

---

**W.P. STEWART**  
*& Co., Ltd.*

---

2008 ANNUAL REPORT

## TABLE OF CONTENTS

Letter to Shareholders .....	1
Client Assets Under Management .....	4
Selected Financial Data .....	5
Management's Annual Report On Internal Control Over Financial Reporting .....	6
Operating and Financial Review and Prospects .....	7
Consolidated Statements of Financial Condition.....	15
Consolidated Statements of Operations.....	16
Consolidated Statements of Cash Flows .....	17
Consolidated Statements of Changes in Shareholders' Equity.....	18
Notes to Consolidated Financial Statements .....	20
Report of Independent Auditors.....	40
Board of Directors.....	41
Corporate Officers .....	42
Corporate Information.....	43

Statements made in this report concerning our assumptions, expectations, beliefs, intentions, plans or strategies are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. Such risks and uncertainties include, without limitation, the adverse effect from a decline or volatility in the securities markets, a general downturn in the economy, the effects of economic, financial or political events, a loss of client accounts, inability of the Company to attract or retain qualified personnel, a challenge to our US tax status, competition from other companies, changes in government policy or regulation, a decline in the Company's products' performance, inability of the Company to implement its operating strategy, the effects of the Company's delisting from the NYSE and deregistration under the Securities Act of 1934, inability of the Company to manage unforeseen costs and other effects related to legal proceedings or investigation of government and self-regulatory organizations, industry capacity and trends, changes in demand for the Company's services, changes in the Company's business strategy or development plans and contingent liabilities. The information in this report is as of the date of this report, and will not be updated as a result of new information or future events or developments.

## LETTER TO SHAREHOLDERS

2008 certainly proved to be the most challenging year that W.P. Stewart has faced since Bill Stewart founded the firm in the fourth quarter of 1974. Ironically that was also a particularly challenging environment with the world entering a significant recession. Happily that proved to be a wonderful time to invest and we feel confident looking forward that the opportunity we have today to grow clients' assets is as good as the one Bill saw then.

In addition to facing an economic slow down and dramatically falling equity markets, we also undertook a significant restructuring during the year to dramatically reduce operating costs. This was a necessary step to match the decline in revenue due to our reduced assets under management. This effort has also been challenging but the bulk of the restructuring is behind us and we are now focused on growing the business once again. In particular we believe the market will begin to appreciate the traditional investment values that W.P. Stewart stands for: sustainable growth, transparency, liquidity and value.

Finally, 2008 saw the company welcome a significant new shareholder as funds managed by Arrow Capital Management LLC acquired an equity stake of approximately 40% in our company through a combination of direct share purchases and a tender offer for other outstanding shares. Arrow Capital has been a source of great strength to the company, adding capital and sharing research resources. Our relationship continues to strengthen and we look forward to even greater cooperation in 2009. As of the date of this letter, we have been informed that the Arrow funds hold approximately 43% of our outstanding shares.

### **Investment Performance**

2008 was the worst year for stock market performance since the firm was founded. This weakness particularly manifested itself in the second half of the year as it became apparent that the financial crisis, caused predominantly by banks' significant exposure to overvalued leveraged assets, was likely to cause a major recession. Indeed as the extent of the crisis became clear credit markets all but shut and only survived intact due to an unprecedented response by governments to provide liquidity to the system.

Despite this background the U.S. companies we invested in still managed to grow earnings in aggregate by over 10% during the year. This was much better than the S&P 500 which saw earnings down some 40%. This focus on sustainable growth helped the firm record much better returns than the market. Nevertheless, we did record significant absolute losses for our clients. In part this was because many investors sold whatever assets they could in the panic that gripped investors in the fourth quarter and one of the few markets that was open was in large liquid equities.

For the year as a whole the WP Stewart US Equity Composite was down 30.2%, pre-fee, and 31.3%, post-fee. This compared with the S&P 500 which was down 37.0%. Our longer term, 34-year record, remained strong in both absolute and relative terms at 17.2%, pre-fee, and 15.9%, post-fee, compared with 11.3% for the S&P 500.

Our global equity investments also had a good relative year and we now have a solid 5- year track record that will enable us to begin to more actively market this product.

### **Financial Results**

In 2008, led by a decline in assets under management from approximately \$4.1 billion at 31 December 2007 to approximately \$1.4 billion at 31 December 2008, revenues contracted to \$32.6 million, compared to \$100.4 million in 2007.

For the full year 2008, we reported a net loss of \$49.3 million, or \$10.09 per share (basic and diluted), compared to a net loss of \$31.4 million, or \$6.81 per share (basic and diluted), in 2007. These results include non-recurring cash and non-cash charges of approximately \$24.7 million, as more fully explained elsewhere in this annual report.

Net results on a cash basis for the full year ended 31 December 2008 were -\$14.2 million, or -\$2.91 per share, diluted (net loss of \$49.3 million adjusted to include \$35.1 million, representing non-cash income and expenses consisting of unrealized gains and losses, non-cash compensation, depreciation, amortization and other non-cash charges, including non-recurring impairment charges, on a tax-effected basis). For the full year ended 31 December 2007, cash earnings were \$31.8 million, or \$6.89 per share, diluted (net loss of \$31.4 million adjusted to include \$63.2 million, representing non-cash items consisting of unrealized losses, and expenses, consisting of non-cash compensation, depreciation, amortization and other non-cash charges, including non-recurring impairment charges, on a tax-effected basis).

On 19 November 2008, the Company effected a one-for-ten share consolidation of the Company's authorized and issued common shares pursuant to which every ten common shares, par value \$0.001 per share, were consolidated, reclassified and converted into one new common share, par value \$0.01 per share. All per share dollar figures for the full year 2008 are provided after giving effect to such share consolidation and all prior period per share data have been restated to reflect the share consolidation.

## **Strategic Review**

Our goal is to make W.P. Stewart a leading specialist, absolute return-focused asset manager offering a differentiated, transparent global investment service to high net worth clients and related institutional investors around the world. Bill Stewart, Executive Chairman, continues to lead the Company's investment research and portfolio management activities. Under Bill's guidance we have rebuilt and continue to improve an investment universe of leading, rapidly growing businesses that should help us generate superior performance for many years. This work is increasingly being supported by the research team at Arrow who are also seeking out the highest quality companies to invest in at the right price.

We have undertaken a thorough review of operations and expenses, and have taken several steps to reduce costs, including: reducing employee headcount to lower compensation expense going forward, and concentrating the research effort primarily in New York and Bermuda with the intended result of significantly reducing operating overhead. Compensation for the investment team as well as the marketing group has become much more performance oriented and better aligned with our client's interests.

The Company has undertaken these expense rationalization initiatives in conjunction with a renewed marketing effort to acquire assets under management in order to achieve our stated objective of returning to profitability on a cash basis as soon as practical.

## **The Outlook**

Despite these current very difficult times, I believe the stage is being set for a return to traditional, quality-focused, equity investing. In 2009 earnings growth will be hard to come by and we are currently forecasting earnings growth behind our clients' portfolios to be modestly negative, perhaps minus 2 percent, for the first time in the company's history. However, we

expect this will look relatively positive when compared to the S&P 500 which we expect may see earnings down a further 20 percent. Looking forward a year from now, we do believe the American economy and financial markets will have survived today's challenges and will begin a sustainable recovery that could persist for several years. The recent government injection of liquidity into the economy is unprecedented and now just needs a little time to work through the system. Indeed looking out a couple of years we may well be worrying about inflation when owning real assets such as equities will be the right strategic move. Currently fear is leading the market and we have a bubble in cash and treasury bonds but we believe that once things begin to stabilise, that money will be put to work as investors once again realise the attraction of investing in high quality growing businesses.

In closing, I want to thank our loyal clients and shareholders for their support. Equally, it is important that I express my thanks to our hard working employees. This past year has been a difficult one for them but I am confident that we are now on a viable recovery path. Finally, to our Directors, I express my thanks and gratitude for your commitment, hard work and counsel.

A handwritten signature in black ink, appearing to read "M. I. Phelps". The signature is written in a cursive, flowing style with a horizontal line underneath the name.

