Keegan, Linscott & Kenon, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

Research Corporation for Science Advancement

Financial Statements
As of and for the years ended
December 31, 2009 and 2008

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Independent Auditors' Report

To the Board of Directors
Research Corporation for Science Advancement
Tucson, AZ

We have audited the accompanying statements of financial position of Research Corporation for Science Advancement (the "Foundation") as of December 31, 2009 and 2008, 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 for Science Advancement as of December 31, 2009 and 2008, 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
April 20, 2010

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Statements of Financial Position
As of December 31,

	2009	2008
Assets		
Investments		
Common Trust Fund	$ 69,894,409	$ 56,543,104
Other investments	41,847,264	30,936,545
Program-related investment in Research Corporation Technologies, Inc.	25,000,000	25,000,000
Total investments	136,741,673	112,479,649
Cash and cash equivalents	681,299	1,987,535
Accrued dividends and interest receivable	110,876	156,482
Other receivables	1,478,463	1,558,958
Property and equipment, net	283,928	393,034
Other assets	285,844	289,466
Total assets	$ 139,582,083	$ 116,865,124
Liabilities and net assets		
Liabilities		
Line of credit	$ 10,200,000	$ 9,625,000
Accounts payable and accrued expenses	588,801	366,858
LSST liability	75,000	325,000
Grants payable	3,535,259	4,491,692
LBT liability	1,478,199	1,548,970
Pension liability	808,615	529,031
Postretirement pension liability	1,198,958	1,141,073
Total liabilities	17,884,832	18,027,624
Net assets, unrestricted	121,697,251	98,837,500
Total liabilities and net assets	$ 139,582,083	$ 116,865,124

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

	2009	2008
Revenues		
Unrestricted revenues		
Net realized and unrealized gains and losses on investments	$ 27,933,289	$ (63,704,610)
Interest and dividends, net	1,231,183	3,313,263
Interest income from program-related investments	1,750,000	1,750,000
Gain on interest in LLC	-	1,240,061
Other interest and miscellaneous income	-	23,580
Total unrestricted revenues	30,914,472	(57,377,706)
Unrestricted expenses		
Grants approved	4,156,965	6,345,827
Science advancement	1,315,182	1,637,144
Program-related	-	325,000
Information and communications	225,167	307,084
General and administrative	1,678,241	2,046,485
Fundraising	106,436	-
Legal fees	16,913	6,057
Interest	231,505	234,040
Tax expense	324,312	392,621
Total unrestricted expenses	8,054,721	11,294,258
Change in net assets	22,859,751	(68,671,964)
Net assets at beginning of year	98,837,500	167,509,464
Net assets at end of year	$ 121,697,251	$ 98,837,500

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows
For the Years Ended December 31,

	2009	2008
Cash flows from operating activities		
Change in net assets	$ 22,859,751	$ (68,671,964)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized losses on sales of common trust fund	9,117,538	11,961,132
Unrealized (appreciation) depreciation of common trust fund	(26,486,348)	32,489,966
Unrealized (appreciation) depreciation of other investments	(10,564,479)	19,253,512
Gain on sale of interest in LLC	-	(1,240,061)
Depreciation and amortization	109,106	90,300
Gain on sale of property and equipment	-	(100)
Change in operating assets and liabilities		
Accrued dividends and interest receivable	45,606	26,385
Other receivables	80,495	(150,033)
Prepaid pension cost	-	196,639
Other assets	3,622	(189,353)
LBT liability	(70,771)	(49,224)
Grants payable	(956,433)	891,216
Accounts payable and accrued expenses	221,943	(55,562)
LSST liability	(250,000)	50,000
Pension liability	279,584	529,031
Postretirement pension liability	57,885	91,200
Net cash used in operating activities	(5,552,501)	(4,776,916)
Cash flows from investing activities		
Proceeds from sale of common trust fund investments	4,017,505	5,032,115
Purchase of other investments	(1,100,000)	(12,675,000)
Distributions received from other investments	753,760	2,838,213
Distributions received from LLC	-	3,060,500
Proceeds from the sale of property and equipment	-	100
Purchases of property and equipment	-	(148,454)
Net cash provided by (used in) investing activities	3,671,265	(1,892,526)
Cash flows from financing activities		
Borrowings on line of credit	8,616,148	17,534,359
Repayments on line of credit	(8,041,148)	(11,909,359)
Net cash provided by financing activities	575,000	5,625,000
Net decrease in cash and cash equivalents	(1,306,236)	(1,044,442)
Cash and cash equivalents at beginning of year	1,987,535	3,031,977
Cash and cash equivalents at end of year	$ 681,299	$ 1,987,535
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 219,805	$ 234,040
Cash paid during the year for taxes	$ 4,875	$ 551,449

