American Arbitration Association
Dispute Resolution Services Worldwide

2009

President's Letter & Financial Statements

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

In 2009, the American Arbitration Association (AAA), like many businesses and organizations, faced a challenging economic environment with the pragmatism demanded by the times. The AAA expanded customer services while being mindful of operating expenses. We identified and leveraged new growth opportunities—such as the vibrant international arena. We also continued to boost our educational programs, helping neutrals to enhance their already rich knowledge and experience while also providing knowledge to customers seeking alternative dispute resolution (ADR) services. Like a river flowing to the ocean, the AAA maintained a steady, deliberate course, never stopping, always moving ahead.

The AAA weathered 2009 in excellent shape. AAA staff members in all parts of the organization contributed vigor, enthusiasm, and professionalism. We remained on the leading edge of some of the most important economic and legal issues facing the country, including recovery in the construction, auto and mortgage industries, major organized labor elections, and bellwether state insurance programs. The AAA solidified its permanent presence with Congress and state legislatures and increased its reputation abroad in respected countries such as Bahrain and Singapore.

I take pride in outlining below some important details of the AAA's progress in 2009.

CORPORATE INITIATIVES

In 2009, the AAA assembled a Core Project Team to develop PRISM℠, a multi-million dollar plan to deliver new technology systems designed to increase the level of service the AAA provides its customers. PRISM is scheduled to launch in late 2010. The Team, along with the AAA's entire IS Department, devoted most of the year to developing and finalizing detailed system specifications that will enhance our case management capabilities and make the AAA more compatible with sophisticated partners, corporations, law firms, court systems, and unions that utilize our services. The system's functionality is based on feedback from approximately 400 AAA staff, neutrals, and customers who were surveyed in 2008 and 2009. Some of PRISM's benefits include centralization of the case intake process under a new corporate shared-services function; the implementation of case document scanning and indexing to allow for electronic case folders – including the installation of high-speed, high-volume scanners in each of the Case Management Centers in 2010; new electronic file retention policies; the creation of workflow queues, digital dashboards, and other electronic tools to increase the automation of tasks; and additional payment options for AAA customers.

The AAA's Policy and Strategy Group reviewed the relationship with AAA neutrals and recommended the development of the Standards and Responsibilities for Members of the AAA Roster of Neutrals. These standards clarify what the AAA expects from its neutrals in terms of their actions toward clients, the AAA itself, and the ADR process in general, providing a closer, positive, and productive working relationship.

The AAA also filed an *amicus curiae* brief in the case *Stolt-Nielsen S.A. et al. v. AnimalFeeds International Corp.*, which is pending before the Supreme Court of the United States. The issue before the Court in *Stolt-Nielsen* is whether class arbitrations are permitted where the arbitration agreement is silent on that issue. The AAA's brief was filed on behalf of neither party, and we took no position on the appropriateness of the use of arbitration to resolve class action disputes. Instead, it was the AAA's desire to assist the Court by sharing our extensive and unique experience administering class action arbitrations. Consequently, the AAA's brief provided historical information on the evolution of class action arbitrations, substantive information regarding the development of our Supplementary Rules for Class Arbitrations, and a statistical overview of the hundreds of class action arbitrations that have been administered by the AAA.

In September, a dedication was held for the new AAA Library and Information Center at its new home, Pepperdine University's Jerene Appleby Harnish Law Library. The collection includes more than 23,000 titles of catalogued periodical articles, books, monographs, and other material, dating back to 1439. It is the world's oldest, largest, and most comprehensive ADR collection.

In April, the AAA unveiled new Non-Binding Dispute Resolution Services for parties involved in business-to-business, business-to-consumer, and employer-employee disputes as an alternative to pre-dispute binding options. The non-binding suite of services includes both the AAA's traditional mediation services and a new non-binding arbitration service for parties who wish to determine the merit of their case and foster settlement in a cost-effective and timely manner through viable contractual alternatives to binding options such as litigation.

DIVERSITY

As stated in the AAA's Shared Commitment to Diversity, the AAA recognizes the importance and contribution of a diverse work force, roster of neutrals, and a diverse Board. This commitment defines the AAA as an organization with respect to all of its endeavors, maintaining constancy across the board.

In 2009, the AAA proactively sought opportunities for diverse neutrals to comment on ADR issues in major news publications through the Diverse Media Bureau. Opportunities for the Bureau were identified in a major U.S. women's magazine and legal industry publications.

In 2009, the AAA successfully launched the A. Leon Higginbotham Jr. Fellows Program. In its inaugural year, 15 fellows were selected from more than 85 applicants from law firms, government agencies, and ADR firms across the country. The AAA established this program to help increase the inclusiveness of the ADR field by reaching out to women, persons of color and others, who, historically, have not had the opportunity for meaningful participation in this field. In May 2009, the fellows attended a training program on arbitration and mediation at the AAA's New York headquarters, learning from and interacting with AAA staff and neutrals who served as guest speakers and resources. Each fellow was also matched with an AAA neutral who will act as a mentor as they continue to develop their career in ADR. Through the Program, the fellows will have the opportunity to attend future seminars and webinars to stay engaged within the ADR community.