Mark I. Phelps  
President & Chief Executive Officer  
April 9, 2009

## CLIENT ASSETS UNDER MANAGEMENT

Historical Summary  
(U.S. dollars in millions)

	As of, and for the year ended December 31,				
	2008	2007	2006	2005	2004
<b>Assets Under Management:</b>					
Beginning Assets Under Management	\$ 4,099	\$ 8,111	\$ 9,514	\$ 9,348	\$ 8,561
Ending Assets Under Management	\$ 1,401	\$ 4,099	\$ 8,111	\$ 9,514	\$ 9,348
<b>Net Flows of Assets Under Management:</b>					
Existing Accounts:					
Contributions	\$ 134	\$ 303	\$ 780	\$ 988	\$ 912
Withdrawals	(582)	(934)	(1,356)	(1,036)	(852)
Net Flows to Existing Accounts	(448)	(631)	(576)	(48)	60
Publicly Available Funds:					
Contributions	51	115	147	256	203
Withdrawals	(320)	(605)	(295)	(149)	(172)
Direct Accounts Opened	11	161	145	312	228
Direct Accounts Closed	(1,159)	(3,038)	(1,311)	(733)	(940)
Net New Flows	(1,417)	(3,367)	(1,314)	(314)	(681)
Net Flows of Assets Under Management	\$ (1,865)	\$ (3,998)	\$ (1,890)	\$ (362)	\$ (621)
<b>Account Retention:</b>					
Number of Accounts at Beginning of Period	955	1,511	1,841	1,910	2,081
Number of Accounts Closed During Period	317	577	399	188	262
Retention Rate	66.8%	61.8%	78.3%	90.2%	87.4%
<b>Assets Under Management By Relationship Type:</b>					
Value of Assets:					
Direct Relationship	\$ 1,363 <sup>(1)</sup>	\$ 3,845 <sup>(1)</sup>	\$ 7,489 <sup>(1)</sup>	\$ 8,847	\$ 8,615
Consultant Relationship	38 <sup>(1)</sup>	254 <sup>(1)</sup>	622 <sup>(1)</sup>	667	733
Total	\$ 1,401	\$ 4,099	\$ 8,111	\$ 9,514	\$ 9,348
Number of Accounts:					
Direct Relationship	643 <sup>(1)</sup>	919 <sup>(1)</sup>	1,430 <sup>(1)</sup>	1,738	1,792
Consultant Relationship	17 <sup>(1)</sup>	36 <sup>(1)</sup>	81 <sup>(1)</sup>	103	118
Total	660	955	1,511	1,841	1,910

(1) Assets under management by relationship type reflects the amount of assets under management and number of accounts by category based upon whether the client had been referred to us by a consultant at the time of the opening of their account. Due to consultants becoming related to clients subsequent to the initial account opening, as of December 31, 2008, 2007 and 2006, \$181 million of assets under management representing 47 accounts, \$768 million of assets under management representing 56 accounts and \$1.352 million of assets under management representing 112 accounts, respectively, were from accounts associated with a consultant. The remaining \$1.220 million of assets under management representing 613 accounts, \$3.331 million of assets under management representing 899 accounts and \$6.759 million of assets under management representing 1,399 accounts as of December 31, 2008, 2007 and 2006, respectively, were not associated with any consultant.

## SELECTED FINANCIAL DATA

The following table sets forth selected financial and unaudited other data for W.P. Stewart & Co., Ltd. and its subsidiaries, for the periods and as of the dates indicated. The data set forth below are presented on a consolidated basis.

The income statement and balance sheet data set forth below as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 are derived from our audited financial statements. The financial data set forth below should be read in conjunction with "Operating and Financial Review and Prospects" and the consolidated audited financial statements and related notes of W.P. Stewart & Co., Ltd. and its subsidiaries included elsewhere in this annual report.

	<i>As of, and for the year ended, December 31,</i>				
	<b>2008</b>	2007	2006	2005	2004
	<i>(In thousands, except per share data)</i>				
<b>Income Statement Data:</b>					
Revenues:					
Fees	\$ 28,002	\$ 64,322	\$ 107,803	\$ 113,198	\$ 116,005
Commissions	5,442	13,875	29,609	31,890	34,820
Realized Gain on Sale of Aircraft	-	18,465	-	-	-
Realized and Unrealized Gains/(Losses) on Investments <sup>(1)</sup>	(1,878)	1,460	2,229	(129)	(34)
Interest and Other <sup>(1)</sup>	1,048	2,266	2,490	2,896	1,530
	<b>32,614</b>	100,388	142,131	147,855	152,321
Expenses:					
Employee Compensation and Benefits	33,424	48,125	43,726	34,153	22,102
Fees Paid Out	3,102	6,626	8,126	9,059	7,760
Performance Fee Charge	-	-	2,626	-	-
Commissions, Clearance and Trading	1,305	2,301	5,665	6,993	7,371
Research and Administration	9,472	12,261	13,629	14,399	14,781
Marketing	3,419	6,003	6,309	5,540	5,618
Depreciation and Amortization	1,537	5,769	6,573	8,206	8,039
Impairment of Intangible Asset	18,692	33,557	-	12,453	-
Other Operating	12,135	10,351	11,971	9,960	8,649
	<b>83,086</b>	124,993	98,625	100,763	81,320
Income/(Loss) Before Taxes	(50,472)	(24,605)	43,506	47,092	71,001
Provision/(Benefit) for Taxes	(1,160)	6,796	6,031	7,039	7,852
Net Income/(Loss)	<b>\$ (49,312)</b>	\$ (31,401)	\$ 37,475	\$ 40,053	\$ 63,149
Earnings/(Loss) Per Share <sup>(2)(4)</sup> :					
Basic Earnings/(Loss) Per Share	<b>\$ (10.09)</b>	\$ (6.81)	\$ 8.18	\$ 8.78	\$ 14.00
Diluted Earnings/(Loss) Per Share	<b>\$ (10.09)</b>	\$ (6.81)	\$ 8.17	\$ 8.72	\$ 13.87
<b>Balance Sheet Data:</b>					
Total Assets	\$ 54,304	\$ 85,926	\$ 146,551	\$ 152,580	\$ 164,710
Total Liabilities	\$ 11,105	\$ 13,838	\$ 33,785	\$ 30,935	\$ 33,281
Shareholders' Equity	\$ 43,199	\$ 72,088	\$ 112,766	\$ 121,645	\$ 131,429
<b>Other Data (Unaudited):</b>					
Net Income/(Loss)	\$ (49,312)	\$ (31,401)	\$ 37,475	\$ 40,053	\$ 63,149
Tax-Effectuated Non-Cash Expenses (net)	\$ 35,105	\$ 63,187	\$ 12,183	\$ 23,311	\$ 8,023
Cash Earnings/(Loss) <sup>(3)(4)</sup>	\$ (14,207)	\$ 31,786	\$ 49,658	\$ 63,364	\$ 71,172
Cash Earnings/(Loss) Per Share (diluted) <sup>(3)(4)</sup>	\$ (2.91)	\$ 6.89	\$ 10.83	\$ 13.79	\$ 15.63
Cash Dividends Per Share <sup>(4)</sup>	-	\$ 5.30	\$ 11.30	\$ 12.00	\$ 12.00

(1) Prior period amounts have been revised to reflect presentation consistent with current reporting.

(2) Common shares purchased by our employees, restricted shares issued to our employees and options granted to our employees are subject to vesting. For treatment of unvested common shares, unvested options, vested unexercised options and potentially issuable common shares, see Note 4 of the notes to the consolidated financial statements contained herein.

(3) Cash earnings is calculated by adjusting net income/(loss) for non-cash items consisting of unrealized gains and losses and expenses consisting of non-cash compensation, depreciation, amortization and other non-cash charges on a tax-effectuated basis. Cash earnings per share (diluted) is calculated by dividing cash earnings by the number of weighted average diluted shares outstanding.

(4) On November 19, 2008, the Company effected a one-for-ten share consolidation of the Company's authorized and issued common shares pursuant to which every ten common shares, par value \$0.001 per share, were consolidated, reclassified and converted into one new common share, par value \$0.01 per share. All per share dollar figures for the full year 2008 are provided after giving effect to such share consolidation and all prior period per share data have been restated to reflect the share consolidation.

## **MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management at W.P. Stewart & Co., Ltd. is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our consolidated financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the company's internal control over financial reporting was effective as of December 31, 2008.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### *Overview*

W.P. Stewart & Co., Ltd., together with its subsidiaries, is a research-focused investment adviser that manages assets for high net-worth individuals and institutions located throughout the world. Our principal source of revenues is investment advisory fees and, accordingly, fluctuations in financial markets and client contributions and withdrawals have a direct effect on revenues and net income. Additionally, significant components of our expenses are variable in nature and tend to partially offset fluctuations in revenue.

Our advisory fees are computed quarterly based on account market values and fee rates pursuant to investment advisory contracts with clients. Our general policy is to bill clients quarterly, in advance. Under certain client contracts, we are entitled to receive performance fees when the return on assets under management exceeds specified benchmark returns or other performance targets. Performance fees are recorded as of the date on which the performance period ends.

Another component of our revenues is brokerage commissions. Commission revenues earned on our brokerage activities, substantially all of which relate to client accounts, vary directly with account trading activity and new account generation. Therefore, commission revenue is also affected by market conditions.