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

1. Organization

Research Corporation for Science Advancement (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 Foundation follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets generally accepted accounting principles ("GAAP") that the Foundation follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification ("ASC").

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with standards set forth in ASC 958*, Not-for-Profit Entities,* 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.

Investments

The Foundation carries its investments in the common trust fund at fair 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 consisting of unconsolidated limited partnership interests are stated at fair value. The cost of investments sold is determined using the specific identification method.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Foundation employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. The Foundation also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Notes to Financial Statements

Summary of Significant Accounting Policies (continued)

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. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

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.

Other Receivables
The Foundation has sold or granted to other astronomy research institutions (the "Institutions") all of its viewing rights in the Large Binocular Telescope ("LBT") observatory along with the obligation to pay related operating costs under various agreements. Other receivables consist of amounts owed to the Foundation from each of the Institutions.

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.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Foundation periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. As of December 31, 2009, the Foundation had not experienced impairment losses on its long-lived assets.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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

On January 1, 2009, the Foundation adopted ASC 740, *Income Taxes* (“ASC 740”), which is the accounting standard on accounting for uncertainty in income taxes. ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management evaluated the Foundation’s tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Furthermore, in the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the Foundation's non-taxable status is not expected to have a material effect on the Foundation’s financial position or results of operations. Accordingly, no provision is made for uncertain income tax positions in the accompanying financial statements.

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, the Foundation’s liability related to the Large Binocular Telescope Project, and the pension and other postretirement pension liabilities.

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 those changes could materially affect the amounts reported in the statement of financial position.

Reclassification
Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

3. Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 105, *Generally Accepted Accounting Principles* (“FASB ASC 105”), which establishes the FASB ASC as the sole source of authoritative GAAP. Pursuant to FASB ASC 105, the Foundation has updated references to GAAP in the financial statements issued for the period ended December 31, 2009. The adoption of FASB ASC 105 did not impact the Foundation’s financial position or results of operations.

Notes to Financial Statements

Recent Accounting Pronouncements (continued)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"*)*, which is primarily codified in ASC 820, *Fair Value Measurements and Disclosures*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Foundation adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning January 1, 2009. The Foundation adopted the remaining provisions of SFAS No. 157 for the fiscal year beginning January 1, 2009. The adoption of the remaining provisions of SFAS No. 157 did not have a material impact on the Foundation's financial position, results of operations or cash flows.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ("FSP FAS 132(R)-1"), which is primarily codified at ASC 715, *Compensation – Retirement Benefits*. FSP FAS 132(R)-1 requires more detailed disclosures about employers' plan assets in a defined benefit pension or other postretirement plan, including employers' investment strategies, major categories of plan assets, concentration of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. FSP FAS 132(R)-1 also requires, for fair value measurement using significant unobservable inputs (Level 3), disclosure of the effect of the measurements on changes in plan assets for the period. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. As this pronouncement is only disclosure-related, its adoption did not have an impact on the financial position or results of operations.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-06, *Income Taxes (Topic 740) – Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. ASU 2009-6 provides additional implementation guidance on the accounting for uncertainty in income taxes and eliminates certain disclosure requirements for nonpublic entities and is effective for interim and annual periods beginning after December 15, 2008. The Foundation adopted ASU 2009-06 effective January 1, 2009.

