sea travel to reach California. The year after gold was found on the site of J. A. Sutter's mill in 1848, approximately 75,000 "Forty-niners" trekked westward to stake claims. The prospectors here are using placer mining methods—panning and sluicing—to separate the heavier gold ore. Between 1848 and 1853, more than $200 million in gold deposits was found in California.

ANCILLARY SERVICES

Number of Underwriting Distributions Through DTC



Cash Dividends and Interest Paid To DTC for Participants
(In Billions of Dollars)



DTC's ancillary services flow out of its custody of securities for Participants. Many of these services are designed to permit the owners of securities to receive benefits and exercise rights of ownership easily, despite immobilization of certificates, and to diminish the need for Participants to process transactions at greater expense outside the depository system.

The use of ancillary services has grown sharply as investment bankers have brought to the market new types of securities products with special features.

The most visible of these services are underwriting distributions, dividend and interest collection, provision for voting rights, voluntary offerings, call lotteries, units, dividend reinvestment, and collateralization of options. DTC recently has developed other services for the custody and processing of auction-rate and tender-rate preferred stock and notes, put option bonds, units and custodial receipts evidencing municipal bonds or corporate stock and put options, and custodial receipts for credit-enhanced munis.

Some of these ancillary services are described in detail in the paragraphs that follow.

Distribution of Underwritings

The DTC service for the book-entry distribution of and payment for securities offered in public underwritings and private placements showed strong growth in 1985. The service was used by 208 managing underwriters to distribute $291.3 billion of 9,817 underwritings representing 75,294 distinct issues (CUSIP numbers). This represented a 70% increase in number over last year's 5,762 underwritings and a 60% increase in value over last year's $181.6 billion. The 1985 distributions comprised 5,430 equity, money market, and corporate debt underwritings representing 7,157 issues and 4,387 municipal bond underwritings representing 68,137 issues, with values of $144.9 billion and $146.4 billion, respectively. DTC's underwriting distribution service is designed to benefit underwriters and issuers in addition to other broker and bank Participants.

Dividends and Interest

In 1985, DTC received $80.5 billion of corporate cash dividend and interest payments for Participants. This amount represented payments to DTC from approximately 1,000 bank and corporate paying agents. Stock dividends received for Participants amounted to more than 1.9 billion shares.

In addition, interest payments related to DTC's rapidly expanding municipal bond program totaled $14.7 billion in 1985.

In 1985, DTC received $95.2 billion of corporate and municipal dividend and interest payments from paying agents on behalf of Participants. Centralized depository processing simplifies and speeds the receipt of such payments by Participants.

Reviewing the benefits of DTC's dividend services are (from left) John J. Monteleone, Vice President, Barclays Bank PLC; John C. Faulkner, Vice President, Dillon, Read & Co. Inc.; Lawrence J. Gallaway, Senior Vice President, Irving Trust Company; and Cheryl Lambert, Director, DTC.

An operational burden DTC has assumed for its Participants is processing dividend and interest payments, the great majority of which do not carry a CUSIP number or other reliable identification of the issue for which payment is being made. DTC receives over 250,000 payments annually, with over 13,000 on some peak days, and must incur time-consuming research to match payments against related security issues. As the year ended, DTC started working with industry groups to seek the support of paying agents to identify all interest and dividend payments by CUSIP number.

DTC's system spares Participants the trouble of dealing with processing dividend and interest payments and the expense of maintaining the necessary facilities for doing so. Participants also tend to receive cash dividend and interest payments more quickly through DTC than if payments were received directly from paying agents.

Voting Rights

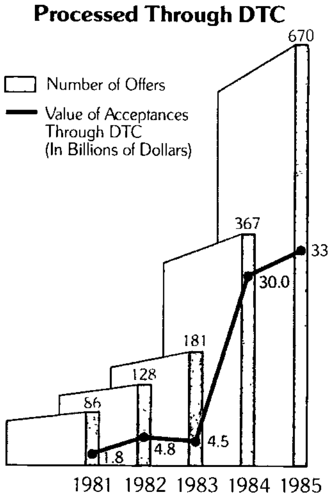
DTC arranges for deposited securities to be registered in the name of its nominee, Cede & Co., for three major reasons:
(1) To permit prompt determination of whether the deposited certificates are indeed transferable or whether they are subject to a "stop transfer" order, are counterfeit, or are otherwise not negotiable. If such a problem is found to exist, DTC can quickly take the appropriate steps to obtain replacement securities from the depositing Participant.
(2) To permit retransfer, when necessary, in the simplest and quickest manner possible.
(3) To permit DTC to allocate dividends, distributions, and voting rights to depositors on a proper and timely basis.

Given these reasons for holding securities in the depository's nominee name, one of DTC's primary objectives has been to avoid being a barrier to communications between issuers and beneficial owners. Indeed, in some cases, the existence of DTC may assist the corporate issuer in keeping up with changes in the ownership of its voting stock. The depository's Security Position Listing Report lists the number of shares of the issue on deposit with DTC itemized by Participant; prior to the existence of the depository, many of the shares now included in this report would have been represented by certificates that might have circulated by endorsement for prolonged periods before being re-registered. The Security Position Listing Report is automatically sent to each issuer, free of charge, once each year, indicating Participant positions as of the record date for the issuer's annual meeting. Issuers may also obtain interim listings on a daily, weekly, monthly, or dividend-record-date basis, on written request and for a modest fee.

DTC's Participant Proxy Contact List specifies the name and address of each DTC Participant, together with the name and telephone number of the individual responsible for handling proxies there. The Contact List is updated and reprinted four times a year and sent to issuers free of charge.

DTC's Omnibus Proxy provides for the exercise of voting rights and for direct communications between issuers and Participants holding their voting securities. In effect, the Omnibus Proxy is an assignment—Cede & Co., the shareholder of record, assigns to each Participant the voting rights associated with the shares in that Participant's DTC account as of record date. DTC sends the Omnibus Proxy (together with a list identifying the Participant assignees) to the issuer after the record date for the shareholders meeting at which the votes may be cast. At the same time, DTC notifies each shareholder Participant that the Omnibus Proxy has been sent to the issuer and of the number of shares the Participant is entitled to vote.

Tender and Exchange Offers Processed Through DTC



Upon completion of these steps—which normally take place in a single day soon after record date—DTC is removed from the chain of communications between issuer and beneficial owners. Each Participant is able to ask the issuer or its agent directly for whatever quantity of proxy material it needs to discharge its obligations to beneficial owners, and each issuer is able to contact Participants directly. These communications occur in the same manner as if DTC did not exist.

The depository has published and distributed a detailed brochure on this subject, entitled *Shareholder Communications and The Depository Trust Company,* which is available on request.

Voluntary Offerings

DTC offers several services related to voluntary offerings, each designed to keep securities immobilized in the depository during periods when Participants or their customers have the right to surrender them for cash and/or other securities. Use of these services increased substantially in 1985. The services themselves are as follows.

◦ **Tender and Exchange Offers** During the last five years, the number of tender and exchange offers processed through DTC has increased more than sevenfold while the value of such offers has grown almost 20 times (see graph).

As a result of Securities and Exchange Commission Rule 17Ad-14, adopted in March 1984, transfer agents acting on behalf of bidders (as tender agents) are required to establish and maintain special accounts with DTC and any other qualified registered securities depository holding the subject company's securities.

In 1985, DTC processed 670 tender and exchange offers by book-entry, involving 121 agents, nearly double the number of the prior year's offers. These offers included 14 in which the book-entry program was used to elect a payment option under a mandatory reorganization plan.

These 670 offers, which generated $33.9 billion in acceptances through DTC, constituted 91% of the total number of offers that could have been accepted in part by book-entry procedures.

By providing these services for tender and exchange offers,

In 1985, DTC distributed a record $146.4 billion in principal amount of municipal bond underwritings—some 70% of the value of all such underwritings in the United States during the year.

At the depository's Underwriting Service checking distribution figures are (from left) H. William Stabenow, Vice President, John Nuveen & Co. Incorporated; Gerald K. Parchment, Vice President, Oppenheimer & Co., Inc.; Vincent A. Mauro, Vice President, and Clifford J. Dean, Director, both of DTC.

DTC's Voluntary Offerings services enable Participants to accept tender and exchange offers conveniently through the depository and to submit securities in acceptance of such offers by book-entry. In 1985, DTC processed 670 such offers, which generated $33.9 billion in acceptances through the depository.

Discussing this and other reorganization services at DTC are (from left) Anthony T. Portelli, Vice President, National Financial Services Corporation; Raymond Settducati, Manager, and Philip E. Plasencia, Treasurer, both of DTC.

DTC has eliminated many costs and risks for its Participants, including shipping securities to agents on a timely basis and arranging for the return of securities not accepted by agents. The earliest possible receipt of funds also is assured.

Because instructions and securities from banks and broker-dealers to tender agents flow through one centralized point, use of DTC obviates the need to deal directly with dozens of agents, including many in remote locations.

- **Conversions**

DTC's conversion procedures allow Participants to use book-entry methods to surrender convertible debt and equity securities in their depository accounts for same-day credit in the underlying securities, usually common stock. Participant processing expense is thereby reduced, while the cost of financing transactions during the interval when the certificates would otherwise be at the conversion agent is eliminated. Over 400 convertible issues are eligible for this service; approximately $7.2 billion of book-entry securities conversions were completed in 1985, more than tripling the $2.2 billion in 1984.

- **Early Redemptions and Maturities of Certificates of Deposit**

Participants have on deposit with DTC some $12 billion principal amount of certificates of deposit (CDs), all in "book-entry-only" form. Participants may exercise early redemption options for CDs by instructing the depository, which credits proceeds to Participants' settlement accounts. Proceeds for Participants' CDs held to maturity by DTC also are credited to Participants' settlement accounts. During 1985, DTC credited payment of $6.5 billion to Participants' accounts for 1,070 CDs held to maturity, up greatly from $973.3 million for 131 CDs in 1984.

- **Redemption of Floating Rate Notes and Rollovers of Government Securities**

DTC Participants may redeem floating rate notes and other securities with similar repayment options by means of instructions to the depository, the cash proceeds being credited to their DTC settlement accounts. Participants with maturing U.S. Treasury bills on deposit can also use DTC to reinvest, or "rollover," the proceeds into new bills issued on the maturity date. Although the number of transactions effected through these two services is not large, the services themselves are considered useful by Participants because they reduce the expense associated with exception processing.

Call Lotteries

Call lotteries illustrate the increasingly complex exception processing that has grown at DTC.

The depository holds securities in one fungible pool for each issue so that an individual Participant's position does not correspond to specific certificates. When an issuer calls a portion of an issue held by DTC, the depository uses an impartial call lottery to allocate the called portion among Participants that have positions in the issue. Participants must know the outcome of DTC's lottery before they can run lotteries for their customers.

Call lotteries at DTC are consistent with industry practice. DTC's objective is to run its lottery the day before publication date (the date the call is formally announced by the issuer). However, because call notices for registered securities are usually mailed to holders on publication date, and sometimes later, notices usually do not arrive on a timely basis; moreover, they are sometimes incomplete or never arrive. The consequences can be major problems for Participants.

In the past, banks and broker-dealers suffered individually and separately with the same problems peculiar to partial calls. Now, DTC is the focal point for dealing with them. With the cooperation of interested industry groups, the depository formed a committee in 1985 to seek appropriate solutions. Progress to date suggests that, once again, a focused effort will alleviate a long-standing industry problem.

Depository Services for Units

DTC's program to provide Participants with depository services for units was initiated in 1981. A unit is a combination of two or more component securities (such as a stock and a warrant, or a bond and a put option) initially sold and transferred as though they were one; after a period determined by the issuer and underwriters, the components can be sold and transferred separately.

In 1985, Participants submitted 13,000 unit "Swingover" book-entry instructions to combine 516.0 million component shares on deposit in their accounts into 196.3 million units, and 14,482 instructions to separate 227.5 million units into 632.5 million component shares. The resulting units and components immediately became eligible for the full range of DTC book-entry services, the Institutional Delivery system, and NSCC's Continuous Net Settlement system. The number of unit issues included in the program grew to 566, including 168 muni units, at yearend 1985.

Dividend Reinvestment

DTC's Dividend Reinvestment Service *(DRS)* expanded to include 154 participating plans and helped generate almost $1.1 billion of new capital for participating issuers through dividend reinvestments in 1985, up from 147 plans in 1984.