Interest and other revenue primarily consists of interest earned on our cash management activities, foreign currency, investment and trading realized and unrealized gains and losses, subscription fees earned from our mutual funds and equity income relating to our investments in unconsolidated affiliates.

We provide competitive rewards to our employees through our compensation and benefits policies, together with our employee equity ownership practices. Employee compensation and benefits are our largest operating expense, the most significant component of which is compensation paid to our research analysts/portfolio managers. We

have historically adjusted compensation for substantially all employees dependent on our operating results, as adjusted for depreciation, amortization of intangibles, non-cash compensation and retirement benefits (“adjusted operating profit”). Certain employees may also be eligible for other cash or non-cash incentive compensation. We review from time to time the aggregate compensation pool payable to employees for cash compensation. Each employee is allocated a participation in the compensation pool. Under this compensation program, which heavily weights compensation against profit performance, compensation expense may vary within a targeted range. For the years ended December 31, 2008, 2007 and 2006, our cash compensation expense for employees participating in the compensation pool was approximately \$14.7 million, \$20.9 million and \$29.7 million, respectively. This decline is reflective of a decrease in our adjusted operating results and a reduction in employee headcount. The cash compensation expense for 2008 was slightly higher than the top end of our anticipated range of \$12 - \$14 million. It is currently anticipated that cash compensation expense for employees participating in the compensation pool for the year ending December 31, 2009 will be within the range of approximately \$6.5 - \$7.5 million.

Fees paid out are paid to select banks, investment firms and individuals in at least 10 countries, with whom we have formal marketing arrangements and that make up our network of symbiotic marketers. We consider the banks, investment firms and individuals who gather assets for us to be symbiotic marketers of our services because of the mutual benefits that flow from the relationship – they are able to offer premier equity investment management services to their clients and we are able to extend the reach of our asset-gathering efforts. These fees are based on the market value of referred accounts and vary based on new account

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

generation and fluctuations in the market value of referred accounts.

Commissions, clearance and trading expenses include fees incurred related to brokerage activities. These transaction-related costs vary directly with trading activity. Transaction costs are reviewed quarterly and are competitive.

Research and administration expenses include research, travel and entertainment, communications, information technology systems support and occupancy.

Marketing expenses represent costs associated with our internal marketing initiatives and client servicing activities, and include client seminars, marketing related travel, marketing related compensation and other operational expenses.

Other operating expenses include professional fees consisting of auditing, tax, legal and consulting fees, charitable contributions and other administration expenses.

Our effective tax rate is driven by tax jurisdictions in which we conduct business activity, and to the extent that these activities or jurisdictional mix change, our tax rate may vary accordingly.

Substantially all of our employees are given the opportunity to become shareholders during their first year of employment with us. As a result, virtually all of our employees are shareholders of W.P. Stewart & Co., Ltd. and participate in the results of our operations.

### *Critical Accounting Policies*

#### **Goodwill and Intangible Assets**

Our consolidated statement of financial condition has historically included substantial assets in the form of goodwill and intangible assets. We accounted for those assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." The intangible assets were among the assets that we acquired in the business acquisitions described in Note 2 of our consolidated financial statements included with this report. We amortized the intangible assets on a straight-line basis over their estimated useful lives, which ranged from five to 20 years. We tested the carrying values of these assets for impairment annually and whenever events or changes in circumstances indicated that such values might not be recoverable. We recognized impairment losses if and to the extent that the sum of the assets' expected future undiscounted cash flows were less than their carrying values. We recorded goodwill in our acquisition of W.P. Stewart Asset Management (Europe), Ltd. (formerly TPR & Partners N.V.) ("WPSAM Europe"). Goodwill is the excess of the total acquisition cost over the fair value of the net assets on the

date of the acquisition. We did not amortize goodwill, but we tested it annually for impairment. As of December 31, 2008, all intangible assets and goodwill were fully impaired.

In the second and fourth quarters of 2007, due to a loss of assets under management, the fees from which supported the customer related intangible assets of the TPRS Services N.V. ("TPRS") and First Long Island Investors, Inc. ("FLII") acquisitions, we recognized an aggregate impairment loss of \$33,557,074. Accordingly, the purchase price allocations of the TPRS and FLII acquisitions were adjusted by \$23,486,534 and \$10,070,540, respectively. In the third quarter of 2008, due to a further loss of assets under management, we recognized an additional impairment loss of approximately \$8.8 million, representing a complete write-down of the remaining balance of all intangible assets. In addition, during the third quarter of 2008, due to a decline in the Company's market capitalization as compared with shareholder's equity, there was an impairment of goodwill resulting in a write-off of the entire balance in the amount of \$8.7 million.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### *Operating Results*

*Year Ended December 31, 2008 as Compared to Year Ended December 31, 2007*

#### **Assets Under Management**

Assets under management were approximately \$1.4 billion at December 31, 2008, a decrease of approximately \$2.7 billion or 65.8% from approximately \$4.1 billion at December 31, 2007. The decrease in assets under management resulted from net outflows of assets as well as investment performance results for our clients. The performance for the W.P. Stewart U.S. Equity Composite for the year ended December 31, 2008 was -30.2%, pre-fee, and -31.3%, post-fee, compared to -37.0% for the S&P 500 Index.

The following table sets forth the total net flows of assets under management for the years ended December 31, 2008 and 2007, which include changes in net flows of existing accounts and net new flows (net contributions to our publicly available funds and flows from new accounts minus closed accounts). The table excludes total capital appreciation or depreciation in assets under management with the exception of the amounts attributable to withdrawals and closed accounts.

#### **Net Flows of Assets Under Management**

*(in millions)*

	<i>Years Ended December 31,</i>	
	<b>2008</b>	<b>2007</b>
Existing Accounts:		
Contributions	\$ <b>134</b>	\$ 303
Withdrawals	<b>(582)</b>	(934)
Net Flows of Existing Accounts	<b>(448)</b>	(631)
Publicly Available Funds:		
Contributions	<b>51</b>	115
Withdrawals	<b>(320)</b>	(605)
Direct Accounts Opened	<b>11</b>	161
Direct Accounts Closed	<b>(1,159)</b>	(3,038)
Net New Flows	<b>(1,417)</b>	(3,367)
Net Flows of Assets Under Management	<b>\$ (1,865)</b>	\$ (3,998)

#### **Revenues**

Revenues were \$32.6 million for the year ended December 31, 2008, a decrease of \$67.8 million or 67.5% from \$100.4 million earned for the year ended December 31, 2007. The change was due to a \$36.3 million or 56.5% decrease in fee revenue, an \$8.4 million or 60.8% decrease in commission revenue, a \$3.3 million or 228.6% decrease in realized and unrealized gains on investments and a \$1.2 million or 53.7% decrease in interest and other revenues. In addition, for the year ended December 31, 2007 we recognized a one-time realized gain of \$18.5 million on the sale of our aircraft. The average gross fee earned from client accounts, excluding the effect of any performance fees, was 1.08% for the year ended December 31, 2008 as compared to 1.06% for the year ended December 31, 2007. The change in the average gross fee rate was due to a slight change in the client account mix in favor of smaller accounts which are not subject to our fee break. Adjusted to exclude performance fee based accounts, the average gross management fee was 1.27% and 1.24% for the years ended December 31, 2008 and 2007, respectively. The change in fee revenue was the result of a decrease in fees based on lower assets under management for 2008. In addition, there were no performance fees earned during 2008. Commission revenue was lower for the year ended December 31, 2008, compared to the year ended December 31, 2007 due to lower trading volume based upon reduced assets under management and a reduction in our commission rates put into effect during the third quarter of 2008. Realized and unrealized gains on investments were lower for the year ended December 31, 2009 as compared with the prior year primarily due to market fluctuations affecting the value of our investments and the reversal of unrealized gains on trading investments from the prior year. Interest and other revenues decreased primarily due to a decrease in interest income

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

earned on our cash management activities and a decrease in equity income from our investment in unconsolidated affiliates.

### *Expenses*

Expenses, excluding income taxes, decreased approximately \$41.9 million or 33.5% to \$83.1 million for the year ended December 31, 2008 from \$125.0 million in the prior year. The most significant items which caused this decrease were (1) the non-recurring, non-cash impairment loss of \$18.7 million recognized in respect of a write-off of our customer related intangibles and goodwill during 2008 versus a similar write-off of customer related intangibles of \$33.6 million in 2007, (2) the reduction in employee compensation and benefits aggregating \$14.7 million (including a reduction in one-time non-recurring cash expenses of \$0.7 million and non-cash expenses of \$4.7 million related to agreements with employees whose employment with us were terminated) primarily due to lower operating profits and a reduction in employee headcount, (3) decreases in variable expenses of \$3.5 million in fees paid out, which are directly related to assets under management of referred accounts and \$1.0 million in commissions, clearance and trading, which vary with account activity, (4) a decrease in research and administration of \$2.8 million, primarily due to lower travel related expenses, (5) a decrease in marketing expenses of \$2.6 million, primarily due to lower marketing related travel expenses and lower compensation costs, (6) a decrease in depreciation and amortization of \$4.2 million due to the write-offs mentioned above, and (7) a decrease in other operating expenses of \$2.1 million (exclusive of one-time, non-recurring items), primarily due to lower administration costs and interest expense. These decreases were offset to some extent by an increase of \$3.8 million of other operating costs which represent one-time, non-recurring expenses related to our initiative to complete a strategic transaction, which initiative resulted in an investment in

the Company by funds managed by Arrow Capital Management LLC.

