

GOLDMAN SACHS GROUP INC/

Form 10-K

January 29, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended November 30, 2007 Commission File Number: 001-14965  
The Goldman Sachs Group, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-4019460  
(I.R.S. Employer  
Identification No.)

85 Broad Street  
New York, N.Y.  
(Address of principal executive offices)

10004  
(Zip Code)

(212) 902-1000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common stock, par value \$.01 per share, and attached Shareholder Protection Rights	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series A	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of 6.20% Non-Cumulative Preferred Stock, Series B	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series C	New York Stock Exchange
	New York Stock Exchange

**Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series D**

**5.793% Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities of Goldman Sachs Capital II (and Registrant's guarantee with respect thereto)** **New York Stock Exchange**

**Floating Rate Normal Automatic Preferred Enhanced Capital Securities of Goldman Sachs Capital III (and Registrant's guarantee with respect thereto)** **New York Stock Exchange**

**Medium-Term Notes, Series B, Index-Linked Notes due February 2013; Index-Linked Notes due April 2013; Index-Linked Notes due May 2013; Index-Linked Notes due 2010; and Index-Linked Notes due 2011** **American Stock Exchange**

**Medium-Term Notes, Series B, 7.35% Notes due 2009; 7.80% Notes due 2010; Floating Rate Notes due 2008; and Floating Rate Notes due 2011** **New York Stock Exchange**

**Medium-Term Notes, Series A, Index-Linked Notes due 2037 of GS Finance Corp. (and Registrant's guarantee with respect thereto)** **NYSE Arca**

**Medium-Term Notes, Series B, Index-Linked Notes due 2037** **NYSE Arca**

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Annual Report on Form 10-K or any amendment to the Annual Report on Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 25, 2007, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$89.1 billion.

As of January 18, 2008, there were 395,907,302 shares of the registrant's common stock outstanding.

**Documents incorporated by reference:** Portions of The Goldman Sachs Group, Inc.'s Proxy Statement for its 2008 Annual Meeting of Shareholders to be held on April 10, 2008 are incorporated by reference in the Annual

Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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## THE GOLDMAN SACHS GROUP, INC.

## ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2007

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**PART I**

**Item 1. Business**

**Introduction**

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Goldman Sachs is the successor to a commercial paper business founded in 1869 by Marcus Goldman. On May 7, 1999, we converted from a partnership to a corporation and completed an initial public offering of our common stock.

Our activities are divided into three segments: (i) Investment Banking, (ii) Trading and Principal Investments and (iii) Asset Management and Securities Services.

All references to 2007, 2006 and 2005 refer to our fiscal years ended, or the dates, as the context requires, November 30, 2007, November 24, 2006 and November 25, 2005, respectively. When we use the terms Goldman Sachs, the firm, we, us and our, we mean The Goldman Sachs Group, Inc., a Delaware corporation, and its consolidated subsidiaries. References herein to the Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended November 30, 2007.

Financial information concerning our business segments and geographic regions for each of 2007, 2006 and 2005 is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and the notes thereto, which are in Part II, Items 7, 7A and 8 of the Annual Report on Form 10-K.

Our Internet address is [www.gs.com](http://www.gs.com) and the investor relations section of our web site is located at [www.gs.com/shareholders](http://www.gs.com/shareholders). We make available free of charge, on or through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our certificate of incorporation and by-laws, charters for our Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer (as defined in the Code). In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

Our Investor Relations Department can be contacted at The Goldman Sachs Group, Inc., 85 Broad Street, 17th Floor, New York, New York 10004, Attn: Investor Relations, telephone: 212-902-0300, e-mail: [gs-investor-relations@gs.com](mailto:gs-investor-relations@gs.com).





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**Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995**

We have included or incorporated by reference in the Annual Report on Form 10-K, and from time to time our management may make, statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include our belief regarding the effect of various legal proceedings, as set forth under Legal Proceedings in Part I, Item 3 of the Annual Report on Form 10-K, as well as statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses and statements about our investment banking transaction backlog, in Part II, Item 7 of the Annual Report on Form 10-K. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the Annual Report on Form 10-K.

In the case of statements about our investment banking transaction backlog, such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that we actually earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect our investment banking transactions, see Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the Annual Report on Form 10-K.

