KEEGAN,
LINSCOTT &
KENON, P.C.

RSM McGladrey Network
An Independently Owned Member

Research Corporation

Financial Statements
As of and for the Year Ended December 31, 2007 and 2006

Index to Financial Statements

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Independent Auditor's Report

To the Board of Directors
Research Corporation
Tucson, AZ

We have audited the accompanying statements of financial position of Research Corporation (the "Foundation") as of December 31, 2007 and 2006, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Research Corporation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Keegan, Linscott & Kenon, P.C.

Tucson, Arizona
May 23, 2008

Statements of Financial Position
As of December 31,

	2007	2006
Assets:		
Investments:		
Common Trust Fund	$ 106,026,317	$ 102,272,600
Other investments	40,353,270	37,708,307
Program-related investment in Research Corporation Technologies, Inc.	25,000,000	25,000,000
Total investments	171,379,587	164,980,907
Cash and cash equivalents	3,031,977	-
Accrued dividends and interest receivable	182,867	226,938
Other receivables	1,408,925	741,816
Notes receivable	-	2,218,240
Property and equipment, net	334,880	412,997
Interest in LLC	1,820,439	1,878,277
Prepaid pension cost	196,639	629,825
Other assets	100,113	282,433
Total assets	$ 178,455,427	$ 171,371,433
Liabilities and net assets:		
Liabilities:		
Line of credit	$ 4,000,000	$ 2,285,851
Accounts payable and accrued expenses	422,420	602,403
LSST liability	275,000	2,732,000
Grants payable	3,600,476	5,160,538
Note payable	-	1,213,611
LBT liability	1,598,194	1,801,912
Postretirement pension liability	1,049,873	1,021,678
Total liabilities	10,945,963	14,817,993
Net assets, unrestricted	167,509,464	156,553,440
Total liabilities and net assets	$ 178,455,427	$ 171,371,433

Statements of Activities and Changes in Net Assets
For the Years Ended December 31,

	2007	2006
Revenues:		
Unrestricted revenues:		
Net realized and unrealized gains and losses on investments	$ 12,875,745	$ 18,188,005
Interest and dividends, net	1,983,283	1,797,186
Interest income from program-related investments	1,750,000	1,750,000
Gain on interest in LLC	179,662	152,205
Other interest and miscellaneous income	253,275	358,967
Total unrestricted revenues	17,041,965	22,246,363
Expenses:		
Unrestricted expenses:		
Grants approved	3,748,887	6,046,101
Science advancement	1,430,039	1,490,040
Program-related	300,000	4,800,000
Information and communications	361,768	185,982
General and administrative	1,387,100	1,367,823
Legal fees	554,777	-
Interest	138,414	123,828
Tax expense	103,790	189,300
Total unrestricted expenses	8,024,775	14,203,074
Increase in recurring net assets before effect of adoption of FASB Statement No. 158	9,017,190	8,043,289
Nonrecurring gain on rescinded award	2,100,000	-
Increase in net assets before effect of adoption of FASB Statement No. 158	11,117,190	8,043,289
Effect of adoption and recognition provisions of FASB Statement No. 158	(161,166)	-
Increase in net assets	10,956,024	8,043,289
Net assets at beginning of year	156,553,440	148,510,151
Net assets at end of year	$ 167,509,464	$ 156,553,440