For the year ended December 31, 2008, we realized an income tax benefit of \$1.2 million versus an income tax expense of \$6.8 million for the year ended December 31, 2007. The effective U.S. GAAP tax rates were approximately 2.3% for 2008 and (27%) for 2007. For the year ended December 31, 2008, the decrease in the tax provision is primarily the result of the increase in net operating loss and the tax effect of the following two non-recurring items: (1) the gain on the sale of the aircraft of \$18.5 million recognized in 2007, which was subject to full federal, state and local corporate tax rates in the U.S. and (2) the non-deductible impact of the impairment charges of \$18.7 million and \$33.6 million in 2008 and 2007, respectively. The effect of these tax decreases was partially offset by (a) a valuation allowance related to current year net operating losses that the Company believes will not be able to be utilized, and (b) an increase in deferred tax expense primarily related to the reversal of prior year deferred tax assets. For the years ended December 31, 2008 and 2007, the effective tax rate resulted from changes in the allocation of our portfolio management activities among various jurisdictions. The proportion of our various activities based in high-tax jurisdictions has increased somewhat relative to the activity based in lower-tax jurisdictions as compared to historical levels prior to 2006. Excluding the two non-recurring items described above, our tax provisions for the years ended December 31, 2008 and 2007 reflect the net loss resulting from a significant decrease in earnings due to a substantial loss in assets under management which was not offset by a comparable decrease in our expense rate.

### *Net Income/(Loss)*

Our loss for the year ended December 31, 2008 was \$(49.3) million as compared \$(31.4) million for the year ended December 31, 2007, an increase of \$17.9 million, as revenues decreased while operating expenses decreased at a lower rate as detailed above.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*Year Ended December 31, 2007 as Compared to Year Ended December 31, 2006*

### Assets Under Management

Assets under management were approximately \$4.1 billion at December 31, 2007, a decrease of approximately \$4.0 billion or 49.4% from approximately \$8.1 billion at December 31, 2006.

The following table sets forth the total net flows of assets under management for the years ended December 31, 2007 and 2006, which include changes in net flows of existing accounts and net new flows (net contributions to our publicly available funds and flows from new accounts minus closed accounts). The table excludes total capital appreciation or depreciation in assets under management with the exception of the amounts attributable to withdrawals and closed accounts.

### Net Flows of Assets Under Management (in millions)

	<i>Years Ended December 31,</i>	
	<b>2007</b>	2006
<hr/>		
Existing Accounts:		
Contributions	\$ <b>303</b>	\$ 780
Withdrawals	<b>(934)</b>	(1,356)
Net Flows of Existing Accounts	<b>(631)</b>	(576)
Publicly Available Funds:		
Contributions	<b>115</b>	147
Withdrawals	<b>(605)</b>	(295)
Direct Accounts Opened	<b>161</b>	145
Direct Accounts Closed	<b>(3,038)</b>	(1,311)
Net New Flows	<b>(3,367)</b>	(1,314)
Net Flows of Assets Under Management	<b>\$ (3,998)</b>	\$ (1,890)

### Revenues

Revenues were \$100.4 million for the year ended December 31, 2007, a decrease of \$41.7 million or 29.4% from \$142.1 million earned for the year ended December 31, 2006. The change was due to a \$43.5 million or 40.3% decrease in fee revenue, a \$15.7 million or 53.1% decrease in commission revenue, a \$0.8 million or 34.5% decrease in

realized and unrealized gains on investments and a \$0.2 million or 9.0% decrease in interest and other revenues. These decreases were offset in part by a one-time realized gain of \$18.5 million on the sale of our aircraft. The average gross fee earned from client accounts, excluding the effect of any performance fees, was 1.06% for the year ended December 31, 2007 as compared to 1.11% for the year ended December 31, 2006. The change in the average gross fee rate was due to a slight change in the client account mix in favor of larger accounts subject to our fee break, a greater percentage of our accounts having been with us for a longer period of time and having lower fee rates which have been grandfathered under our current fee structure, a change to our billing rates for investment advisory fees, effective July 1, 2007 for accounts over \$50 million and the fact that several of our large accounts are performance fee based accounts. These accounts have a reduced quarterly base advisory fee and pay a performance fee, if applicable, generally at calendar year-end. Adjusted to exclude performance fee based accounts, the average gross management fee was 1.24% for each of the years ended December 31, 2007 and 2006. The change in fee revenue was the result of a decrease in fees based on lower assets under management for 2007, including a \$9.5 million decrease in performance fees earned. The reduction in performance fees was primarily due to a lower total net asset value of W.P. Stewart Holdings Fund and a lower increase in net asset value per share for this fund during 2007. Commission revenue was lower for the year ended December 31, 2007, compared to the year ended December 31, 2006, due to lower trading volume based upon reduced assets under management as well as the investment decisions made by our portfolio managers and a change in our fee structure effective July 1, 2007 to a single fee rate structure without any commissions for accounts over \$10 million. Realized and

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

unrealized gains on investments were lower for the year ended December 31, 2007 as compared with the prior year primarily due to market fluctuations affecting the value of our investments and the reversal of the unrealized gains on trading investments from the prior year. Interest and other revenues decreased primarily due to a decrease in interest income earned on our cash management activities and a decrease in equity income from our investment in unconsolidated affiliates.

### *Expenses*

Expenses, excluding income taxes, increased approximately \$26.4 million or 26.7% to \$125.0 million for the year ended December 31, 2007 from \$98.6 million in the prior year. The most significant items which caused this increase were (1) the non-recurring, non-cash impairment loss of \$33.6 million recognized in respect of a write-off of our customer related intangibles during 2007 and (2) the non-recurring cash and non-cash expenses in employee compensation and benefits aggregating \$8.0 million (\$2.7 million cash expense and \$5.3 million non-cash expense) related to agreements with employees whose employment with us terminated. These increases were partially offset by decreases in variable expenses of \$1.5 million in fees paid out, which are directly related to assets under management of referred accounts, a decrease in commissions, clearance and trading of \$3.4 million, which vary with account activity, a decrease in research and administration of \$1.4 million, primarily due to lower travel related expenses, a decrease in marketing expenses of \$0.3 million and a decrease in depreciation and amortization of \$0.8 million. These increases were further offset by a net decrease in employee compensation and benefits caused by a decrease in the compensation pool for 2007 of \$8.8 million due to lower operating profit and reduced headcount, offset by higher non-cash compensation expense of \$4.7 million related to restricted share issuances. Further offsetting these increases was a decrease in other operating expenses of \$1.6 million, which was the result of lower costs as compared with the prior year increase which

had primarily related to higher professional and administrative fees related to the transfer of W.P. Stewart Holdings Fund (formerly known as W.P. Stewart Holdings N.V.) to Luxembourg, executive search fees, costs related to regulatory compliance and higher administrative costs related to our mutual funds. Finally, in 2006 we had recognized a non-recurring \$2.6 million performance fee charge related to the resetting of the performance fee “high water mark” in connection with the transfer of W.P. Stewart Holdings Fund from Curaçao to Luxembourg.

Our income tax expense increased \$0.8 million to \$6.8 million for the year ended December 31, 2007 from \$6.0 million in the prior year. The effective U.S. GAAP tax rates were approximately (27%) for 2007 and 14% for 2006. For the year ended December 31, 2007, the increase in the tax provision is primarily the result of the tax effect of the following two non-recurring items: (1) the gain on the sale of the aircraft of \$18.5 million, which was subject to full federal, state and local corporate tax rates in the U.S., and (2) the non-deductible impact of the impairment charge of \$33.6 million. The effect of these tax increases was partially offset by an increase in deferred tax benefit due to an increase in compensation expense related to grants of restricted shares to employees. Excluding the two non-recurring items described above, our tax provision for the year ended December 31, 2007 reflects the net loss resulting from a significant decrease in earnings due to a substantial loss in assets under management which was not offset by a comparable decrease in our expense rate. For the year ended December 31, 2006, the effective tax rate resulted from changes in the allocation of our portfolio management activities among various jurisdictions reflecting recent portfolio manager departures and other management changes. The proportion of our various activities based in high-tax jurisdictions has increased somewhat relative to the activity based in lower-tax jurisdictions as compared to historical levels prior to 2006.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### *Net Income/(Loss)*

Our net (loss) for the year ended December 31, 2007 was \$(31.4) million as compared with net income of \$37.5 million for the year ended December 31, 2006, a decrease of \$68.9 million, as revenues decreased while operating expenses increased as detailed above.

therefore, not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as information technology and occupancy costs, which may not be readily recoverable in the pricing of the services that we provide. To the extent inflation results in rising interest rates and has other negative effects upon the securities markets, it may adversely affect our financial position and results of operations.

