



American Arbitration Association
Dispute Resolution Services Worldwide

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President's Letter & Financial Statements



MAY 5 AND 6, 2011 | MONTREAL, CANADA

OUR SHARED MISSION

The American Arbitration Association is dedicated to the development and widespread use of prompt, effective and economical methods of dispute resolution. As a not-for-profit organization, our mission is one of service and education.

We are committed to providing exceptional neutrals, proficient case management, dedicated personnel, advanced education and training and innovative process knowledge to meet the conflict management and dispute resolution needs of the public now and in the future.

OUR SHARED VISION

The American Arbitration Association will be the global leader in conflict management – built on integrity, committed to innovation and embracing the highest standards of client service achievable in every undertaking.

OUR SHARED COMMITMENT TO DIVERSITY

The American Arbitration Association is the global leader in conflict management with core values of integrity and service. Our integrity demands impartial and fair treatment of all people with whom we come in contact, regardless of gender, race, ethnicity, age, religion, sexual orientation, or other characterization. Our conflict management services put into practice our goal for the resolution of disputes between parties with different perspectives, experiences and backgrounds.

Because of the breadth of the Association's work and the global reach of its services, we recognize the importance and contribution of a diverse work force, a diverse Roster of Neutrals and diverse Board and we commit to respect and increase diversity in all our endeavors.

PRESIDENT'S LETTER

INTRODUCTION

Once again, I have the privilege of reporting to you on the leadership and new directions of the American Arbitration Association (AAA) in the field of alternative dispute resolution (ADR). Like almost every professional discipline, ADR is facing marketplace challenges – to cost effectiveness, speed, and efficiency – as it grows. Throughout the AAA's 85-year history, evolution in the use of ADR has always produced innovation, and 2010 was no exception.

In this letter, I will outline several initiatives the Association has taken to meet the needs and demands of an expanding domestic and international community. I also want to report that in 2010, the AAA was called upon directly to manage major dispute resolution projects fostered by the U.S. Congress, the Federal Communications Commission (FCC), and the Supreme Court of the State of Florida. The International Centre for Dispute Resolution (ICDR) exceeded its already impressive number of new cases and expanded its ADR footprint to an array of new countries. Clearly, arbitration and mediation continue to gain a growing acceptance among global public and private sector leaders as an effective way to handle large numbers of disputes fairly and quickly. That the AAA was in the forefront of that extremely important trend in 2010 is a harbinger of our future. We met each of these challenges with commitment, responsiveness, and experience which is the tradition that has made the AAA the leader in our field for eight and a half decades.

I look forward to writing 2011's letter because I am confident that I will have more innovation, momentum and success to report as the AAA serves as a catalyst for positive change in the ADR profession. Now, though, permit me to summarize 2010 for you. I think you will find our contributions to ADR around the world exciting and impressive.

CORPORATE INITIATIVES

“Economy, speed, and justice.” These were the elements of the AAA's former corporate slogan, which reflect that providing a fair, fast, and cost-effective ADR process has always been a major goal of the Association. In 2010, the AAA began an initiative to reiterate and reinvigorate the commitment embodied in this slogan. The Economy, Speed, and Justice Project is a systematic and unified Association-wide effort to help customers control the time and cost involved in the ADR process, particularly in arbitration. Speed and cost is a focus which requires the commitment and readiness to act by the entire AAA staff, arbitrators and mediators, and the AAA board. This initiative was officially launched at the AAA/ICDR Neutrals Conference on November 5 and 6, 2010 in Orlando Florida, where we called upon our neutrals for their advice and assistance. In 2011, this project will include the development of new rules and guides, or amending existing ones, to focus on speedy and economic processes. These will also include expedited and online procedures, clause-drafting guides, establishing appropriate controls to reduce unnecessary cost and delay, and guidelines for advocates and users to better manage the ADR process. The AAA will also develop advocacy Webinars and roundtable discussions devoted to time and cost management.

Recognizing that technology is one essential element of speed and cost effectiveness, in the latter half of 2009 the AAA began to develop PRISMSM, a very large technology plan to deliver new systems designed to increase the level of service to AAA customers. The development of PRISM is a strategic priority. In 2010, the AAA had a number of business opportunities that validated the significance of technology to its future in meeting customers' needs and expectations. This year provided the AAA with a chance to reflect on the design strategy of PRISM, refocusing its efforts on strategic needs and opting for a Service-Oriented Architecture (SOA) approach to technology. In 2010, the AAA partnered with an external development team with expertise in the use of SOA tools and methods. This team, in coordination with the AAA's IS department, is now deeply engaged and at work on PRISM's design, using this new framework.

Last year, Congress passed, and the President signed, a law that provided an appeal process administrated by the AAA for auto dealers who had been terminated as part of the reorganization plans for General Motors and Chrysler. In Section 747 of the *Consolidated Appropriations Act of 2010*, Congress defined a short timeframe for the completion of the appeal process (less than six months), standards for discovery, and provided the required elements of the arbitrator's analysis and award. When more than 1570 dealers filed for the *American Arbitration Association Automobile Industry Special Binding Arbitration Program*, the AAA immediately responded by putting special measures in place to achieve the goals Congress had mandated. This included special training Webinars on the arbitration process, including the process specific to Section 747, as well as training on AAA Webfile[®], the AAA's online case management system. As part of this special program, arbitrators were selected based on their skill and experience in handling complex, time-sensitive cases as well as their ability to control costs. Special training was conducted to ensure that all potential arbitrators were conversant with the standards and requirements Congress decreed. Additionally, the AAA's website was modified to provide a secure site for parties and their representatives to view program details and updates as well as redacted discovery and burden of proof orders. A full report on the program, titled *A Report to Congress on the Automobile Industry Special Binding Arbitration Program*, was submitted by the AAA to Congress in November 2010.

Few circumstances in 2009 and 2010 called out for dispute resolution solutions like the housing crisis with its overwhelming number of residential mortgage foreclosures. Although there were severe pockets of foreclosures in several states, one of the most hard-hit states was Florida. The Florida Supreme Court responded by instituting a court-ordered *Residential Mortgage Foreclosure Mediation Program* (RMFM) to provide mediation services to borrowers and lenders in hopes of facilitating settlements in foreclosure proceedings. As a result of a competitive bidding process, the AAA was awarded the 17th, 18th, and 8th Florida Judicial Circuits to act as the Program Manager for the RMFM Program. This assignment included Broward County where more than 50,000 mortgage foreclosures were filed in a single year. Upon being selected for this program, the AAA created a special Mediation Center in Fort Lauderdale with 23 hearing and conference rooms and supplied a computer system capable of providing system support for the program, producing reports for the Court and safeguarding the sensitive financial information involved. The center, managed by specialists in mortgage foreclosure mediation, is currently serving thousands of borrowers and lenders.