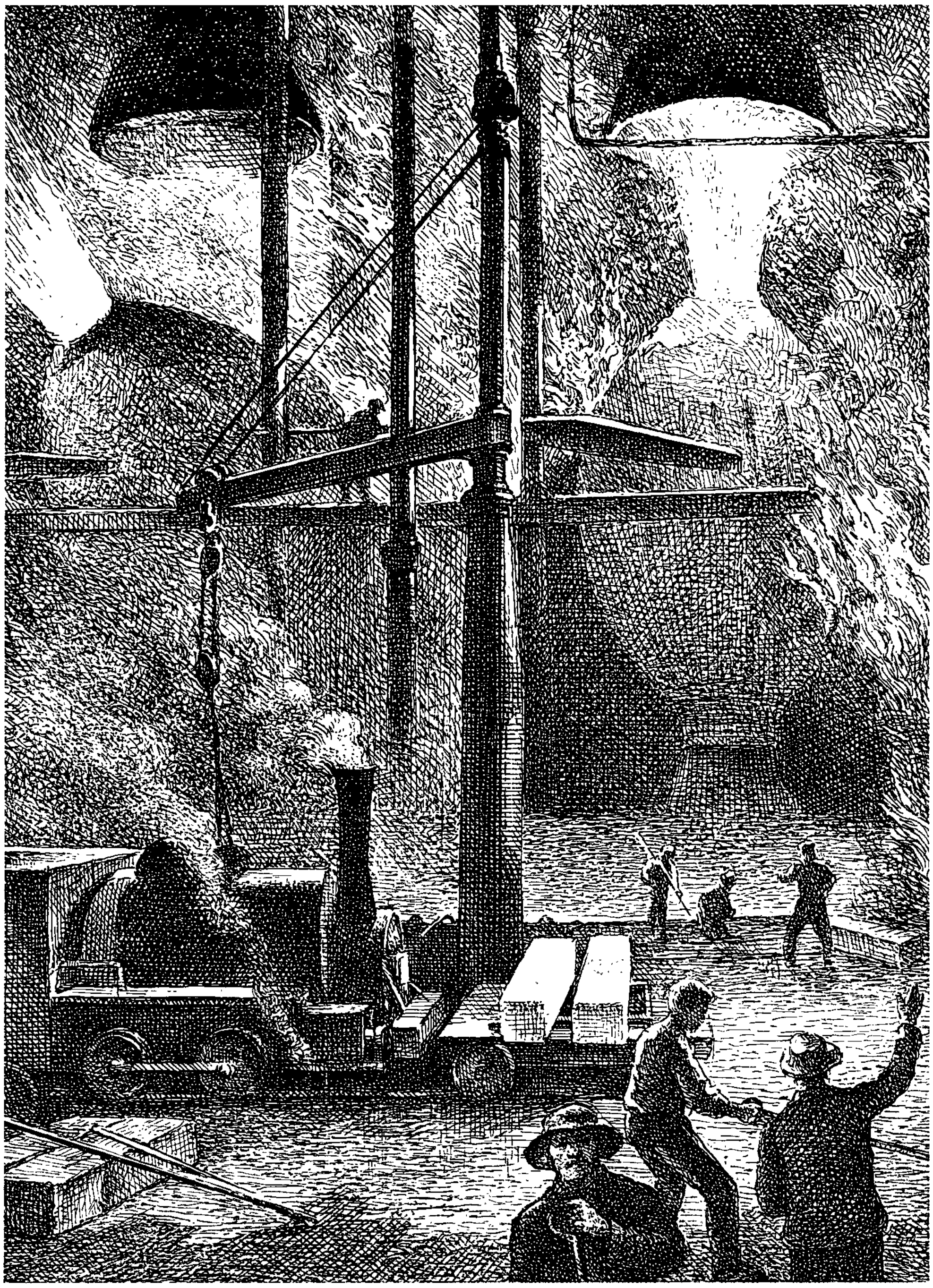
The purpose of *DRS* is to allow those Participants that wish to reinvest all or part of their dividends in a security subject to an issuer's reinvestment plan to do so by book-entry, without withdrawing the underlying shares from their DTC accounts. The advantages to Participants are significant. Without *DRS,* a Participant would either have to refrain from depositing or withdraw from the depository prior to record date those securities in which dividends might be reinvested, even if a definite decision had not yet been reached. In either case, the certificates involved would have to be handled on an exception basis and the benefits of certificate immobilization through depository usage would be partially defeated. In addition, Participants themselves would have to arrange for reinvestment of dividends through the various plan administrators and then handle both the certificates for the stock thereby purchased and the checks for cash in lieu of fractional shares. With *DRS,* these cumbersome and duplicative tasks between Participant and plan administrator are eliminated and replaced by a far more flexible and less costly set of largely automated book-entry transactions with DTC.

Options

Use of DTC's interface with The Options Clearing Corporation (OCC) increased substantially throughout 1985. Some 166 banks and broker-dealers had securities "pledged" to satisfy OCC put and call margin or clearing fund requirements, compared with 157 banks and broker-dealers at the end of 1984. By yearend, the total value of securities pledged approximated $8.3 billion, up 57% from $5.3 billion a year earlier. This was 71% of the value of securities collateral with OCC from all sources.

- **"Third-Party Pledge System"**

The "Third-Party Pledge System" offered by DTC is an alternative to the escrow receipt method, in which a bank holds securities in an escrow account, issuing a receipt which can be used to satisfy OCC requirements for the writer's call option. Under the Third-Party Pledge System, banks may pledge to OCC securities on deposit at DTC. One improvement over the escrow receipt method is that changes in the quantity of shares pledged do not require release and reissuance of escrow receipts, nor do changes in the option series to be collateralized. In the former case, the amount of shares pledged is simply increased or reduced, as required, while in the latter the pledgor merely submits a "rollover" form supplied by OCC. In addition, processing is simplified because



The Steel Age arrived in the mid-nineteenth century as new mass production processes turned out enough steel, with its superior strength and versatility, to replace iron as the principal industrial metal. In 1867, one of the earliest years they were used commercially, Bessemer converters like this one were responsible for 2,000 of the 20,000 tons of steel produced in the United States. Just 13 years later, annual Bessemer production exceeded a million tons.

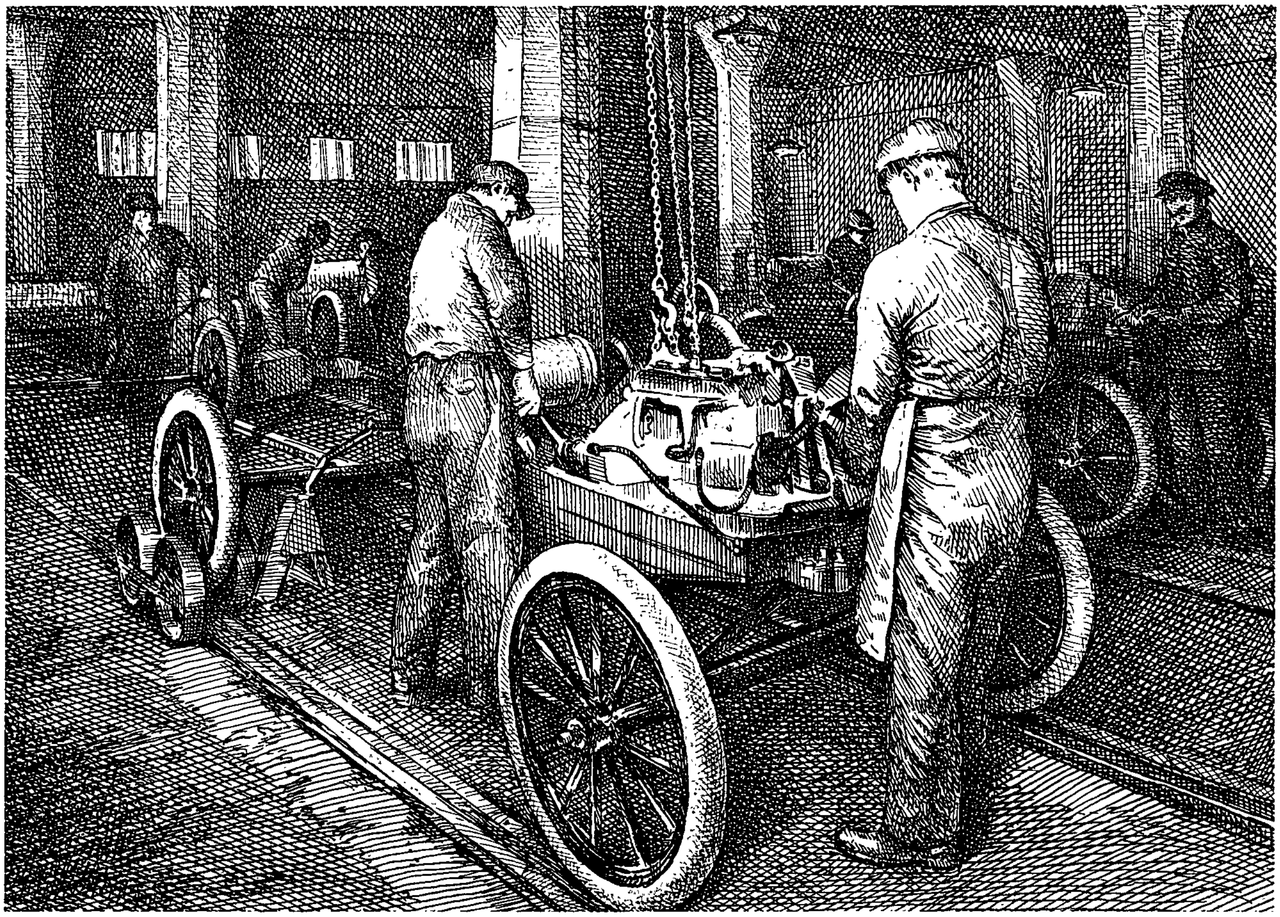
there are no repeated movements of paper among the parties to the transaction. And, finally, since certain shareholders' equity limits of the escrow receipt method do not apply, any bank depository member may use the pledge method to the full extent that it has the securities to pledge.

DTC's interface with OCC also offers a Third-Party Pledge System for put options. This capability provides for a situation in which a put option writer has deposited cash with a bank, and the bank has invested the cash in U.S. Treasury bills. Under these circumstances, the put option writer may instruct the bank to deposit the T-bills with DTC and then pledge them to OCC for the account of the OCC clearing member carrying the writer's short position. OCC then reduces the clearing member's margin requirements accordingly.

Special Order-Out

With the cooperation of DTC, the National Securities Clearing Corporation (NSCC) offers a service designed to reduce substantially the delays that brokers normally experience when delivering physical securities to institutional customers around the country. This service, known as Special Order-Out, permits the delivery of certificates on settlement day to institutions in 20 cities.

Under the Special Order-Out service, brokers that are members of NSCC and DTC may use the depository's urgent COD withdrawal procedure to order physical securities out of DTC on the afternoon before settlement day in anticipation of DTC book-entry receipt of those securities on settlement day. NSCC then ships the certificates to the designated cities for availability on settlement day if book-entry receipt at DTC has occurred as anticipated. Prior to the service, brokers had to wait until positions had been established on the depository's books on settlement day before initiating the withdrawal for subsequent shipment via courier to a remote city, thereby delaying delivery until the day after settlement day, at best.

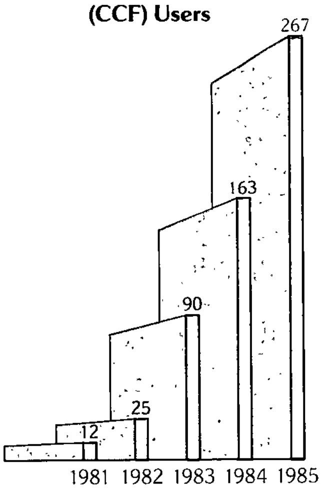


Through mass production, manufacturers could make goods available to American consumers at lower prices and sell more of them. In 1914, Henry Ford produced more than 300,000 units of his Model T, pictured here on a moving production line. Only a year before, workers spent 14 hours assembling each car; mass production cut the time to 93 minutes. By 1927, Ford had manufactured over 15 million automobiles. A Ford that sold for about $500 in 1914 cost under $300 in 1925.

AUTOMATION OF DEPOSITORY SERVICES

A continuing priority at DTC has been the automation of internal depository operations and of the channels of communication that link DTC with Participants, other users, and transfer agents. Major emphasis has been given to automating the receipt and processing of Participant instructions and the distribution of reports to Participants. The depository reduces its operating costs by such means and, more important, Participants can reduce their own processing costs; moreover, all parties gain through the reduction of errors caused by manual procedures.

Computer-to-Computer Facility (CCF) Users



In addition to the Institutional Delivery system considered earlier in this report, DTC uses five means of automated communication with Participants or others—the Participant Terminal System *(PTS)*, *PTS Jr.*, Dual Host *PTS*, Computer-to-Computer Facility, and Automated Participant Interface, each of which is described below.

Participant Terminal System

The depository's Participant Terminal System is a network of computer terminal stations located in Participants' offices throughout the United States and in Canada and tied directly to DTC's computers. Participants use their terminals to communicate instructions, inquiries, and other messages to DTC and to receive messages and reports from DTC via the printer with which each installation is equipped. The direct link between Participants and the depository afforded by *PTS* speeds and eases the communications process, replacing the preparation and delivery of hard-copy instructions and reports. This is particularly useful for Participants located outside New York City.

During 1985, the number of terminals in Participants' offices increased to 774 from 691 a year earlier, while the average daily number of total transactions, including inquiries and messages as well as instructions for specific transactions, grew to 494,600 at yearend from 362,000 a year earlier. (For the full year, daily volume averaged 383,300, up 12% from 343,700 a year earlier.) Of these transactions over *PTS,* the average daily number of Deliver Orders (DOs) processed was 53,300, representing about 76% of the depository's total DO volume; the daily number of Certificate-on-Demand (COD) urgent withdrawals averaged 3,350, representing approximately 91% of total COD volume; and pledges of collateral averaged 2,700 per day at yearend, or some 81% of the depository's overall pledge volume. Releases of collateral may also be effected by means of *PTS.*

The steady growth of *PTS* since its inception in 1975 reflects the many benefits it accords its users. In addition to its capabilities for processing instructions, *PTS* facilitates improved money management by allowing the quick turnaround or reclamation of book-entry receives. It is also a major aid in the prompt balancing of settlement statements and—through the capability it provides for the verification of CUSIP numbers, issue eligibility, Participants' security positions at DTC, and similar information—the avoidance of costly errors.

Under the Direct-Mail-by-the-Agent (DMA) program in 1985, 12 users requested that some 263,000 newly issued certificates be mailed to registered holders or third parties by nine participating transfer agents.