In September 2009, the FASB issued ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 provides guidance on using the net asset value per share provided by the investee to estimate the fair value of an alternative investment. The Foundation adopted ASU 2009-12 effective January 1, 2009. The adoption of this guidance did not have a material impact on the Foundation's financial position, changes in net assets, or cash flows.

In January 2010, The FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. As this pronouncement is only disclosure-related, its adoption will not have an impact on the Foundation's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS No. 165"), which is codified at ASC 855, *Subsequent Events*. SFAS No. 165 codifies the guidance regarding the disclosure of events occurring subsequent to the balance sheet date. SFAS No. 165 does not change the definition of a subsequent event (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but requires disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009. The Foundation evaluated subsequent events through April 20, 2010 which represents the date the financial statements were available to be issued and concluded that no additional disclosures are required.

4. Fair Value Measurements

Effective January 1, 2008, the Foundation adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), for financial assets and liabilities measured at fair value on a recurring basis. This statement provides a definition of fair value which focuses on an exit price rather than an entry price, establishes a framework for measuring fair value which emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and requires expanded disclosure about fair value measurements. In accordance with ASC 820, the Foundation may use valuation techniques consistent with the market, income, and cost approach to measure fair value. The adoption of ASC 820 did not have a material impact on the Foundation's financial position or results of operations on the effective date.

To increase consistency and comparability in fair value measurements and related disclosures, the Foundation utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Notes to Financial Statements

Fair Value Measurements (continued)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for instruments categorized in level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Foundation's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Foundation uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3.

The Capital Guardian mutual funds are given Level 1 status as a fair value per share for these instruments is determined and published and the basis for current transactions.

In accordance with ASC 820-10-35-59, the Foundation uses net asset value per share ("NAV") as a practical expedient to estimate the fair value of the Angelo Gordon alternative investments. Classification within the fair value hierarchy depends on whether the Foundation has the ability to redeem its investments at NAV and if so, when that redemption can take place. If the Foundation has no ability to redeem, then the NAV is considered a Level 3 fair value measurement. If the Foundation has the ability to redeem on the measurement date, then the NAV is considered a Level 2 fair value measurement. If the Foundation has the ability to redeem on a future date, then the length of time until the investment becomes redeemable will determine whether the investment is classified as a Level 2 or a Level 3 fair value measurement. A redemption period of 90 days or less from the measurement period is generally considered near term and would result in the investment being classified as a Level 2 fair value measurement.

Notes to Financial Statements

Fair Value Measurements (continued)

The following table presents the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2009, consistent with the fair value hierarchy provisions of ASC 820:

		Fair Value Measurements at December 31, 2009 Using:		
Description	**12/31/2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual Funds - Capital Guardian	$ 69,894,409	$ 69,894,409	$ -	$ -
Angelo Gordon Super Fund L.P.	19,987,715	-	19,987,715	-
Angelo Gordon Real Estate Strategies	4,576,786	-	-	4,576,786
Angelo Gordon Credit Strategies	9,940,000	-	-	9,940,000
Angelo Gordon CLO & Other Debt Strategies	7,342,763	-	-	7,342,763
Total	$ 111,741,673	$ 69,894,409	$ 19,987,715	$ 21,859,549

	Fair Value Measurements at December 31, 2009 — Significant Unobservable Inputs (Level 3)			
Description	**Angelo Gordon Real Estate Strategies**	**Angelo Gordon Credit Strategies**	**Angelo Gordon CLO & Other Debt Strategies**	**Total**
Beginning balance	$ 4,980,490	$ 6,331,414	$ 4,052,198	$ 15,364,102
Total gains or losses (realized/unrealized) included in changes in net assets	(403,704)	3,037,895	3,515,016	6,149,207
Purchases, issuances, and settlements	-	570,691	(224,451)	346,240
Transfers in and/or out of Level 3	-	-	-	-
Ending balance	$ 4,576,786	$ 9,940,000	$ 7,342,763	$ 21,859,549

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2008, consistent with the fair value hierarchy provisions of ASC 820:

		Fair Value Measurements at December 31, 2008 Using:		
Description	**12/31/2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual Funds - Capital Guardian	$ 56,543,104	$ 56,543,104	$ -	$ -
Angelo Gordon Super Fund L.P.	15,572,443	-	15,572,443	-
Angelo Gordon Real Estate Strategies	4,980,490	-	-	4,980,490
Angelo Gordon Credit Strategies	6,331,414	-	-	6,331,414
Angelo Gordon CLO & Other Debt Strategies	4,052,198	-	-	4,052,198
Total	$ 87,479,649	$ 56,543,104	$ 15,572,443	$ 15,364,102

	Fair Value Measurements at December 31, 2008			
	Significant Unobservable Inputs (Level 3)			
Description	**Angelo Gordon Real Estate Strategies**	**Angelo Gordon Credit Strategies**	**Angelo Gordon CLO & Other Debt Strategies**	**Total**
Beginning balance	$ 7,863,942	$ 2,830,638	$ 8,497,715	$ 19,192,295
Total gains or losses (realized/unrealized) included in changes in net assets	(908,452)	(2,583,224)	(10,174,814)	(13,666,490)
Purchases, issuances, and settlements	(1,975,000)	6,084,000	5,729,297	9,838,297
Transfers in and/or out of Level 3	-	-	-	-
Ending balance	$ 4,980,490	$ 6,331,414	$ 4,052,198	$ 15,364,102

Notes to Financial Statements

5. Investments

A. Investments Held in 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:

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Capital Guardian Trust Funds:				
Global Equity Fund	$ 48,840,639	$38,547,719	$ 39,368,620	$47,254,464
Emerging Markets Growth Fund	12,674,440	15,859,779	7,613,913	16,687,575
Absolute Income Grower	8,379,330	7,991,429	7,399,253	8,965,214
U. S. Value Equity Fund	-	-	2,161,318	2,626,717
Total	$ 69,894,409	$62,398,927	$ 56,543,104	$75,533,970

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

	2009	2008
Net realized loss on sales of investments	$ (9,117,538)	$ (11,961,132)
Unrealized net appreciation/(depreciation) of investments	26,486,348	(32,489,966)
Net gain/(loss) on marketable investments	$ 17,368,810	$ (44,451,098)

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, 2009 and 2008 were $163,431 and $238,433, 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 consist of the following as of December 31:

	2009	2008
Angelo Gordon Super Fund L.P.	$ 19,987,715	$ 15,572,443
Angelo Gordon Real Estate Strategies	4,576,786	4,980,490
Angelo Gordon Credit Strategies	9,940,000	6,331,414
Angelo Gordon CLO & Other Debt Strategies	7,342,763	4,052,198
Total other investments	$ 41,847,264	$ 30,936,545

Annual activity for other investments consists of the following for the year ended December 31, 2009:

	AG Super Fund	AG Real Estate Strategies	AG Credit Strategies	CLO & Other Debt Strategies	Total 2009
Opening balance	$15,572,443	$ 4,980,490	$ 6,331,414	$ 4,052,198	$30,936,545
Capital contributions	-	-	1,000,000	100,000	1,100,000
Distributions	-	-	(429,309)	(324,451)	(753,760)
Appreciation/(depreciation)	4,415,272	(403,704)	3,037,895	3,515,016	10,564,479
Ending balance	$19,987,715	$ 4,576,786	$ 9,940,000	$ 7,342,763	$41,847,264

A description of the Angelo Gordon ("AG") funds is as follows:

Angelo Gordon Super Fund L.P.

The AG Superfund L.P. ("AGSF") is an open-end fund that was established to engage in various strategies including investments in special situations, financially distressed issuers, convertible hedging and real estate. Capital withdrawals may be made annually on December 31st, upon not less than 60 days notice. AG Superfund designates certain illiquid investments as Special Investments (i.e., side pocket investments). Redemption proceeds from capital balances related to the Special Investments are distributed over time as each investment is realized. The Foundation has contributed $10 million of capital to AGSF. There are no remaining commitments at December 31, 2009. The Foundation has the ability to redeem this investment on the measurement date; accordingly, as of December 31, 2009, all investments are classified as Level 2 within the fair value hierarchy.

