STATE STREET Corp
Form 8-K
February 04, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 4, 2010**

State Street Corporation

(Exact name of registrant as specified in its charter)

Massachusetts	**001-07511**	**04-2456637**
(State of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification Number)**

One Lincoln Street, Boston, Massachusetts	**02111**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: **(617) 786-3000**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

Item 8.01. Other Events.

On February 4, 2009, State Street Corporation (State Street) announced that it has entered into settlements with the Securities and Exchange Commission (the SEC), the Massachusetts Attorney General and the Massachusetts Securities Division of the Office of the Secretary of State to resolve their investigations into losses incurred by and disclosures made around certain active fixed-income strategies managed by State Street Global Advisors during 2007 and earlier periods. In reaching these settlements, State Street has not admitted or denied the allegations made by the regulators.

Under the terms of the agreement with the SEC, State Street has agreed to establish a $313 million fair fund, which includes a fine of $50 million and disgorgement of advisory fees and interest of approximately $8 million. Combined with the approximately $350 million in prior client settlements, the total compensation to investors will be approximately $663 million. Under the settlements with the Commonwealth of Massachusetts, State Street has agreed to pay $10 million to each of the Massachusetts Secretary of State and the Massachusetts Attorney General. State Street s previously established legal reserve will fully cover the cost of the settlements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STATE STREET CORPORATION

By: /s/ David C. Phelan

Name: David C. Phelan

Title: Executive Vice President and General Counsel

Date: February 4, 2010

Discount rate 7.5% 8.0% Rate of increase in compensation 4.0% 5.0% Expected long-term rate of return on plan assets 8.0% 8.0% F-13 5. Retirement Plans: (Cont'd) Securities of the Company included in plan assets are as follows: April 30, ----------------------------- 2003 2002 ---------- ---------- Number of shares 82,580 78,346 Market value $1,391,473 $1,327,965 6. Stock Options Plans: Incentive Stock Option Plan The Company has a stock option plan (the "Plan") under which participants may be granted either Incentive Stock Options ("ISOs"), Non-Qualified Stock Options ("NQSOs") or Stock Grants. The purpose of the Plan is to promote the overall financial objectives of the Company and its shareholders by motivating those persons selected to participate in the Plan to achieve long-term growth in shareholder equity in the Company and by retaining the association of those individuals who are instrumental in achieving this growth. Such options or grants become exercisable at various intervals based upon vesting schedules as determined by the Compensation Committee. The options expire between October 2003 and October 2007. During the year ended April 30, 2003, the Company granted 3,465 shares of common stock to employees with a value of approximately $54,000. The ISOs may be granted to employees and consultants of the Company at a price not less than the fair market value on the date of grant. All such options are authorized and approved by the Board of Directors, based on recommendations of the Compensation Committee. ISOs may be granted along with Stock Appreciation Rights, which permit the holder to tender the option to the Company in exchange for stock, at no cost to the optionee, that represents the difference between the option price and the fair market value on date of exercise. NQSOs may be issued with Limited Stock Appreciation Rights, which are exercisable, for cash, in the event of a change of control. In addition, an incentive kicker may be provided for Stock Grants, ISOs and NQSOs, which increases the number of grants or options based on the market price of the shares at exercise versus the option price. A reload feature may also be attached which permits the optionee to tender previously purchased stock, in lieu of cash, for the purchase of the options and receive additional options equal to the number of shares tendered. Non-Employee Director Stock Option Plan: The Company adopted a non-qualified stock option plan for all non-employee Directors of the Company in October 1996. Each non-employee Director was granted an initial 2,500 options on the date of adoption of the plan. These options are exercisable in three equal annual installments commencing on the first anniversary date subsequent to the grant. Additionally, each non-employee Director was granted 1,250 options on each January 1, 1997 through 2000, respectively. These additional options are exercisable in full on the first anniversary date subsequent to the date of grant. F-14 6. Stock Option Plans: (Cont'd) A summary of the Company's various fixed stock option plans as of April 30, 2003 and 2002, and changes during the years then ended is presented below: Years Ended April 30, -- 2003 2002 -------------------- -------------------- Weighted Weighted Average Average Exercise Exercise Fixed Stock Options Shares Price Shares Price ------------------ -------- -------- -------- -------- Outstanding, beginning of year 142,340 $ 15.13 120,975 $ 14.90 Granted 41,800 15.70 35,090 15.94 Exercised (1,700) 10.74 (5,500) 14.08 Canceled (11,825) 13.97 (8,225) 16.02 -------- -------- Outstanding, end of year 170,615 15.39 142,340 15.13 ======== ======== Options exercisable at year end 170,615 15.39 142,340 15.13 ======== ======== Weighted average fair value of options granted during the year $ 5.56 $ 5.35 ======== ======== The following table summarizes information about stock options outstanding at April 30, 2003: Options Outstanding Options Exercisable