In 2010, the AAA established the Customer Information Management Department. This initiative directly impacts the AAA's continuing goal of becoming a "customer-centric" organization by maintaining the integrity of customer information. The department unifies all previous organization-wide efforts in terms of case filing. Parties can file their cases in one place – with the Case Filing team located in Voorhees, NJ – regardless of where they are located and maintain one point of contact for filing cases with the AAA. Customers may continue to file with their case management centers or regional offices if they choose. Acceptance has been significant: 80 percent of all AAA cases are now filed directly with the new department. For AAA customers who take advantage of AAA WebFile®, cases are typically assigned case managers within two hours of filing. For customers who prefer to file cases in the traditional manner through the submission of documents, 25 percent are assigned case managers within the same day, and 99 percent within 24 hours.

DIVERSITY

The Association created the AAA Higginbotham Fellows Program in 2009 to provide training, mentoring, and networking opportunities to up and coming diverse ADR professionals who have historically not meaningfully participated in the field of ADR. The program is named for the distinguished federal judge and scholar, Judge A. Leon Higginbotham, Jr. In 2010, the AAA broadened the program and selected 16 attorneys and other professionals from across the country, as well as Puerto Rico and the U.S. Virgin Islands, to participate. The program expanded its reach to applicants from labor unions, government agencies, and corporations, in addition to law firms and ADR firms. In the spring of 2010, the 16 fellows attended an intensive ADR training program at the AAA's New York City headquarters. The highly interactive training gave the Fellows an opportunity to participate in mock arbitrations and mediations. They also attended portions of the AAA's Annual Meeting, where they interacted with members of the AAA's Board of Directors. As part of the program, the AAA provides Fellows with opportunities to attend seminars and webinars throughout the year on a voluntary basis. They are also matched with arbitrators and mediators who serve as their mentors.

The Labor, Employment, Elections Division co-sponsored two successful programs in 2010 with the New York City Bar Association focusing on increasing diversity among arbitrators. More than 300 advocates and neutrals attended these programs. Following the programs, a new arbitrator mentoring program was established and is currently ongoing. Also, at the American Bar Association's Section of Labor and Employment Annual Meeting in Chicago, the Division co-sponsored the meeting's diversity reception and networking sessions for attorneys of color, women, and everyone who supports the section's vision of diversity.

COMMERCIAL DIVISION

In addition to overseeing both the *American Arbitration Association Automobile Industry Special Binding Arbitration Program* and *Residential Mortgage Foreclosure Mediation Program*, the Commercial Division continued its success from the previous year, introducing several new sets of rules and other programs.

Healthcare

As the healthcare field seeks more economical ways of resolving disputes, ADR has become increasingly viewed with favor. While the AAA does not administer individual disputes between doctors and patients without a post-dispute agreement to arbitrate, many disputes are between the payor for services, typically an insurer, and the provider of services, including doctors, physician practices and clinics, and hospitals. Leading experts in the healthcare field met in Chicago in October 2010 at an AAA-sponsored conference and exchanged ideas about the use of ADR, ultimately making recommendations for new *AAA Payor-Provider Healthcare Rules*. Representatives from the country's largest medical practice groups, large health insurance companies, and others contributed to the discussion about process, arbitrators, and ADR services. A new Commercial Division initiative from the AAA's study and work in this field was to create a new set of rules (which became effective January 31, 2011) for payors and providers to use to resolve disputes arising out of the payment for services. Payors and providers are bound by contract for long periods of time, often years, and need swift, cost-efficient resolution to enable them to continue to provide care; the new rules allow for an expedited process and grouping of similar disputes about claims for payment.

Non-Binding Arbitration

In order to provide additional solutions for customers seeking case evaluation without a binding decision, the Division expanded its services in 2010 with new procedures for non-binding arbitration for businesses and employees to complement its mediation services. Under these procedures, decisions are rendered by the arbitrators after overseeing the exchange of documents and considering their relative weight and, if requested, conducting evidentiary hearings following the AAA Rules. Parties are free to accept the decision of the tribunal or pursue binding arbitration or litigation. Often, parties are able to use the decision of the arbitrators as a tool for settlement, knowing the likely range of damages that would be awarded in a subsequent binding proceeding and, if a reasoned award has been rendered, knowing the logic and law behind the award.

Judicial Settlement

In late 2010, the Division began to work on *AAA Judicial Settlement Conference Services* to add another non-binding option for parties willing to attempt settlement before incurring the cost of litigation or arbitration. Parties and their representatives looking for a resolution service that is more evaluative and will be conducted by an experienced former judge will be able to select a Settlement Conference held in the ADR setting in 2011.

Appellate Arbitration Rules

After the United States Supreme Court decided *Hall Street Associates LLC v. Mattel, Inc.* in 2008, which restricted the ability of parties to contract for expanded judicial review of arbitration awards, the Commercial Division began work on a complete set of *Appellate Arbitration Rules*. Although the AAA had previously provided drafting guidance for appellate clauses, an official set of *Appellate Arbitration Rules* had not been issued. The new Rules were drafted with input from users, arbitrators, and members of the AAA's Board of Directors. The Rules are expected to be released in early 2011.

Insurance Industry

The AAA has served the insurance and reinsurance industry for decades, primarily through specialized rules and by maintaining a national roster of neutrals composed of active and retired executives and industry experts. In April 2010, the Commercial Division launched the *AAA/Joint Resolution LLC (JRL) Reinsurance Arbitration Program*, an innovative, web-based program that streamlines the arbitration process for a faster and more cost-effective resolution of reinsurance disputes. JRL is a provider that specializes in reinsurance ADR services. Under this new program, parties begin by engaging in an online settlement procedure. If the parties fail to reach a settlement, the AAA provides arbitration and/or mediation services under the expedited *AAA/Joint Resolution Arbitration Procedures* or the *AAA/Joint Resolution Mediation Procedures*. The program was developed to address concerns expressed by professionals that reinsurance arbitrations are becoming increasingly costly and time-consuming. To streamline the process, every case is resolved by a single arbitrator, discovery is limited, and hearings are conducted on a more limited basis. All arbitrators serving under the program are either active or retired industry executives with at least 25 years of reinsurance experience.

Accounting Industry

A new initiative began in 2010 within the accounting industry to increase awareness and acceptance of ADR, and in particular the AAA's wide array of services to that field. The Commercial Division formed an *Accounting and Related Services Dispute Resolution Committee* made up of accounting professionals representing both claimants and defendants. The Committee began meeting monthly in late 2010 with the goal of reviewing the *AAA Accounting Rules* to ensure they are current with law and practice and reflect the best practices of time- and cost-efficient arbitration and mediation. The Committee also identified accounting-specific qualities for neutrals in this field to review the current Panel and develop a recruitment plan for future panel members. The Committee also has plans to develop an outreach plan to inform and educate the accounting community about enhancements to the Rules and Panel.