Angelo Gordon Real Estate Strategies

AG Realty IV, L.P. ("AGRIV") is a closed-end fund that is in the process of undergoing an orderly liquidation of its investments, with some residual assets still being managed by the general partner. The Foundation has contributed $4.75 million to AGRIV. There are no remaining commitments at December 31, 2009. The Foundation has received cumulative distributions of $7,162,500 as of December 31, 2009. The estimated fair value of AGRIV at December 31, 2009 was $69,083. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

Notes to Financial Statements

Investments (continued)

B. Other Investments (continued)

Angelo Gordon Real Estate Strategies (continued)
AG Realty V, L.P. (“AGRV”) is a closed-end fund without redemption rights. AGRV’s principle investment objective is current income and capital appreciation through investments in distressed real estate assets, sub-performing and non-performing mortgages. On January 31, 2010, AGRV exercised the second of two available one year extensions to facilitate the orderly liquidation of its investments. The Foundation has contributed $4.5 million to AGRV. There are no remaining commitments at December 31, 2009. The Foundation has received cumulative distributions of $7,025,000 as of December 31, 2009. The estimated fair value of AGRV at December 31, 2009 was $207,273. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

AG Realty VI, L.P. (“AGRVI”) is a closed-end fund without redemption rights. AGRVI’s principle investment objective is current income and capital appreciation through investments in distressed real estate assets, sub-performing and non-performing mortgages. The primary term of the AGRVI expires on January 10, 2013. Two additional one year extensions are available. As of December 31, 2009 the Foundation had contributed $4.825 million of its $5 million capital commitment to AGRVI. A $175,000 capital call was made on February 26, 2010, which has been paid. The Foundation has received cumulative distributions of $1,550,000 as of December 31, 2009. The estimated fair value of AGRVI at December 31, 2009 was $3,154,615. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

AG Core Plus Realty Fund L.P. (“AGCPR”), is a closed-end fund without redemption rights. AGCPR’s principle investment objective is current income and capital appreciation through investments in real estate assets. The primary term of the AGCPR expires on May 27, 2013. Two additional one year extensions are available. The Foundation has contributed $4.75 million to AGCPR. There are no remaining commitments at December 31, 2009. The Foundation has received cumulative distributions of $5,662,500 as of December 31, 2009. The estimated fair value of AGCPR at December 31, 2009 was $1,145,815. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

Angelo Gordon Credit Strategies
AG Capital Recovery Partners, L.P. (“AGCRP”) is a closed-end fund without redemption rights. AGCRP was established primarily to invest in financially distressed issuers. The fund is in the process of undergoing an orderly liquidation of its investments, with some residual assets still being managed by the general partner. The Foundation has contributed $5 million of capital to AGCRP. There are no remaining commitments at December 31, 2009. The Foundation has received cumulative distributions of $8,278,830 as of December 31, 2009. The estimated fair value of AGCRP at December 31, 2009 was $75,135. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

B. Other Investments (continued)

Angelo Gordon Credit Strategies (continued)
AG Capital Recovery Partners V, L.P. ("AGCRPV") is a closed-end fund without redemption rights. AGCRPV was established primarily to invest in financially distressed issuers. The primary term of the AGCRPV expires on June 30, 2013. Two additional one year extensions are available. The Foundation has contributed $5 million of capital to AGCRPV. There are no remaining commitments at December 31, 2009. The Foundation has received cumulative distributions of $745,000 as of December 31, 2009. The estimated fair value of AGCRPV at December 31, 2009 was $4,282,932. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

AG Capital Recovery Partners VI, L.P. ("AGCRPVI") is a closed-end fund without redemption rights. AGCRPVI was established primarily to invest in financially distressed issuers. The primary term of the AGCRPVI expires on June 30, 2015. Two additional one year extensions are available. The Foundation has contributed $5 million of capital to AGCRPVI. There are no remaining commitments at December 31, 2009. The estimated fair value of AGCRPVI at December 31, 2009 was $5,581,933. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