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(in millions)

		<b>Year Ended November</b>		
		<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Investment Banking</b>	Net revenues	\$ 7,555	\$ 5,629	\$ 3,671
	Operating expenses	4,985	4,062	3,258
	Pre-tax earnings	\$ 2,570	\$ 1,567	\$ 413
<b>Trading and Principal Investments</b>	Net revenues	\$ 31,226	\$ 25,562	\$ 16,818
	Operating expenses	17,998	14,962	10,600
	Pre-tax earnings	\$ 13,228	\$ 10,600	\$ 6,218
<b>Asset Management and Securities Services</b>	Net revenues	\$ 7,206	\$ 6,474	\$ 4,749
	Operating expenses	5,363	4,036	3,070
	Pre-tax earnings	\$ 1,843	\$ 2,438	\$ 1,679
<b>Total</b>	Net revenues	\$ 45,987	\$ 37,665	\$ 25,238
	Operating expenses <sup>(1)</sup>	28,383	23,105	16,965
	Pre-tax earnings	\$ 17,604	\$ 14,560	\$ 8,273

<sup>(1)</sup> Includes net provisions for a number of litigation and regulatory proceedings of \$37 million, \$45 million and \$37 million for the years ended November 2007, November 2006 and November 2005, respectively, that have not been allocated to our segments.

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**Where We Conduct Business**

As of November 30, 2007, we operated offices in over 25 countries and 43% of our 30,522 employees were based outside the United States. In 2007, we derived 49% of our net revenues and 57% of our pre-tax earnings outside of the Americas. See geographic information in Note 16 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

Our clients and customers are located worldwide, and we are an active participant in financial markets around the world. We have developed and continue to build strong investment banking relationships in new and developing markets. We also continue to expand our presence throughout these markets to invest strategically when opportunities arise and to work more closely with our asset management clients in these regions. Our global reach is illustrated by the following:

we are a member of and an active participant in most of the world's major stock, options and futures exchanges and marketplaces;

we are a primary dealer in many of the largest government bond markets around the world;

we have interbank dealer status in currency markets around the world; and

we are a member of or have relationships with major commodities exchanges worldwide.

Our businesses are supported by our Global Investment Research division, which, as of November 2007, provided research coverage of over 3,250 companies worldwide and over 50 national economies, and maintained a presence in locations around the world.

We continue to expand our geographic reach. For example, over the past two years we have opened offices in Mumbai, Moscow, Sao Paulo, Dubai, Qatar and Tel Aviv, become licensed as a broker-dealer in Russia, India and China, opened a bank in Brazil and entered into the asset management business in South Korea. In December 2007, we established two wholly owned banks in Dublin, Ireland. Through this banking presence, we will initially focus on our private client business, underwrite commercial bank loans, undertake fund administration for our European global securities services business and facilitate funding transactions for the firm.

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**Business Segments**

The primary products and activities of our business segments are set forth in the following chart:

<b>Business Segment/Component</b>	<b>Primary Products and Activities</b>
<p><b>Investment Banking:</b> <i>Financial Advisory</i></p>	<p>Mergers and acquisitions advisory services Financial restructuring advisory services</p>
<p><i>Underwriting</i></p>	<p>Equity and debt underwriting</p>
<p><b>Trading and Principal Investments:</b> <i>Fixed Income, Currency and Commodities</i></p>	<p>Commodities and commodity derivatives, including power generation and related activities Credit products, including trading and investing in credit derivatives, investment-grade corporate securities, high-yield securities, bank and secured loans, municipal securities, emerging market and distressed debt, public and private equity securities and real estate Currencies and currency derivatives Interest rate products, including interest rate derivatives, global government securities and money market instruments, including matched book positions Mortgage-related securities and loan products and other asset-backed instruments</p>
<p><i>Equities</i></p>	<p>Equity securities and derivatives Securities, futures and options clearing services Market-making and specialist activities in equity securities and options Insurance activities</p>
<p><i>Principal Investments</i></p>	<p>Principal investments in connection with merchant banking activities Investment in the ordinary shares of Industrial and Commercial Bank of China Limited Investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc.</p>
<p><b>Asset Management and Securities Services:</b> <i>Asset Management</i></p>	<p>Investment advisory services, financial planning and investment products (primarily through separately managed accounts and commingled vehicles) across all major asset classes, including money markets, fixed</p>

income, equities and alternative investments (including hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies), for institutional and individual investors (including high-net-worth clients, as well as retail clients through third-party channels)

Management of merchant banking funds

*Securities Services*

Prime brokerage

Financing services

Securities lending

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### **Investment Banking**

Investment Banking represented 16% of 2007 net revenues. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals and seek to develop and maintain long-term relationships with these clients as their lead investment bank.

Our current structure, which is organized by regional, industry and product groups, seeks to combine client-focused investment bankers with execution and industry expertise. We continually assess and adapt our organization to meet the demands of our clients in each geographic region. Through our commitment to teamwork, we believe that we provide services in an integrated fashion for the benefit of our clients.