### **Inflation**

Our assets are largely liquid in nature and,

### *Contractual Obligations and Contingent Commitments*

W.P. Stewart & Co., Ltd. has contractual obligations to make future payments under non-cancelable operating lease agreements and has contingent commitments as disclosed

in the notes to the consolidated financial statements. The following tables set forth these contractual obligations and contingent commitments as of December 31, 2008:

<b>Contractual Obligations</b> <i>(in millions)</i>	2009	2010- 2011	2012- 2013	2014- Thereafter	Total
Minimum Rental Commitments <sup>(1)</sup>	\$ 3.0	\$ 5.2	\$ 5.4	\$ 11.8	\$ 25.4

(1) See Note 17 to the consolidated financial statements for additional information.

<b>Contingent Commitments</b> <i>(in millions)</i>	2009	<i>Amount of Commitment Expiration Per Period</i>				Total
		2010- 2011	2012- 2013	2014- Thereafter		
Commitments under letters of credit <sup>(2)</sup>	\$ 1.8	-	-	\$ 0.2	\$ 2.0	

Unrecognized tax benefits of \$4.9 million at December 31, 2008, are not included above as the timing and amount of future cash payments is not determinable at this time. <sup>(3)</sup>

(2) See Note 9 to the consolidated financial statements for additional information.

(3) See Note 15 to the consolidated financial statements for additional information.

### *Liquidity and Capital Resources*

Our financial condition is highly liquid with principal assets including cash and cash equivalents, investments, trading, investments available for sale and receivables from clients. Cash equivalents are primarily short-term, highly liquid investments with an original maturity of three months or less at the date of purchase (see Note 19). Liabilities include operating payables and accrued compensation. Our investment advisory

activities do not in general require us to maintain significant capital balances. However, our advisory activities for clients in The Netherlands, the activities of W.P. Stewart Securities Limited, our Bermuda-based broker-dealer, and the sub-advisory activities of W.P. Stewart & Co. (Europe), Ltd., our London-based research affiliate, require us to maintain certain minimum levels of capital.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

We continually monitor and evaluate the adequacy of the capital maintained for those activities and have consistently maintained net capital in excess of the prescribed amounts. Historically, we have met our liquidity requirements with cash generated from our operations. Nevertheless, we operated at a loss for 2008 and 2007.

We anticipate that in the near-term our current cash reserve in addition to cash generated from operations will be sufficient to meet our cash requirements for operating activities and other cash obligations as they come due as well as our anticipated capital requirements. However, unless we return to profitability on a cash basis, our liquidity, facilities and overall financial position will weaken. A continued operating loss will not be sustainable in the long run. Therefore, we have taken and will continue to take steps to retain our current client base, improve our level of assets under management and rationalize our expense base to reflect our current position and current market conditions. In 2007, we initiated an expense reduction program that has continued into 2008. Under that program we reduced our employee headcount from 113 at December 31, 2006 to 104 at December 31, 2007 and 43 at December 31, 2008. In addition, we sold our corporate jet in the third quarter of 2007 and have undertaken other cost-cutting efforts, including concentrating our research efforts primarily in New York and Bermuda thereby significantly decreasing the expense base with respect to our operations in London. Further, in January 2009, our common shares were delisted from the New York Stock Exchange and we filed a Certification and Notice of Termination of

Registration on Form 15 with the U.S. Securities and Exchange Commission to effect the termination of our common shares' registration under Section 12(g) of the U.S. Securities Exchange Act of 1934, thereby suspending our obligations to file periodic and current reports under such Act. We expect this deregistration to have significant cost savings. Despite our cost cutting initiatives, we continue to operate at a loss. We intend to rationalize our expenses further to return to profitability on a cash basis based on the current level of assets under management. However, there can be no assurance that we will achieve sufficient revenues or cost reductions to be successful.

Historically, we had a policy of declaring quarterly dividends on our common shares which were funded out of operating cash flow. We announced in October 2007 that we were suspending regular quarterly dividend payments in order to preserve cash resources in connection with our business turnaround efforts. Presently we do not intend to pay any cash dividends for 2009. Our Board of Directors will continue to monitor our liquidity and evaluate our ability in the future to pay dividends and will also consider opportunities for share repurchases with a view toward increasing long-term shareholder value to the extent warranted in relation to our cash position and earnings. To that end, in early January 2009, we announced that our Board of Directors had authorized a share repurchase program of up to \$1.5 million of repurchase cost. Any repurchased shares will be cancelled or held in treasury for general corporate purposes. We intend to fund any such repurchases with cash on hand.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	<i>December 31,</i>		
	2008	2007	2006
<b>Assets:</b>			
Cash and cash equivalents	\$ 35,158,939	\$ 36,789,633	\$ 29,123,957
Fees receivable	502,288	2,248,967	3,709,922
Receivable from clearing broker	19,042	90,239	315,867
Investments in unconsolidated affiliates (net of accumulated amortization of \$617,790, \$576,604 and \$494,232 for 2008, 2007 and 2006, respectively)	2,343,506	3,944,336	3,904,218
Receivables from affiliates, net	551,192	1,986,260	11,430,102
Investments, trading (cost \$2,813,255, \$9,746,671 and \$30,195,156 for 2008, 2007 and 2006, respectively)	2,691,108	11,018,593	31,803,543
Investments, available for sale (cost \$96,518 for 2008, 2007 and 2006)	88,567	151,262	129,312
Goodwill	-	8,681,797	8,681,797
Intangible assets (net of accumulated amortization of \$46,178,759, \$45,453,068 and \$40,953,034 for 2008, 2007 and 2006, respectively)	-	9,771,319	47,828,426
Furniture, equipment, software and leasehold improvements (net of accumulated depreciation and amortization of \$7,262,931, \$7,154,257 and \$6,662,378 for 2008, 2007 and 2006, respectively)	1,372,674	2,333,705	3,380,812
Interest receivable on shareholders' notes	17,709	13,147	15,044
Income taxes receivable	7,864,696	4,417,442	2,598,921
Deferred income taxes receivable	26,400	728,000	-
Other assets	3,668,140	3,751,425	3,629,594
	<b>\$ 54,304,261</b>	<b>\$ 85,926,125</b>	<b>\$ 146,551,515</b>
<b>Liabilities and Shareholders' Equity:</b>			
<b>Liabilities:</b>			
Loans payable	\$ -	\$ -	\$ 14,595,612
Employee compensation and benefits payable	453,800	2,807,142	6,181,267
Fees payable	1,702,699	2,229,638	2,704,532
Vendor payables	4,048,874	3,901,244	4,766,374
Accrued expenses and other liabilities	4,900,000	4,900,000	4,900,000
Deferred income taxes payable	-	-	637,500
	<b>11,105,373</b>	<b>13,838,024</b>	<b>33,785,285</b>
<b>Shareholders' Equity:</b>			
Common shares, \$0.01 par value (12,500,000 shares authorized 5,544,699, 5,102,207 and 4,756,928 shares issued and outstanding for 2008, 2007 and 2006, respectively)	55,447	51,022	47,569
Additional paid-in-capital	127,125,627	106,077,793	90,545,974
Accumulated other comprehensive income	477,478	1,166,913	1,114,075
Retained earnings/(deficit)	(84,223,614)	(34,911,733)	21,719,738
	<b>43,434,938</b>	<b>72,383,995</b>	<b>113,427,356</b>
Less: notes receivable for common shares	(236,050)	(295,894)	(661,126)
	<b>43,198,888</b>	<b>72,088,101</b>	<b>112,766,230</b>
	<b>\$ 54,304,261</b>	<b>\$ 85,926,125</b>	<b>\$ 146,551,515</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF OPERATIONS