Intellectual Property

This year, the AAA reconvened a *Patent Advisory Committee* to broaden its scope to include trademark and copyright experts. As a result, three separate intellectual property specialty panels were created – patent, trademark, and copyright – with established qualifications for inclusion on

each of these IP specialty panels. Questionnaires were sent to all AAA neutrals with IP experience to determine qualifications for inclusion on one of the specialty IP panels. In 2010, the Division began the process of adding a Pharma/Biotech expert to the *IP/Technology Advisory Committee* to help create a new IP specialty panel for Pharma/Biotech.

Automobile Industry

In early 2010, the Bankruptcy Court of the Southern District of New York issued an order establishing an ADR program administered by the AAA for *In re Motors Liquidation Company*, the former General Motors Corporation. The program included mandatory mediation and also provided for the possibility of arbitration to resolve certain personal injury and wrongful death, tort, product liability, and executory contract issues. The AAA worked with the Court to develop the process, pricing, and staff training to meet special requirements to comply with the Court's wishes. Nearly 80 mediation cases were managed by the AAA in three of its divisions: Commercial, Construction, and Labor, Employment and Elections. As part of the Court order, a special panel of mediators was assembled. The program, which is overseen by the Court, will continue into 2011 and for as long as AAA services are needed.

CONSTRUCTION DIVISION

In 2010, the U.S. economy continued to struggle, and the Construction Division was again affected by a decrease in new building and development. Although there were signs of improvement, the Division continued to use this time to develop new strategies, services, and closer relationships with its customers. A fine example was a mediation pilot program initiated by the Division in late 2009 and expanded upon in 2010. Under the pilot program, Construction Division arbitration cases with claims below \$75,000 may convert to mediation for a low, flat-rate mediator's fee. The mediation is held in-person and lasts for only one day, offering a cost-effective and time-saving process. The program was originally introduced by the Northeast Case Management Center in August 2009, and to obtain a larger data pool for the pilot program, the Division expanded the program to the Western Case Management Center in July 2010. Also in July, the same parameters of the pilot program were applied to any case with a claim under \$75,000 that was filed directly for mediation.

In 1994, the New Jersey legislature enacted *The New Jersey Construction Lien Law, Title 2A:44A-1 through 38*, which required an expedited AAA arbitration as part of the lien enforcement process. Under this law, the arbitrator's role is to determine the validity and amount of the lien. The AAA manages hundreds of New Jersey Lien Law cases. In 2008, the *New Jersey Law Revision Commission* began a revision of the statute and invited the AAA to comment on revisions. As a result of that effort, a revised statute was signed into law in January 2011 that provides for an improved timetable for completing required procedural steps, and clarification on the role of the arbitrator.

This year, the Construction Division's work with the National Construction Dispute Resolution Committee (NCDRC) increased significantly. The Division continues to seek input and guidance from NCDRC member organizations and, in turn, they have provided and identified opportunities and industry trends for the AAA. In 2010, the Division formed several subcommittees that are working on projects with the AAA designed to continue the AAA's construction industry leadership position. For example, the *DR for Sustainable/Green Building Subcommittee* developed materials to educate the construction industry about seminal issues with sustainable/green building including considerations the user community faces when considering/building a sustainable project, and obtaining Leadership in Energy & Environmental Design (LEED) Certification.

INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION

Building upon its milestone achievement of exceeding 800 international caseload filings in 2009, the ICDR broke that record in 2010 with a total of 888 cases filed, maintaining its standing as the largest provider of international dispute resolution services in the world. The ICDR also established new relationships in India, Brazil, Jamaica, Barbados, and Kosovo to help contribute to solid infrastructure for justice and equity in commercial relations.

The Bahrain Chamber for Dispute Resolution-AAA (BCDR-AAA) was officially launched on January 10, 2010 after a year of preparation and hard work. This new entity serves as a hub for ADR users in the Arabian Gulf region. It administers the arbitration and mediation of commercial cases, including insurance, construction, financial services, and energy disputes. Arbitrations and mediations are conducted in Arabic, English, or any other language required by parties.

In 2010, the ICDR began the second stage of a study titled *Disputewise-France*. Last year, the ICDR and the business law firm, FIDAL, released the results of the first part of *Disputewise* during a joint conference in Paris. That report found that French companies utilizing ADR, especially mediation, generated time- and cost-savings and often preserved business relationships. The ICDR also collaborated with FIDAL to complete the study's second phase which calls for in-depth interviews with French corporate counsel to better understand their issues and priorities, best practices, goals, and strategies. Results of the study will be compiled in a follow-up report. The use of mediation is in its early stages in France and Europe, but the interest is clearly growing. Last year's *Disputewise* report created some excitement in the French corporate community, which helped position the ICDR's name and services front and center. With the second phase of the study, we hope to build on this momentum and continue to cultivate interest in the ICDR's services.

This year, the ICDR began to review select international arbitration awards for publication by Westlaw. The review process involved a careful redaction of certain information from the awards by the ICDR to ensure that the confidentiality enjoyed by parties under the ICDR's rules is preserved. The ICDR made these awards available in accordance with Article 27.8 of the ICDR's *International Arbitration Rules*, which allows publication of awards unless parties object to such publication. This is the first time that ICDR awards have been published.

LABOR, EMPLOYMENT, ELECTIONS DIVISION

In 2010, the Labor, Employment, Elections Division continued to focus on enhancing the customer experience by introducing offerings to reduce costs and increase efficiency. For example, the Division introduced new labor arbitration services including *Labor Rapid Resolve Procedures*, *AAA File & Hold Procedures*, and *Labor Documents-Only Procedures*. It also worked with parties to develop permanent panels to further reduce overall arbitration costs.

For relatively uncomplicated grievances, parties who want to use the labor arbitration services of the AAA may mutually agree to use the *Labor Rapid Resolve Procedures*. Responding to a concern about rising costs and delays in processing grievance arbitration cases, these procedures provide a prompt and inexpensive method for resolving labor disputes. Parties have the option of having up to three cases heard in one day and decided in 48 hours for a total cost of \$1,500.00 per day (\$750.00 per party).

The Division also implemented a pilot project called the *AAA File & Hold Procedures*. The project was developed as a proactive response to the AAA's customers in the labor-management community who have expressed concerns over the rising cost of ADR and the need to provide more flexibility during these challenging economic times. Under the pilot *File & Hold Procedures*, parties are able to file a case at a reduced cost. The AAA "files and holds" the case in abeyance for 30 days (or until such time as the parties have reached settlement, whichever comes first) to allow the parties to continue settlement negotiations. If the parties settle within 30 days, their filing fees are reduced by 50 percent. If they fail to settle during that period, case administration resumes and the parties are assessed the remainder of the filing fees.

In any labor case, regardless of the issues involved, parties may agree to waive in-person hearings and resolve the dispute through *Labor Documents-Only Procedures*. The procedures offer a simple process for the resolution of grievances where a face-to-face hearing is not necessary. The goal of these procedures is to provide a prompt, easy, and economical means to resolve labor disputes.