While the AAA focused on building its own initiatives, it also reached out to diverse organizations in the legal industry. For example, the AAA continued to pursue its commitment to recruit diverse AAA panelists through strategic alliances with organizations such as the National Bar Association (NBA). The AAA provided arbitrator training for 13 NBA members who joined the AAA's Roster of Neutrals. The two-day training was conducted in conjunction with the NBA's annual conference in San Diego, California. Through continued partnerships with the NBA and other minority bar associations, the AAA will reach out to more women and persons of color, an important step in promoting inclusiveness in the ADR field.

OCEANS OF OPPORTUNITY

Commercial Division

The AAA's Commercial Division built upon its success in the previous year by again introducing several new programs while administrating government programs that arose out of legislation referencing the AAA. Each program was developed with the mindset of enabling customers to resolve their disputes quickly and efficiently with broader and more flexible options. There have been more than 1,000 cases filed under the Flexible Fee Schedule Pilot program introduced in June. The program is an AAA initiative that offers customers a pay-as-you-go fee schedule. The program allows parties to proceed when they are ready and to reduce their overall costs by choosing an arbitrator on their own. The program is particularly attractive to parties who desire to pay a lower initial filing fee than the AAA's Standard Schedule.

On Dec. 16, 2009, President Barack Obama signed into law the Consolidated Appropriations Act of 2010, which included a provision under which owners of terminated automobile dealerships could use an AAA-administered arbitration process to seek reinstatement if they believed their businesses were improperly closed by automobile manufacturers. Congress exclusively entrusted the AAA with an important and high-profile responsibility to resolve these disputes fairly, quickly, and efficiently. In addition to providing a significant public service, this also demonstrates the many advantages of independent arbitration. Thus far, more than 1,500 cases have been filed under the AAA Automobile Industry Special Binding Arbitration Program, which will conclude in summer, 2010, according to the terms of the legislation.

An increase in corporate bankruptcies exemplified how the U.S. economy was affected by the recession. Although the AAA has been administering claims for distressed companies for decades, we formally launched the AAA Corporate Bankruptcy Program to assist this business sector in challenging economic times. The program helps large corporations undergoing Chapter 11 reorganization to customize claims resolution programs to meet the specific needs of their corporate debtors, creditors and stockholders. It also offers a streamlined claims administration process to help the companies conserve corporate assets and promote a faster return to normal operations. A major automobile manufacturer chose to utilize this program to manage over 70,000 unliquidated claims through a combination of mediation and arbitration processes to final resolution of these claims in a timely manner.

This year the AAA's Healthcare Dispute Resolution Advisory Council focused on the development of the AAA Payer-Provider Rules, which would apply to business-to-business disputes between healthcare organizations, a key addition to the AAA's continuum of services for the healthcare sector. The Council represents insurance companies, in-house general counsel, healthcare attorneys and major organizations within the industry such as the American Medical Association, American Hospital Association, and Medical Group Management Association. The Council also concentrated on initiatives to increase ADR education and neutral development in this sector to provide new ways for customers in the healthcare arena to manage their disputes. The AAA Payer-Provider Rules will be rolled out in 2010.

In keeping with the AAA's customer-focused strategy, the Commercial Division sought feedback from the commercial insurance industry to better identify its ADR needs. In interviews with policyholders and insurance companies, some indicated reservations about using binding arbitration for coverage disputes. These concerns reflect the fact that although the AAA administers hundreds of commercial insurance cases annually, a vast majority of coverage disputes still end up in court. Based on this feedback, the Commercial Division created the Complex Coverage Neutral Evaluation (CCNE) program to not only address the concerns of policyholders and insurance companies, but to provide a viable, cost-effective alternative to expensive litigation during these difficult economic times. CCNE is a non-binding, confidential process that allows policyholders and insurance companies to obtain an objective evaluation of the strengths and weaknesses of their respective cases from an expert third party selected from the AAA's newly created panel of nationally recognized insurance coverage experts.

In 2009, the Commercial Division took a closer look at the AAA Commercial Arbitration Rules and Mediation Procedures as part of ongoing strategic planning. While the Commercial Rules continue to be effective, the Division concluded that a few updates would improve the AAA's service and renew its commitment to a large segment of AAA customers. Assembling a team, which began its work in the fall of 2008, the AAA approached more than 40 customers who use the Commercial Rules to request their feedback on how the Rules could be improved. Upon completion of this outreach, the team considered all findings and settled upon mutually agreed upon proposals that were driven directly by the customer.

In response to Florida's residential mortgage foreclosure crisis that saw over 500,000 homes go into foreclosure in 2009, the Florida Supreme Court issued an Administrative Order on December 28, 2009 mandating the establishment of a Residential Mortgage Foreclosure Mediation Program by each of Florida's 20 Judicial Circuit courts. One of the highlights of the program is that it provides for mediation of the matter with a representative of the Lender who has full authority to settle. The AAA worked with the Courts to educate them on ADR resources which could be used to assist them. One such court, the 17th Judicial Circuit Court, Florida's second-largest circuit which encompasses Broward County and has an average of 3,000 foreclosure cases filed each month, has appointed the AAA to administer its Residential Mortgage Foreclosure Mediation Program. The commencement date for the program is July 1, 2010.