Angelo Gordon CLO & Other Debt Strategies
AG Diversified Credit Strategies Fund Ltd ("AGDCS") is an open-end fund that was established to execute an absolute, total return investment strategy through investments in non-investment grade credit instruments. Capital withdrawals may be made annually as of the close of business on the last day of the quarter in which the anniversary of the investment occurs, upon not less than 60 days notice. Capitals withdrawals are subject to withdrawal reductions of 3% and 2% prior to 2nd anniversary and 3rd anniversary, respectively. The Foundation has contributed $4 million of capital to AGDCS. There are no remaining commitments at December 31, 2009. The estimated fair value of AGDCS at December 31, 2009 was $3,815,721. The Foundation has the ability to redeem this investment; however, the redemption period is not considered to be near term. Accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

AG Commercial Real Estate Debt Fund, L.P. ("AGREDF") is a closed-end fund without redemption rights. AGREDF was established primarily to invest in commercial real estate debt securities including commercial mortgage backed securities, REIT debt, real estate operating company debt, and collateralized debt obligations. The primary term of the AGREDF expires on April 4, 2017. Two additional one year extensions are available. The Foundation has contributed $4.85 million of its $5 million capital commitment to AGREDF. Open commitments at December 31, 2009 are estimated to be 3% ($150,000) of committed capital and are expected to be contributed in the second quarter of 2010. The Foundation has received cumulative distributions of $390,000 as of December 31, 2009. The estimated fair value of AGREDF at December 31, 2009 was $2,227,042. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

Northwoods Capital VII, Ltd ("NCVII") and Northwoods Capital VIII, Ltd ("NCVIII") are collateralized debt obligations having maturity dates of October 22, 2021 and July 28, 2022 respectively. The Foundation has committed $5 million and $2 million of capital to NCVIII and NCVIII, respectively. There are no remaining commitments at December 31, 2009. The Foundation has received cumulative distributions of $1,925,655 and $529,420 from NCVII and NCVIII, respectively, as of December 31, 2009. The estimated fair value of the Foundation's investment in NCVII and NCVIII at December 31, 2009 are $1,200,000 and $100,000, respectively. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2009, all investments are classified as Level 3 within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

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. The carrying value of the note approximates fair value.

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.

6. Property and Equipment

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

	2009	2008
Tenant improvements	$ 496,312	$ 496,312
Furniture, fixtures and equipment	193,478	193,478
Software	108,401	108,401
	798,191	798,191
Less accumulated depreciation	514,263	405,157
Property and equipment, net	$ 283,928	$ 393,034

Depreciation expense was $109,106 and $90,300 for 2009 and 2008, respectively.

7. Investment in LLC

Prior to January 2008, the Foundation had 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.

The LLC finalized the sale of the office building on January 17, 2008 to an unrelated party. As a result of the sale, the Foundation received $3,060,500 in cash distributions and realized a $1,240,061 gain in 2008 which is reported as a gain on sale of investment in LLC in the accompanying statement of activities. Consequently, at December 31, 2008 and 2009, the Foundation no longer has an interest in the LLC. There were no changes made to the Foundation's facility lease agreement as a result of the sale of the office building.

NOTES TO FINANCIAL STATEMENTS

8. Line of Credit

The Foundation has a $15,000,000 uncollateralized revolving line of credit with interest at LIBOR plus 2.0% (2.25% at December 31, 2009). Borrowings against the line of credit totaled $10,200,000 and $9,625,000 in 2009 and 2008, respectively. The Foundation incurred interest expense of $231,505 and $234,040 for the years ended December 31, 2009 and 2008, respectively.

The revolving line of credit agreement contains certain covenants, the most restrictive of which requires the Foundation to maintain a tangible net worth of $80 million as defined by the agreement. At December 31, 2009, the Foundation was in compliance with the loan covenants.

9. Operating Leases

The Foundation leases the facility that houses its corporate headquarters under a 10-year non-cancelable operating lease, which expires in 2013. 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 (see Note 10). Rental expense was $282,473 and $262,300 in 2009 and 2008, respectively.

LSST early vacated the premises during April 2008. Pursuant to its sublease, the Foundation holds a rent deposit from LSST. The rent deposit of $74,881 and $146,672 at December 31, 2009 and 2008, respectively, is reported as a liability in the accompanying financial statements. The Foundation is recouping lost rents and re-leasing costs against the rent deposit.