The Division oversaw more than 200 elections in 2010, involving millions of voters nationwide using a wide variety of voting systems and methods. Some of the customers included: American Federation of State, County and Municipal Employees; Service Employees International Union; Chicago Teachers Union; American Civil Liberties Union; Writers' Guild of America, East; Communication Workers of America; Allied Pilots Association; American Postal Workers Union; American Kennel Club; Civil Service Employees Association; and American Federation of Television and Radio Artists. In 2010, the Division developed a new system for administering online elections to address secrecy concerns raised by *Chao v. APA* and the U.S. Department of Labor. The system incorporates the use of an arbitrator and encrypted key access to ensure both privacy and security.

In response to the United States Supreme Court decision in *14 Penn Plaza, LLC et al. v. Pyett et al.*, in 2010 the AAA created a new panel to address a potential caseload involving statutory claims of employees represented by unions. The *14 Penn Plaza* case involved Age Discrimination in Employment Act claims and the Supreme Court held that an arbitration clause in a collective bargaining agreement waiving an employee's right to file statutory discrimination claims in federal

court is enforceable. The AAA initially considered supplementing the AAA *Employment or Labor Arbitration Rules* to address this unique caseload. This still remains to be considered at the AAA. The more pressing concern, however, was to review both the AAA Labor and Employment panels to determine which neutrals would be qualified to hear statutory employment claims. In early 2010, the AAA commenced a pilot initiative and reviewed its New York panels. All New York panelists were contacted, polled, and résumés were reviewed. The AAA was then able to establish the new *AAA Statutory Employment Claim Panel* for New York consisting of 36 neutrals.

The AAA's commitment to provide excellent services is geared not only toward AAA customers, but also AAA neutrals. With that in mind, the Division developed the *Arbitrator Assistance Program*. The initiative, launched in June 2010, is a benefit for all members of the AAA's *Labor Arbitration Panel*. It is particularly helpful to new labor arbitrators who handle cases involving parties whose collective bargaining agreements do not designate the use of AAA rules or services. Under the new program, neutrals may take advantage of the AAA's administrative services at a reduced cost. When a labor arbitrator utilizes this service, he or she gets the support of a case manager from the nearest AAA office, who handles the scheduling and rescheduling of hearings, briefing schedule and exchange, and issuing of award. In addition, the labor arbitrator has access to hearing rooms in AAA offices (hearing room fees apply) and free access to the AAA's *Neutrals eCenter* to manage cases, schedule hearings, and issue awards electronically. This program allows the AAA to add value to services for labor arbitrators and customers alike, introduces the AAA's services to parties currently using AAA labor arbitrators but not AAA administration, and expands the AAA's reach to cases that are traditionally not handled by the AAA.

STATE INSURANCE DIVISION

In 2010, core caseloads in the State Insurance Division continued to rebound substantially in the New York and Minnesota no-fault automobile insurance programs. These caseloads stem from medical treatment claims under automobile policies. Since the programs are regulated by state law, the AAA works in partnership with state regulators, applying specially tailored rules and services.

The New York no-fault caseload increased in 2010 to 67,015 cases up from 52,505 the prior year and 44,311 cases in 2008, while the Minnesota no-fault caseload grew to 5,476 in 2010, up from 4,855 in 2009 and 4,394 cases in 2008. The increase in these caseloads has been due to the Division's enhanced customer relations efforts, good service, as well as economic factors.

The 2010 case filings in Minnesota set a record for the 36 years that the AAA has been administering this program. During that time, the AAA has administered over 90,000 cases at its Minnesota Insurance Case Management Center. With the Minnesota Supreme Court's Standing Committee for No-Fault Arbitration providing oversight, the AAA worked to ensure effective implementation of new Arbitrator Standards of Conduct and continued speedy resolution of disputes, which averaged dispositions of less than six months.

In New York, the AAA has been designated by the New York State Insurance Department since 1973 as the program administrator for resolution of disputed no-fault automobile and supplementary uninsured motorist (SUM) claims. A unique feature of this program is a conciliation

phase, with AAA staff conciliators working directly with parties to attempt settlement on each no-fault case. The AAA currently resolves 50 percent of the cases in the conciliation phase in an average of only 45 days from filing. That translates to over 33,500 settled cases in 2010 alone. The program featured increased web uploading of documents to make the process more streamlined and cost efficient for the parties.

LEGISLATION

In 2010, legislative issues continued to be at the forefront of the AAA's initiatives. The AAA continued relationships with both Congress and state legislatures as a reliable source of balanced information. The AAA participated in several FCC hearings with a positive mention in its final report, followed by a new national Task Force and promulgation of new Protocols.

In October 2010, the *National Task Force on the Arbitration of Consumer Debt Collection Disputes* published the *Consumer Debt Collection Protocol* to propose ways to enhance the fairness of consumer debt collection arbitrations. The Task Force was an inclusive group of individuals established by the AAA in the fall of 2009 after the Association determined that the processes surrounding some consumer debt collection arbitrations merited a critical review. The Task Force had a twofold mission. The first component of the mission was to consider the efficacy of arbitration to resolve consumer debt collection disputes. If this question was answered in the affirmative, then the second mission would be to consider fairness principles. Chaired by Theodore J. St. Antoine, Professor Emeritus of Law at the University of Michigan and an AAA Board Member, the task force included experts from the legal profession, academia, the federal government, and the AAA. Regardless of whether or not arbitration of debt collection cases continues in substantial numbers in the future, the Task Force ultimately focused on how debt collection arbitration could be structured to be effective for all parties, resulting in the above-referenced new set of Protocols.

In past years, the *Federal Communications Commission* (FCC) has worked with the AAA in the development of arbitration provisions incorporated into FCC orders. In 2010, as the federal government was reviewing the proposed merger of NBC/Universal and Comcast, the AAA began to work with legal staff at the FCC as well as the Department of Justice (DOJ) on the potential role of arbitration through the AAA to address and resolve certain issues and concerns related to the proposed merger. Drawing on past AAA government and FCC program experience, as well as some elements and streamlining components of the AAA's *Automobile Industry Special Binding Arbitration Program*, the AAA worked with staff of both federal agencies to develop innovative arbitration programs. Both the FCC and DOJ incorporated final-offer arbitration programs, naming the AAA in their respective approvals of the merger. The FCC voted to conditionally approve the merger on a 4 to 1 vote.

In 2010, the *Internal Revenue Service* (IRS) entered into an agreement with the ICDR to provide administrative services in support of arbitration under the *Mutual Agreement Procedure* (MAP) article of United States income tax treaties. The U.S. government currently has an agreement to arbitrate unresolved cases under the MAP article of its income tax treaties with Belgium, France, Germany, and Canada. The agreement allows arbitration to supplement the negotiation process used in the MAP, which is typically utilized to resolve cases involving international taxpayers who

face double taxation or taxation contrary to a tax treaty. The ICDR provides administrative services which include training and selection of arbitrators along with case management for cases sent to arbitration. In providing these services, the ICDR draws on its institutional experience, international expertise, multilingual case management staff, flexibility, and a commitment to service along with cultural sensitivity.