Construction Division

As a result of the downturn in the U.S. economy, the construction industry was impacted by a decrease in new building and development. That situation resulted in fewer disputes. Although there were signs of renewal in the latter part of the year, the AAA's Construction Division used this time to develop closer relationships with and create new services for its customers.

The Division took a close look at the AAA Construction Industry Arbitration Rules and made several amendments, which, overall, provide greater consistency, reduced time, faster and more thorough exchange of information, and an enhanced customer experience.

The Construction Division continues to maintain a close relationship with the National Construction Dispute Resolution Committee (NCDRC) and its members to identify opportunity and industry trends, often seeking input and guidance. In 2009, several NCDRC subcommittees worked closely with the Construction Division on projects designed to continue the AAA's leadership position as the premier dispute resolution provider for the construction industry. These projects included the revision of construction panel qualifications, identifying segments of the construction industry not currently represented on the NCDRC, recruitment of industry professionals, continued outreach, and construction arbitrator training.

Green Building practices alter the paradigm of constructing buildings in several ways, including adopting innovative approaches, using collaborative working arrangements, and raising expectations on the performance and value of completed projects. This complexity can inevitably lead to disputes and conflict. ADR, including arbitration and mediation, provides a resource-efficient process to facilitate the objectives of Green Building. In 2009, the Construction Division began to research this new building trend to determine ways in which ADR could play a role. In 2010, Green Building will be given a closer look and the Construction Division will align its resources accordingly to offer cost-effective and timely service options.

International Centre for Dispute Resolution

As a reflection of the globalization of the economy, the International Centre for Dispute Resolution (ICDR) continues to see its caseload grow year after year. Building upon its milestone achievement in 2008, international case filings exceeded 800 for the first time in 2009, making the ICDR the largest provider of international dispute resolution services in the world. In 2009, the ICDR completed the translation of its arbitration Rules into English, Spanish, French, Portuguese and Chinese. The ICDR continued its long-standing relationship with UNCITRAL as an invited NGO to participate in proceedings in both Vienna and New York. It also expanded its global reach, entering into cooperative agreements with the Chamber of Commerce in Bogotá, Colombia and the Chamber of Commerce in Lima, Peru.

Building upon the relationship developed in 2008, the AAA/ICDR continued to establish unique, exciting relationships in other parts of the world, formalizing a partnership with Bahrain's Ministry of Justice and Islamic Affairs to create the Bahrain Chamber for Dispute Resolution-AAA (BCDR-AAA), which opened in January 2010. The center will administer arbitration and mediation of regional and domestic commercial cases, including insurance, construction, financial services, and energy disputes. The BCDR-AAA developed its own rules based on the ICDR's International Dispute Resolution Procedures. Arbitrations and mediations are conducted in Arabic, English, or any other language required by parties.

The BCDR-AAA provides the first formal system for ADR services in Bahrain. Since its inception the ICDR has provided oversight, guidance, expertise and support. Specifically, the ICDR helped to establish the center's case management system, training, and outreach, installing an ICDR supervisor in Bahrain. In the future, the ICDR will establish a separate office, side-by-side with the BCDR-AAA, which will handle international cases.

In October 2007, the ICDR opened its Asia Center in Singapore in a joint venture with the Singapore International Arbitration Centre (SIAC). The affiliation resulted from the ICDR's increasing Asian caseload over the recent years and in recognition of Singapore's growing role as a leading arbitration center in Asia. As a direct effect of this growth, in August 2009, ICDR-Singapore relocated its Asia Center to the state of the art Maxwell Chambers in Singapore.

Housing the leading international ADR institutions, Maxwell Chambers has 14 custom-designed and fully equipped hearing rooms and 12 preparation rooms located in the center of Singapore's business district.

In 2009, after much consideration, the AAA/ICDR decided to transition its European operation from a Dublin-based bricks-and-mortar presence to remote-based service for Ireland and Europe. The AAA/ICDR learned over time that it can be highly effective and mobile in its international operations. In furtherance of continuing engagements and activity in Ireland, the AAA/ICDR announced an emerging affiliation with Trinity College Dublin. Trinity is one of the oldest and most prestigious institutions of higher learning in the world. As part of the relationship with Trinity College Dublin, a regular joint international conference and an AAA/ICDR award for excellence in international conflict management is planned.

This year the ICDR teamed with FIDAL, a leading French business law firm, to study how French companies manage disputes. The findings of this study, titled *DisputeWise France*, demonstrated that nearly one-third of French companies use ADR methods – especially mediation – to save time and money. The study showed companies using ADR often preserve their business relationships and even build new ones with each other after the conflict is resolved.

As a founder of the largest annual student competition, the Willem C. Vis International Commercial Arbitration Moot, the AAA/ICDR continued to support it as a major sponsor, nurturing the interest in commercial arbitration among law students who may become the arbitrators of the future.

In 2009 a major matter was reviewed through the Internet Corporation for Assigned Names and Numbers (ICANN) ICDR caseload that will have an impact on top-level domain names in the future.

Labor, Employment, Elections Division

In 2009, the Labor, Employment, Elections Division focused on streamlining processes and new products to provide an easier and more efficient customer experience. As a result, the divisional caseload increased by 7.2 percent while the labor caseload increased for the first time since 2003.