In July 2009, the Foundation entered into an agreement with an outside party to sublease the empty space. Pursuant to its sublease, the Foundation holds a rent deposit of $3,602 at December 31, 2009. The Foundation expects to incur a $20,000 shortfall in rental revenue over the life of the sublease after offsetting the remaining LSST rent deposit.

Future minimum rental payments under the lease and sublease as of December 31, 2009 are as follows:

	Original Lease Expense	Sublease Income
2010	$ 263,300	$ 43,225
2011	263,300	43,225
2012	263,300	43,225
2013	263,300	43,225

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, 2009 and 2008 Research Corporation for Science Advancement made cash contributions of approximately $0 and $325,000 to LSST. At December 31, 2009 and 2008, the amount payable to LSST totaled $75,000 and $325,000, respectively.

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 $40,117 and $29,992 for the years ended December 31, 2009 and 2008, respectively.

Defined Benefit Pension Plan

The Foundation maintains a noncontributory defined benefit pension plan (the "Plan"), which covers 45% of its employees at the 2009 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.

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

During the year ended December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which is primarily codified in ASC 715, *Compensation – Retirement Benefits*. 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 sets forth the funded status of the plan and amounts recognized in the Foundation's accompanying statements of financial position as of December 31:

	2009	2008
Projected benefit obligations for services rendered to date	$ (1,828,783)	$ (1,372,360)
Fair value of plan assets	1,020,168	843,329
Funded Status/Net amount recognized in the statements of financial position	$ (808,615)	$ (529,031)

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

	2009	2008
Service cost	$ 224,196	$ 220,295
Interest cost	92,180	85,155
Expected return on assets	(63,195)	(104,932)
Net loss	31,510	525,152
	$ 284,691	$ 725,670

Notes to Financial Statements

Pension Plan and Postretirement Benefits (continued)

Defined Benefit Pension Plan (continued)
The following table shows a summary of benefit obligations for the years ending December 31:

	2009	2008
Beginning projected benefit obligation	$ 1,372,360	$ 1,588,710
Service cost	224,196	270,696
Interest cost	92,180	108,639
Benefits paid	(5,984)	(578,453)
Actuarial loss/(gain)	49,011	(6,232)
Effects of actuarial assumption change	97,020	113,715
Settlement gain	-	(124,715)
Ending projected benefit obligation	$ 1,828,783	$ 1,372,360

The following table shows a summary of the fair value of plan assets for the years ending December 31:

	2009	2008
Beginning fair value of plan assets	$ 843,329	$ 1,785,349
Foundation contributions	5,107	-
Distributions	(5,984)	(578,453)
Expected investment return	63,195	165,213
Investment gain/(loss)	114,521	(528,780)
Ending fair value of plan assets	$ 1,020,168	$ 843,329

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

	2009	2008
Discount rate	5.875%	6.50%
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)

Defined Benefit Pension Plan (continued)
Pertinent information related to the Plan is as follows:

	2009	2008
Accumulated benefit obligation	$ 1,398,693	$ 1,011,007
Net periodic benefit cost	311,493	235,791
Foundation contributions	5,107	-
Benefits paid	5,984	578,453

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:

2010	$ 5,848
2011	6,021
2012	537,487
2013	6,887
2014	7,060
2015 through 2019	73,212
Total	$ 636,515

The Foundation expects to contribute approximately $137,000 to the Plan in 2010.

The investment policy of the Plan is to provide for professional fund management and to invest in a conservative portfolio consisting of balanced mutual funds. The expected long term rate of return of Plan assets was 7.5% in 2009 and 7.5% in 2008, derived using the Plan's asset mix, historical returns by asset class, and expectations for future capital market performance. Both the Plan's investment policy and the expected long term rate of return assumption are reviewed periodically.