EDUCATION

Through the application of both innovative technology and traditional modes of delivery, AAA University (AAAU) continues to teach and encourage the responsible use of ADR processes. In 2010, AAAU expanded the delivery of customized programs for corporations, law firms, unions, and government agencies in addition to providing comprehensive programming for advocates and AAA neutrals. More than 3000 participants enrolled in AAAU Webinars, online courses, classroom programs, and conferences.

The Labor, Employment, Elections Division successfully conducted more than 50 educational and training programs in 2010 (onsite or by Webinar) for hundreds of labor and employment advocates and neutrals. Some of the program topics included: brief writing, labor arbitration case preparation, surveillance in the workplace, the *Code of Professional Responsibility for Labor Arbitrators*, cultural differences in the workplace, labor arbitration in the time of economic crisis, saving money in labor arbitration, basic principles of contract interpretation, advance labor arbitration, resolving executive level employment disputes, common mistakes in labor arbitration, and remedy in labor arbitration.

AAAU's signature training event, the annual Neutrals Conference, saw more than 200 neutrals gather in Orlando, Florida, to discuss cutting edge topics including: "All 'a Twitter' About Social Networking," "Sustainable/Green Building: Advancement in Green Construction," and "The Myth of Mediator as Settlement Broker."

Additional technological innovations will allow for the effective recording, purchasing, and viewing of all Webinar programs. New software additions will better engage participants in online learning and establish AAAU as the leader in the field of online ADR education.

A state-of-the-art online Learning Management System (LMS) will be integrated into the AAAU website in 2011, along with enhancements and redesign of the website itself. Together, the LMS and a redesigned AAAU website will provide a more user-friendly platform interface, a streamlined online registration process and an improved shopping cart feature, further enhancing the AAA's commitment to ADR education and training.

PUBLICATIONS

In support of the educational imperative that constitutes the core of AAAU, AAA Publications expanded its book offerings in 2010 with the release of six expanded second editions of its popular *AAA Handbook* hardcover series, plus two new titles: *AAA Handbook of Arbitration Practice* and *AAA Handbook of International Arbitration Practice*. Also, as a result of the first collaborative publishing effort by the AAA and Cornell University ILR School's Scheinman Institute on Conflict

Resolution, the first volume in a series of labor arbitration books was co-published in 2010. The initial volume, *Fundamentals of Labor Arbitration*, is the first completely new version of the seminal primer, *Labor Arbitration: What You Need to Know*, which the AAA first published over 30 years ago.

The *Dispute Resolution Journal* remained at the forefront of publications in the ADR field with focus issues on construction ADR and international arbitration, as well as the launch of a new labor column authored by Cornell. *Journal* archival material also was made available digitally for the first time in 2010 and there was continued growth in online availability of AAA labor, employment, and ICDR arbitration awards.

In 2011 AAA Publications will expand its text offerings as well as continue to use cooperative partnerships and technology to broaden its reach and enhance its value as an educational resource. Current issues of the *Dispute Resolution Journal* will be offered in both hard copy and online digital versions; arrangements have been finalized for the distribution of select books through a major retail outlet; and scheduled book titles include *ICDR Yearbook* and *AAA Yearbook*, the latter of which is a new incarnation of the popular *ADR & the Law* series, an annual examination of legislative and judicial developments in ADR.

AWARDS AND RECOGNITION

Honor and recognition in the field were presented to a number of individuals. The AAA's Outstanding Director Award was given to Paul D. Friedland, Esq., and Christi L. Underwood, Esq. In addition, the President's Award for Living the Values was presented to Heather Santo.

SUMMARY

While the field of ADR continues to face marketplace challenges, the AAA is poised to meet those challenges head-on by providing time-saving and cost-efficient means to settle disputes globally. Our committed, energetic, and innovative staff; superb Roster of Neutrals; significantly enhanced technology capabilities; and focused delivery of service to customers also position the AAA especially well.

2010 was a remarkable year for the AAA. The continued domestic and international acceptance of ADR, and the AAA's position as the leader in the field, are collectively a profound testament to the hard work and dedication of AAA staff, the Board, and our leadership team. I offer my sincere and unending thanks to all.



President and Chief Executive Officer

May 5, 2011

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American Arbitration Association
Dispute Resolution Services Worldwide

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
TO THE BOARD OF DIRECTORS
AMERICAN ARBITRATION ASSOCIATION, INC.

We have audited the accompanying consolidated balance sheets of American Arbitration Association, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Arbitration Association, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "J.H. Cohen LLP". The signature is written in a cursive style.