Statements of Cash Flows
For the Years Ended December 31,

	2007	2006
Cash flows from operating activities:		
Increase in net assets	$ 10,956,024	$ 8,043,289
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized gains on sales of common trust fund	(18,509,125)	(10,995,155)
Unrealized (appreciation) depreciation of common trust fund	9,755,408	(3,244,275)
Unrealized appreciation of other investments	(4,124,780)	(3,948,575)
Earnings on interest in LLC	(179,662)	(152,205)
Non-cash expense item	-	(165,151)
Depreciation and amortization	78,700	78,700
Gain on rescinded award	(2,100,000)	-
Effect of adoption of FASB statement No. 158	161,166	-
Change in operating assets and liabilities:		
Accrued dividends and interest receivable	44,071	101,344
Other receivables	(667,109)	87,060
Prepaid pension cost	272,020	284,643
Other assets	182,320	(214,908)
LBT liability	(203,718)	374,146
Grants payable	(1,560,062)	412,859
Accounts payable and accrued expenses	(179,983)	247,147
Accrued LSST Obligation	(357,000)	2,732,000
Postretirement pension liability	28,195	64,425
Net cash used in operating activities	(6,403,535)	(6,294,656)
Cash flows from investing activities:		
Proceeds from sale of common trust fund investments	5,000,000	5,000,000
Purchase of other investments	(8,337,500)	(9,262,500)
Distributions received from other investments	9,817,317	3,531,169
Advances on notes receivable	-	(70,524)
Distributions received from LLC	237,500	225,000
Proceeds received from repayments on notes receivable	2,218,240	4,003,871
Purchases of property and equipment	(583)	-
Net cash provided by investing activities	8,934,974	3,427,016
Cash flows from financing activities:		
Borrowings on line of credit	8,545,992	8,892,773
Repayments on line of credit	(6,831,843)	(6,606,922)
Repayments on note payable	(1,213,611)	(81,314)
Net cash provided by financing activities	500,538	2,204,537
Net increase (decrease) in cash and cash equivalents	3,031,977	(663,103)
Cash and cash equivalents at beginning of year	-	663,103
Cash and cash equivalents at end of year	$ 3,031,977	$ -
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 161,682	$ 140,197
Cash paid during the year for taxes	$ -	$ 189,299

NOTES TO FINANCIAL STATEMENTS

1. Organization

Research Corporation (the "Foundation") is a private operating foundation incorporated in the State of New York. The Foundation is dedicated to the advancement of science.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with standards set forth in Statement of Financial Accounting Standards SFAS No. 117, *Financial Statements of Not-for-Profit Organizations* and the AICPA audit and accounting guide, *Not-for-Profit Organizations*.

The Foundation is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Contributions of long-lived assets not having donor imposed time or purpose restrictions are reported as unrestricted contributions in amounts equal to the fair market value of the contributed asset.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, savings accounts and highly liquid debt investments purchased with an original maturity of three months or less that are not carried in the Foundation's portfolio of investments.

The Foundation places its cash and cash equivalents with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Common Trust Fund

The Foundation carries its investments in the common trust fund at fair market value. Realized gains and losses are computed based on the difference between the net proceeds received and cost at time of acquisition using the average cost method. Unrealized net appreciation or depreciation of investments in the common trust fund represents the change in the difference between acquisition cost and current market value at the beginning of the year versus the end of the year, and is recognized currently in the statement of activities and changes in net assets.

Other Investments

Other investments consisting of unconsolidated limited partnership interests are recorded at estimated fair value in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in limited partnerships are valued at the quoted market price for securities for which market quotations are readily available or estimated fair value as determined in good faith by the general partner. The cost of investments sold is determined using the specific identification method. Other than temporary impairments are recognized in the period in which they occur.

Notes to Financial Statements

Summary of Significant Accounting Policies (continued)

Interest in LLC
The Foundation's interest in a limited liability company ("LLC") is accounted for under the equity method of accounting, which provides for recognition of the Foundation's proportionate share of the limited liability company's income or loss in its statement of activities and changes in net assets with any distributions received reported as a reduction in the Foundation's interest in the LLC.

Property and Equipment
Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over estimated useful lives as follows:

Tenant improvements	10 years
Furniture, fixtures and equipment	5 years
Software	5 years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Grants Payable
The Foundation accounts for unconditional promises to give, which is normally in the form of grants, as an expense in the year the unconditional promise is made and approved by the Board of Directors, and unpaid promises to give are reported as grants payable.

Revenue Recognition
Interest income is recorded as earned; dividends are accrued as of the ex-dividend date.

Income Taxes
The Foundation qualifies as a tax-exempt private operating foundation under Internal Revenue Code Section 4940(d).

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates pertain to the determination of fair value for alternative investments and the Foundation's liability related to the Large Binocular Telescope Project.

Fair Value of Financial Instruments
The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable and other accrued expenses approximates fair value due to the short maturity of these instruments.

Investment Risk
The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Reclassifications
Certain December 31, 2006 balances have been reclassified to conform to the December 31, 2007 presentation.

3. Investments

A. Common Trust Fund

The Foundation invests in various special purpose funds within the Capital Guardian Common Trust Fund (the "Trust"). The Trust operates as a mutual fund invested in marketable securities and is available only to participants that are exempt from taxation under Internal Revenue Code of 1986 and are qualified institutional buyers and qualified purchasers as defined by applicable securities rules.