The asset allocations as of December 31 are as follows:

	2009	2008
Asset Category		
Mutual funds	98%	99%
Cash and cash equivalents	2%	1%
	100%	100%

NOTES TO FINANCIAL STATEMENTS

Pension Plan and Postretirement Benefits (continued)

Defined Benefit Pension Plan (continued)
The fair values of the Company's pension plan assets weighted-average asset allocations at December 31, 2009 by asset category is as follows:

	Assets at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ -	$ 1,001,779	$ -	$ 1,001,779
Cash and cash equivalents	18,389	-	-	18,389
Total assets at fair value	$ 18,389	$ 1,001,779	$ -	$ 1,020,168

Postretirement Plan
In addition to providing pension benefits, the Foundation provides certain health care benefits to retired employees and their spouses.

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, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* which is primarily codified in ASC 715, *Compensation – Retirement Benefits*. 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 sets forth the funded status of the plan and amounts recognized in the accompanying statements of financial position as of December 31:

	2009	2008
Accumulated postretirement benefit obligation	$ (1,198,958)	$ (1,141,073)
Plan assets at fair value	-	-
Funded status	(1,198,958)	(1,141,073)
Unrecognized net gain subsequent to transition	-	-
Unrecognized transition obligations	-	-
Accrued postretirement benefit liability	$ (1,198,958)	$ (1,141,073)

Notes to Financial Statements

Pension Plan and Postretirement Benefits (continued)

Postretirement Plan (continued)

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

	2009	2008
Service cost	$ 5,303	$ 31,590
Interest cost	65,374	63,837
Net actuarial loss	46,948	63,673
Net periodic benefit cost	$ 117,625	$ 159,100

The following table shows a summary of benefit obligations for the years ending December 31:

	2009	2008
Beginning projected accumulated postretirement benefit obligation	$ 1,141,073	$ 1,049,873
Service cost	5,303	31,590
Interest cost	65,374	63,837
Benefits paid	(59,740)	(53,895)
Actuarial loss/(gain)	46,948	39,035
Adjustment for change in measurement date	-	10,633
Ending projected accumulated postretirement benefit obligation	$ 1,198,958	$ 1,141,073

The following table shows a summary of the fair value of plan assets for the years ending December 31:

	2009	2008
Beginning fair value of plan assets	$ -	$ -
Foundation contributions	59,740	53,895
Benefits paid	(59,740)	(53,895)
Ending fair value of plan assets	$ -	$ -

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

	2009	2008
Net periodic benefit cost	$ 117,625	$ 159,100
Foundation contributions	59,740	53,895
Benefits paid	59,740	53,895

Notes to Financial Statements

Pension Plan and Postretirement Benefits (continued)

Postretirement Plan (continued)
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:

2010	$ 111,292
2011	134,050
2012	131,492
2013	136,059
2014	139,569
2015 through 2019	338,730
Total	$ 991,192

Estimated contributions to the plan for 2010 are $111,292.

The actuarial calculations in 2009 assume a dental inflation assumption of 5% and a medical inflation assumption of 10% decreasing uniformly to 5% over 10 years. The assumed discount rate is 5.4%. 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 $5,200 and the accumulated benefit obligation by approximately $80,100, while a 1% decrease would decrease service and interest cost by approximately $4,500 and decrease the accumulated benefit obligation by approximately $69,100.

The actuarial calculations in 2008 assume a dental inflation assumption of 4.5% and a medical inflation assumption of 8% decreasing uniformly to 5% over 6 years. The assumed discount rate is 6.15%. 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 $9,600 and the accumulated benefit obligation by approximately $96,800, while a 1% decrease would decrease service and interest cost by approximately $8,200 and decrease the accumulated benefit obligation by approximately $82,800.

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.

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, a related party, 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.

Notes to Financial Statements

Commitments and Contingencies (continued)

Large Binocular Telescope ("LBT") Project (continued)
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.

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. During 2008, the IRS requested an extension of the examination period until December 31, 2009, which the Foundation granted. The Foundation continues to vigorously pursue this matter with the IRS. The Foundation believes that a settlement of approximately $300,000 is reasonably possible. The Foundation has accrued $300,000 with respect to this matter, which is reported as a component of accounts payable and accrued expenses in the accompanying balance sheet.