New York, New York
April 19, 2011

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 7,831,000	\$ 10,333,000
Investments, at fair value (Note 2)	96,802,000	80,342,000
Administration fees receivable, net of allowances for cancellations and uncollectable accounts of \$1,177,000 in 2010 and \$1,128,000 in 2009	11,165,000	14,122,000
Other receivables, net of allowances for uncollectable accounts of \$157,000 in 2010 and \$174,000 in 2009	119,000	471,000
Prepaid expenses	2,536,000	2,918,000
Construction and internal use software development in progress (Note 4)	2,835,000	1,021,000
Furnishings, equipment, technology and leasehold improvements, net (Note 4)	<u>6,106,000</u>	<u>6,099,000</u>
Total Assets	<u>\$127,394,000</u>	<u>\$115,306,000</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses (Notes 3 and 5)	\$ 64,826,000	\$ 59,248,000
Accrued postretirement medical costs (Note 3)	8,584,000	8,163,000
Accrued pension liability (Note 3)	6,047,000	7,605,000
Deferred rent	2,388,000	2,864,000
Deferred revenue	<u>2,339,000</u>	<u>2,443,000</u>
Total Liabilities	84,184,000	80,323,000
Commitments and contingencies (Note 5)	-	-
Unrestricted net assets	<u>43,210,000</u>	<u>34,983,000</u>
Total Liabilities and Net Assets	<u>\$127,394,000</u>	<u>\$115,306,000</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Administration fees earned:		
Commercial	\$50,729,000	\$44,765,000
State insurance	13,374,000	13,012,000
Labor	5,217,000	5,623,000
Elections	<u>5,272,000</u>	<u>2,782,000</u>
Totals	74,592,000	66,182,000
Publications and education	2,008,000	1,509,000
Other operating income	<u>307,000</u>	<u>214,000</u>
Totals	<u>76,907,000</u>	<u>67,905,000</u>
OPERATING EXPENSES		
Administration of tribunals	59,922,000	57,518,000
Elections	4,888,000	2,979,000
Publications and education	2,308,000	2,070,000
General and administration	3,581,000	3,430,000
Net loss on write-off of office lease (Note 5)	<u>2,647,000</u>	<u>—</u>
Totals	<u>73,346,000</u>	<u>65,997,000</u>
Net Operating Income	3,561,000	1,908,000
NON OPERATING INCOME AND EXPENSES		
Interest and dividends on investments, net of fees (Note 2)	2,779,000	2,328,000
Net realized and unrealized gains on investments	3,009,000	5,954,000
Loss on disposal of assets (Note 4)	<u>(5,000)</u>	<u>(33,000)</u>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE CHANGES IN NET ASSETS	9,344,000	10,157,000
Pension liability adjustment (Note 3)	(241,000)	1,437,000
Postretirement medical obligation adjustment (Note 3)	<u>(876,000)</u>	<u>(2,678,000)</u>
CHANGE IN UNRESTRICTED NET ASSETS	8,227,000	8,916,000
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>34,983,000</u>	<u>26,067,000</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$43,210,000</u>	<u>\$34,983,000</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,227,000	\$ 8,916,000
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,249,000	2,166,000
Bad debt and change in provisions for uncollectible accounts	773,000	756,000
Net realized and unrealized gains on investments	(3,009,000)	(5,954,000)
Loss on write-off of office lease	2,647,000	-
Loss on disposal of assets	5,000	33,000
Changes in operating assets and liabilities:		
Decrease in administration fees receivable	2,167,000	2,950,000
Decrease/(Increase) in other receivables	369,000	(134,000)
Decrease in prepaid expenses	382,000	211,000
Increase/(Decrease) in accounts payable and accrued expenses	2,931,000	(636,000)
Increase in accrued postretirement medical costs	421,000	2,082,000
Decrease in accrued pension liability	(1,558,000)	(3,725,000)
Decrease in deferred rent	(476,000)	(742,000)
Decrease in deferred revenue	<u>(104,000)</u>	<u>(244,000)</u>
Net cash provided by operating activities	<u>15,024,000</u>	<u>5,679,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(2,261,000)	(645,000)
Proceeds from sale of investments	1,727,000	49,035,000
Purchase of investments	(15,178,000)	(51,755,000)
Construction and internal use software development in progress	<u>(1,814,000)</u>	<u>(977,000)</u>
Net cash used in investing activities	<u>(17,526,000)</u>	<u>(4,342,000)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,502,000)	1,337,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,333,000</u>	<u>8,996,000</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 7,831,000</u></u>	<u><u>\$10,333,000</u></u>

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business and principles of consolidation:

The accompanying consolidated financial statements include the financial position and operating activities of the American Arbitration Association, Inc. (“AAA”) and the Subsidiaries it controls, ADRWorld.com, American Arbitration Association Ltd., American Arbitration Association PTE Ltd. and American Arbitration Association-ICDR Ltd. All intercompany accounts and transactions have been eliminated in consolidation. As used herein, the “Association” includes the American Arbitration Association, Inc. and Subsidiaries.

AAA is a not-for-profit organization that provides administrative, educational and development services for the widespread use of dispute resolution procedures.

Administration fees:

The initial filing fee for commercial cases, which are subject to a minimum fee, is billed at the commencement of the dispute resolution process. Over the next 60 days, which is the time period for refund eligibility, a portion of the refundable initial filing fee is recognized as revenue as services are performed. Under certain circumstances the 60-day time period for refund eligibility is extended indefinitely for arbitration cases that utilize the AAA’s mediation services. Based on analysis of current trends, the Association recorded a provision for deferred revenue in 2010 and 2009 of \$227,000 and \$122,000, respectively, which is included in the accompanying consolidated balance sheets and represents the estimated amount of future refunds.

A case service fee is payable in advance prior to the first scheduled hearing. The case service fee is refundable at the conclusion of the case if no hearings have occurred. Case service fee revenue is recognized, net of estimated refunds, as case administration services are provided. Deferred case service fee revenue of \$2,061,000 and \$2,229,000 as of December 31, 2010 and 2009, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

Cash and cash equivalents:

The Association considers all highly liquid investments with maturities of three months or less on the date of purchase to be cash equivalents.

Concentrations of credit risk:

Financial instruments, which potentially subject the Association to concentrations of credit risk, include cash and cash equivalents, administration fees receivable, and other receivables. The Association maintains cash and cash equivalents in bank deposit and other accounts, the balances of which exceeded federally insured limits by \$16,711,000 and \$17,434,000 as of December 31, 2010 and 2009, respectively. The Association places its cash and cash equivalents with creditworthy, high-quality financial institutions. Credit risk with respect to fees receivable is also limited because the Association deals with a large number of customers in a wide geographic area. The Association closely monitors the extension of credit to its

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Concentrations of credit risk (concluded):

customers while maintaining allowances for potential credit losses. On a periodic basis, the Association evaluates its fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

Investments:

Investments are reported at fair value. Cash equivalents included in investments are held for investment purposes. Changes in unrealized investment gains or losses are reported in the consolidated statements of operations and changes in net assets.

Furnishings, equipment, technology and leasehold improvements:

Furnishings, equipment, technology and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the individual asset or the lease term, if shorter than the useful life. The cost of maintenance and repairs is charged to expense as incurred.

Capitalization of software developed for internal use:

The Association capitalizes costs incurred for the development of software for internal use. The costs associated with the development of case management and financial applications currently in use were amortized over five years. The Association began a new project in 2008 to design and develop new case management applications and two projects in 2010 related to website upgrades and educational applications. The cost of this development will be amortized over the useful lives of the underlying applications, varying from three to five years once the new software is placed in service, which is expected to occur in phases between 2011 and 2013. In 2010, the Association capitalized the development of a specialized foreclosure mediation application, at a cost of \$559,000, which was placed in service in 2010 and will be amortized over two years. The balance of software development in progress was \$2,835,000 and \$994,000 at December 31, 2010 and 2009, respectively.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes:

The AAA is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes is included in the Association's consolidated financial statements. The operations of foreign affiliates have no income tax liability exposure.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED):

Income taxes (concluded):

The Association has no unrecognized tax benefits at December 31, 2010. The Association's U.S. Federal and state income tax returns prior to fiscal year 2007 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, administration fees receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of the items.

Deferred rent:

Certain of the Association's lease agreements provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than initial occupancy. Provision has been made for the excess of operating lease rental expense, computed on a straight-line basis over the lease term, over cash rentals paid.

Reclassifications:

Certain prior year balances have been reclassified to conform with the current year financial statement presentation.