Our goal is to make available to our clients the entire resources of the firm in a seamless fashion, with investment banking serving as front of the house. To accomplish this objective, we focus on coordination among our equity and debt underwriting activities and our corporate risk and liability management activities. This coordination is intended to assist our investment banking clients in managing their asset and liability exposures and their capital.

Our Investment Banking segment is divided into two components: Financial Advisory and Underwriting.

#### ***Financial Advisory***

Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs. Our mergers and acquisitions capabilities are evidenced by our significant share of assignments in large, complex transactions for which we provide multiple services, including one-stop acquisition financing and cross-border structuring expertise, as well as services in other areas of the firm, such as interest rate and currency hedging. In particular, a significant number of the loan commitments and bank and bridge loan facilities that we enter into arise in connection with our advisory assignments.

#### ***Underwriting***

Underwriting includes public offerings and private placements of a wide range of securities and other financial instruments, including common and preferred stock, convertible and exchangeable securities, investment-grade debt, high-yield debt, sovereign and emerging market debt, municipal debt, bank loans, asset-backed securities and real estate-related securities, such as mortgage-related securities and the securities of real estate investment trusts.

**Equity Underwriting.** Equity underwriting has been a long-term core strength of Goldman Sachs. As with mergers and acquisitions, we have been particularly successful in winning mandates for large, complex transactions. We believe our leadership in worldwide initial public offerings and worldwide public common stock offerings reflects our expertise in complex transactions, prior experience and distribution capabilities.

**Debt Underwriting.** We engage in the underwriting and origination of various types of debt instruments, including investment-grade debt securities, high-yield debt securities, bank and bridge loans and emerging market debt securities, which may be issued by, among others, corporate, sovereign and agency issuers. In addition, we underwrite and originate structured securities, which include mortgage-related securities and other asset-backed securities and collateralized debt obligations.



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**Trading and Principal Investments**

Trading and Principal Investments represented 68% of 2007 net revenues. Trading and Principal Investments facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, we engage in market-making and specialist activities on equities and options exchanges, and we clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

To meet the needs of our clients, Trading and Principal Investments is diversified across a wide range of products. We believe our willingness and ability to take risk to facilitate client transactions distinguishes us from many of our competitors and substantially enhances our client relationships.

Our Trading and Principal Investments segment is divided into three components: Fixed Income, Currency and Commodities; Equities; and Principal Investments.

***Fixed Income, Currency and Commodities and Equities***

Fixed Income, Currency and Commodities (FICC) and Equities are large and diversified operations through which we engage in a variety of customer-driven and proprietary trading and investing activities.

In our customer-driven businesses, FICC and Equities strive to deliver high-quality service by offering broad market-making and market knowledge to our clients on a global basis. In addition, we use our expertise to take positions in markets, by committing capital and taking risk, to facilitate client transactions and to provide liquidity. Our willingness to make markets, commit capital and take risk in a broad range of fixed income, currency, commodity and equity products and their derivatives is crucial to our client relationships and to support our underwriting business by providing secondary market liquidity.

We generate trading net revenues from our customer-driven businesses in three ways:

First, in large, highly liquid markets, we undertake a high volume of transactions for modest spreads and fees.

Second, by capitalizing on our strong relationships and capital position, we undertake transactions in less liquid markets where spreads and fees are generally larger.

Finally, we structure and execute transactions that address complex client needs.

Our FICC and Equities businesses operate in close coordination to provide clients with services and cross-market knowledge and expertise.

In our proprietary activities in both FICC and Equities, we assume a variety of risks and devote resources to identify, analyze and benefit from these exposures. We capitalize on our analytical models to analyze information and make informed trading judgments, and we seek to benefit from perceived disparities in the value of assets in the trading markets and from macroeconomic and issuer-specific trends.



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***FICC***

We make markets in and trade interest rate and credit products, mortgage-related securities and loan products and other asset-backed instruments, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading and investing. FICC has five principal businesses: commodities; credit products; currencies; interest rate products, including money market instruments; and mortgage-related securities and loan products and other asset-backed instruments.

**Commodities.** We enter into trades with our clients in, make markets in, and trade for our own account a wide variety of commodities, commodity derivatives and interests in commodity-related assets, including oil and oil products, metals, natural gas and electricity, and forest products.

As part of our commodities business, we acquire and dispose of interests in, and engage in the development and operation of, electric power generation facilities and related activities. In November 2007, we disposed of approximately 80% of our ownership interests in 14 power plants, and we have entered into contractual arrangements to manage these plants. In addition to our remaining minority interest in these facilities, we have a portfolio of four other power generation facilities.