At DTC's Out Transfer Department are (from left) Robert Roszkowski, Vice President, Manufacturers Hanover Trust Company; George F. Mugno, Vice President, Merrill Lynch, Pierce, Fenner & Smith Incorporated; Albert M. Munson II, Associate Counsel, and Elaine D. Skarl, Director, both of DTC.

PTS Jr.

Introduced in a pilot program in mid-1985, *PTS Jr.* is an alternative to *PTS* for low-volume users. *PTS Jr.* performs all of the functions available on *PTS* at reduced expense, although at reduced speed. The system requires only a user's compatible personal computer, which is less expensive than *PTS* terminal configurations, DTC-supplied software, a modem, and a dialed telephone connection rather than the costlier dedicated *PTS* line.

By yearend 1985, 15 Participants and one Pledgee bank were using *PTS Jr.* The number of users is expected to increase sharply during 1986.

Dual Host *PTS*

In 1983, DTC introduced Dual Host *PTS* as a major enhancement to the Participant Terminal System. Under the Dual Host approach, a *PTS* user's old terminal cluster is replaced by a minicomputer with attached video display terminals, disk drive, and printers. In addition to affording users all of the display and printing capabilities available in the standard *PTS* configuration, the minicomputer permits the storage of receive and deliver information on disk, in machine-readable form, for subsequent transmission to the user's computer for further automated processing, as time and capacity are available. (Under the standard method, when a *PTS* message is received, the printout must be physically detached from the terminal and physically carried to the appropriate destination for further clerical and/or machine processing.) Dual Host *PTS* allows Participants automatically to match book-entry receive notifications and facilitates redelivery to other Participants. At yearend 1985, 10 Participants were using Dual Host *PTS.*

Computer-to-Computer Facility

The Computer-to-Computer Facility (CCF) is used for direct computer-to-computer communications between DTC and system users. Designed to allow the transmission of instructions from system users' computer systems to DTC's computer system and for transmission of certain data back from DTC's computer system, CCF became operational in 1980. During 1985, the number of CCF users grew to 267 from 163 at yearend 1984 (see graph).

DTC's plans call for further development of CCF during the year ahead.

Automated Participant Interface

Many of DTC's Participants have large volumes of depository activity for which input through *PTS* would not be economical, but the underlying data have already been captured by their computers in a form readable by DTC's computer system. The Automated Participant Interface *(API)* allows DTC Participants or their data processing service bureaus, which are able to produce depository instructions by computer, to enter those instructions directly into DTC's computer system by means of hand-delivered or electronically transmitted magnetic tapes instead of clerically processed paper forms. *API* capabilities currently include magnetic tape instructions for routine Withdrawals-by-Transfer, Deliver Orders, and Payment Orders.

◦ Magnetic Tape Transfer Instructions

Under this program, DTC is able to (1) receive customer name Withdrawal-by-Transfer (WT) instructions from Participants in magnetic tape form, (2) process the tapes through the depository's own computer system, and (3) deliver or transmit the resulting DTC output tapes to transfer agents for automated processing through the transfer agents' computer systems.

By yearend 1985, the number of Participants submitting transfer instructions in automated form had grown to 112, accounting for approximately 95% of DTC's average daily transfer volume of 25,300 instructions for over 26,600 certificates.

◦ Direct Mailing of Certificates

Direct-Mail-by-the-Agent (DMA), the DTC program for the mailing of new certificates by transfer agents directly to Participants' customers, grew substantially in 1985, with agents mailing some 263,000 customer certificates, up from 182,000 in 1984.

In its current phase, DMA comprises approximately 12,000 issues through nine *FAST* transfer agents: American Transtech, Inc.; The Bank of New York; The Chase Manhattan Bank, N.A.; GTE Shareholder Services, Incorporated; International Business Machines Corporation; Manufacturers Hanover Trust Company; Morgan Guaranty Trust Company of New York; United States Trust Company of New York; and Wall Street Trust, a Division of The Bank of New York. Twelve users program their daily magnetic tape or *PTS* instructions to DTC to include the names and addresses of the customers to whom new certificates are to be mailed: AmSouth Bank, N.A.; Bankers Trust Company; IDS Trust Company; Johnson, Lane, Space, Smith & Co., Inc.; Edward D. Jones & Co.; Kidder, Peabody & Co. Incorporated; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Paine Webber Incorporated; Tucker, Anthony & R. L. Day, Inc.; United States Trust Company of New York; Wachovia Bank & Trust Company, N.A.; and Wachovia Brokerage Service.

Upon receipt of magnetic tape or *PTS* transfer instructions from the Participant, DTC processes the information through its own analytic program, which reformats the instructions so that they will be readable by the transfer agent's computer system. These instructions also can be processed over CCF. Upon receipt of the instructions, the transfer agent issues and mails the new certificates to the name and address indicated by the Participant and returns pertinent details of the transaction to DTC by automated means so that the depository may update its own records. DTC, in turn, processes the return information and passes a report to the Participant to complete the record updating process.

In early 1985, DTC began the Direct-Mail-by-the-Depository (DMD) program, under which DTC itself mails new certificates directly to Participants' customers when Participants request the service on their automated input and transfer agents for the subject securities do not provide DMA. The depository had mailed some 152,700 certificates under DMD by yearend 1985.

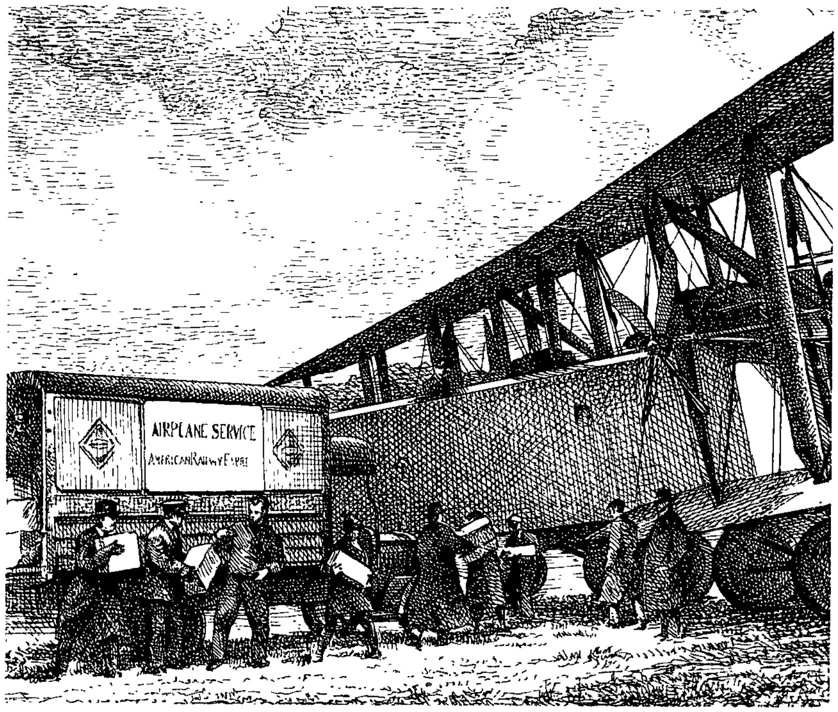
◦ Computer-to-Computer and Magnetic Tape Deliver Orders

Under the Deliver Order (DO) portion of *API,* Participants can input delivery instructions to DTC on magnetic tape for either day-cycle or night-cycle processing. This program comprises two banks, seven broker-dealer

DTC worked with Participants in 1985 to standardize the formats of manually prepared and computer-generated deposit tickets so that all tickets could be processed by the depository's optical scanning equipment. Now, 4,000 deposit tickets can be read per hour.

At the depository's Optical Scanning area to observe automated data recognition equipment are (from left) Akifumi Masuda, Senior Assistant Manager, The Daiwa Bank, Limited, New York Agency; Walter H. Cushman, Senior Vice President, The Bank of New York; and Dennis J. Dirks, Vice President, DTC.

The Wright brothers' 1903 demonstration of mechanical flight was followed by the rapid development of commercial air transport. On November 14, 1919, the Railway Express Company hired this ungainly craft, a converted Handley-Page V/1500 World War I bomber, to deliver express packages nonstop from New York to Chicago. Bad weather and engine trouble inauspiciously forced the plane down, delaying the deliveries.



Participants, three regional depositories, and a service bureau that provides recordkeeping services for brokers and other financial institutions. At yearend 1985, the volume of regular delivery instructions received on tape, as well as over CCF, accounted for approximately 23% of DTC's total DO volume. In all, more than 99% of Participant DO instructions are entered by automated means.

- **Payment Orders**

DTC's Payment Order service affords Participants the opportunity to use their DTC accounts to settle money payments associated with securities transactions that have taken place separately. Major applications of the service include marks-to-the-market of stock loans previously made (known as the Securities Payment Order, or SPO, portion of the service) and the collection of options contract premiums related to third-party deposits or releases of underlying securities into and out of the DTC account of The Options Clearing Corporation (known as the Premium Payment Order, or PPO, portion of the service).

In 1985, Participants for the first time were able to submit Payment Order instructions to DTC over CCF as well as over *PTS* and on magnetic tape.

Other Automation Developments

There have been several other notable developments in DTC's automated services over the last few years.

- **Computer Output on Microfiche**

DTC produces certain computer output reports on microfiche for distribution to Participants and for internal DTC use at significant savings in handling and record storage requirements. During 1985, DTC's microfiche output increased; further growth is expected in 1986 and beyond, as the number of reports DTC is capable of producing in this form continues to expand.

- **Optical Scanning Capability**

Continued progress was registered during the year in the development of optical scanning equipment as an alternative to key-entering certain data, thereby permitting substantial cost savings. The scanning equipment was brought to an acceptance recognition level of 95% of certain documents, and the volume of documents scanned to approximately 70,000 daily at yearend.

Also in 1985, DTC and other members of the banking and securities industry studied the possible use of Light Signatures technology for the authentication of certificates and the machine-reading of data on them. In 1986, DTC plans to participate in pilot operations of this technology, which could lead to specially encoded certificates that are more counterfeit-resistant and that could lead to substantial processing savings for banks, broker-dealers, transfer agents, and depositories.

INTERFACES IN A NATIONAL CLEARANCE AND SETTLEMENT SYSTEM

Depository Trust's interfaces with other clearing agencies—both clearing corporations and other securities depositories—constitute a major element in the national system for the clearance and settlement of securities transactions. These interfaces enable participants in various clearing agencies to use their securities positions in one location to settle transactions in other clearing corporations and with users of other depositories by book-entry deliveries. This arrangement eliminates the interregional movement of securities certificates, thereby contributing to their further immobilization.

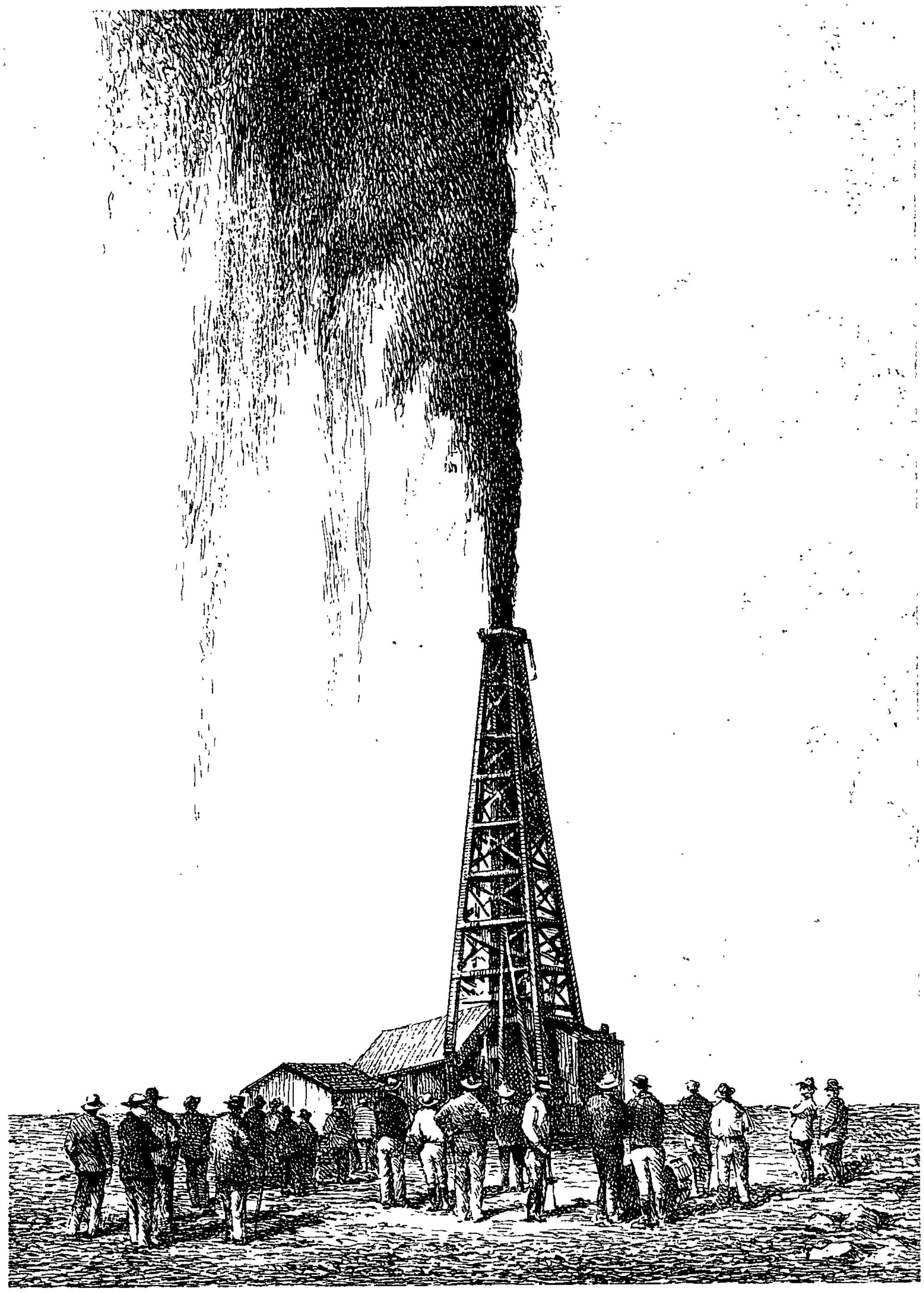
Depository Trust maintains an interface with the National Securities Clearing Corporation (NSCC) in New York for all depository-eligible issues. Broker-dealer Participants in DTC may use their positions at DTC to settle with other broker-dealers whose transactions are cleared by NSCC.