Responding directly to customer feedback, the Division launched a newsletter specifically for employment and labor customers. The publication covers the case management process, a calendar of divisional events, profiles of neutrals, and timely industry topics.

Addressing the specific needs of its labor customers, the Labor, Employment, Elections Division introduced the Rapid Resolve Procedures, a prompt and inexpensive means of settling less complicated labor arbitration grievances.

This program was created to resolve less-complicated cases for those who are concerned about cost and possible delays in processing their labor disputes. One of the benefits of these Procedures is that parties are given the option of having up to three grievances heard in one day and decided in 48 hours for a flat fee. The Rapid Resolve Procedures are a direct and timely response to the needs of a customer community that has been served since the founding of the AAA, providing another cost-saving ADR service.

The Division also streamlined the labor process by introducing the electronic filing of cases through AAAWebFile℠ and the increased use of electronic communication with arbitrators and advocates in the labor industry. The Labor, Employment, Elections Division also rolled out the Flexible Fee Schedule pilot program specifically for Individually Negotiated Contract Employment, which was well received. In 2009, one-third of all cases filed in this arena utilized this cost-effective option.

This past year, the Division collaborated with Cornell University's Scheinman Institute on Conflict Resolution to present three labor arbitration workshops which discussed how the economy will impact how cases are argued by advocates and decided by arbitrators. The Scheinman Institute on Conflict Resolution is world renowned for its labor arbitration curriculum. This partnership will help strengthen the Division's Labor Advocacy Program by expanding exposure and reach into the academic sector, where the next generation of labor arbitrators is being nurtured.

AAA Election Services continued its ongoing growth in 2009, handling several high-profile union votes and representation elections. Elections Services had an historic and record-breaking June in New York City, handling 26 elections in a thirty-day period concluding with an election involving 37,000 voters.

The work of AAA Elections Services did not go unnoticed. After reading several published articles mentioning the AAA and election reform, U.S. Senator Charles Schumer's office contacted the AAA and requested feedback and information on election reform and machine vendors.

AAA Election Services' retention rate for existing election clients is close to 100 percent, reflecting its superior level of expertise, service, and dedication to its customers. Elections Services continues to be contacted to conduct the most complicated elections despite significant competition in the industry. In December, it was awarded an election contract to conduct an election over 13 days and 52 voting sites in the State of California.

State Insurance Division

The State Insurance Division's mission is to partner with state agencies to provide ADR services for insurance claims under government-regulated programs with active agency involvement. This includes a focus on larger-volume caseloads that state agencies want carried out with independence and efficiency for the benefit of the public and to reduce the burden on the courts.

In 2009, the New York State Auto Insurance Center experienced an 18 percent increase in No-Fault filings, reaching 52,500 new cases for the year. This followed enhanced customer relations efforts including broad-based public education and a focus on rapid response and follow-up to party inquiries. Through the program's unique conciliation phase, 48 percent of cases filed in 2009 were settled prior to an arbitration by the AAA within an average of 44 days from filing. The parties were given a new option to view case documents online in both the order originally filed by the party and as indexed by document type for efficient identification and retrieval. In the Supplementary Underinsured/Uninsured Motorist program, the introduction of pre-hearing telephone conferences reduced the number of adjournments to one-third the previous volume.

The Minnesota No-Fault Insurance Center continues to handle nearly 5,000 cases filed each year, having administered the caseload since its inception in 1975. Working with the Minnesota Supreme Court's Standing Committee for No-Fault Arbitration, new Arbitrator Standards of Conduct were established in 2009 to ensure continued fair and fast means of informed dispute resolution through the maintenance of high-quality panel members.

While these programs provide a core strength for the State Insurance Division, the Division's capabilities to support state insurance regulators extend to other areas as well. For example, in 2009 the AAA was re-certified as provider of services by the North Carolina Department of Insurance under the State Disaster Mediation Program. Since 2006, the AAA has been named administrator of this program to provide mediation services to consumers and insurance carriers to resolve residential property damage claims arising from declared natural disasters in North Carolina.

Focusing further on the future, the State Insurance Division began efforts to expand to additional caseloads to support government agencies charged with the responsibility of ensuring fair and efficient resolution of insurance claims. With healthcare needs increasingly in the public spotlight, this area will be a prime target. For example, the Division has for the last several years participated in a demonstration project of the Centers for Medicare and Medicaid Services to arbitrate disputes between the CMS and state agencies over payment for home healthcare services.

The scope of the Division's service expansion will cover other areas of insurance claims as well. For example, the State Insurance Division was selected by the Connecticut Insurance Department to provide arbitration services for automobile property damage claims that remain unresolved after state mediation attempts. In addition to the automobile insurance caseloads in New York and Minnesota, the Division has developed a growing base of experience with state-regulated programs.

AAA Mediation Services

In 2009, AAA Mediation Services continued to enhance the AAA's presence in the mediation field through a number of initiatives. AAA Mediation Services, in support of the International Mediation Institute (IMI) initiative begun in 2007, provided endorsements to more than 350 AAA/ICDR mediators qualifying for certification under IMI's Experience Qualification Path. By the end of 2009, AAA mediators accounted for the majority of IMI Certified Mediators available through the IMI website. AAA Mediation Services also conducted a briefing on the marketing and administration of mediation services for the BCDR-AAA. AAA Mediation Services also focused on technology, launching a search engine optimization project for AAA Mediation Services' website, **www.aaamediation.com**, to increase web traffic to and enhance the user experience on the website.