Investments consist of the following as of December 31:

	2007		2006	
	Market Value	Cost	Market Value	Cost
Capital Guardian Trust Funds:				
Global Equity Fund	$ 76,280,638	$64,221,093	$ 76,147,573	$55,515,711
Emerging Markets Growth Fund	15,577,092	14,428,302	11,596,088	10,708,463
Absolute Income Grower	10,527,709	10,213,756	10,568,940	9,391,723
U. S. Value Equity Fund	3,640,878	3,664,066	3,959,999	3,402,195
Total	$106,026,317	$92,527,217	$102,272,600	$79,018,092

Net gain on investments consists of the following for the year ended December 31:

	2007	2006
Net realized gain on sales of investments	$ 18,509,125	$ 10,995,155
Unrealized net appreciation/(depreciation) of investments	(9,755,408)	3,244,275
Net gain on marketable investments	$ 8,753,717	$ 14,239,430

Proceeds from sale of investments were either reinvested, used to fund purchases of other investments, used to repay line of credit borrowings or to pay grants payable.

Investment fees incurred for the year ended December 31, 2007 and 2006 were $344,610 and $299,909, respectively. These fees are reported as a reduction of investment interest and dividend income in the statement of activities.

Notes to Financial Statements

Investments (continued)

B. Other Investments

Other investments, at estimated fair value, consist of the following as of December 31:

	2007	2006
Angelo Gordon Super Fund L.P.	$ 21,160,975	$ 20,200,463
Angelo Gordon Real Estate Strategies	7,863,942	9,515,641
Angelo Gordon Credit Strategies	2,830,638	2,992,203
Angelo Gordon CLO & Other Debt Strategies	8,497,715	5,000,000
Total other investments	$ 40,353,270	$ 37,708,307

Annual activity for other investments consists of the following for the year ended December 31, 2007:

	AG Super Fund	AG Real Estate Strategies	AG Credit Strategies	CLO & Other Debt Strategies	Total 2007
Opening balance	$20,200,463	$ 9,515,641	$ 2,992,203	$ 5,000,000	$37,708,307
Capital contributions	-	1,987,500	1,350,000	5,000,000	8,337,500
Distributions	-	(7,062,500)	(1,637,999)	(1,116,818)	(9,817,317)
Appreciation/(depreciation)	960,512	3,423,301	126,434	(385,467)	4,124,780
Ending balance	$21,160,975	$ 7,863,942	$ 2,830,638	$ 8,497,715	$40,353,270

At December 31, 2007 the Foundation was committed to additional funding in the form of capital contributions of $8,425,000 in the above investment funds.

C. Program-Related Investment in Research Corporation Technologies, Inc.

On March 2, 1987, as amended on March 25, 1994, in accordance with Section 1605(c) of the Tax Reform Act of 1986, the Foundation and Research Corporation Technologies, Inc. (“RCT”), a nonprofit corporation subject to regular corporate income tax laws, entered into agreements through which RCT assumed responsibility for the Technology Transfer Program (the “Program”), which the Foundation had operated for many years. In addition to the transfer of the Program, the Foundation transferred $35,000,000 in cash and securities in exchange for a $35,000,000 fully subordinated unsecured note from RCT (the “Note”) due February 28, 2017.

RCT has prepaid $10,000,000 of the Note, and the remaining $25,000,000 principal amount of the amended Note is due on February 28, 2017, subject to acceleration at the option of the Foundation after December 31, 2012, provided RCT’s retained earnings exceed $100,000,000. Interest at the rate of 7% per annum on the outstanding principal amount is due semiannually.

To qualify as a program-related investment under Section 4944(c) of the Tax Reform Act of 1986, the terms of the loan were required to be less than prevailing terms. In addition, this investment is a vehicle for the Foundation to continue one of its charter purposes, the furthering of technology. As there are no comparable alternative program-related investments available to the Foundation, the Foundation believes it is not practicable to estimate the fair value of this investment.