DTC also has interfaces for registered corporate and municipal securities services with Midwest Securities Trust Company (MSTC), Pacific Securities Depository Trust Company (PSDTC), and Philadelphia Depository Trust Company (Philadep). An important facility made possible by these relationships is the "third-party" delivery service which permits a sole member of any one of these depositories to settle transactions with any member of DTC, eliminating the requirement that a member belong to both depositories in order to effect such settlements. Each of these interfaces was supplemented in 1982 and early 1983 by the linking of DTC's Institutional Delivery system with the institutional delivery systems of the regional depositories.

To assist settlements of trades on the Boston Stock Exchange, a DTC interface also exists with the Boston Stock Exchange Clearing Corp. and NSCC.

DTC also has an interface with The Options Clearing Corporation (described elsewhere in this report). In addition, The Canadian Depository for Securities Limited is a Participant in the system. Interfaces for use in connection with DTC's municipal bond program include a bearer bond service with MSTC begun in January 1985.

Since late 1984, representatives from DTC, MSTC, PSDTC, and Philadep have been meeting regularly to plan changes in interdepository processing. As a result of these meetings, delivery and reclamation cut-off times at the depositories will be standardized. Upgraded communications links and other improvements also are underway, including more frequent delivery movements between depositories, the exchange of additional data, and the elimination of exception processing associated with interdepository deliveries.



American entrepreneurship provided much of the energy that fueled the country's commercial growth. During its earliest years, the Texas oil industry was dominated not by corporations but by wildcatters, entrepreneurs who often staked their life savings in the quest for oil. This gusher at the Spindletop Field in Texas, discovered by wildcatter Captain Anthony F. Lucas in 1901, was the first major find in the region and marked the beginning of the golden age of the Texas petroleum industry.

PROTECTION FOR PARTICIPANTS' SECURITIES

The Depository Trust Company is the world's largest custodian of corporate stocks and of corporate and municipal bonds. Its holdings and their steady growth reflect the fact that the depository's program of safeguards is widely regarded as the most comprehensive yet developed to monitor the movement and custody of securities. DTC's unique system rests upon extensive internal controls, physical security, repeated internal and external audits, insurance coverage, a \$200 million protective Participants Fund, and other features described below.

Internal Controls

DTC's internal control system is designed to record the movement and location of every individual certificate in DTC's custody, from the time it is received, through its processing to and from transfer agents, through its entry into and delivery from the vault. The records required by this system are also used to resolve processing errors, facilitate reconciliation and audits, and for similar purposes. The key features are as follows.

• Automated certificate-number control is DTC's single most important safeguard. A unique computerized record cross-indexes each certificate by issue, number, denomination, and date of receipt, and for bearer certificates the depositor's identity, permitting maintenance of control and rapid reconstruction of paperflow regardless of volume. The data available from this record provide an important tool in reconciliation, research, and the collection of dividend and interest payments. Auditing is also facilitated, with the auditors accounting for certificates by denomination and certificate number, when comparing physical certificates to computer-generated inventory listings.

• Registered certificates deposited with DTC normally are quickly transferred into the depository's nominee name, Cede & Co. This step permits prompt determination of certificate validity, i.e., that the certificate is not subject to a "stop transfer" order or otherwise defective. It also enhances control over the collection of dividends and interest.

• Large denomination "jumbo" certificates are used to consolidate many of the securities on deposit. Because of their high value, jumbos are extremely difficult for unauthorized persons to negotiate, and the risk of loss is thereby further reduced.

• DTC places restrictive endorsements on the back of certain jumbo certificates to further preclude their negotiation by unauthorized persons.

• Registered certificates remain in non-negotiable form while in DTC's custody.

• Microfilm records of registered certificates and related documen-

In its effort to automate all service areas to the extent possible, DTC made plans in 1985 to replace hardcopy reconciliation, dividend, and reorganization inquiries by Participants with on-line Participant Terminal System (PTS) inquiries.

At DTC to observe a test of the new PTS inquiry functions are (clockwise, from foreground) Joseph A. Chorney, Vice President, Manufacturers and Traders Trust Company; William J. Du Mond, General Manager, Marine Midland Bank, N.A.; John L. Scheuermann, Vice President, and Helen Cooper, Associate Director, both of DTC.

tation are made upon their receipt into or delivery out of the depository. The film is developed on premises to insure the capture of all information while the certificates are still in the processing stream.

• Duplicate computer files of all transactions are maintained in separate storage locations, including one remote rural site, permitting prompt reconstruction of files in the event that a processing interruption were to occur. DTC also maintains comprehensive files of original documents and production reports in addition to the duplicate computer files and microfilm records.

• DTC has made backup arrangements with a major data processing facility in another city; should the depository's own data processing capabilities be interrupted for what appears will be a prolonged period, these backup capabilities will be brought into play for the duration of the emergency.

Additionally, significant changes to the internal control system are tested by the depository's internal auditors and independent accountants.

Physical Security

DTC's physical security system is extremely sophisticated, encompassing both electronic and physical devices and a large security force.

The salient features of the system are:

• A computerized access control system, including floor-to-ceiling steel turnstiles, inhibits unauthorized entry into sensitive areas. Entry is restricted to employees with specially encoded photo identification cards. The turnstiles are monitored by closed-circuit television; a record of all entries and exits is maintained.

• A surveillance system of closed-circuit television cameras and video monitors provides complete coverage of the vaults and other securities processing areas. Intensified closed-circuit television is used to monitor especially sensitive areas, such as those in which coupon cutting and other processing of bearer instruments are conducted.

• A silent alarm system is strategically located at points throughout the securities processing areas. Vibration alarms are installed to signal any attempt to forcibly penetrate the vaults. A modern smoke and heat detection and fire control system protects the vaults and computer sites. Systems interruptions or malfunctions themselves trigger independent malfunction alarms that alert the Security Department.

• A security force monitors the television surveillance, access control, and fire control systems, screens all persons entering and leaving security areas, and determines the contents of all packages.

• Several vaults contain most of the securities deposited with DTC. Separate areas are provided for bearer instruments, working denominations of registered securities, and jumbo certificates of registered issues, each with its own access requirements and controls over personnel authorized to enter. Other securities are kept in the form of balance certificates maintained by qualifying transfer agents.

• Registered securities that are delivered to or received from transfer agents and other parties are required to be in non-negotiable form.

• Special wastepaper treatment and disposal methods help to prevent the unauthorized release of certificates or other documents from secured processing areas.

Securities Recordkeeping

DTC uses a double-entry record-keeping system to control securities positions. Every transaction in a Participant's account is recorded and the physical location of underlying certificates—at DTC, with transfer agents, at other depositories, or in transit—is identified. These records are also used as a source for internal reports and reports to Participants and by the depository's Reconciliation Division to locate and correct any differences with Participant records and Fast Automated Securities Transfer *(FAST)* agents.

User Verifications

Among the most effective depository safeguards is the continual verification of DTC records by users, based on their own records of activity with the depository.

Each morning, Participants and Pledgees receive a report itemizing and summarizing the previous day's activity in their accounts. These reports start with the opening balance of securities in each issue in which there was a transaction and go on to list each transaction in that issue on that day and the closing balance of securities in that issue after accounting for all transactions. Daily reports of cash transactions are also available. Under the depository's Rules, Participants are required to report any differences between their own records and the depository's statements. DTC has a research staff to help reconcile any differences.

In addition, each Participant and Pledgee receives a monthly position statement showing the status of all of its securities positions, including those in which there may not have been any transactions. Participants and Pledgees are required to confirm the accuracy of their monthly position statements in writing within 10 business days after the statement has been made available to them. Failure to confirm can result in a fine under the depository's Rules. These continual confirmations protect the integrity of the DTC system and encourage a high degree of cooperation at the operational level between the depository and its users.

Internal and External Audits

DTC's internal controls are reviewed and tested both by DTC's internal auditors and by Price Waterhouse.

The internal audit program includes a continuous review of controls in several key operating areas. Controls over automated systems and new systems under development also are reviewed. All certificates in selected issues in the vault are counted daily, utilizing random sampling techniques. DTC's General Auditor submits to the Audit Committee of the Board of Directors periodic reports which summarize the status of his work. The Committee consists of several Directors charged with the responsibility of supervising the General Auditor and the Auditing Department and reviewing and approving the internal audit program.

Price Waterhouse, in addition to its examination of the financial statements, performs an annual study and evaluation of the system of internal accounting control surrounding securities and related monies processed and/or held for Participants and

Extensive DTC insurance protects Participants against the depository's loss of securities on premises, in transit, and elsewhere. DTC also maintains a fund of $200 million contributed by Participants to be available for uninsured losses.

In Denver discussing depository protective measures are (from left) Ron Weaver, Vice President, Boettcher & Company, Inc.; Ed N. Rodewald, Vice President and Trust Officer, First Interstate Bank of Denver, N.A.; George A. Johnson, Senior Vice President, Hanifen, Imhoff, Inc.; and Ann Vece, Director, DTC.

DTC's Participant Services representatives—capable professionals assigned to respond to Participant needs—offer assistance to depository users across the country.

Reviewing Participant usage reports in Boston are (from left) Vincent T. Molloy, Vice President, Boston Safe Deposit and Trust Company; Thomas J. Corcoran, Director – Custody Services, The First National Bank of Boston; and Peter J. Campisi, Senior Securities Officer, DTC.

others. The report indicating Price Waterhouse's opinion on the system is available to Participants, Pledgees, and their accountants, upon request.

DTC's Audit Committee also reviews the scope of the auditing procedures of the independent accountants, directly receiving all reports issued by such accountants to the depository, and meets with them periodically to discuss the results of their work.

Insurance

The program of insurance coverage for securities deposited in DTC is one of the most extensive of any private institution in the financial industry.

Specifically, insurance is available in the following amounts per event:

A. *Losses Occurring on Premises:*

1. $100 million coverage under Primary and Excess Blanket Bonds;
2. $100 million under excess All Risk Securities coverage;
3. $5 million Lost Instrument Bond Premium Policy, covering premiums for purchase of lost instrument bonds for securities losses in excess of $200 million.

B. *Losses Occurring in Transit by Messenger or Armored Car Carrier:*

1. Primary coverage of
(a) $5 million under Air Courier Messenger Policy covering securities lost in transit via Brink's, Incorporated or Loomis Armored Corporation;
(b) $400 million In-Transit coverage provided by the insurer of the armored car carrier service used by DTC;
(c) $100 million under Primary and Excess Blanket Bonds for securities lost while in the custody of messengers.
2. Excess coverage of
(a) $100 million under Primary and Excess Blanket Bonds for securities lost while in the custody of an armored carrier;
(b) $20 million under Excess In-Transit Bond covering securities losses in excess of $100 million when securities are in the custody of messengers, and in excess of $500 million when securities are in the custody of an armored car carrier;
(c) $5 million under Armored Car and Messenger Policy covering securities losses in excess of $120 million when securities are in the custody of messengers, and in excess of $520 million when securities are in the custody of an armored car carrier;
(d) $5 million under Lost Instrument Bond Premium Policy covering premiums for the purchase of lost instrument bonds for securities losses in excess of $125 million when securities are in the custody of messengers, and in excess of $525 million when securities are in the custody of an armored car carrier.

C. *Losses Occurring in the Mail:*

1. $15 million under Mail Policy covering registered securities lost after having been sent via registered mail;
2. $15 million under Mail Policy covering registered securities lost after having been sent via United States Postal Service Express Mail Service, Option 1 (Door-to-Door), and Post Office-to-Addressee service;
3. $1 million under Mail Policy covering securities lost after having been sent via First Class Mail.

Still more protection is available to bank and broker-dealer Participants with their own standard blanket bond coverage, in the form of riders to their policies providing that such bonds will cover securities held by DTC for the account of the

Participant. A bank or broker-dealer with such a rider to its blanket bond would be reimbursed by its own insurer (to the extent of the coverage provided by the rider) for its *pro rata* share of uninsured securities losses by DTC in the unlikely event that such losses were to exceed DTC's insurance coverage.

Participants Fund

The Participants Fund is a $200 million fund contributed by Participants and maintained by DTC to satisfy any losses not covered by DTC's insurance. DTC's Rules provide that any such loss would normally be charged initially against undivided profits or retained earnings, but permit the Board of Directors instead to elect to charge it to the Participants Fund.