While the AAA's overall mediation caseload remained constant, the Labor, Employment, Elections Division saw significant growth with case filings increasing 20.5 percent over 2008. The AAA continues to be the singular international arbitration institution to see growth year over year in international mediation case filings.

THE AAA MISSION AND CONTINUED PUBLIC SERVICE

Education

The AAA is viewed worldwide as a valuable education resource in the ADR field, a reflection of a core value since its inception. The AAA continued to build upon the new foundation, laid in the previous year, utilizing technology to enhance already valuable educational resources. In 2009, the AAA/ICDR held a combined Neutrals Conference for the first time in 10 years with more than 242 arbitrators and mediators attending. Based on the popularity of the Electronic Discovery program featured at the Conference, AAA University (AAAU) offered it as a webinar for ADR advocates and neutrals; more than 180 individuals viewed the program which was the highest attendance for an AAAU webinar since its inception.

AAAU continued to broaden its offerings by utilizing other webinars and online training programs in conjunction with traditional conferences. More than 70 individual education and training programs and conferences were held in 2009 with more than 2800 neutrals, advocates, and other professionals participating. More than half of the total attendees took part via webinar through 28 different programs. Additionally, AAAU conducted five online interactive courses, four for neutrals and one for advocates, with participation from approximately 400 ADR professionals. AAAU also offered several Advanced Mediator Training programs for the first time in several years with each session filled to capacity. This program will also be offered in 2010.

In March, the ICDR held its 7th Annual Miami International Arbitration Conference, launching a new Corporate Counsel Series, which examined the international arbitration process from the point of view of the in-house counsel. More than 150 international ADR practitioners and attorneys attended. For the first time, the conference was broadcast online in real time, drawing attendees from Asia, Central and North America, and Europe.

Legislation

Legislative issues continued to be at the forefront of the AAA's initiatives in 2009. Over the course of the year, the AAA remained a significant resource to both Congress and state legislatures. Staying in close contact with Congressional staff members, the AAA continued to encourage the adoption of a new Chapter 4 within Title 9 of the U.S. Code. The new chapter would be dedicated exclusively to the use of arbitration for consumer, employment, and healthcare disputes and would facilitate the changing political landscape surrounding consumer protection without damage to the body of law surrounding the Federal Arbitration Act.

Throughout 2009, the AAA worked with Congress and the Domestic Policy Subcommittee of the Oversight and Government Reform Committee to examine the issue of consumer debt collection arbitration. In conjunction with hearings that were held on the subject, the AAA recommended that the process surrounding consumer debt collection arbitration needs major reform and recommended a national policy committee to identify and research solutions. The AAA subsequently assembled the National Task Force on Issues Related to the Arbitration of Consumer Debt Collection Disputes. In 2009, this Task Force held several meetings, solidifying its mission. It is anticipated that the Task Force will issue standards for the administration of debt collection arbitration in mid-2010.

As the topic of consumer debt collection arbitration cases continued to generate interest, an independent study was conducted by the Searle Civil Justice Institute at the Northwestern University School of Law to compare the outcomes of AAA debt collection arbitrations to the outcomes of debt collection cases in court to help in evaluating arbitration as a means of resolving consumer disputes. The report, titled *Creditor Claims in Arbitration and in Court Interim Report No. 1*, was released in November 2009 and builds on the Preliminary Report, *Consumer*

Arbitration Before the American Arbitration Association, issued in March 2009. The report noted several key findings, including the fact that creditors prevailed less often in the arbitrations studied than in court; creditor recovery rates in the arbitrations studied were lower than, or comparable to, creditor recovery rates in court; consumer response rates in the arbitrations studied did not differ systematically from consumer response rates in court; and the rate of other case dispositions did not differ systematically between the arbitration and court cases studied.

ACKNOWLEDGING EXCELLENCE

Awards and Recognition

In 2009, the AAA honored several important figures in the arbitration field. The Peacemaker award, the AAA's highest honor, was presented to Hon. William H. Webster. The Peacemaker award was also presented posthumously to Dr. Mohamed Aboul-Enein. In addition, the George W. Taylor award for Outstanding Service as an Industrial Peacemaker was presented to Andrea S. Christensen, and the President's Award for Leadership in Conflict Management was given to Robert E. Meade. The Outstanding Director awards were given to Gilberto Giusti and Hon. Timothy K. Lewis. The President's Award for Living the Values was presented to Noreen Garcia.

SUMMARY

The role of arbitration and other ADR methodology in the global economy is growing. Accordingly, the AAA is well positioned to continue its steady stream of accomplishments in 2010 and the organization will be relentless in its push towards an ocean of opportunity for its customers, its neutrals, and its employees.

The AAA had an excellent 2009. The AAA's success was a direct result of the exceptional positive energy of AAA staff, the Board, and Committee Chairs. I offer profound and unending thanks to all.