Subsequent events:

The Association has evaluated subsequent events through April 19, 2011, which is the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS:

Investments at December 31, 2010 and 2009 consist of the following:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	\$31,028,000	\$30,692,000	\$19,658,000	\$19,374,000
Intermediate Term Bond funds	25,095,000	25,589,000	23,106,000	23,513,000
Inflation-Protected Bond funds	10,488,000	11,287,000	10,199,000	10,615,000
High Yield Bond funds	5,881,000	6,966,000	5,367,000	6,197,000
Emerging Markets Bond funds	2,939,000	3,155,000	2,091,000	1,931,000
Index Equities funds	6,449,000	7,775,000	6,310,000	6,758,000
Growth Equities funds	6,861,000	6,684,000	6,861,000	6,329,000
Balanced Equities funds	1,639,000	2,223,000	1,610,000	1,755,000
Value Equities funds	2,093,000	1,680,000	2,092,000	1,392,000
Cash/Money Market funds	751,000	751,000	2,478,000	2,478,000
Totals	<u>\$93,224,000</u>	<u>\$96,802,000</u>	<u>\$79,772,000</u>	<u>\$80,342,000</u>

Interest and dividends on investments are reported net of investment management fees and bank charges of \$697,000 and \$644,000 in 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS (CONCLUDED):

The Association values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. There have been no changes in the methodologies used at December 31, 2010 and 2009.

Financial assets carried at fair value at December 31, 2010 and 2009 are classified as level one.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2010 and 2009, are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least 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 consolidated balance sheets.

NOTE 3 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS:

The Association maintains a noncontributory, qualified defined benefit pension plan covering all eligible employees. Effective December 31, 2006 the defined benefit pension plan was frozen and no additional benefits will be accrued by employees for future years of service. Accordingly, at December 31, 2010 and 2009 the projected benefit obligation and accumulated benefit obligation are equal.

The Association makes contributions to the plan based on actuarial calculations. Total employer contributions required for the fiscal year beginning January 1, 2011 are estimated to be \$717,000. Including this minimum required contribution, the Association expects to contribute approximately \$2,500,000 to the plan during 2011.

The Association also provides certain health care benefits for substantially all of its retirees. The Association is required to accrue the estimated cost of these retiree benefit payments during the employees' active service period. The Association pays the cost of the postretirement benefits as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED):

Employees hired on or after July 1, 2003 are not eligible for retiree healthcare coverage. Prior to a plan amendment in December 2008, active employees hired on or before June 30, 2003 were eligible for retiree healthcare coverage upon retirement with at least 10 years of service after age 45. Effective December 31, 2008 eligibility for retiree medical was changed to require 15 years of service after the age of 45. However, exceptions were made for employees who would be eligible for retiree healthcare coverage as of December 31, 2008 under the previous eligibility rules of having at least 10 years of service after age 45, for employees who have at least 15 years of service as of December 31, 2008 and who were within 2 years of eligibility under the previous rules, and for a small group of senior executives. Employees who qualify under those exceptions will maintain the previous eligibility provision. The change in this benefit also limits the Association's annual net subsidy for retiree healthcare coverage to twice the 2008 net subsidy provided for all participants.

The pension plan provides a benefit equal to the sum of (a) for each year of benefit accrual service (or any fractional part thereof) credited on or before January 1, 1997, 1.75% of earnings in effect on January 1, 1997, and (b) for each year of benefit accrual service credited after January 1, 1997 and through December 31, 2006, 1.75% of earnings in effect on January 1 of such year.

Estimated future benefit payments in each of the five years subsequent to December 31, 2010 and in the aggregate for the five years beginning in 2016 are as follows:

<u>January 1,</u>	<u>Pension Benefits</u>	<u>Healthcare Benefits</u>
2011	\$ 2,440,000	\$ 423,000
2012	2,448,000	441,000
2013	2,432,000	470,000
2014	2,408,000	502,000
2015	2,388,000	531,000
Years 2016 to 2020	12,459,000	2,874,000

For the defined benefit and the healthcare benefit plan, the following tables set forth each plan's funded status and amounts recognized in the Association's financial statements at December 31, 2010 and 2009:

	<u>Pension Benefits</u>		<u>Healthcare Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Benefit obligation at December 31	\$ 37,388,000	\$ 35,382,000	\$ 8,584,000	\$ 8,163,000
Fair value of plan assets at December 31	<u>31,341,000</u>	<u>27,777,000</u>	<u>-</u>	<u>-</u>
Net unfunded status of the plan	<u>\$ (6,047,000)</u>	<u>\$ (7,605,000)</u>	<u>\$ (8,584,000)</u>	<u>\$ (8,163,000)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED):

	Pension Benefits		Healthcare Benefits	
	2010	2009	2010	2009
Amounts recognized in the consolidated balance sheets consists of the following at:				
Current liabilities			\$ 423,000	\$ 499,000
Noncurrent liabilities	\$ 6,047,000	\$ 7,605,000	8,161,000	7,664,000
Totals	<u>\$ 6,047,000</u>	<u>\$ 7,605,000</u>	<u>\$ 8,584,000</u>	<u>\$ 8,163,000</u>
Components of net periodic benefit cost and other amounts recognized in other changes in net assets.				
Net periodic benefit cost:				
Service cost			\$ 139,000	\$ 113,000
Interest cost	\$ 1,966,000	\$ 2,011,000	455,000	458,000
Expected return on plan assets	(2,008,000)	(1,677,000)	-	-
Amortization of prior service cost	-	-	(723,000)	(730,000)
Amortization of net actuarial loss	742,000	865,000	23,000	-
Net periodic benefit cost at December 31	<u>\$ 700,000</u>	<u>\$ 1,199,000</u>	<u>\$ (106,000)</u>	<u>\$ (159,000)</u>
Unrecognized net loss (gain) included in net assets	\$ 12,643,000	\$ 12,402,000	\$ (945,000)	\$ (1,821,000)
Employer's contribution	2,500,000	3,486,000	348,000	437,000
Plan participants' contributions	-	-	52,000	49,000
Net periodic benefit costs	700,000	1,199,000	(106,000)	(159,000)
Subsidies received	-	-	33,000	30,000
Benefit payments	(2,155,000)	(2,104,000)	(433,000)	(516,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Prior service credit	-	-	(2,275,000)	(2,998,000)
Net actuarial loss (gain)	241,000	(1,437,000)	1,329,000	1,177,000
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	5.25%	5.75%	5.25%	5.75%
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	5.75%	6.25%	5.75%	6.25%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Unrecognized actuarial (gain) or loss:				
Beginning of year	\$ 12,402,000	\$ 13,839,000	\$ (1,821,000)	\$ (4,499,000)
Actual return on plan assets	(3,219,000)	(4,313,000)		
Expected return on plan assets	2,008,000	1,677,000		
Actual (gain) or loss	2,194,000	2,064,000	177,000	1,948,000
Amortization of net gain or (loss)	(742,000)	(865,000)	699,000	730,000
End of year	<u>\$ 12,643,000</u>	<u>\$ 12,402,000</u>	<u>\$ (945,000)</u>	<u>\$ (1,821,000)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED):

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost for the next fiscal year is \$832,000. The estimated prior service credit and net loss, totaling \$432,000 and \$34,000, respectively, for the postretirement plan will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year.

For measurement purposes, a 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate was assumed to decrease gradually to 5.00% until 2019 and remain at that level thereafter.