Should a loss be suffered by DTC due to the failure of a Participant to satisfy its obligations to DTC, such loss would first be charged to that Participant's contribution to the Participants Fund. If the loss were in excess of that Participant's contribution (or if the loss were sustained for reasons other than a Participant's failure), the excess might then be charged to the contributions of other Participants to the Participants Fund on a *pro rata* basis. There has never been a *pro rata* charge to the Fund.

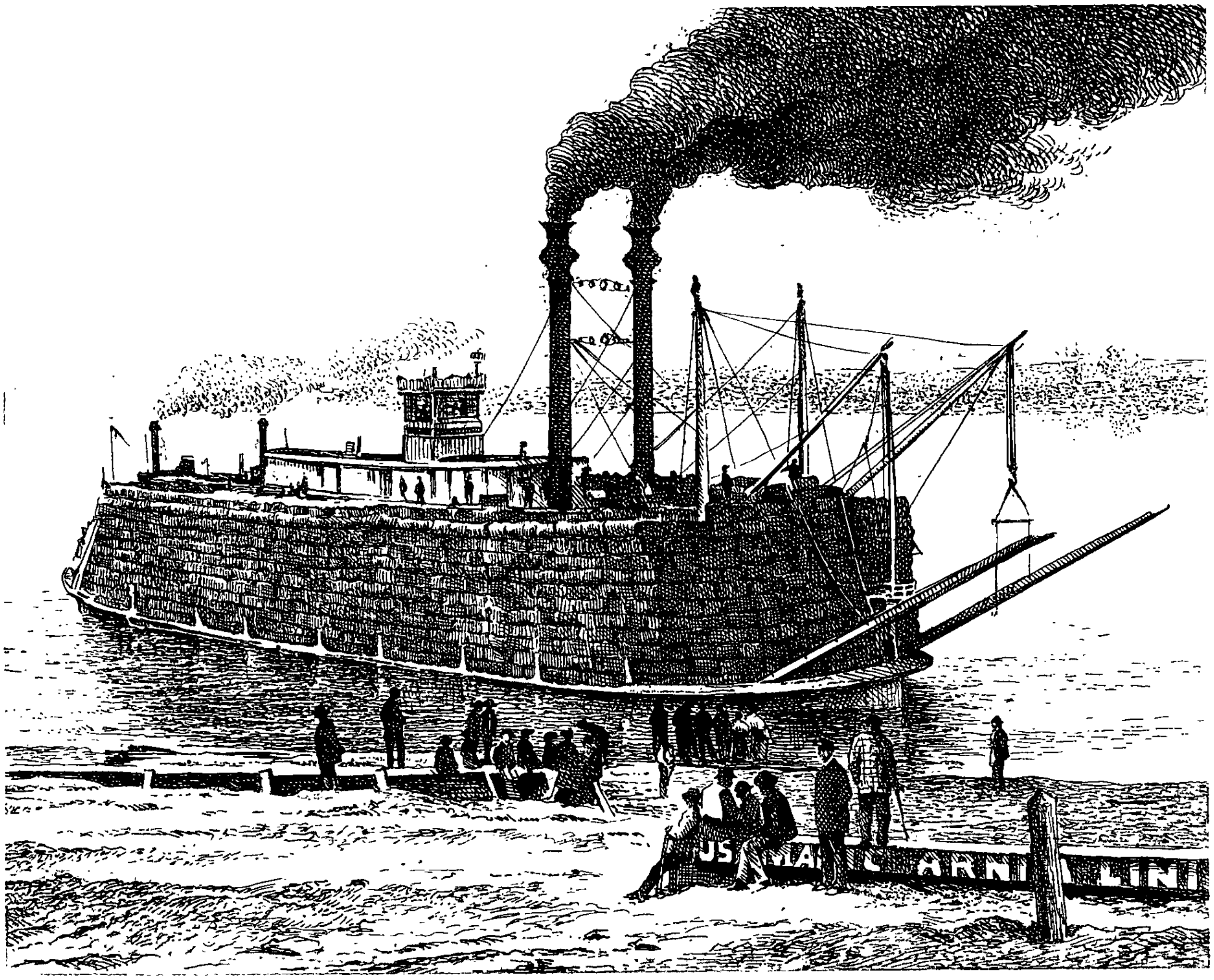
DTC's Rules provide that, in the event of any charge against a Participant's contribution to the Participants Fund (whether *pro rata* or otherwise), the Participant is required to make an additional contribution to the Participants Fund in an amount equal to the charge.

Protective Procedures

Other depository procedures are also available to protect Participants. DTC's Rules provide a variety of remedies to minimize the possibility of loss arising from the unexpected insolvency of a Participant. In the event of signs of a Participant's operational or financial inadequacy, or advice to that effect from self-regulatory organizations or others, DTC carefully monitors that Participant's further activity, implementing such protective remedies as events warrant.

Regulatory Examinations

The Depository Trust Company is a limited purpose trust company organized under the banking laws of New York State and a member of the Federal Reserve System. As such, DTC undergoes annual examinations by the New York State Banking Department and the Federal Reserve Bank of New York, which report their findings to DTC's Board of Directors.



Steamboats dramatically increased the volume of agricultural products that could be transported down the Ohio and Mississippi rivers to New Orleans, the South's major commodities marketplace. There, Cotton Exchange officials were on hand to meet the arriving packets and verify delivery of cotton bales. The Pargoud*, a late nineteenth-century passenger and freight stern-wheeler, shown here loaded with bales of cotton, was designed to navigate shallow upstream Mississippi waters. By providing ready access to markets for farm goods from distant regions, steamers like the* Pargoud *were instrumental in the growth of Central and Southern states.*

The senior officers of DTC (from left): Arnold Fleisig, John P. Crowley, Thomas J. Lee, Edward J. McGuire, Jr., and William F. Jaenike. Seated are William T. Dentzer, Jr. (left) and Conrad F. Ahrens.

OFFICERS OF THE DEPOSITORY TRUST COMPANY

William T. Dentzer, Jr.
Chairman and Chief
Executive Officer

Conrad F. Ahrens
President and Chief
Operating Officer

Senior Vice Presidents
John P. Crowley
Arnold Fleisig
William F. Jaenike
Thomas J. Lee

Secretary/Counsel
Edward J. McGuire, Jr.

Vice Presidents
Michael A. Agnes
Nicholas J. Arrigan
Joseph J. Bellantoni
Neil F. Brander
John J. Colangelo
Raymond R. DeCesare
Dennis J. Dirks
Michael Fedorochko
Ronald A. Garguilo
Charles J. Horstmann
James Koster
Glenn E. Mangold
Vincent A. Mauro
Michael T. Mullen
Richard J. O'Brien
Frank Petrillo
James V. Reilly
John L. Scheuermann
Kenneth M. Scholl
Austin E. Titus
Clifford A. Vangor

Comptroller
Stuart A. Fishbein

Treasurer
Philip E. Plasencia

Assistant Secretary
Jane C. Klueger

Assistant Treasurer
Leonard A. Miele

Committees of the Board of Directors

Nominating Committee
Thomas C. Schneider, Chairman*
Donald L. Calvin
John F. Lee
H.J. Runnion, Jr.

Audit Committee
Arthur F. Ryan, Chairman
John J. Evans
James T. Flynn
Richard F. Morrison
Mario J. Nigro

Compensation Committee
Joseph R. Hardiman, Chairman
John J. Evans
Richard S. Pechter
Thomas C. Schneider

*Succeeded Robert P. Rittereiser during 1985.

THE BOARD OF DIRECTORS

William T. Dentzer, Jr.
Chairman and Chief
Executive Officer,
The Depository
Trust Company

Conrad F. Ahrens
President and Chief
Operating Officer,
The Depository
Trust Company

Donald L. Calvin
Executive Vice President,
Public Affairs,
New York Stock
Exchange, Inc.

John J. Evans
Vice Chairman,
Manufacturers Hanover
Trust Company

James T. Flynn
Executive Vice President,
Morgan Guaranty Trust
Company of New York

Joseph R. Hardiman
Managing Director,
Alex. Brown & Sons, Inc.

C. Richard Justice
Executive Vice President,
National Association of
Securities Dealers, Inc.

John F. Lee
Executive Vice President,
New York Clearing
House Association

Richard F. Morrison
Senior Executive
Vice President,
Shearson Lehman
Brothers Inc.

Mario J. Nigro
Senior Vice President,
Merrill Lynch & Co., Inc.

Richard S. Pechter
President and Chief
Operating Officer,
DLJ Financial Services
Group

H.J. Runnion, Jr.
Senior Executive
Vice President,
Wachovia Bank & Trust
Company, N.A.

Arthur F. Ryan
Vice Chairman,
The Chase Manhattan
Bank, N.A.

Thomas C. Schneider
Executive Vice President,
Dean Witter Financial
Services Inc.

Richard S. White, Jr.
Chairman and President,
RepublicBank Trust
Company

Retiring from the Board during 1985 at the end of their terms were Richard B. Fisher, President, Morgan Stanley & Co. Incorporated; James F. Ganley, Senior Executive Vice President, Irving Trust Company; Jeffrey B. Lane, Vice Chairman, Shearson Lehman Brothers Inc.; G. Christian Lantzsch, Vice Chairman, Mellon Bank, N.A.; and Robert H. Smith, Vice Chairman, Security Pacific National Bank. Also retiring from the Board later in 1985 after his election as President of E.F. Hutton Group Inc. was Robert P. Rittereiser, formerly Executive Vice President of Merrill Lynch & Co., Inc.

1985...IN RETROSPECT

The growth of DTC's services in 1985 is described earlier in this report. This section records certain developments worthy of special mention.

Records Set in Municipal and Corporate Securities Processing

Nearly every record volume in DTC's major activities was surpassed by yearend as a result of the surge in municipal underwritings and the heavy trading in corporate and municipal securities.

In 1985, the Underwriting Service distributed $146.4 billion in new municipal bond underwritings, or 70% of the total principal amount of all such underwritings in the U.S., through 4,387 underwritings. New depository underwriting records were set every month of the year. The distribution in December of 1,194 muni underwritings valued at $42.5 billion in principal amount more than doubled the former record in November; an unprecedented 239 muni distributions valued at $9.8 billion in principal amount were recorded on December 30 alone. Nineteen "book-entry-only" muni distributions in December valued at $839 million in principal amount and 54 such distributions in 1985 overall valued at $2.6 billion added to the growing trend toward underwritings with no certificates available to investors.

Book-entry deliveries through the depository averaged 270,800 per day in December, up 30,000 over the previous record in February. On average, activities over the Participant Terminal System *(PTS)*—sending delivery and other instructions that changed Participant accounts, making inquiries, and receiving reports—amounted to 494,600 per day, up from the prior record 412,600 daily average in November. Total daily Institutional Delivery *(ID)* activity volume—confirmations, affirmations, and automatic deliveries in depository-eligible securities—averaged a record 116,300. Total *ID* deliveries in December valued at $96.3 billion averaged a record $4.6 billion per day.

Book-Entry-Only Underwritings Urged by SEC Chairman

In 1985, in letters to state governors and a number of corporate and securities industry executives, John S. R. Shad, Chairman of the Securities and Exchange Commission (SEC), sought support for the national effort to accelerate the immobilization of securities certificates and increased use of cost-saving book-entry procedures. At his direction, the SEC's Division of Market Regulation has encouraged state insurance regulators to take steps necessary to increase use of custodial services offered by the registered securities depositories. Late in 1985, Chairman Shad initiated a series of meetings with securities industry representatives to promote the issuance of corporate debt securities either in book-entry-only form or in book-entry form to the extent permitted by law.

Indirect Bank Participation Passes Milestone

Over 1,000 banks were reported participating indirectly in DTC at the end of 1985 through the accounts of 67 direct Participant banks. The dramatic growth in "piggyback" access to depository services—up from some 240 indirect Participant banks just five years ago—reflects industry-wide acceptance of depository custody for institutionally owned securities and the substantial cost savings that can result when a DTC Participant provides clearing services in all security issues whether or not they are eligible for depository services, permitting its correspondents to deal with a single source.

Additional Muni Bearer Bonds Made Eligible at DTC

DTC began in October to identify ineligible muni issues from trades entered by brokers and dealers into the National Securities Clearing Corporation (NSCC) Municipal Bond Comparison System and DTC's *ID* system

The number of eligible registered muni issues nearly tripled to 105,485 in 1985 from 35,382 in 1984 as part of the large expansion of DTC's municipal bond program.

Reviewing eligible municipal securities lists in Chicago are (from left) Joseph A. Moschiano, Vice President, The First National Bank of Chicago; Robert T. Podraza, Operations Manager, Wayne Hummer & Co.; and David R. Schaffer, Securities Officer, DTC.

and to query the Kenny Information Systems database to determine which issues were in bearer form. Then DTC made the majority of such issues eligible for depository services before settlement date. In early 1986, DTC's procedure has been modified so that almost all bearer issues with trades flowing through the NSCC and *ID* systems are made depository-eligible before settlement date.

Eligibility of Put Bonds

To make put bond processing more manageable for Participants, DTC adopted a policy to make new municipal and corporate put bonds eligible, and to continue eligibility of put issues already on deposit, only when tender agents provide the depository with written representations permitting book-entry tender of these bonds under DTC's Voluntary Offerings Procedures. A special DTC Task Force identified issues already eligible, determined their put features, and contacted the relevant agents to obtain the representations required. By the beginning of 1986, DTC had received representations from 127 agents for the vast majority of some 700 eligible issues and had made eligible over 670 new issues involving 162 agents. To help Participants anticipate put exercise opportunities, DTC developed a database of put information that is published in the depository's monthly *Eligible Municipal Securities* book and is the source of weekly reports and periodic notices distributed to Participants.