President and Chief Executive Officer
April 29, 2010

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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, 2009 AND 2008

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, 2009 and 2008, 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 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, 2009 and 2008, 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.

J.H. Cohn LLP

New York, New York
April 19, 2010

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 10,333,000	$ 8,996,000
Investments, at fair value (Note 2)	80,342,000	71,668,000
Administration fees receivable, net of allowances for cancellations and uncollectable accounts of $1,128,000 in 2009 and $1,073,000 in 2008	14,122,000	17,654,000
Other receivables, net of allowances for uncollectable accounts of $174,000 in 2009 and $0 in 2008	471,000	511,000
Prepaid expenses	2,918,000	3,129,000
Construction and internal use software development in progress (Note 4)	1,021,000	44,000
Furnishings, equipment and leasehold improvements, net (Note 4)	6,099,000	7,653,000
Total Assets	$115,306,000	$ 109,655,000

	2009	2008
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses (Notes 3 and 5)	$ 59,248,000	$ 59,884,000
Accrued postretirement medical costs (Note 3)	8,163,000	6,081,000
Accrued pension liability (Note 3)	7,605,000	11,330,000
Deferred rent	2,864,000	3,606,000
Deferred revenue	2,443,000	2,687,000
Total Liabilities	80,323,000	83,588,000
Commitments and contingencies (Note 5)	–	–
Unrestricted net assets	34,983,000	26,067,000
Total Liabilities and Net Assets	$115,306,000	$ 109,655,000

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Administration fees earned:		
Commercial	$44,765,000	$46,551,000
State insurance	13,012,000	13,840,000
Labor	5,623,000	5,232,000
Elections	2,782,000	3,693,000
Totals	66,182,000	69,316,000
Publications and education	1,509,000	1,349,000
Other operating income	214,000	–
Totals	67,905,000	70,665,000
OPERATING EXPENSES		
Administration of tribunals	57,518,000	61,112,000
Elections	2,979,000	3,762,000
Publications and education	2,070,000	1,987,000
General and administration	3,430,000	3,313,000
Totals	65,997,000	70,174,000
Net Operating Income	1,908,000	491,000
NON OPERATING INCOME AND EXPENSES		
Interest and dividends on investments, net of fees (Note 2)	2,328,000	1,998,000
Net realized and unrealized gains/(losses) on investments	5,954,000	(19,328,000)
Loss on disposal of assets (Note 4)	(33,000)	(62,000)
CHANGE IN UNRESTRICTED NET ASSETS BEFORE CHANGES IN NET ASSETS	10,157,000	(16,901,000)
Pension liability adjustment (Note 3)	1,437,000	(8,691,000)
Postretirement medical obligation adjustments (Note 3)	(2,678,000)	2,633,000
CHANGE IN UNRESTRICTED NET ASSETS	8,916,000	(22,959,000)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	26,067,000	49,026,000
UNRESTRICTED NET ASSETS, END OF YEAR	$34,983,000	$26,067,000

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,916,000	($22,959,000)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,166,000	2,241,000
Bad debt and change in provisions for uncollectible accounts	756,000	631,000
Net realized and unrealized (gains)/losses on investments	(5,954,000)	19,328,000
Loss on disposal of assets	33,000	62,000
Changes in operating assets and liabilities:		
Decrease in administration fees receivable	2,950,000	4,662,000
Increase in other receivables	(134,000)	(303,000)
Decrease/(Increase) in prepaid expenses	211,000	(257,000)
Decrease in accounts payable and accrued expenses	(636,000)	(3,189,000)
Increase/(Decrease) in accrued postretirement medical costs	2,082,000	(2,319,000)
(Decrease)/Increase in accrued pension liability	(3,725,000)	6,344,000
Decrease in deferred rent	(742,000)	(349,000)
(Decrease)/Increase in deferred revenue	(244,000)	236,000
Net cash provided by operating activities	5,679,000	4,128,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment and leasehold improvements	(645,000)	(1,109,000)
Proceeds from sale of investments	49,035,000	58,909,000
Purchase of investments	(51,755,000)	(61,211,000)
Construction and internal use software development in progress	(977,000)	(44,000)
Net cash used in investing activities	(4,342,000)	(3,455,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,337,000	673,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,996,000	8,323,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$10,333,000	$ 8,996,000

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. and the Subsidiaries it controls, ADRWorld.com, The International Centre for Dispute Resolution, LLC, and American Arbitration Association PTE Ltd. All intercompany accounts and transactions have been eliminated in consolidation. As used herein, the "Association" includes the American Arbitration Association, Inc. and Subsidiaries.

The American Arbitration Association, Inc. ("AAA") is a not-for-profit organization that provides administrative, educational and development services for the widespread use of dispute resolution procedures.

ADR World.com ("ADRW"), a New York limited liability company, delivers via the Internet alternative dispute resolution news research and industry information.

The International Centre for Dispute Resolution, LLC ("ICDR, LLC"), an Irish subsidiary of the Association, promotes, facilitates and provides dispute management services.

American Arbitration Association PTE Ltd ("AAA PTE"), a Singapore subsidiary of the Association, promotes, facilitates and provides dispute management services.