Notes to Financial Statements

4. Notes Receivable

Notes receivable as of December 31:

	2007	2006
Note receivable from Exeter Life Sciences, Inc., bearing interest at LIBOR plus 2% (7.26% at December 31, 2006). Annual principal and quarterly interest payments are due in accordance with the terms of the agreement. Guaranteed by a high net worth individual. Matured June 2007.	$ -	$ 1,250,000
Note receivable from the University of Minnesota, with an original amount of $5,000,000, interest imputed at a rate of 3.375%. Annual principal and interest payments are due every February of $1,000,000. Matured February 2007.	-	968,240
Total notes receivable	$ -	$ 2,218,240

5. Property and Equipment

Property and equipment consist of the following as of December 31:

	2007	2006
Tenant improvements	$ 377,359	$ 376,776
Furniture, fixtures and equipment	163,978	163,978
Software	108,401	108,401
	649,738	649,155
Less accumulated depreciation	314,858	236,158
Property and equipment, net	$ 334,880	$ 412,997

Depreciation expense was $78,700 for both 2007 and 2006.

6. Interest in LLC

The Foundation has a 50% interest in 4703 Camp Lowell, LLC, an Arizona Limited Liability Company (the "LLC"), whose principal activity is ownership of the office building, which the Foundation partially utilizes for its operations (see Note 9). At December 31, 2007 and 2006, the Foundation recognized income of $179,662 and $152,205, respectively, which represents its proportionate share of the LLC's 2007 and 2006 net income. The Foundation received $237,500 and $225,000 in cash distributions from the LLC during 2007and 2006, respectively.

Notes to Financial Statements

Interest in LLC (continued)

A condensed summary of the LLC's balance sheet and income statement as of and for the years ended December 31, 2007 and 2006 are summarized below:

	2007	2006
Assets:		
Current assets	$ 37,482	$ 48,779
Land, property and equipment, net	3,571,592	3,649,527
Other assets	123,879	144,725
Total assets	$ 3,732,953	$ 3,843,031
Liabilities and Partners' Equity:		
Current liabilities	92,075	86,478
Partners equity	3,640,878	3,756,553
Total liabilities and partners' equity	$ 3,732,953	$ 3,843,031
Income Statement:		
Operating income	$ 732,082	$ 700,647
Operating expense	261,149	278,026
Net operating income	470,933	422,621
Depreciation and amortization	106,557	114,907
Other expense	5,052	3,304
Net income	$ 359,324	$ 304,410

4703 Camp Lowell, LLC finalized the sale of the office building on January 17, 2008. As a result of the sale, Research Corporation realized a $1.2 million gain in 2008. There were no changes made to the Foundation's facility lease agreement as a result of the sale of the office building.

7. Note Payable

In 2001, Research Corporation entered into a note payable agreement with the University of Arizona in the amount of $3,000,000 for viewing nights at certain telescopes owned by the University of Arizona. The note is non-interest bearing and is payable in proportion to amounts received on its notes receivable from the University of Minnesota and University of Virginia (see Note 4). Interest has been imputed on the note at a rate of 3.375%. The note was paid in full during 2007. The amount outstanding on the note payable as of December 31, 2006 was $1,213,611. Research Corporation incurred no interest expense during 2007 and incurred $23,083 for the year ended December 31, 2006.

8. Line of Credit

The Foundation has a $15,000,000 uncollateralized revolving line of credit with interest at LIBOR plus 1.0% (5.22% at December 31, 2007). Borrowings against the line of credit totaled $4,000,000 and $2,285,851 in 2007 and 2006, respectively. The Foundation incurred interest expense of $138,414 and $100,745 for the years ended December 31, 2007 and 2006, respectively, which is reported in interest and other expense.

Notes to Financial Statements

Line of Credit (continued)

The revolving line of credit agreement contains certain covenants, the most restrictive of which require the Foundation to maintain a tangible net worth of $110 million as defined by the agreement.

9. Operating Leases

The Foundation leases approximately 33% of 4703 Camp Lowell, LLC, a related party (see Note 6), under a 10-year non-cancelable operating lease. The Foundation believes rent under the operating lease is at fair value and is comparable to what could be obtained with a third party. In March 2004, the Foundation entered into an arrangement to lease an additional 17% of the building and sublet the additional space at identical terms to the LSST Corporation, a related party. Rental expense was $228,327and $238,175 in 2007 and 2006, respectively.