-- ---------------------------- Weighted Average Weighted Weighted Remaining Average Average Range of Number Contractual Exercise Number Exercise Exercise Price Outstanding Life Price Outstanding Price ----------------- ----------- ----------------- ------------ ---------------- ------------ $10.73 - $13.46 31,850 1.40 $11.71 31,850 $11.71 $14.23 - $16.16 100,265 3.66 $15.44 100,265 $15.44 $18.16 - $19.10 38,500 1.97 $18.30 38,500 $18.30 Shares reserved for future issuance at April 30, 2003 are comprised of the following: Shares issuable upon exercise of stock options under the Company's Non-Employee Director Stock Option Plan 72,000 Shares issuable under the Company's Non-Employee Director Stock Compensation Plan 22,792 Shares issuable upon exercise of stock options under the Company's stock incentive plan 230,177 ------- 324,969 ------- F-15 6. Incentive Stock Option Plan (Cont'd) In accordance with APB Opinion No. 25, no compensation expense has been recognized for the employee stock option plans. Had the Company recorded compensation expense for the employee stock options based on the fair value at the grant date for awards in the years ended April 30, 2003 and 2002 consistent with the provisions of SFAS No. 123, the Company's net income and net income per share would have been adjusted to the following pro forma amounts: 2003 2002 ----------- ----------- Net income, as reported $ 1,769,668 $ 21,645 Net income (loss), pro forma 1,636,095 (134,935) Basic income per share, as reported 1.59 .02 Basic income (loss) per share, pro forma 1.47 (.11) Diluted income per share, as reported 1.58 .02 Diluted income (loss) per share, pro forma 1.46 (.11) For the purposes of the pro forma presentation, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following range of weighted-average assumptions were used for grants during the fiscal years ended April 30, 2003 and 2002. Years Ended April 30, ------------------------ 2003 2002 ----------- ----------- Dividend yield 0.0% 0.0% Volatility 47.0% 41.0% Risk-Free interest rate 2.0% 4.0% Expected life 5 Years 5 Years Incentive Compensation Plan: The Company has an incentive compensation plan for all full-time employees and members of the Board in order to promote shareholder value. The benefits of the incentive compensation plan are realized only upon a change in control of the Company. Change in control is defined as the accumulation by any person, entity or group of 30% or more of the combined voting power of the Company's voting stock or the occurrence of certain other specified events. In the event of a change in control, the Company's plan provides for a cash payment equal to the difference between the plan's "establishment date" price of $15.39 per share and the per share price of the Company's common stock on the closing date, equivalent to 100,000 shares of company common stock. The payment amount would be distributed to eligible participants based upon their respective weighted percentages (ranging from .5% to 18%). 7. Loans Payable: April 30, ------------------------ 2003 2002 ----------- ----------- Term loan, bank (a) $ 628,450 $ 688,197 Installment loans, other 41,160 11,987 ----------- ----------- $ 669,610 $ 700,184 =========== =========== F-16 7. Loans Payable: (Cont'd) (a) The loan required monthly installment payments of $9,643, including interest at 8.45% per annum, until March 1, 2003 when the monthly installment payments were adjusted to $8,704, including interest at 5.96%. The remaining unpaid principal of approximately $470,000 is due in September 2005. The loan provides for an adjustment to the fixed interest rate on every fifth anniversary based upon the U.S. Treasury note rate. The loan is secured by the assignment of rents and a first collateral mortgage on certain real estate. The Bank requires compensating balances totaling 20% of the ending monthly balance of the loan to be held in interest bearing and non-interest bearing deposit accounts. On May 29, 2003, the Company entered into a revolving line of credit agreement with a new lending institution. The line of credit has a maximum borrowing limit of $1,750,000, and bears interest at 1% above the prime-lending rate (4.25% at April 30, 2003). The line is secured by certain real estate and expires on June 1, 2006. Subsequent to year-end, proceeds from the line were used to pay-off the balance of the outstanding bank term loan. As a result, the term loan is not included in the following schedule of annual maturities of loans payable. Annual maturities of loans payable is as follows: Years Ending April 30, Amount ------------ --------- 2004 $ 17,788 2005 9,810 2006 7,411 2007 630,279 2008 4,322 --------- $ 669,610 --------- 8. Sale of Real Estate: On August 8, 2002, the Company sold approximately twelve acres of property and certain buildings with a carrying value of approximately $559,000 to an existing tenant. The contract of sale amounted to $5,370,000 under which the Company received a cash payment of approximately $3,600,000 and a three-year mortgage for $1,800,000 with interest at 5%. The profit on the sale of the land and buildings was $4,700,000 net of transaction costs of approximately $113,000. Pursuant to Statement of Financial Accounting Standards No. 66, approximately $1,570,000 of the gain on this sale has been deferred as of April 30, 2003. The deferred gain will be recognized upon collection of the related mortgage receivable. 