Growth of Automated Systems Continues

The number of functions available through the Computer-to-Computer Facility (CCF), including the addition of transfer detail balances and record date positions, increased to 20 by yearend.

CCF II was implemented, permitting communications with DTC's computer system from non-IBM mainframes, broadening access to automated depository services.

Participant recognition of Dual Host *PTS* capability to provide quicker redelivery of securities and greater insulation from volume fluctuations spurred increased use and enhancement of this system.

DTC Cooperates with NSCC's International Clearing Subsidiary

DTC made plans near yearend to cooperate with the International Securities Clearing Corporation (ISCC), a new NSCC subsidiary established to support the clearance and settlement of international trades by U.S. brokers, dealers, and banks through links with central clearing and depository organizations abroad. The development of a clearance link with The Stock Exchange in London is high on ISCC's agenda for 1986.

ID Training and Compliance Seminars Held

In May and June, DTC held *ID* educational seminars in 15 cities around the country. Representatives of broker-dealers, banks, and institutions attended the seminars, which focused on efficient use of *ID* services and planned enhancements. Another series of seminars, from December 1985 through January 1986, was conducted by DTC and other depositories in association with the Public Securities Association to aid muni industry compliance with amendments to

After a successful pilot program in 1985, DTC planned to make PTS Jr.*—a low-cost, low-volume alternative to the Participant Terminal System* (PTS)*—available in 1986 to all Participants meeting the low-volume criterion.*

Reviewing PTS Jr. *cost savings at the depository's Education Center are (from left) John Cento, Vice President and Secretary, Deltec Securities Corporation; Nancy E. Barr, Systems Consultant, and Russell J. Ferro, Interface Planning Officer, both of DTC.*

Municipal Securities Rulemaking Board Rule G-15 requiring automated confirmation and settlement of the vast majority of institutional trades. These seminars in 15 cities helped *ID* affirmation rates for both corporate and muni issues reach new highs by the beginning of 1986.

DTC Mails Certificates to Participants' Customers

In early 1985, DTC began a program under which the depository, upon request, mails Withdrawal-by-Transfer certificates directly to Participants' customers. The new program is designed to supplement the Direct-Mail-by-the-Agent (DMA) service under which participating transfer agents mail newly issued certificates directly to new owners, usually individual investors. DTC mails certificates only in issues where the transfer agent does not provide the DMA service.

DTC User Committees Address Canadian Securities Tax Withholding and Short Positions

DTC participated in *ad hoc* committees to address needed exemption from withholding tax at source on dividends and interest paid on Canadian securities to tax-exempt U.S. organizations and methods of reducing Participant short positions at DTC. A DTC proposal for processing withholding exemptions was reviewed with Revenue Canada officials in October and submitted to the Canadian government in December for approval. Also at yearend, a recommendation concerning Participant short positions neared completion for industry review.

Record Amount of Investment Income Refunded to Participants

Total DTC investment income refunds to Participants from cash dividend, corporate interest, and reorganization payments ("dividends payments") to the depository exceeded $46 million in 1985, a new annual high. DTC views these refunds as means to come as close as practicable to passing on to Participants in same-day funds these payments that the depository has received in same-day funds. DTC's next-day funds settlement system credits dividends payments to Participants generally on payment date; the depository invests the funds overnight and refunds the investment income to Participants in proportion to the dividends credits they have received from DTC.

Proposal for Same-Day Funds Settlement Service Released

DTC invited Participants and others to comment on a proposed Same-Day Funds Settlement (SDFS) service that would enable certain types of securities that now settle in same-day funds to become eligible for depository processing: municipal notes with maturities of one year or less, municipal bonds with short-term demand ("put") options, zero coupon bonds backed by U.S. government securities, collateralized mortgage obligations, auction-rate preferred stock, and medium-term notes. The proposed service would require Participants to collateralize any SDFS net debit in their settlement accounts with cash or securities throughout the processing day to protect against intraday settlement risks that could lead to financial loss by Participants or the depository. Based on favorable comment, the depository is working with Participants and others to resolve certain problems that would prevent Participants from fully utilizing the tightly controlled, collateralized system proposed.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and Stockholders of
The Depository Trust Company

In our opinion, the accompanying statement of condition and the related statements of revenues and expenses and undivided profits and of changes in financial position present fairly the financial position of The Depository Trust Company at December 31, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

153 East 53rd Street
New York, New York
January 27, 1986

The Depository Trust Company

Statement of Condition

	December 31, 1985	December 31, 1984
Assets:		
Cash	**$ 90,481,000**	$ 65,669,000
Repurchase agreements (Note 1)	**1,065,539,000**	656,857,000
U.S. Government securities (Note 1)	**14,942,000**	14,715,000
Receivables:—		
Participants:		
For settlements	**141,876,000**	7,497,000
For services	**15,491,000**	11,948,000
Dividends, interest, and other (Note 4)	**61,159,000**	26,692,000
Prepaid expenses and deferred charges	**4,048,000**	2,288,000
Equipment and leasehold improvements, less accumulated depreciation of $18,456,000 in 1985 and $12,760,000 in 1984 (Notes 1 and 6)	**32,030,000**	30,688,000
Leased property under capital leases, less accumulated amortization of $9,009,000 in 1985 and $11,173,000 in 1984 (Notes 1 and 7)	**2,265,000**	3,634,000
Contributions to Participants Fund, callable on demand (Note 3)	**194,288,000**	194,539,000
	$1,622,119,000	$1,014,527,000
Liabilities and stockholders' equity:		
Liabilities:—		
Drafts payable (Note 1)	**$ 899,263,000**	$ 375,331,000
Accounts payable and accrued expenses	**27,764,000**	19,639,000
Payable to Participants:		
On settlements	**23,224,000**	11,477,000
On receipt of securities	**48,714,000**	31,751,000
Dividends and interest received (Note 4)	**392,897,000**	345,752,000
Financing arrangements, including $4,019,000 in 1985 and $2,903,000 in 1984 due within one year (Note 6)	**14,135,000**	17,376,000
Obligations under capital leases, including $955,000 in 1985 and $1,365,000 in 1984 due within one year (Note 7)	**3,439,000**	4,575,000
	1,409,436,000	805,901,000
Participants Fund (Note 3):		
Deposits received	**5,712,000**	5,461,000
Contributions callable on demand	**194,288,000**	194,539,000
	200,000,000	200,000,000
Stockholders' equity:		
Capital stock—authorized, issued, and outstanding, 18,500 shares of $100 par value	**1,850,000**	1,850,000
Surplus	**950,000**	950,000
Undivided profits	**9,883,000**	5,826,000
	12,683,000	8,626,000
	$1,622,119,000	$1,014,527,000

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

The Depository Trust Company
Statement of Revenues and Expenses and Undivided Profits

	For the years ended December 31, 1985	1984
Revenues:		
Services to Participants	**$154,894,000**	$121,533,000
Interest income	**66,969,000**	55,803,000
	221,863,000	177,336,000
Less—Refunds to Participants (Note 2)	**58,123,000**	39,919,000
	163,740,000	137,417,000
Expenses:		
Employee costs	**89,625,000**	78,703,000
Rent, maintenance, and utilities	**20,360,000**	18,809,000
Data processing rentals and supplies	**14,345,000**	10,442,000
Professional and other services	**10,301,000**	9,496,000
Depreciation and amortization	**6,478,000**	5,989,000
Interest (Notes 6 and 7)	**2,350,000**	2,561,000
Other expenses (Note 5)	**16,224,000**	11,141,000
	159,683,000	137,141,000
Excess of revenues over expenses and refunds	**4,057,000**	276,000
Undivided profits, beginning of year	**5,826,000**	5,550,000
Undivided profits, end of year	**$ 9,883,000**	$ 5,826,000

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

The Depository Trust Company

Statement of Changes in Financial Position

	For the years ended December 31, 1985	1984*
Financial resources were provided by:		
Operations:		
Excess of revenues over expenses and refunds	$ 4,057,000	$ 276,000
Charges (credits) not affecting resources—		
Depreciation and amortization	5,033,000	4,000,000
Pension and deferred compensation	1,743,000	2,230,000
Amortization on capital leases	1,445,000	1,989,000
Provision for uncollectible dividend receivables	1,440,000	538,000
Deferred taxes	(2,002,000)	(674,000)
Resources provided from operations	11,716,000	8,359,000
Increase in drafts payable	523,932,000	299,755,000
Increase in payable to Participants	75,855,000	146,385,000
Financing and capital lease obligations incurred	230,000	11,594,000
Increase in accounts payable and accrued expenses	6,311,000	945,000
Increase in cash contributions to Participants Fund	251,000	403,000
	618,295,000	467,441,000
Financial resources were used for:		
Increase in dividends, interest, and other receivables	35,837,000	18,015,000
Purchase of equipment and leasehold improvements	6,221,000	15,208,000
Increase in receivable from Participants	137,922,000	6,856,000
Financing and capital lease payments	4,606,000	4,565,000
Additions to leased property under capital leases	230,000	—
Other, net	(242,000)	575,000
	184,574,000	45,219,000
Net increase in cash, repurchase agreements, and U.S. Government securities during the year	433,721,000	422,222,000
Cash, repurchase agreements, and U.S. Government securities, beginning of year	737,241,000	315,019,000
Cash, repurchase agreements, and U.S. Government securities, end of year	$1,170,962,000	$737,241,000

*Restated for comparative purposes.

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

The Depository Trust Company
Notes to Financial Statements
December 31, 1985 and 1984

Note 1 — Summary of Significant Accounting Policies

(a) Securities on deposit
Securities held by the Company for Participants are not recorded in the accompanying financial statements. Cash dividends and interest received or due on such securities and in process of distribution or awaiting claim are recorded in the statement of condition.

(b) Equipment and leasehold improvements
Equipment and leasehold improvements are recorded at cost. Equipment is depreciated over estimated useful lives (generally five to eight years), using principally accelerated methods. Leasehold improvements are amortized on the straight-line method over the lives of the related leases or the useful lives of the improvements, whichever is less.

(c) Leases
Leased property under capital leases consists principally of data processing equipment and related facilities. These assets are amortized using primarily accelerated methods over the lease terms or asset lives, as applicable, and interest expense is accrued on the basis of the outstanding lease obligations.

(d) Pension plan
On August 1, 1985, the Company separated its defined benefit pension plan covering substantially all of its employees from the pension plan of the New York Stock Exchange, Inc. and subsidiary companies and continued the pension plan for the benefit of its employees. The spin-off had no effect on accumulated plan benefits of any plan participant. Pension costs charged to expense in 1985 were $1,460,000 (1984—$1,788,000) and comprise normal costs and amortization over 10 years of actuarial gains and losses. In 1985, the actuarial assumption for investment return was increased, reducing 1985 pension expense by $898,000.

A comparison at January 1, 1985 of accumulated plan benefits using an assumed rate of return of 7% and plan net assets (exclusive of unfunded accrued pension costs of $3,451,000) for the Company's eligible employees is:

Actuarial present value of accumulated plan benefits:

Vested	$ 9,354,000
Non-vested	1,761,000
	$11,115,000
Net assets available for benefits	**$18,950,000**

(e) Marketable securities
Repurchase agreements represent U.S. Government and U.S. Government Agency securities purchased under agreements to resell at predetermined prices, generally over periods of three days or less. These agreements are recorded at cost and interest is accrued as earned. U.S. Government securities are recorded at amortized cost, which approximates market value.

The Company invests available federal funds in repurchase agreements and at the same time makes disbursements against such in clearinghouse funds. The resulting book overdrafts are included in drafts payable and are eliminated the next business day when the repurchase agreements are converted back to cash.

(f) Income taxes
Provision is made for income taxes applicable to revenues and expenses reported in the financial statements in periods which differ from those in which they are subject to taxation. Investment tax credits on property acquired and leased are applied, when available, under the flow-through method as a reduction of the income tax provision when the property is placed in service.

Note 2 — Organization and Ownership

The Company is a limited purpose trust company providing central securities depository and related services to the securities, banking, and related industries. At December 31, 1985, New York Stock Exchange, Inc. owned approximately 35% of the capital stock of the Company, with the remainder owned by the American Stock Exchange, National Association of Securities Dealers, and certain Participants or their representatives. A Stockholders Agreement provides for an annual reallocation of the entitlement to purchase outstanding capital stock by eligible Participants or their representatives based on relative depository activity of Participants during the prior year.

Pursuant to a policy adopted by the Board of Directors in 1975, the Company does not pay dividends to stockholders, but refunds to all of its Participants each year revenues in excess of current and anticipated needs. In 1985, this refund amounted to $11,750,000. No such refund was made in 1984. The Board of Directors adopted an additional refund policy in 1980 to provide for a monthly refund to Participants of income earned from the overnight investment of cash dividend, corporate interest, and reorganization payments to the Company for Participants. Such monthly refunds, reduced by certain related expenses, totaled $46,373,000 in 1985 (1984—$39,919,000).

Note 3 — Participants Fund

Participants in the depository are required to contribute to the Participants Fund amounts which relate to their activity in the depository. The Fund is available to secure the Participants' obligations to the Company, and certain uninsured losses, if such should occur, could be charged to the Fund. Required contributions are received in cash or are callable on demand and secured by securities of the United States or instrumentalities of the United States, states, and political subdivisions and certain eligible non-convertible registered corporate debt securities.

The Board of Directors has limited the aggregate amount of all contributions to the Fund to $200,000,000.