Future minimum rental payments under the lease and sublease as of December 31, 2007 are as follows:

	Original Lease	Sublease
2008	$ 205,500	$ 101,025
2009	205,500	101,025
2010	205,500	101,025
2011	205,500	101,025
2012	205,500	101,025
Thereafter	205,500	101,025
Total	$ 1,233,000	$ 606,150

Pursuant to its sublease, the Foundation holds a $202,050 rent deposit from LSST, which is reported as a liability in the accompanying financial statements. LSST early vacated the premises during April 2008. The Foundation does not expect to incur any losses due to the early termination of the sublease agreement since it will recoup lost rents and re-leasing costs against the rent deposit. The Foundation expects to sublease the premises under similar terms.

10. Related Party Transactions

LSST Project

LSST Corporation was formed to build a large-aperture synoptic survey telescope. The LSST Corporation is a 501(c)(3) organization made up of universities and other not-for-profit organizations focused on astronomy, of which the Foundation is a 1/16th member. During the years ended December 31, 2007 and 2006 Research Corporation made cash contributions of approximately $300,000 and $974,000 to LSST. At December 31, 2007 and 2006, the amount payable to LSST totaled $275,000 and $2,934,050, respectively. The Foundation had granted LSST $2.1 million in 2006 for the purpose of funding a mirror. LSST was able to fund this mirror with alternative funding. Consequently, the Foundation rescinded the $2.1 million grant which is reported as a nonrecurring gain on rescinded award in the accompanying statement of activities and changes in net assets as of December 31, 2007.

NOTES TO FINANCIAL STATEMENTS

11. Pension Plan and Postretirement Benefits

Defined Contribution Pension Plan

The Foundation maintains a noncontributory defined contribution plan, eligible to all employees hired after June 1, 2005 who have completed one year of employment. The Foundation makes fully vested contributions ranging from 10% - 15%, based on years of experience, for all participating employees. The Foundation incurred defined contribution plan expenses of $27,726 and $10,850 for the years ended December 31, 2007, and 2006, respectively.

Defined Benefit Pension Plan

The Foundation maintains a noncontributory defined benefit pension plan (the "Plan"), which covers 70% of its employees at the 2007 measurement date. The benefits provided by the Plan are generally based on years of service and employees' salary history. It is the Foundation's policy to contribute amounts sufficient to at least meet the Employee Retirement Income Security Act's minimum funding requirements. The Foundation expects not to contribute to the Plan in 2008 due to its funding status.

During the year ended December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement requires employers to recognize the funded status of a benefit plan in the statement of financial position and recognize changes in the funded status through beginning net assets.

The following table illustrates the incremental effect of applying FASB Statement No. 158 on individual line items in the statement of financial position as of December 31, 2007:

	Pre-Statement 158	Adjustments	Statement 158 Implementation
Prepaid pension cost	$ 406,985	$ (210,346)	$ 196,639
Total assets	178,665,773	(210,346)	178,455,427
Net assets	178,665,773	(210,346)	178,455,427

The following table sets forth the funded status of the plan and amounts recognized in the Foundation's accompanying statements of financial position as of December 31:

	2007	2006
Projected benefit obligation	$ (1,588,710)	$ (1,321,960)
Plan assets at fair value	1,785,349	1,726,335
Funded status	196,639	404,375
Unrecognized net (gain) loss	-	(134,546)
Unrecognized prior service cost	-	417,995
Adjustment for net pension cost September 30 - December 31	-	(57,999)
Prepaid pension cost	$ 196,639	$ 629,825

Notes to Financial Statements

Pension Plan and Postretirement Benefits (continued)

The following table reflects the amounts recognized in beginning net assets as of December 31, 2007:

Change in net assets	$ (210,346)
Unrecognized prior service cost arising during the period	(385,989)
Unrecognized net gain arising during the period	126,799
Component of net periodic benefit cost of the period	48,844
	$ (210,346)

Amortization of prior service costs that will be recognized into net periodic benefit cost during the year ended December 31, 2008 is $32,006.

The following table reflects the components of net periodic benefit cost for the years ending December 31:

	2007	2006
Service cost	$ 229,943	$ 302,458
Interest cost	107,141	72,615
Expected return on assets	(150,751)	(122,437)
Amortization of prior service costs	36,507	32,007
	$ 222,840	$ 284,643

The following table reflects the amounts that have not yet been recognized as components of net periodic benefit cost:

	2007	2006
Unrecognized prior service cost	$ 385,989	$ 417,995
Unrecognized net gain	$ 126,799	$ 134,546

The measurement date of the plan is September 30th based on employee census information provided as of the beginning of the year, January 1st. All Plan assets were fully invested in a balanced mutual fund as of December 31, 2007 and 2006, which is consistent with the Foundation's investment policy.