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 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 2009 and 2008 of $122,000 and $255,000, 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 $2,229,000 and $2,431,000 as of December 31, 2009 and 2008, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $17,434,000 and $16,253,000 as of December 31, 2009 and 2008, 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 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 statements of operations and changes in net assets.

Furnishings, equipment and leasehold improvements

Furnishings, equipment 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

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. In 2008, the Association began a new project to design and develop new case management applications. The cost of this development will also be amortized over five years once the new software is placed in service, which is expected to occur in 2010. The balance of software development in progress was $994,000 and $41,000 at December 31, 2009 and 2008, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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.

ICDR, LLC is a taxable entity in Ireland. There are no provisions for income taxes for 2009 and 2008 due to losses incurred. As of December 31, 2009 and 2008, ICDR, LLC has offset the deferred tax asset related to its loss carryforwards of approximately $3,800,000 and $3,197,000, respectively, by a valuation allowance of an equivalent amount as such deferred tax asset is not expected to be realized. Accordingly, there are no credits for income taxes reflected in the accompanying consolidated statements of operations and changes in net assets to offset ICDR, LLC's pretax losses.

AAA PTE is a taxable entity in Singapore established in 2009. There are no provisions for income taxes for 2009 due to the loss incurred. As of December 31, 2009, AAA PTE has offset the deferred tax asset related to its loss carryforward of approximately $25,000 by a valuation allowance of an equivalent amount as such deferred tax asset is not expected to be realized. Accordingly, there are no credits for income taxes reflected in the accompanying consolidated statements of operations and changes in net assets to offset AAA PTE's pretax loss.

As a single member LLC, any taxable income or loss of ADRW is passed on to the member and taxable in accordance with the member's tax status.

The Association adopted guidance related to accounting for uncertainty in income taxes on January 1, 2009. The adoption of that guidance did not result in the recognition of any unrecognized tax benefits and the Association has no unrecognized tax benefits at December 31, 2009. The Association's U.S. Federal and state income tax returns prior to fiscal year 2006 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.

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, 2010, which is the date the financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS

Investments at December 31, 2009 and 2008 consist of the following:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Fixed income/Money market funds	$62,898,000	$64,108,000	$65,084,000	$61,840,000
Domestic equity mutual funds	16,874,000	16,234,000	15,325,000	9,828,000
Totals	$79,772,000	$80,342,000	$80,409,000	$71,668,000

Interest and dividends on investments are reported net of investment management fees and bank charges of $588,000 and $551,000 in 2009 and 2008, respectively.

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 level 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.

Financial assets carried at fair value at December 31, 2009 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Fixed income/Money market funds	$ 64,108,000	–	–	$64,108,000
Domestic equity mutual funds	16,234,000	–	–	16,234,000
Totals	$80,342,000	–	–	$80,342,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – INVESTMENTS (CONCLUDED)

Financial assets carried at fair value at December 31, 2008 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Fixed income/Money market funds	$53,106,000	–	$8,734,000	$61,840,000
Domestic equity mutual funds	9,828,000	–	–	9,828,000
Totals	$62,934,000	–	$8,734,000	$71,668,000

Investments in mutual funds, which account for $64,108,000 of the Association's fixed income fund holdings and $16,234,000 of the domestic equity mutual fund holdings at December 31, 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.

Changes in assets measured at fair value using level 3 inputs for the year ended December 31, 2009 are as follows:

	Balance January 1, 2009	Net Realized and Unrealized Losses	Reinvested Dividends (net of fees)	Purchases, Sales and Settlements	Balance December 31, 2009	Change in Unrealized Gains/(Losses) for Investments Still Held at December 31, 2009
Collective trust, at fair market value	$ 8,734,000	$ (570,000)	$ (28,000)	$ (8,136,000)	$ –	$ –

Changes in assets measured at fair value using level 3 inputs for the year ended December 31, 2008 are as follows:

	Balance January 1, 2008	Net Realized and Unrealized Losses	Reinvested Dividends (net of fees)	Purchases, Sales and Settlements	Balance December 31, 2008	Change in Unrealized Gains/(Losses) for Investments Still Held at December 31, 2008
Collective trust, at fair market value	$22,476,000	$(2,225,000)	$ 483,000	$(12,000,000)	$8,734,000	$(1,382,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2009 and 2008 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, 2010 are estimated to be $409,000. Including this minimum required contribution, the Association expects to contribute approximately $2,500,000 to the Plan during 2010.

The Association also provides certain healthcare 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.

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 effect of these changes was a reduction in accrued postretirement medical costs and a corresponding increase in net assets of $2,633,000 at December 31, 2008.