*For the Years Ended December 31,*

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Revenue:</b>			
Fees (includes fees from affiliates of \$1,862,488, \$4,983,813 and \$15,313,602 for 2008, 2007 and 2006, respectively)	\$ <b>28,001,942</b>	\$ 64,322,381	\$ 107,802,462
Commissions	<b>5,442,196</b>	13,875,152	29,608,834
Realized gain on sale of aircraft	-	18,464,963	-
Realized and unrealized gains/(losses) on investments	<b>(1,878,472)</b>	1,460,178	2,229,075
Interest and other	<b>1,048,152</b>	2,265,888	2,490,307
	<b>32,613,818</b>	100,388,562	142,130,678
<b>Expenses:</b>			
Employee compensation and benefits	<b>33,423,801</b>	48,125,077	43,725,858
Fees paid out	<b>3,101,457</b>	6,626,482	8,126,112
Performance fee charge	-	-	2,625,642
Commissions, clearance and trading	<b>1,305,301</b>	2,301,335	5,665,123
Research and administration	<b>9,471,949</b>	12,260,688	13,628,542
Marketing	<b>3,418,827</b>	6,002,748	6,309,491
Depreciation and amortization	<b>1,536,981</b>	5,769,095	6,572,545
Impairment of intangible asset and goodwill	<b>18,692,283</b>	33,557,074	-
Other operating	<b>12,135,265</b>	10,351,246	11,971,467
	<b>83,085,864</b>	124,993,745	98,624,780
Income/(loss) before taxes	<b>(50,472,046)</b>	(24,605,183)	43,505,898
Provision/(benefit) for taxes	<b>(1,160,165)</b>	6,796,053	6,030,455
Net income/(loss)	<b>\$ (49,311,881)</b>	\$ (31,401,236)	\$ 37,475,443
<b>Earnings/(loss) per share:</b>			
Basic earnings/(loss) per share	<b>\$ (10.09)</b>	\$ (6.81)	\$ 8.18
Diluted earnings/(loss) per share	<b>\$ (10.09)</b>	\$ (6.81)	\$ 8.17

*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*For the Years Ended December 31,*

	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net (loss)/income	\$ (49,311,881)	\$ (31,401,236)	\$ 37,475,443
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:			
(Gain)/loss on sale of trading securities	407,158	(1,761,978)	(204,628)
(Gain)/loss on sale of available for sale securities	-	(15,965)	(407,030)
(Gain)/loss on disposition of aircraft	-	(18,464,963)	-
(Gain)/loss on disposition of furniture, equipment, software and leasehold improvements	91,271	-	14,952
Unrealized (gain)/loss on trading securities	1,446,366	336,465	(1,608,387)
Unrealized (gain)/loss on available for sale securities	24,780	(18,700)	4,390
Amortization of bond premium	-	-	710,356
Depreciation and amortization	20,229,264	39,326,169	6,572,545
Equity in income of unconsolidated affiliates	644,784	2,509	(32,199)
Non-cash compensation	13,088,358	18,495,877	8,431,331
Minority interest	-	-	(254,348)
Changes in operating assets and liabilities:			
Fees receivable	1,746,679	1,460,955	820,644
Receivable from clearing broker	71,197	225,628	659,736
Proceeds from sale of trading securities	9,508,647	37,448,650	2,664,682
Purchase of trading securities	(2,982,390)	(15,238,187)	(32,655,209)
Receivables from affiliates, net	1,435,068	9,443,842	(5,424,014)
Income taxes receivable	(3,447,254)	(1,818,521)	(1,134,863)
Deferred income taxes receivable	701,600	(728,000)	-
Interest receivable on shareholders' notes	(4,562)	1,897	25,656
Other assets	83,285	(121,831)	597,687
Employee compensation and benefits payable	(2,353,342)	(3,374,125)	1,967,641
Fees payable	(526,939)	(474,894)	(392,845)
Vendor payables	147,630	(865,130)	1,708,680
Deferred income taxes payable	-	(637,500)	637,500
Net cash (used for)/provided by operating activities	<b>(9,000,281)</b>	<b>31,820,962</b>	<b>20,177,720</b>
<b>Cash flows provided by investing activities:</b>			
Proceeds from sale of available for sale securities	-	15,965	14,922,031
Purchase of available for sale securities	-	-	(6,554,421)
Purchase of goodwill	-	-	(3,050,000)
Purchase of intangible assets	-	-	(2,950,000)
Investment in unconsolidated affiliate	(50,000)	(125,000)	(125,000)
Purchase of furniture, equipment, software and leasehold improvements	(58,901)	(139,582)	(1,062,151)
Proceeds from disposition of aircraft	-	18,464,963	-
Proceeds from disposition of furniture, equipment, software and leasehold improvements	158,563	-	49,000
Net cash provided by investing activities	<b>49,662</b>	<b>18,216,346</b>	<b>1,229,459</b>
<b>Cash flows provided by/(used for) financing activities:</b>			
Payments on loans payable	-	(14,595,612)	(816,729)
Proceeds from issuance of common shares	8,016,000	-	-
Repurchase of common shares	(1,774)	(2,518,854)	(2,660,269)
Proceeds from notes receivable for common shares	9,519	233,983	543,484
Dividends to shareholders	-	(25,540,737)	(53,352,896)
Net cash provided by/(used for) financing activities	<b>8,023,745</b>	<b>(42,421,220)</b>	<b>(56,286,410)</b>
Effect of exchange rate changes in cash	(703,820)	49,588	636,389
Net (decrease)/increase in cash and cash equivalents	<b>(1,630,694)</b>	<b>7,665,676</b>	<b>(34,242,842)</b>
Cash and cash equivalents, beginning of year	<b>36,789,633</b>	<b>29,123,957</b>	<b>63,366,799</b>
Cash and cash equivalents, end of year	<b>\$ 35,158,939</b>	<b>\$ 36,789,633</b>	<b>\$ 29,123,957</b>
<b>Supplemental disclosures of cash flows information</b>			
Cash paid during the period for:			
Income taxes	\$ 1,578,000	\$ 9,945,000	\$ 6,732,017
Interest	\$ 74	\$ 711,013	\$ 1,065,620
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities:</b>			

The Company cancelled outstanding notes of \$1,017, \$87,256 and \$556,005 for the years ended December 31, 2008, 2007 and 2006, respectively (see Note 10).

The Company issued 56,000, 392,900 and 112,780 common shares for the years ended December 31, 2008, 2007 and 2006, recorded with a fair value of \$700,000, \$44,901,600 and \$20,480,649, respectively and cancelled 114,374, 21,279 and 12,715 forfeited restricted common shares for the years ended December 31, 2008, 2007 and 2006 recorded with a fair value of \$12,463,260, \$4,182,592 and \$2,800,737, respectively (see Note 13).

*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*For the Years Ended December 31, 2008, 2007 and 2006*

	Common Shares	
	Shares	Amount
<b>Balance @ December 31, 2005</b>	4,683,786	\$ 46,838
Issuance of common shares, @ \$0.01 par value		
Restricted shares	112,780	1,127
Repurchase and cancellation of common shares, @ \$0.01 par value	(23,301)	(233)
Cancellation of common shares, @ \$0.01 par value	(3,621)	(36)
Forfeiture of common shares, @ \$0.01 par value	(12,715)	(127)
Non-cash compensation		
Net income		
Dividends (\$11.30 per share)		
Other comprehensive income		
Procees from notes receivable for common shares		
<b>Balance @ December 31, 2006</b>	4,756,928	47,569
Issuance of common shares, @ \$0.01 par value		
Restricted shares	392,900	3,929
Repurchase and cancellation of common shares, @ \$0.01 par value	(25,693)	(257)
Cancellation of common shares, @ \$0.01 par value	(649)	(6)
Forfeiture of common shares, @ \$0.01 par value	(21,279)	(213)
Non-cash compensation		
Net (loss)		
Dividends (\$5.30 per share)		
Other comprehensive income		
Procees from notes receivable for common shares		
<b>Balance @ December 31, 2007</b>	5,102,207	51,022
Issuance of common shares, @ \$0.01 par value		
Cash	501,000	5,010
Restricted shares	56,000	560
Cash-in-lieu paid and cancellation of common shares		
on one-for-ten share consolidation, @ \$0.01 par value	(76)	(1)
Repurchase and cancellation of common shares, @ \$0.01 par value	(36)	-
Cancellation of common shares, @ \$0.01 par value	(22)	-
Forfeiture of common shares, @ \$0.01 par value	(114,374)	(1,144)
Non-cash compensation		
Net (loss)		
Other comprehensive income		
Procees from notes receivable for common shares		
<b>Balance @ December 31, 2008</b>	5,544,699	\$ 55,447

*The accompanying notes are an integral part of these consolidated financial statements.*

	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings/(Deficit)	Notes Receivable	Total
\$	85,445,648	\$ 429,924	\$ 37,519,609	\$ (1,797,033)	\$ 121,644,986
	(1,127)				-
	(2,660,036)				(2,660,269)
	(555,969)			556,005	-
	127				-
	8,317,331		77,582	36,418	8,431,331
			37,475,443		37,475,443
			(53,352,896)		(53,352,896)
		684,151			684,151
				543,484	543,484
	90,545,974	1,114,075	21,719,738	(661,126)	112,766,230
	(3,929)				-
	(2,518,597)				(2,518,854)
	(87,250)			87,256	-
	213				-
	18,141,382		310,502	43,993	18,495,877
			(31,401,236)		(31,401,236)
			(25,540,737)		(25,540,737)
		52,838			52,838
				233,983	233,983
	106,077,793	1,166,913	(34,911,733)	(295,894)	72,088,101
	8,010,990				8,016,000
	(560)				-
	(1,209)				(1,210)
	(564)				(564)
	(1,017)			1,017	-
	1,144				-
	13,039,050		(49,311,881)	49,308	13,088,358
			(49,311,881)		(49,311,881)
		(689,435)			(689,435)
				9,519	9,519
\$	127,125,627	\$ 477,478	\$ (84,223,614)	\$ (236,050)	\$ 43,198,888

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Note 1: Basis of Presentation*

The accompanying consolidated financial statements of W.P. Stewart & Co., Ltd., a Bermuda exempt company incorporated on August 16, 1996 and a registered investment adviser under the United States of America

(“U.S.”) Investment Advisers Act of 1940, as amended (“WPS & Co., Ltd.” and, together with its subsidiaries, the “Company”), are presented on a consolidated basis.