Assumptions used in the accounting for the pension plan as of December 31:

	2007	2006
Discount rate	6.00%	5.75%
Rate of increase in compensation levels	4.25%	4.25%
Expected long-term rate of return on assets	7.50%	7.50%

The expected long-term rate of return on assets was based on expected future rates of return and average historical returns.

NOTES TO FINANCIAL STATEMENTS

Pension Plan and Postretirement Benefits (continued)

Pertinent information related to pension benefits for the pension plan is as follows:

	2007	2006
Accumulated benefit obligation	$ 1,291,724	$ 1,046,776
Net periodic benefit cost	222,840	284,643
Foundation contributions	-	-
Benefits paid	194,048	-

Benefits payments expected to be paid in each of the next five fiscal years, and in the aggregate for the next five fiscal years are as follows:

2008	$ 45,179
2009	45,710
2010	46,147
2011	46,471
2012	107,129
2013 through 2017	584,464
Total	$ 875,100

In 2006, the Foundation froze entry into its noncontributory defined benefit pension plan to all employees hired after June 1, 2005.

Postretirement Plan

In addition to providing pension benefits, the Foundation provides certain health care benefits to retired employees and their spouses. Approximately 17% of the Foundation's employees may become eligible for these benefits if they reach normal retirement age while working for the Foundation. Estimated contributions to the plan for 2008 are $111,285.

During the year ended December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement requires employers to recognize the funded status of a benefit plan in the statement of financial position and recognize changes in the funded status through beginning net assets.

The following table illustrates the incremental effect of applying FASB Statement No. 158 on individual line items in the statement of financial position as of December 31, 2007:

	Pre-Statement 158	Adjustments	Statement 158 Implementation
Postretirement pension liability	$ (1,099,053)	$ 49,180	$ (1,049,873)
Total liabilities	(10,995,143)	49,180	(10,945,963)
Net assets	(178,504,607)	49,180	(178,455,427)

NOTES TO FINANCIAL STATEMENTS

Pension Plan and Postretirement Benefits (continued)

The following table sets forth the funded status of the plan and amounts recognized in the foundations accompanying statements of financial position as of December 31:

	2007	2006
Accumulated benefit obligation	$ (1,049,873)	$ (1,226,667)
Plan assets at fair value	-	-
Funded status	(1,049,873)	(1,226,667)
Unrecognized net gain subsequent to transition	-	(477,320)
Unrecognized transition obligations	-	682,309
Accrued postretirement benefit liability	$ (1,049,873)	$ (1,021,678)

The following table reflects the amounts recognized in beginning net assets as of December 31, 2007:

Change in net assets	$ 49,180
Unrecognized net gain arising during the period	655,677
Unrecognized net obligation arising during the period	(606,497)
	$ 49,180

Amortization of the net obligation and net gain that will be recognized into net periodic benefit cost during the year ended December 31, 2008 is $75,812.

The following table reflects the components of net periodic benefit cost for the years ending December 31:

	2007	2006
Service cost	$ 30,591	$ 48,626
Interest cost	58,238	62,025
Amortization of transition obligation	75,812	75,812
Amortization of gains	(28,636)	(63,402)
Net periodic benefit cost	$ 136,005	$ 123,061

The following table reflects the amounts that have not yet been recognized as components of net periodic benefit cost:

	2007	2006
Net gain	$ 655,677	$ 477,320
Net transition obligation	$ 606,497	$ 682,309

The measurement date of the Plan is September 30th based on employee census information as of the beginning of the year, January 1st.