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, 2009 and in the aggregate for the five years beginning in 2015 are as follows:

January 1,	Pension Benefits	Healthcare Benefits
2010	$2,424,000	$ 499,000
2011	2,400,000	545,000
2012	2,409,000	569,000
2013	2,416,000	557,000
2014	2,395,000	542,000
Years 2015 to 2019	12,227,000	2,590,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

For the defined benefit plan 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, 2009 and 2008:

	Pension Benefits		Healthcare Benefits	
	2009	2008	2009	2008
Benefit obligation at December 31	$ 35,382,000	$ 33,411,000	$ 8,163,000	$ 6,081,000
Fair value of plan assets at December 31	27,777,000	22,081,000	–	–
Net unfunded status of the plan	(7,605,000)	(11,330,000)	(8,163,000)	(6,081,000)
Unrecognized net loss/(gain) included in net assets	12,402,000	13,839,000	(1,821,000)	(4,499,000)
Employer's contribution	3,486,000	2,500,000	437,000	360,000
Plan participants' contributions	–	–	49,000	42,000
Net periodic benefit costs	1,199,000	153,000	(159,000)	673,000
Subsidies received	–	–	30,000	28,000
Benefit payments	(2,104,000)	(2,299,000)	(516,000)	(431,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Prior service credit	–	–	(2,998,000)	(3,728,000)
Net actuarial loss /(gain)	(1,437,000)	8,691,000	1,177,000	(770,000)
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	5.75%	6.25%	5.75%	6.25%
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Unrecognized actuarial loss:				
Beginning of the year	$ 13,839,000	$ 5,148,000	$(4,499,000)	$(1,866,000)
Add: Amortization of net gain or (loss)	(865,000)	(151,000)	730,000	327,000
Less: Actuarial gain or (loss)	572,000	(8,842,000)	(1,948,000)	2,960,000
End of the year	$ 12,402,000	$ 13,839,000	$(1,821,000)	$(4,499,000)

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 $742,000. The estimated prior service credit and net loss, totaling $723,000 and $24,000, respectively, for the postretirement plan will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

For measurement purposes, a 10.00% 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:

	Target Allocation	Percentage of Plan Assets at December 31,	
Plan assets:		**2009**	2008
Equity securities	40 - 70%	**42%**	36%
Fixed income/Group annuity contract	30 - 60%	**58**	64
Total		**100%**	100%

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, 2009, by asset category are as follows:

Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
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	$27,179,000	$ –	$ 598,000	$27,777,000

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 year ended December 31, 2009 are as follows:

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

The Association also maintains a nonqualified Supplemental Retirement Plan. For 2009 and 2008, the expense associated with this unfunded plan, which is included in general and administrative expenses, was $4,000 and $3,000, respectively. For 2009 and 2008, the accrued benefit obligation, which is actuarially determined and included in accounts payable and accrued expenses, was $40,000 and $36,000, respectively. The discount rate used to determine the benefit obligation was 6.00% and 6.25% in 2009 and 2008, 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 $955,000 in 2009 and by $1,315,000 in 2008.

NOTE 4 - FURNISHINGS, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furnishings, equipment and leasehold improvements consist of the following:

	2009	2008
Furnishings and equipment	$10,656,000	$15,240,000
Leasehold improvements	13,224,000	13,351,000
	23,880,000	28,591,000
Less accumulated depreciation and amortization	(17,781,000)	(20,938,000)
Totals	$6,099,000	$7,653,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FURNISHINGS, EQUIPMENT AND LEASEHOLD IMPROVEMENTS (CONCLUDED)

In 2009 and 2008, the Association recognized a net loss of approximately $33,000 and $62,000 relating to the disposal of certain assets with original costs totaling $449,000 and $697,000, respectively.

Furnishings and equipment as of December 31, 2009 and 2008 includes costs associated with the development of software for internal use of $4,907,000. Related accumulated amortization for both periods was $4,907,000.

In-progress construction costs for leased facilities totaled $27,000 in 2009 and $3,000 in 2008. When placed into service, these in-progress construction costs will be included in capital assets and amortized over the lives of the underlying leases. In-progress construction amounting to $3,000 and $37,000 was completed and placed into service during 2009 and 2008, respectively.

In-progress internal-use software development costs totaled $994,000 in 2009 and $41,000 in 2008. When placed into service, these in-progress software development costs will be included in capital assets and amortized over a period of five years. No in-progress software development costs were placed into service during 2009 or 2008.

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 2010 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, 2009 and 2008 amounted to $10,255,000 and $10,323,000, 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.

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, 2009 and thereafter are as follows:

Year Ending December 31,	Amount
2010	$10,740,000
2011	10,311,000
2012	10,091,000
2013	5,269,000
2014	3,492,000
Thereafter	5,923,000
Total	$45,826,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

Lease commitments (concluded)

The Association is the sublessor for leased office facilities under a sublease contract that expires in 2013. The minimum rentals to be received under noncancelable subleases in each of the five years subsequent to December 31, 2009 are as follows:

Year Ending December 31,	Amount
2010	$ 2,264,000
2011	2,264,000
2012	2,264,000
2013	189,000
Total	$ 6,981,000

In March 2010, the Association reached an agreement that permits its sublessee for leased office facilities to terminate a sublease contract that was scheduled to expire in 2013. The minimum rentals that had been anticipated and disclosed in the table above but that will not be received under this agreement total $6,450,000. 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 have been recorded in 2009 as the Association intends to market the office facility to attract a new subtenant, negotiate a possible early termination of its office lease, or utilize the space for its own business needs. Therefore the amount and likelihood of potential gains or losses cannot be reasonably estimated at this time.

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, 2009 and 2008, advance deposits collected totaled $54,107,000 and $54,976,000, 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, 2009. This agreement guarantees an operating lease rental obligation and is secured by the investment portfolio.

American Arbitration Association

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