### *Note 2: Background and Organization*

For the years ended December 31, 2008, 2007 and 2006, the consolidated Company consisted of several affiliated entities under common control, which provide investment advisory and related services including securities brokerage. The background and organization of the principal entities presented in the Company’s consolidated financial statements are set out below.

The Company’s subsidiaries and affiliates include:

- W.P. Stewart Asset Management Ltd. (“WPSAM”), a wholly-owned subsidiary, is a registered investment adviser under the U.S. Investment Advisers Act of 1940 with clients throughout the world.
- W.P. Stewart Securities Limited (“WPSSL”), a wholly-owned subsidiary, acts as an introducing broker, clearing all transactions with, and for, customers of its affiliates on a fully-disclosed basis through an independent clearing broker. WPSSL is a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (“FINRA”).
- W.P. Stewart Fund Management Limited (“WPS Dublin”), is a wholly-owned subsidiary of WPSAM. The primary business of WPS Dublin was to provide management and administrative services to investment funds. WPS Dublin was formerly the manager of W.P. Stewart Funds plc and W.P. Stewart (Distributor) Funds plc, two umbrella-type open-ended investment companies regulated by the Irish Financial Services Regulatory Authority (“IFSRA”), formerly regulated by the Central Bank of Ireland. In late 2007 and during 2008, all of

the investment funds under the W.P. Stewart Funds plc and W.P. Stewart (Distributor) Funds plc umbrella investment companies liquidated after all investors had voluntarily redeemed from the funds. As a result of the closure of these investment funds, the directors of WPS Dublin, at an extraordinary general meeting held on August 22, 2008, adopted resolutions to voluntarily wind up the activities of WPS Dublin and place the company in voluntary liquidation as of February 6, 2009.

- W.P. Stewart & Co., Inc. (“WPSI”), a wholly-owned subsidiary, is a registered investment adviser under the U.S. Investment Advisers Act of 1940. Its principal business is to provide investment research and sub-advisory services to the Company.
- W.P. Stewart & Co. (Europe), Ltd. (“WPS Europe”), a wholly-owned subsidiary, is authorized and regulated by the UK Financial Services Authority (“FSA”) and previously was regulated by the Investment Management Regulatory Organisation Limited (“IMRO”). Its principal business is to provide investment research and sub-advisory services to the Company.
- W.P. Stewart Fund Management S.A. (“WPSFM SA”), is a wholly-owned subsidiary, subject to the jurisdiction of the Luxembourg Commission de Surveillance du Secteur Financier (“CSSF”). The primary business of WPSFM SA is providing management and administrative services to investment funds. WPSFM SA is currently the manager of W.P. Stewart Holdings Fund (formerly W.P. Stewart Holdings N.V.), an open-ended investment company under the jurisdiction of the CSSF and listed on the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Euronext Amsterdam and the W.P. Stewart Global Growth Fund, an open-ended investment company under the jurisdiction of the CSSF.

In October and November 2006, the Company commenced investment activities in the WPS US Absolute Investment Partnership, L.P., WPS US Relative Investment Partnership, L.P. and WPS International Partners, L.P., three new investment partnerships, which are wholly-owned subsidiaries of the Company. These

investment partnerships were formed to hold a portfolio of listed equity securities which are classified as investments, trading in the consolidated statements of financial condition. In May 2007, the portfolio of the WPS US Absolute Investment Partnership, L.P. was liquidated and in December 2007, the portfolio of the WPS US Relative Investment Partnership, L.P. was liquidated. Investment activities in both of the partnerships ceased once the portfolios had been liquidated.

### **Business Acquisitions**

In 1999 the Company acquired 50% of TPRS Services N.V. ("TPRS") and 100% of First Long Island Investors, Inc. ("FLII"). On December 29, 2000, the Company acquired the remaining 50% of TPRS. The repurchase provisions of the acquisition agreements specified that 80% of the Company's common shares issued in connection therewith could be repurchased ("contingently returnable shares") at par value by the Company up to a maximum of 20% per year as of January 1, 2000, 2001, 2002 and 2003, except in the case of the December 29, 2000 TPRS acquisition where the reference dates were July 1, 2001, 2002, 2003 and 2004, if assets under management which were part of the acquisitions decreased below defined reference amounts at the specified dates and were not replaced.

The recorded purchase price for each acquisition was determined by the sum of:

1. the number of shares issued on acquisition not subject to repurchase, multiplied by the fair value of each of those shares at the acquisition date;
2. the number of shares that ceased to be subject to repurchase at each anniversary

date, multiplied by the fair value of each of those shares at that date; and

3. the cumulative cash dividends paid on shares subject to repurchase.

The shares issued in connection with the TPRS and FLII acquisitions were initially reported in shareholders' equity (within share capital and as a contra-equity account captioned "contingently returnable shares") at their issuance prices as of the dates the acquisitions were consummated. On the dates on which the contingently returnable shares ceased to be subject to repurchase, the contra-equity account was relieved and any difference between the initial issue price and the then current fair value of those shares was charged or credited to additional paid-in capital, and the purchase price was adjusted for the fair value of the shares. Cash dividends on shares no longer subject to repurchase were recorded as a reduction of shareholders' equity.

Intangible assets arising from the Company's business acquisitions were comprised primarily of customer relationships.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table shows information for each acquisition as of and for the year ended December 31, 2008.

Acquisition	Aggregate Number of Shares	Shares Not Subject to Repurchase	Purchase Price Allocation	Intangible Amortization for the Year
TPRS	196,600	196,600	\$ 16,390,894	\$ 109,656
FLII	120,000	120,000	10,879,093	346,545
	316,600	316,600	\$ 27,269,987	\$ 456,201

The following table shows information for each acquisition as of and for the year ended December 31, 2007.

Acquisition	Aggregate Number of Shares	Shares Not Subject to Repurchase	Purchase Price Allocation	Intangible Amortization for the Year
TPRS	196,600	196,600	\$ 18,881,238	\$ 2,596,633
FLII	120,000	120,000	13,632,548	1,536,279
	316,600	316,600	\$ 32,513,786	\$ 4,132,912

The following table shows information for each acquisition as of and for the year ended December 31, 2006.

Acquisition	Aggregate Number of Shares	Shares Not Subject to Repurchase	Purchase Price Allocation	Intangible Amortization for the Year
TPRS	196,600	196,600	\$ 42,367,772	\$ 2,596,633
FLII	120,000	120,000	23,703,088	1,536,279
	316,600	316,600	\$ 66,070,860	\$ 4,132,912

On November 14, 2001, the Company acquired a controlling interest in TPR & Partners N.V. (“TPR”), an asset-gathering firm based in The Netherlands via the acquisition of shares in a Bermuda holding company that indirectly owns 100% of the shares of TPR. Going forward, the Bermuda company, which is named W.P. Stewart Asset Management (Europe), Ltd. (“WPSAM Europe”), serves as the umbrella for the Company’s European asset gathering and client servicing activities. In the transaction, the Company initially acquired 9,000 of WPSAM Europe’s 12,000 outstanding shares in exchange for 33,000 common shares of the Company. The acquisition price of \$8,052,000 less the fair value of net assets acquired of \$170,203 was allocated to intangible assets and goodwill. The former

beneficial owners of TPR, one of whom prior to October 1, 2008 was an executive officer of the Company, and their assigns continued to hold the remaining 3,000 shares of WPSAM Europe until July 1, 2006, at which time the Company acquired those shares at a fair value price of \$6,000,000, which was allocated to intangible assets and goodwill in the amounts of \$2,950,000 and \$3,050,000, respectively.