Notes to Financial Statements

Pension Plan and Postretirement Benefits (continued)

Pertinent information related to benefits for the plan is as follows:

	2007	2006
Net periodic benefit cost	$ 136,005	$ 123,061
Foundation contributions	58,630	58,636
Benefits paid	58,630	58,636

Benefits payments expected to be paid in each of the next five fiscal years, and in the aggregate for the next five fiscal years are as follows:

2008	$ 111,285
2009	114,223
2010	116,015
2011	120,963
2012	121,889
2013 through 2017	308,101
Total	$ 892,476

The actuarial calculations in 2007 assume a dental inflation assumption of 4.5% and a medical inflation assumption of 7.25% decreasing uniformly to 4.5% over 4 years. The assumed discount rate is 6.0%. The health care cost trend rate assumptions impact the service and interest cost and the accumulated benefit obligation. A 1% increase in these rates would increase service and interest cost by approximately $10,200 and the accumulated benefit obligation by approximately $85,000, while a 1% decrease would decrease service and interest cost by approximately $8,500 and decrease the accumulated benefit obligation by approximately $73,000.

The actuarial calculations in 2006 assume a dental inflation assumption of 4.5% and a medical inflation assumption of 7.9375% decreasing uniformly to 4.5% over 4 years. The assumed discount rate is 5.75%. The health care cost trend rate assumptions impact the service and interest cost and the accumulated benefit obligation. A 1% increase in these rates would increase service and interest cost by approximately $11,000 and the accumulated benefit obligation by approximately $92,000, while a 1% decrease would decrease service and interest cost by approximately $10,000 and decrease the accumulated benefit obligation by approximately $78,000.

During the year ended December 31, 2006, the Foundation froze eligibility for participation in its postretirement plan to those employees hired before June 1, 2005.

During the year ended December 31, 2006, the Foundation established a flexible benefits plan whereby it will contribute 10% of employee compensation on behalf of employees to be used for medical, retirement, education and other expenses. Employees hired after June 1, 2005 are automatically enrolled in the new plan after completion of three months service. Employees hired before June 1, 2005 who chose to elect out of the postretirement plan are eligible for this new plan.

Notes to Financial Statements

12. Commitments and Contingencies

Large Binocular Telescope ("LBT") Project

The Foundation is a partner with a 12.5% interest in the Large Binocular Telescope Project (the "Project"), which is building and managing an astronomical observatory. The Foundation has sold or granted to other astronomy research institutions (the "Institutions") all of its viewing rights in the observatory along with the obligation to pay related operating costs under various agreements. The Foundation remains liable for its proportionate share of observatory construction and certain other project development costs and has accrued its best estimate of these costs.

The Foundation remains contingently liable for its proportionate share of future commissioning, operating and instrumentation costs, to the extent the Institutions become unable to pay and forfeit their viewing rights or in the event these costs exceed any caps specified in the agreement with the Institutions. In addition, the Foundation's agreements with certain of the Institutions contain an escape clause, which would allow those Institutions the right to rescind the agreement and recover all payments made. In the event that occurs, the Foundation would re-assume the viewing rights forfeited and be liable for future commissioning, operating and instrumentation costs. Management believes that such Institutions would exercise their escape clause only in the event the Project does not achieve its scientific objectives, the likelihood of which Management believes is highly unlikely.

The Institutions with an escape clause in their agreements have made combined payments of $9.7 million in capital and operating payments through December 31, 2007. Such Institutions also had outstanding notes receivable and operating expense payments due of $1.3 million at December 31, 2006. There were no outstanding notes receivable or operating expense payments due as of December 31, 2007.

Excise Taxes

During 2003, the Foundation terminated a pension plan, and replaced it with their current Plan, the Research Corporation Employee's Replacement Plan (the "Replacement Plan"). Accumulated benefits totaling approximately $3,600,000 under the Plan were paid out to participants. The remaining Plan assets of $5,061,653 reverted to the Foundation, of which $1,470,818 was contributed to fund the Replacement Plan. In 2005, the Internal Revenue Service ("IRS") sent Research Corporation a draft verification of facts letter that the Foundation might owe approximately $879,000 in additional excise tax with respect to the reversion, plus interest and penalties. On December 12, 2007, the Foundation received a 30-day letter from the IRS claiming a deficiency of $879,000 and penalties of $219,000. The management of the Foundation in consultation with its external legal counsel believes they are exempt from the reversion tax and timely notified the IRS of such, including a request for appeal.

13. Subsequent Event

Due to prevailing market conditions beginning in late 2007, the Foundation has experienced a decline in the fair value of its investments totaling approximately $5.3 million as of April 2008. The Foundation believes the decline in the fair value of these investments is temporary.