**Credit Products.** We offer to and trade for our clients a broad array of credit and credit-linked products all over the world, including credit derivatives, investment-grade corporate securities, high-yield securities, bank and secured loans (origination and trading), municipal securities, and emerging market and distressed debt. For example, we enter, as principal, into complex structured transactions designed to meet client needs.

In addition, we provide credit through bridge and other loan facilities to a broad range of clients. Commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources. As part of our ongoing credit origination activities, we may seek to reduce our credit risk on commitments by syndicating all or substantial portions of commitments to other investors or, upon funding, by securitizing the positions through investment vehicles sold to other investors. Underwriting fees from syndications of these commitments are recorded in debt underwriting in our Investment Banking segment. However, to the extent that we recognize losses on these commitments, such losses are recorded within our Trading and Principal Investments segment, net of any related underwriting fees. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments in Part II, Item 7 of the Annual Report on Form 10-K for additional information on our commitments.

Our credit products business includes making significant long-term and short-term investments for our own account (sometimes investing together with our merchant banking funds) in a broad array of asset classes (including distressed debt) globally. We opportunistically invest in debt and equity securities and secured loans, and in private equity, real estate and other assets.

**Currencies.** We act as a dealer in foreign exchange and trade for our clients and ourselves in most currencies on exchanges and in cash and derivative markets globally.

**Interest Rate Products.** We trade and make markets in a variety of interest rate products, including interest rate swaps, options and other derivatives, and government bonds, as well as money market instruments, such as commercial paper, treasury bills, repurchase agreements and other highly liquid securities and instruments. This business includes our matched book, which consists of short-term collateralized financing transactions.

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**Mortgage Business.** We make markets in and trade for our clients and ourselves commercial and residential mortgage-related securities and loan products (including prime, subprime and other nontraditional mortgages) and other asset-backed and derivative instruments. We acquire positions in these products for proprietary trading purposes as well as for securitization or syndication. We also originate and service commercial and residential mortgages.

### ***Equities***

We make markets in and trade equities and equity-related products, structure and enter into equity derivative transactions, and engage in proprietary trading. We generate commissions from executing and clearing client transactions on major stock, options and futures exchanges worldwide through our Equities customer franchise and clearing activities.

Equities includes two principal businesses: our customer franchise business and principal strategies. We also engage in specialist and insurance activities.

**Customer Franchise Business.** Our customer franchise business includes primarily customer-driven activities in the shares, equity derivatives and convertible securities markets. These activities also include clearing client transactions on major stock, options and futures exchanges worldwide, as well as our options specialist and market-making businesses. Our customer franchise business increasingly involves providing our clients with access to electronic low-touch equity trading platforms, and electronic trades now account for the majority of our customer trading activity in this business. However, a majority of our net revenues in this business continues to be derived from our traditional high-touch handling of more complex trades. We expect both types of trading activities to remain important components of our customer franchise business.

We trade equity securities and equity-related products, including convertible securities, options, futures and over-the-counter (OTC) derivative instruments, on a global basis as an agent, as a market maker or otherwise as a principal. As a principal, we facilitate client transactions, often by committing capital and taking risk, to provide liquidity to clients with large blocks of stocks or options. For example, we are active in the execution of large block trades. We also execute transactions as agent and offer clients direct electronic access to trading markets.

In the options and futures markets, we structure, distribute and execute derivatives on market indices, industry groups, financial measures and individual company stocks to facilitate client transactions and our proprietary activities. We develop strategies and render advice with respect to portfolio hedging and restructuring and asset allocation transactions. We also create specially tailored instruments to enable sophisticated investors to undertake hedging strategies and to establish or liquidate investment positions. We are one of the leading participants in the trading and development of equity derivative instruments. In options, we are a specialist and/or market maker on the International Securities Exchange, the Chicago Board Options Exchange, NYSE Arca, the Boston Options Exchange, the Philadelphia Stock Exchange and the American Stock Exchange.

**Principal Strategies.** Our principal strategies business is a multi-strategy proprietary investment business that invests and trades for our own account. Principal strategies trades and invests our capital across global markets employing strategies that are primarily focused on public markets. Most strategies involve fundamental equities and relative value trading (which involves trading strategies designed to take advantage of perceived discrepancies in the relative value of financial instruments, including equity, equity-related and debt instruments). Other strategies involve event-driven investments (which focus on event-oriented special situations such as corporate restructurings, bankruptcies, recapitalizations, mergers and acquisitions, and legal and regulatory events) as well as convertible bond trading, various types of volatility trading and principal finance (which includes private structured investments in public or private companies).

At the start of our first fiscal quarter of 2008, we reassigned approximately one-half of