Note 4 — Dividends and Interest on Securities on Deposit

The Company receives cash and stock dividends and interest on securities registered in the name of its nominee and interest on bearer securities which it distributes to its Participants for the owners of the securities. Amounts received on registered securities withdrawn before the record date but not transferred from the name of the Company's nominee cannot be distributed unless claimed by the owners of the securities through a Participant or other financial institution. At December 31, 1985, cash dividends and interest payable amounted to $392,897,000, of which $190,914,000 was awaiting distribution to Participants and $201,983,000 was held pending claim on behalf of the record date owners of the applicable securities. Stock dividends payable and unclaimed are not recorded in the accompanying financial statements. Unclaimed cash and stock dividends and corporate interest received prior to July 1, 1982 have been transferred to New York State in accordance with abandoned property laws.

Cash dividends and interest receivable at December 31, 1985 amounted to $59,099,000 and have been reduced by allowances of $1,267,000 for possible losses. Stock dividends receivable are not recorded in the accompanying financial statements.

Note 5 — Income Taxes

Income taxes are included in other expenses. The net income tax provision for 1985 and 1984 is summarized as follows:

	1985	1984
Current:		
Federal	**$2,839,000**	$1,017,000
Investment tax credits	**(809,000)**	(818,000)
State and local	**915,000**	630,000
Deferred:		
Federal	**(757,000)**	(880,000)
Investment tax credits	**(927,000)**	748,000
State and local	**(318,000)**	(542,000)
	$ 943,000	$ 155,000

The primary difference between pretax accounting income and taxable income is related to pension expense.

Note 6 — Financing Arrangements

The Company has financing arrangements totaling $14,135,000, of which $5,153,000 is collateralized by leasehold improvements and equipment with comparable book value and $8,982,000 is unsecured. The obligations are being repaid in monthly installments. The interest rate applicable to approximately $7,054,000 of such obligations is fixed at a weighted annual rate of 10.6%, while $2,524,000 bears interest at the prime rate and $4,557,000 bears interest, based upon periodic elections by the Company, at either the prime rate or the London interbank offered rate plus .375%.

Aggregate maturities of these financing arrangements are summarized as follows:

Year ending December 31:	
1986	$ 4,019,000
1987	4,366,000
1988	3,680,000
1989	828,000
1990	828,000
1991	414,000
Total financing arrangements	$14,135,000

The Company also has available short-term lines of credit of $5,000,000 with each of two commercial banks at rates approximating the prime rate. These lines were not utilized during 1985.

Note 7 — Leases and Other Commitments

Capital leases—The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 1985:

Year ending December 31:	
1986	$1,378,000
1987	1,258,000
1988	1,229,000
1989	389,000
1990	60,000
Total minimum lease payments	4,314,000
Less—Amount representing interest	875,000
Present value of net minimum lease payments (including current installments of $955,000)	$3,439,000

Operating leases—The Company leases its office space and certain data processing equipment under long-term operating leases. Such leases for office space provide for increases in rental escalations subsequent to 1985.

Presented below are the future minimum rental payments required under operating leases having initial noncancellable lease terms in excess of one year as of December 31, 1985:

Year ending December 31:	
1986	$ 21,519,000
1987	16,424,000
1988	13,528,000
1989	11,024,000
1990	10,895,000
1991-2002	78,756,000
Total minimum lease payments	$152,146,000

Rent expense in 1985 was $15,036,000 (1984—$14,090,000) for office space and $11,988,000 (1984—$8,681,000) for data processing equipment.

PARTICIPANTS†

Banks (173)

Amalgamated Bank of New York
American Security Bank, N.A.
AmeriTrust Company
AmSouth Bank, N.A.
Atlantic National Bank
Bank Leumi Trust Company of New York
Bank of America National Trust and Savings Association
Bank of Bermuda International Limited
Bank of California (The)
Bank of Montreal, New York Branch
Bank of New England, N.A.
Bank of New England – North Shore††
Bank of New York (The)
Bank of Nova Scotia (The), New York Agency
Bank of Oklahoma, N.A.
Bank of Tokyo Trust Company (The)
Bank of Virginia Trust Company
Bank One Trust Company, N.A.
BankAmerica Trust Company of New York
Bankers Trust Company
Barclays Bank PLC
Barnett Banks Trust Company, N.A.
Bessemer Trust Company
Boston Safe Deposit and Trust Company
Brown Brothers Harriman & Co.
California First Bank
Canadian Imperial Bank of Commerce – New York Agency
Centerre Bank, N.A.
Central Bank of the South
Central Fidelity Bank, N.A.
Central National Bank of Cleveland
Central Trust Company
Chase Lincoln First Bank, N.A.
Chase Manhattan Bank, N.A. (The)
Chemical Bank
Citibank, N.A.
Citizens and Southern National Bank (The)
Citizens Commercial & Savings Bank
Citizens Fidelity Bank and Trust Company
City National Bank
Colonial Bank
Commerce Bank of Kansas City, N.A.
Commercial National Bank of Peoria
Connecticut Bank and Trust Company (The)
Connecticut National Bank (The)
Crocker National Bank
Custodial Trust Company
Daiwa Bank, Limited (The), New York Agency
Denver National Bank
Equitable Bank, National Association
Fidata Trust Company New York
Fidelity Bank (The)
Fiduciary Trust Company of Boston
Fiduciary Trust Company of New York
Fifth Third Bank (The)
First American Bank, N.A.
First City National Bank of Houston
First Fidelity Bank, National Association, New Jersey
First Interstate Bank of California
First Interstate Bank of Denver, N.A.
First Interstate Bank of Oregon, N.A.
First Jersey National Bank (The)
First Kentucky Trust Company (The)
First National Bank and Trust Company of Oklahoma City
First National Bank and Trust Company of Tulsa (The)
First National Bank in Palm Beach
First National Bank of Atlanta (The)
First National Bank of Boston (The)
First National Bank of Chicago (The)
First National Bank of Cincinnati
First National Bank of Colorado Springs (The)
First National Bank of Maryland (The)
First National Bank of Minneapolis
First National Bank of Omaha
First National Bank of St. Paul
First National Bank of Topeka (The)
First Pennsylvania Bank, N.A.
First Tennessee Bank N.A. Memphis
First Trust Company of Saint Paul
First Trust Corporation
First Union National Bank
First Vermont Bank & Trust Co.††
Fleet National Bank
Florida National Bank
Fort Wayne National Bank
Fourth National Bank & Trust Company of Wichita
Framingham Trust Company††
French American Banking Corporation
Frost National Bank
Hong Kong and Shanghai Banking Corporation (The)
Huntington National Bank (The)
IDS Trust Company
Imperial Trust Company
Indiana National Bank (The)
InterFirst Bank Dallas, N.A.
InterFirst Bank Fort Worth, N.A.
Investors Bank and Trust Company
Irving Trust Company
Kellogg-Citizens National Bank
Key Trust Company
Landmark Union Trust Bank
LaSalle National Bank
Liberty National Bank and Trust Company of Louisville
Liberty National Bank and Trust Company of Oklahoma City (The)
Lincoln National Bank & Trust Company of Fort Wayne
Lloyds Bank California
Lloyds Bank International Limited
M & I Marshall & Ilsley Bank
Manufacturers and Traders Trust Company
Manufacturers Hanover Trust Company
Manufacturers National Bank of Detroit
Marine Midland Bank, N.A.
Marine Trust Company, N.A.
Maryland National Bank
Mellon Bank, N.A.
Mercantile – Safe Deposit and Trust Company
Mercantile Trust Company National Association
Merchants National Bank & Trust Company of Indianapolis
Michigan National Bank – Grand Rapids
Michigan National Bank of Detroit
Midlantic National Bank
Morgan Guaranty Trust Company of New York
NCNB National Bank of North Carolina
National Bank of Detroit
National City Bank
National Commercial Banking Corporation of Australia Limited
National Savings and Trust Company
National Westminster Bank PLC
National Westminster Bank USA
New Jersey National Bank
Northern Trust Company (The)
Norwest Bank of Casper, N.A.
Norwest Bank Minneapolis, N.A.
Old Kent Bank and Trust Company
Peoples National Bank of Washington
Philadelphia National Bank (The)
Proctor Bank††
Rainier National Bank
Republic National Bank of New York
RepublicBank Dallas, N.A.
Rhode Island Hospital Trust National Bank
Riggs National Bank of Washington, D.C. (The)
Rockland Trust Company††
Royal Bank and Trust Company (The)
Santa Barbara Bank & Trust
Savings Banks Trust Company
Schroder (J. Henry) Bank & Trust Company
Seattle – First National Bank
Security Pacific National Bank
Shawmut Bank of Boston, N.A.
Society National Bank
Sovran Bank, N.A.
State Street Bank and Trust Company
Stock Yards Bank and Trust Company
Sunwest Bank of Albuquerque, N.A.
Swiss Bank Corporation – New York Branch
Texas American Bank/Fort Worth National Association
Texas Commerce Bank National Association
Toledo Trust Company (The)
Trust Company Bank
Union Bank, Los Angeles
Union Planters National Bank
Union Trust Company
United Bank of Denver, National Association
United Missouri Bank of Kansas City, N.A.
United States Trust Company of New York
United Virginia Bank
Valley National Bank of Arizona
Wachovia Bank & Trust Company, N.A.
Wells Fargo Bank, National Association
Wheeling Dollar Savings & Trust Co.
Wilmington Trust Company
Zions First National Bank

†As of December 31, 1985
††Boston Stock Exchange Sponsored Account

Broker-Dealers (338)§

ABD Securities Corporation
Adams, Harkness & Hill, Inc.
Adler, Coleman & Co., Inc.
Advest, Inc.
Agora Securities, Inc.
Alger (Fred) & Company, Incorporated
Allen & Company Incorporated
Alpine Associates
American Investment Group, Inc.
American Securities Corporation
Arnhold and S. Bleichroeder, Inc.
Asiel & Co.
B.E.S. Partners
BHF Securities Corporation
B & S Financial Services
*BSE Specialist Account**
*Bache Securities Inc.**
Baer (Julius) Securities Inc.
Baird, Patrick & Co., Inc.
Baird (Robert W.) & Co. Incorporated
Barr Brothers & Co., Inc.
Barrett & Company
Bear, Stearns & Co. Inc.
*Beare Brothers & Co., Inc.**
Beauchamp & Co.
Benton & Company
Bernstein (Sanford C.) & Co., Inc.
Blair (William) & Company
*Blinder, Robinson & Co., Inc.**
*Bodell, Overcash Anderson & Co., Inc.**
Boettcher & Company, Inc.
Bradford (J.C.) & Co.
Branch, Cabell & Co.
Brokerage Clearance Services Inc.
BrokersTrust Clearing Corp.
Brounoff, Claire, & Co., Inc.
Brown (Alex.) & Sons, Inc.
*Brown & Company Securities Corporation**
Brown, Lisle/Cummings, Inc.
*Buell Securities Corp.**
*Bunting (Alfred) & Co. Limited**
Burke (P.R.) & Co.
Burns Fry and Timmins Inc.
*Burns Fry Limited**
Burns, Pauli & Co., Inc.
Cable Howse & Ragen
*Cantella & Company (Retail)**
Cantor, Fitzgerald & Co.
*Cantor (S.B.) & Co., Inc.**
*Capital Shares, Inc.**
Carolina Securities Corporation
*Carr (Robert C.) & Co., Inc.**
Carr Securities Corporation
*Carr & Thompson, Inc.**
Cazenove Incorporated
Challenge Securities Inc.
Chicago Corporation (The)
*Clayton, Polleys & Co.**
Conklin, Cahill & Co.
*Connor, Clark & Co. Limited**
*Cosentino & DeFelice, Inc.**
*Coughlin and Company, Inc.**
Cowen & Co.
Craig-Hallum, Inc.
Craigie Incorporated
DBC Clearing Corporation
Dain Bosworth Incorporated
Daiwa Securities America, Inc.
*Darier Management Corporation, Inc.**
Davenport & Co. of Virginia, Inc.
*Davidson Partners Limited**
Davis (Shelby Cullom) & Co.
de Cordova, Cooper & Co.
*Deacon (F.H.), Hodgson Inc.**
*Deltec Securities Corporation**
Deutsche Bank Capital Corporation
*Diamant Investment Corp.**
Dillon, Read & Co. Inc.
Doft & Co., Inc.
*Dominick Corporation of Canada Limited**
Dominick Investor Services Corporation
Dominion Securities Pitfield Inc.
*Dominion Securities Pitfield Limited**
*Donald & Co. Securities, Inc.**
Donaldson, Lufkin & Jenrette Securities Corporation
Drexel Burnham Lambert Incorporated
Easton & Co.
Eberstadt Fleming, Inc.
Edwards (A.G.) & Sons, Inc.
Einhorn & Co.
*Engler & Budd Company**
Eppler, Guerin & Turner, Inc.
*Equity Securities Trading Co., Inc.**
Ernst & Co.
EuroPartners Securities Corp.
Evans & Co., Inc.
*Exchange Services, Inc.**
Execution Services Incorporated
Fagenson & Co., Inc.
Fahnestock & Co., Inc.
Fairweather (George R.) Securities, Inc.
*Fechtor, Detwiler & Co., Inc.**
Fernandez, Bartsch & Mirra
*Financial America Securities, Inc.**
Financial Clearing & Services Corporation
First Albany Corporation
*First Birmingham Securities Corporation**
First Boston Corporation (The)
*First Canada Securities Corporation**
First Jersey Securities, Inc.
First Manhattan Co.
*First Marathon Securities Limited**
*First of Michigan Corporation**
First Options of Chicago, Inc.
First Southwest Company
Frank (Walter N.) & Co.
*Frankel (Wm. V.) & Co., Inc.**
Freehling & Co.
Freeman Securities Company, Inc.
Freeman Welwood & Co., Inc.
Fried (Albert) & Co.
Gabriele, Hueglin & Cashman, Inc.
*Gage-Wiley & Company, Inc.**
*Gant (J.W.) & Associates**
Gay & Co.
*Geoffrion, Leclerc Inc.**
Gintelco, Inc.
Goldman, Sachs & Co.
Gordon Capital Corporation
Gordon & Co.
*Gowell Securities Corp.**
Gradison & Company Incorporated
Greenfield Partners
Gruss (Oscar) & Son Incorporated
*Haas Securities Corporation**
*Hanifen, Imhoff, Inc.**
Henderson Brothers, Inc.
Herzfeld & Stern Inc.
Herzog, Heine, Geduld, Inc.
*Hill, Thompson, Magid & Co., Inc.**
Hilliard (J.J.B.), Lyons (W.L.), Inc.
Hirshon, Roth & Co.
Hough (William R.) & Co.
Howard, Weil, Labouisse, Friedrichs Incorporated
Hummer (Wayne) & Co.
Hutton (E.F.) & Company Inc.
Icahn & Co., Inc.
Illinois Company Incorporated (The)
Ingalls & Snyder
*Instant Funds Incorporated**
Interstate Securities Corporation
*Investors Discount Corporation**
Jacobson (Benjamin) & Sons
Janney Montgomery Scott Inc.
Jefferies & Company, Inc.
Jesup & Lamont Clearing Corp. Inc.
Johnson, Lane, Space, Smith & Co., Inc.
*Johnston, Lemon & Co., Inc.**
Jones (Edward D.) & Co.
Josephthal & Co. Incorporated
Kalb, Voorhis & Co.
Kall & Co., Inc.
Kaufmann, Alsberg & Co., Inc.
Kellner, DiLeo & Co.
*Kenny (J.J.) & Co., Inc.**
Kidder, Peabody & Co. Incorporated
*Kimball & Cross**
King (C.L.) & Associates Inc.
*Koonce Securities, Inc.**
Krieger (Henry) & Co.
LaBranche & Co.
Lafer Amster & Co.
Laidlaw Adams & Peck Inc.
Lasker, Stone & Stern
*Latimer (W.D.) & Co. Limited**
Lawrence (Cyrus J.) Incorporated
Lawrence, O'Donnell & Co.
Lazard Frères & Co.
Lebenthal & Co., Inc.
Legg Mason Masten Inc.
Legg Mason Wood Walker, Inc.
Lehman Special Securities Incorporated
*Levesque, Beaubien Inc.**
Lewco Securities Corp.
Lewis (S.B.) & Company
*Linsco Corporation**
*Loewen Ondaatje, McCutcheon & Company Ltd.**
MKI Securities Corp.
Mabon, Nugent & Co.
MacAllaster Pitfield Mackay, Inc.
*MacDougall, MacDougall & MacTier, Inc.**
Madoff (Bernard L.)
Marcus & Company
Marcus Schloss & Co., Inc.