The target allocations of pension assets are outlined below:

	<u>Target Allocation</u>	<u>Percentage of Plan Assets at December 31,</u>	
		<u>2010</u>	<u>2009</u>
Plan assets:			
Equity securities	40 - 70%	49%	42%
Fixed income/Group annuity contract	30 - 60%	51	58
Totals		<u>100%</u>	<u>100%</u>

The overall objective of these allocations is to provide for long-term growth while maintaining an acceptable level of risk. The expected long-term rate of return on assets is 7.5%. The assumption is based on future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class. All investments are chosen with prudence and due diligence by investment managers to ensure that results over time meet the objectives of the Association's Pension Investment Objectives and Policies Statement.

The fair values of the Association's pension plan assets at December 31, by asset category are as follows:

<u>2010 Asset Category</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>	<u>Total</u>
Bond Mutual Funds	\$15,631,000			\$ 15,631,000
U.S. Equities Mutual Funds	8,982,000			8,982,000
International Equities Mutual Funds	6,379,000			6,379,000
Group Annuity Contract			\$ 349,000	349,000
Totals	<u>\$30,992,000</u>	<u>\$ -</u>	<u>\$ 349,000</u>	<u>\$ 31,341,000</u>

<u>2009 Asset Category</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>	<u>Total</u>
Bond Mutual Funds	\$15,460,000			\$ 15,460,000
U.S. Equities Mutual Funds	6,213,000			6,213,000
International Equities Mutual Funds	5,506,000			5,506,000
Group Annuity Contract			\$ 598,000	598,000
Totals	<u>\$27,179,000</u>	<u>\$ -</u>	<u>\$ 598,000</u>	<u>\$ 27,777,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONCLUDED):

Changes in assets measured at fair value using level 3 inputs for the years ended December 31, are as follows:

	Balance January 1, 2010	Net Realized and Unrealized Gains	Investment Income (net of fees)	Annuity Benefits	Balance December 31, 2010	Change in Unrealized Gains/(Losses) for Investments Still Held at December 31, 2010
<u>2010</u>						
Group Annuity Contract, at fair market value	<u>\$598,000</u>	<u>\$ 32,000</u>	<u>\$ 6,000</u>	<u>\$(287,000)</u>	<u>\$349,000</u>	<u>\$16,000</u>
						Change in Unrealized Gains/(Losses) for Investments Still Held at December 31, 2009
<u>2009</u>						
Group Annuity Contract, at fair market value	<u>\$ 899,000</u>	<u>\$(19,000)</u>	<u>\$24,000</u>	<u>\$(306,000)</u>	<u>\$598,000</u>	<u>\$6,000</u>

The Association also maintains a nonqualified Supplemental Retirement Plan. For 2010 and 2009, the expense associated with this unfunded plan, which is included in general and administrative expenses, was \$5,000 and \$4,000, respectively. For 2010 and 2009, the accrued benefit obligation, which is actuarially determined and included in accounts payable and accrued expenses, was \$45,000 and \$40,000, respectively. The discount rate used to determine the benefit obligation was 5.50% and 6.00% in 2010 and 2009, respectively.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("DIMA") introduced a prescription drug benefit under Medicare, as well as a Federal subsidy to sponsors of retiree medical benefit plans that provide a benefit that is similar to Medicare. The Association elected to recognize the effects of DIMA on its retiree medical benefits expense in 2005. Due to the inclusion of DIMA, the plan's benefit obligation was reduced by \$1,000,000 in 2010 and by \$955,000 in 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FURNISHINGS, EQUIPMENT, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS:

Furnishings, equipment, technology and leasehold improvements consist of the following:

	<u>2010</u>	<u>2009</u>
Furnishings and equipment	\$13,079,000	\$10,656,000
Software developed for internal use	5,466,000	4,907,000
Leasehold improvements	<u>13,298,000</u>	<u>13,224,000</u>
	31,843,000	28,787,000
Less accumulated depreciation and amortization	<u>(25,737,000)</u>	<u>(22,688,000)</u>
Totals	<u>\$6,106,000</u>	<u>\$6,099,000</u>

In 2010 and 2009, the Association recognized a net loss of approximately \$5,000 and \$33,000 relating to the disposal of certain assets with original costs totaling \$222,000 and \$449,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$5,466,000 and \$4,907,000, as of December 31, 2010 and 2009, respectively. Related accumulated amortization as of December 31, 2010 and 2009, was \$5,004,000 and \$4,907,000, respectively.

In-progress construction costs for leased facilities totaled \$27,000 in 2009. No such costs were incurred in 2010. When placed into service, these in-progress construction costs are included in capital assets and amortized over the lives of the underlying leases. In-progress construction amounting to \$27,000 and \$3,000 was completed and placed into service during 2010 and 2009, respectively.

In-progress internal-use software development costs totaled \$2,835,000 in 2010 and \$994,000 in 2009. When placed into service, these in-progress software development costs will be included in capital assets and amortized over a period varying from three to five years. No software development costs in progress during the previous year were placed into service during 2010 or 2009.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

Lease commitments:

The Association conducts all of its activities from leased office space and is currently a party to various leases that expire between 2011 and 2020. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations for the years ended December 31, 2010 and 2009 amounted to \$10,598,000 and \$10,255,000, respectively. In addition, the Association leases certain computer and office equipment under various operating leases, all of which expire over the next one to five years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONCLUDED):

Lease commitments (concluded):

Minimum noncancelable lease commitments for office facilities, equipment and software, exclusive of any future escalation charges, due in each of the five years subsequent to December 31, 2010 and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$10,790,000
2012	10,620,000
2013	5,482,000
2014	3,547,000
2015	2,565,000
Thereafter	<u>3,388,000</u>
Total	<u>\$36,392,000</u>

The Association was the sublessor for leased office facilities under a sublease contract that was to expire in 2013. In March 2010, the Association reached an agreement that permitted its sublessee for the leased office facilities to terminate that sublease contract. In lieu of the future scheduled rental payments the Association received a one-time payment of \$3,000,000 in 2010. No gain or loss provisions were recorded in 2009 as the Association, working with its real estate advisors, expected to attract a new subtenant in 2010. To date, the Association has been unable to secure a new subtenant, negotiate a favorable early termination of its office lease, or identify a suitable new business use for the office facility. As a result, the Association has recorded a net loss of \$2,647,000 in 2010 on the write-off of this office lease. The loss represents the difference between the net present value of the remaining lease obligation and the unamortized costs associated with the original sublease, offset by the one-time sublessee payment noted above.

Contingencies:

The Association is a defendant in certain lawsuits arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against the Association cannot be predicted with certainty, the Association does not expect that those matters will have a material adverse effect on its consolidated financial position.

The Association bills and collects amounts in advance for unearned arbitrators' compensation. At December 31, 2010 and 2009, advance deposits collected totaled \$55,771,000 and \$54,107,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The Association has a letter of credit agreement totaling \$355,000 at December 31, 2010. This agreement guarantees an operating lease rental obligation and is secured by the investment portfolio.



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