9. Stockholders' Equity: a. Repurchase of common stock On April 12, 2002, the Company repurchased 111,000 shares of common stock from one of its stockholders at a price of $20.25 per share. The par value method of accounting is used for common stock repurchases. The excess of the cost of shares acquired over their par value is allocated to paid-in capital with the excess over market value charged to retained earnings. F-17 9. Stockholders' Equity: (Cont'd) b. Stock dividend On April 15, 2002, the Company's Board of Directors declared a 10% stock dividend payable on May 15, 2002 for shareholders of record as of May 1, 2002. A total of 100,646 shares of common stock were issued out of treasury in connection with this dividend. The financial statements at April 30, 2002 give effect to the dividend and reflect a reduction of treasury stock equal to the fair value of the stock dividend of $2,038,082. All references in the accompanying financial statements to the number of common shares and per share amounts have been restated to reflect the stock dividend. In connection with the 10% stock dividend, a cash dividend of $8,397 was paid to stockholders for fractional shares. No dividends were declared during year-end April 30, 2003. 10. Concentration of Credit Risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and long-term investments. The Company places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure in any one financial institution. The Company is affected by the economics of the Citrus industry due to its investments therein. Management does not believe significant credit risk exists at April 30, 2003. 11. Supplemental Disclosures of Cash Flow Information: Years Ended April 30, ------------------------ 2003 2002 ----------- ----------- Cash paid during the year for: Interest $ 60,049 $ 61,520 =========== =========== Income taxes $ 270,000 $ 88,359 =========== =========== 12. Commitments: a. Lease commitments The future minimum revenues from rental property under the terms of all noncancellable tenant leases, assuming no new or renegotiated leases are executed for such premises, for future years are approximately as follows: Years Ending April 30, ------------- 2004 $ 1,371,000 2005 534,000 2006 398,000 2007 104,000 F-18 12. Commitments: (Cont'd) b. Employment agreements Effective January 23, 2003, the Company amended the existing employment contracts with two officers, which provide for annual salaries aggregating $362,000. The terms of the agreements were extended from one to three years and provide for a severance payment equivalent to three years salary in the event of a change in control. c. Royalty agreement The Company is entitled to a 3% royalty on any revenues generated by Aviodyne, Inc. as a result of the assets purchased from the Company. For the years ended April 30, 2003 and 2002 no royalty payments had been earned. d. Land development contract The Company has entered into a Golf Operating and Asset Management Agreement (the "Agreement") with Landmark National ("Landmark") for the design and development of an 18-hole championship golf course community. The Agreement provides for Landmark to design, construct and mange the golf course and related facilities, and to design and plan the proposed residential community. Fees for Landmarks services is as follows: Golf course design and operations: o $5,000 per month, not to exceed $150,000, for the design of the golf course and related facilities. o A $100,000 golf course grading plan fee after completion of the grading plan. o If Landmark designs the golf course as a "Signature Landmark Course," a one time licensing fee not to exceed $250,000 is due. o A monthly builders fee, upon commencement of construction of the golf course, equal to 4.5% of the total cost of the golf course and related facilities. o Upon commencement of the operations of the golf course, a $100,000 annual management fee. Residential Community Planning and Design: o $10,000 per month, not to exceed $300,000, for the design and planning of the residential community. o $75,000 annual fee commencing upon the beginning of the operations, sales and marketing phase of the residential community, and terminating upon the sale of all building lots. Total Project: o A monthly builders fee, upon commencement of construction of the golf course and the residential community, equal to 4.5% of the total construction costs, as defined. o An incentive fee equal to 10% of the pre-tax income of the Project, as defined. F-19 12. Commitments: (Cont'd) d. Land development contract (Cont'd) Termination: Should the Company terminate the Agreement prior to completion without cause, a termination fee is payable to Landmark as follows: a. $500,000 prior to the completion of the design and master plan phase of the golf course and related facilities; b. $1,000,000 after the completion of the design and master plan phase of the golf course and related facilities and prior to the opening of the golf course to third parties; c. If termination occurs after the golf course and related facilities are open for use by third parties a sum equal to 50% of the entire amount of unearned fees that would have been earned by Landmark through the expiration date of the agreement. The Agreement expires on April 9, 2017. 