§*Excludes some firms with limited activity*
**National Securities Clearing Corporation Sponsored Account*

Marks (Carl) & Co., Inc.
Mayer & Schweitzer, Inc.
*McCourtney-Breckenridge & Company**
McDonald & Company Securities, Inc.
McLeod Young Weir Incorporated
*McLeod Young Weir Limited**
*McNeil Mantha Inc.**
Meehan (M.J.) & Company
*Mericka & Co., Inc.**
*Merit Investment Corporation**
Merrill Lynch, Pierce, Fenner & Smith Incorporated
*Merrimack Valley Investment Inc.**
Mesirow & Company Incorporated
Metropolitan Securities
Midland Doherty Inc.
*Midland Doherty Limited**
Montgomery Securities
Morgan, Keegan & Company, Inc.
Morgan, Olmstead, Kennedy & Gardner, Incorporated
Morgan Stanley & Co. Incorporated
Muller & Company, Inc.
Murphey, Marseilles, Smith & Nammack
Murphy & Durieu
National Financial Services Corporation
Neuberger & Berman
New Japan Securities International, Inc.
Newbridge Securities Inc.
Newhard, Cook & Co. Incorporated
Nick (J.F.) & Co.
Nikko Securities Co. International, Inc. (The)
Nippon Kangyo Kakumaru International Inc.
Nomura Securities International, Inc.
*Norbay Securities, Inc.**
Nuveen (John) & Co. Incorporated
O'Connor & Associates
O'Connor Securities
*Odlum Brown Limited**
*Offerman & Co., Inc.**
*Oftring & Co., Inc.**
Olde & Co., Incorporated
Oppenheimer & Co., Inc.
*Outwater & Wells, Inc.**
*Pacific Brokerage Services**
Paine Webber Incorporated
*Parker (S.C.) & Co., Inc.**
*Payson (H.M.) & Co.**
*Pemberton Houston Willoughby Incorporated**
Pforzheimer (Carl H.) & Co.
Piper, Jaffray & Hopwood, Incorporated
*Pittock (E.J.) & Co., Inc.**
Prescott, Ball & Turben, Inc.
Prudential-Bache Securities Inc.
Purcell, Graham & Co., Inc.
Q & R Clearing Corporation
*Quinn (E.J.) & Co., Inc.**
RFG Options
RSF Partners
Raney (T.J.) & Sons Inc.
Rauscher Pierce Refsnes, Inc.
Raymond, James & Associates, Inc.
Reaves (W.H.) & Co., Inc.
Regional Clearing Corp.
Reich & Co., Inc.
*Richardson Greenshields of Canada, Ltd.**
Richardson Greenshields Securities, Inc.
Rimson (M.) & Co., Inc.
Robb, Peck, McCooey Clearing Corporation
Robertson, Colman & Stephens
Rodman & Renshaw, Inc.
Roney & Co.
Rothschild (L.F.), Unterberg, Towbin
Roulston Research Corp.
Rowland (R.) & Co., Incorporated
*Ryan Beck & Co.**
*SECO Securities, Inc.**
Sage, Rutty & Co., Inc.
Salomon Brothers Inc
Schapiro (M.A.) & Co., Inc.
Scherck, Stein & Franc, Inc.
*Schwab (Charles) & Co., Inc.**
Scott & Stringfellow, Inc.
*Seasongood & Mayer**
Securities Settlement Corporation
Seemala Corporation
*Seidler Amdec Securities Inc.**
Seligman Securities, Inc.
Shaine (H.B.) & Co., Inc.
*Shatkin Investment Corp.**
Shatkin-Lee Securities Co.
Shearson Lehman Brothers Inc.
Simon (I.M.) & Co., Inc.
Smith Barney, Harris Upham & Co., Incorporated
*Smith (E.H.) Jacobs & Co.**
*Smith, Moore & Co.**
Southwest Securities, Inc.
Spear, Leeds & Kellogg
*Spencer, Swain & Co., Inc.**
*Steichen (R.J.) & Company**
Stephens, Inc.
Stern & Kennedy
Sterne, Agee & Leach, Inc.
Stifel, Nicolaus & Company Incorporated
Stillman, Maynard & Co.
*StockCross, Inc.**
Stokes, Hoyt & Co.
Streicher (J.) & Co.
*Stuart-James Company Inc.**
Swiss American Securities Inc.
Swiss Bank Corporation International Securities Inc.
Thomson McKinnon Securities Inc.
Tompane (A.B.) & Co.
*Transaction Services, Inc.**
Transatlantic Securities Company
*Trusteed Funds, Inc.**
Tucker, Anthony & Day (R.L.), Inc.
UBS Securities Inc.
UMIC, Inc.
Universal Securities Corporation
Vail Securities Investment, Inc.
Van Kampen Merritt Inc.
Viner (Edward A.) & Co., Inc.
W & D Securities
Wagner Stott Clearing Corp.
Wall Street Clearing Company
Walsh, Greenwood & Co.
*Walwyn Stodgell Cochran Murray Limited**
Warburg (S.G.), Rowe & Pitman, Akroyd Inc.
Weber, Hall, Sale & Associates, Inc.
Wechsler & Krumholz, Inc.
*Wedbush, Noble & Cooke, Inc.**
Weiss, Peck & Greer
Wellington (H.G.) & Co. Inc.
Wheat, First Securities, Inc.
*Williams Securities Group, Inc.**
*Wilshire Associates**
Windsor Associates
Witter (Dean) Reynolds Inc.
*Wittow & Company, Inc.**
Wolf & Drizos Corporates, Inc.
*Wood (Arthur W.) Company**
Wood Gundy Corp.
Yamaichi International (America), Inc.
Zeller, Torykian & Co., Inc.
*Ziegler Thrift Trading, Inc.**

Clearing Agencies (7)

Boston Stock Exchange Clearing Corp.
Canadian Depository for Securities Limited (The)
Midwest Securities Trust Company
National Securities Clearing Corporation
Options Clearing Corporation (The)
Pacific Securities Depository Trust Company
Philadelphia Depository Trust Company

*National Securities Clearing Corporation Sponsored Account

DTC STOCKHOLDERS (127)†

The full list of 1985 DTC stockholders, in order of their holdings, is as follows:

New York Stock Exchange, Inc.
Merrill Lynch & Co., Inc.
Bankers Trust Company
The Chase Manhattan Bank, N.A.
American Stock Exchange, Inc.
National Association of Securities Dealers, Inc.
Citibank, N.A.
Manufacturers Hanover Trust Company
Morgan Guaranty Trust Company of New York
State Street Bank and Trust Company
The Bank of New York
United States Trust Company of New York
Mellon Bank, N.A.
Irving Trust Company
Brown Brothers Harriman & Co.
Chemical Bank
Goldman, Sachs & Co.
Wells Fargo Bank, National Association
Morgan Stanley & Co. Incorporated
Marine Midland Bank, N.A.
The First National Bank of Boston
Security Pacific National Bank
Securities Settlement Corporation
Salomon Brothers Inc
Boston Safe Deposit and Trust Company
The First National Bank of Chicago
A.G. Edwards & Sons, Inc.
Wachovia Bank & Trust Company, N.A.
Norwest Bank Minneapolis, N.A.
The Connecticut National Bank
Bank of New England, N.A.
Shawmut Bank of Boston, N.A.
Bear, Stearns & Co. Inc.
Wilmington Trust Company
The Fidelity Bank
AmeriTrust Company
Bank of America National Trust and Savings Association
Thomson McKinnon Securities Inc.
Centerre Bank, N.A.
Lewco Securities Corp.
Donaldson, Lufkin & Jenrette Securities Corporation
The Citizens and Southern National Bank
Swiss American Securities Inc.
The First National Bank of Maryland
Sovran Bank, N.A.
National City Bank
RepublicBank Dallas, N.A.
The First Jersey National Bank
The First Boston Corporation
National Westminster Bank USA
InterFirst Bank Dallas, N.A.
Barclays Bank PLC
The Connecticut Bank and Trust Company
NCNB National Bank of North Carolina
Maryland National Bank
Alex. Brown & Sons, Inc.
Chase Lincoln First Bank, N.A.
Trust Company Bank
Edward A. Viner & Co., Inc.
National Westminster Bank PLC
Boettcher & Company, Inc.
Barnett Banks Trust Company, N.A.
Merchants National Bank & Trust Company of Indianapolis
Bank One Trust Company, N.A.
First Interstate Bank of Denver, N.A.
Johnson, Lane, Space, Smith & Co., Inc.
Lloyds Bank California
Wood Gundy Corp.
Execution Services Incorporated
Fleet National Bank
Key Trust Company
Valley National Bank of Arizona
IDS Trust Company
Equitable Bank, National Association
Arnhold and S. Bleichroeder, Inc.
Investors Bank and Trust Company
Mayer & Schweitzer, Inc.
Eberstadt Fleming, Inc.
Gradison & Company Incorporated
First Tennessee Bank N.A. Memphis
Fidata Trust Company New York
Rhode Island Hospital Trust National Bank
Texas Commerce Bank National Association
Carl Marks & Co., Inc.
Michigan National Bank – Grand Rapids
Zions First National Bank
First Interstate Bank of Oregon, N.A.
Scott & Stringfellow, Inc.
Oscar Gruss & Son Incorporated
The First National Bank of Colorado Springs
First Interstate Bank of California
Denver National Bank
Prescott, Ball & Turben, Inc.
Fiduciary Trust Company of Boston
Carl H. Pforzheimer & Co.
Fort Wayne National Bank
MacAllaster Pitfield Mackay, Inc.
Imperial Trust Company
Fagenson & Co., Inc.
LaBranche & Co.
Santa Barbara Bank & Trust
Stillman, Maynard & Co.
Wechsler & Krumholz, Inc.
Michigan National Bank of Detroit
The First National Bank and Trust Company of Tulsa
W.H. Reaves & Co., Inc.
Craigie Incorporated
The Northern Trust Company
City National Bank
First Fidelity Bank, National Association, New Jersey
Marcus Schloss & Co., Inc.
Bank of Montreal, New York Branch
First National Bank of Cincinnati
The First National Bank of Atlanta
Lafer Amster & Co.
J.F. Nick & Co.
Brounoff, Claire, & Co., Inc.
Lehman Special Securities Incorporated
Midlantic National Bank
Texas American Bank/Fort Worth National Association
Frost National Bank
Van Kampen Merritt Inc.
Barrett & Company
Stock Clearing Corporation
The Cincinnati Stock Exchange
First City National Bank of Houston
Jesup & Lamont Clearing Corp. Inc.

†*As of December 31, 1985*

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