13. Fair Value of Financial Instruments: The methods and assumptions used to estimate the fair value of the following classes of financial instruments were: The carrying amount of cash, receivables and payables and certain other short-term financial instruments approximate their fair value. The estimated fair value of the Company's investment in the Grove Partnership at April 30, 2003, based upon an independent third party appraisal report, is approximately $6,442,000 based on the Company's ownership percentage. The book value of the Company's loans payable approximates its fair value. 14. Related Party Transactions: A law firm related to a director provided legal services to the Company for which it was compensated approximately $119,000 and $309,000 for the years ended April 30, 2003 and 2002, respectively. 15. Major Customers: For the year ended April 30, 2003 rental income from three tenants represented 17%, 13% and 11% of total rental income. For the year ended April 30, 2002 rental income from three tenants represented 16%, 12% and 11% of total rental income. During the year, one of the Company's major tenants purchased land, buildings, and improvements from the Company (see Note 7), therefore terminating its lease agreement with the Company. Rental income from this tenant for the years ended April 30, 2003 and 2002 was approximately $90,000 and $304,000, respectively. F-20 16. Contingencies: In December 2002, the State University of New York at Stony Brook ("SUNY Stony Brook") approached the Company with an interest in discussing the purchase of all 314 acres that comprise the Company's real estate holding in New York. Those discussions were eventually discontinued, as management did not believe that the purchase price offered by SUNY Stony Brook was reflective of the current value of the property. In April 2003, SUNY Stony Brook announced that the Board of Trustees of the State University of New York had adopted a resolution, which empowered SUNY Stony Brook to commence eminent domain proceedings to acquire the property. As of June 20, 2003, SUNY Stony Brook has not announced any further actions. Management believes that the valuations of the property by SUNY Stony Brook does not coincide with both our own and those of our independent outside consultants, and condemnation at the property's highest and best use will reflect the outside valuations that have been obtained. Management is confident that the plan for a residential golf course community represents that highest and best use. 17. Prior Period Adjustment The accompanying financial statements have been restated to account for the Company's limited partnership investment in Callery-Judge Grove, L.P. (the "Grove") in accordance with EITF Topic D-46 "Accounting for Limited Partnership Investments" and the guidance in paragraph 8 of SOP 78-9 "Accounting for Investments in Real Estate Ventures," which requires the use of the equity method for investments in limited partnerships, unless the investor's interest is so minor that the limited partner has virtually no influence over partnership operating and financial policies. In particular, EITF Topic D-46 notes that practice generally has viewed investments of more than 3% to 5% to be more than minor. The Company originally purchased its limited partnership interest in 1965 and received a 20% interest. Through April 30, 1995, the Company accounted for this investment under the equity method. In Fiscal 1996, the Company changed its accounting for this investment to the cost method. Management believed that the cost method of accounting was more appropriate because the partnership agreement had been amended to further limit the rights of the limited partners, the Company's ownership interest had been diluted through capital calls that it did not participate in and the Company had no influence over the partnership operating and financial policies. The Company's ownership interest, as a result of additional capital calls of the partnership, in which the Company did not participate, has subsequently been diluted to 10.93%. The financial statements have been restated to conform with the guidance of EITF Topic D-46 and paragraph 8 of SOP 78-9 as it pertains to investments in limited partnerships, and specifically the practice of accounting for limited partnership investments of more than 3% to 5% under the equity method of accounting. Retained earnings at the beginning of fiscal 2001 have been reduced by $1,030,104, net of income tax benefit of $555,000, to apply the use of the equity method and write down the carrying value of the investment as a result of cumulative losses of the Grove. The adjustment had no affect on the net income for the years ended April 30, 2003 and 2002. F-21 17. Prior Period Adjustment (Cont'd) The effects of the restatement were as follows: 2003 2002 ------------------------- ------------------------- As As Previously As Previously As Reported Restated Reported Restated -------- -------- -------- -------- At April, 30: Investment in the Grove Partnership $ 1,585,104 $ -- $ 1,585,104 $ -- Deferred Income Taxes 2,416,000 1,861,000 1,196,000 641,000 Retained Earnings 213,346 (816,758) (1,556,322) (2,586,426) F-22