In the third quarter of 2008, due to a loss of assets under management, the fees from which supported the customer related intangible assets of the TPRS, FLII and WPSAM Europe acquisitions, the Company recognized an impairment loss of \$8,799,815, which represented the remaining balance of customer related intangible assets for each respective acquisition. Also, in the third

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

quarter of 2008, due to a decline in the Company's market capitalization as compared with shareholder's equity, there was an impairment of goodwill resulting in a write-off of the entire balance in the amount of \$8,681,797. For the years ended December 31, 2007 and 2006 there was no impairment in the carrying value of goodwill.

In the second and fourth quarters of 2007, due to a loss of assets under management, the

fees from which supported the customer related intangible assets of the TPRS and FLII acquisitions, the Company recognized an impairment loss of \$33,557,074. Accordingly, the purchase price allocations of the TPRS and FLII acquisitions were adjusted by \$23,486,534 and \$10,070,540, respectively.

### *Note 3: Accounting Policies*

These consolidated financial statements are presented in conformity with accounting principles generally accepted in the U.S. The functional currency for the Company and its affiliates is the U.S. dollar with the exceptions of WPS Europe and W.P. Stewart Asset Management (Europe), N.V. ("WPSAM Europe N.V."), a wholly-owned subsidiary of WPSAM Europe, for which the pound sterling and the euro, respectively, are the functional currencies.

The process of preparing consolidated financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The financial statements have been prepared on a going concern basis. However, the Company has incurred losses for the years ended December 31, 2008 and 2007 and has negative cash flows in 2008. The Company would need to increase assets under management or reduce expenses to have positive cash flows. There is no assurance that the Company will be able to achieve positive cash flows in the future.

#### **Principles of Consolidation**

The Company consolidates all affiliated entities in which it has a majority ownership

interest or maintains effective control. All material inter-company transactions have been eliminated.

#### **Cash and Cash Equivalents**

The Company considers cash in banks, money market funds and short-term highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. The Company maintains a large majority of its cash in two banks.

#### **Fees Receivable**

The Company's advisory fees are computed quarterly based on account market values and fee rates pursuant to investment advisory contracts with clients. Such account market values are calculated using quoted prices from exchanges for actively traded listed securities. The Company's general policy is to bill all clients quarterly in advance. The Company has recorded an allowance for uncollectible amounts; such estimate is based on the Company's historical collection experience and a review of the current status of fees receivable. It is reasonably possible that the Company's estimate of the allowance for uncollectible amounts will change. Fee income and fees receivable are presented net of an allowance for uncollectible amounts of \$605,850 at December 31, 2008.

#### **Investments in Unconsolidated Affiliates**

The Company includes its investments in the common stock of investees in which it owns between 20-50% in the caption "Investments

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

in Unconsolidated Affiliates” and accounts for such investments under the equity method of accounting.

### **Investments, Trading and Available for Sale**

Investments in equity and municipal securities have been classified as either “trading” or “available for sale” in accordance with Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities” and, as such, are recorded at quoted market values. Transactions are recorded on a trade date basis. For the years ended December 31, 2008, 2007 and 2006, unrealized gains and losses on investments classified as trading in the amounts of \$(1,446,366), \$(336,465) and \$1,608,387 are recorded as profit or loss whereas unrealized gains and losses on investments classified as available for sale are recorded in accumulated other comprehensive income within shareholders' equity.

### **Fair Value Measurements**

The Company adopted the provisions of Statement of Financial Accounting Standards No. 157 (“SFAS No. 157”), “Fair Value Measurements” in the first quarter of 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy. The adoption of SFAS No. 157 did not have a material impact on the Company’s financial statements (see Note 19).

### **Furniture, Equipment, Software, Leasehold Improvements and Investment in Aircraft**

Furniture, equipment, software, leasehold improvements and investment in aircraft are stated at cost less accumulated depreciation and amortization. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated

life of the improvements. The aircraft was depreciated using an accelerated method over seven years.

### **Fees and Fees Paid Out**

Fees for the management of clients’ accounts are based on terms stated in client contracts and are based upon a percentage of assets under management determined as of the last day of the prior quarter as specified in the contracts. Fees are recognized in the period in which they are earned. Under certain client contracts, the Company is entitled to receive performance fees when the return on assets under management exceeds specified benchmark returns or other performance targets. Performance fees are recorded as of the date on which the performance period ends.

Fees for the referral of certain accounts are paid to solicitors and are based on terms stated in contracts with such parties. Such amounts, included in fees paid out, are based upon a percentage of the fee revenue generated from the referred accounts and are recognized in the same period as the corresponding revenue.

### **Commissions**

Commissions on brokerage activities and related trading costs are recorded on a trade date basis.

### **Income Taxes**

The Company uses the asset and liability method required by Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“SFAS 109”), to record income taxes. SFAS 109 states that “deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts”. A valuation allowance is established to reduce deferred tax assets to amounts that are expected to be realized.

The Company may be subject to challenges from tax authorities regarding the amount of taxes due. These challenges may include questions regarding the amount of deductions and the allocation of income in the jurisdictions where the Company conducts

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

business. In evaluating the potential exposure associated with various tax positions, the Company records reserves for such potential exposures. Based on management's evaluation of the Company's tax position, it is believed that the amounts related to these potential tax exposures are appropriately accrued as accrued expenses and other liabilities. To the extent the Company were to prevail in matters for which such accruals have been established or be required to pay amounts in excess of the aforementioned reserves, the Company's effective tax rate in a given financial statement period may be impacted.

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS No. 109". FIN No. 48 requires that the Company determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements.

### **Foreign Currency Translation**

The Company accounts for foreign currency translation in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation". Assets and liabilities are translated at the exchange rate in effect at year-end, and revenue and expenses are translated at the average rates of exchange prevailing during the year. Gains or losses resulting from foreign currency transactions are included in net income. The U.S. dollar effect that arises from translating the net assets of WPS Europe and WPSAM Europe N.V. is recorded in "accumulated other comprehensive income", a separate component of shareholders' equity.

### **Intangible Assets and Goodwill**

Intangible assets arising from the Company's business acquisitions (see Note 2)

are amortized on a straight-line basis over periods of five to 20 years. The carrying value of the intangibles acquired is reviewed for impairment annually or whenever events or changes in circumstances indicate that they may not be recoverable based upon expectations of future undiscounted cash flows over their remaining lives. Where the undiscounted cash flow is less than the carrying amount of the asset, an impairment loss will be recognized. The loss will be the difference between the fair value of the asset and the carrying value of the asset.

Goodwill from the Company's acquisition of TPR (see Note 2) is accounted for pursuant to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). In accordance with SFAS No. 142, goodwill is not amortized but is tested annually for impairment.

### **Earnings Per Share**

Basic earnings per share is computed by dividing the net income applicable to common shares outstanding by the weighted average number of shares outstanding, excluding unvested shares issued to employees of the Company or its affiliates, unvested options, vested unexercised options and potentially issuable common shares. Diluted earnings per share is computed using the same method as basic earnings per share, but also reflects, in years with net income, the impact of unvested shares issued to employees of the Company or its affiliates and the dilutive effect of unvested options, vested unexercised options issued to employees of the Company or its affiliates and potentially issuable common shares, using the treasury stock method.

### **Share-Based Compensation**

On January 1, 2005, the Company began to account for share-based employee compensation in accordance with the method prescribed by Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R requires that compensation cost related to share-based

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS No. 123R include share options, restricted share awards, certain performance-based awards, share appreciation rights, and employee share purchase plans (see Notes 12 and 13).

### **Business Segments**

The Company operates predominantly in one business segment, the investment advisory and asset management industry.

### **Reclassification of Comparative Financial Statements**

Certain prior year amounts have been reclassified to conform with current year presentation.

### **Share Consolidation**

On November 19, 2008, the Company effected a one-for-ten share consolidation of the Company's authorized and issued common shares pursuant to which every ten common shares, par value \$0.001 per share, were consolidated, reclassified and converted into one new common share, par value \$0.01 per share. All share and option numbers, as well as, per share dollar amounts for the year ended December 31, 2008 are provided after giving effect to such share consolidation and

all prior period share and option numbers and per share data have been restated to reflect the share consolidation. In connection with the share consolidation, the Company paid shareholders cash in lieu of fractional shares in the aggregate amount of \$1,210.

### **New Accounting Pronouncements**

In June 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. EITF 03-6-1, ("FSP EITF 03-6-1"), "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". The guidance in FSP EITF 03-6-1 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact FSP EITF 03-6-1 will have on its calculation of earnings per share upon adoption.

### *Note 4: Earnings Per Share*

	2008	2007	2006
<b>Basic Earnings/(Loss) Per Share:</b>			
Net income/(loss)	<b>\$ (49,311,881)</b>	\$ (31,401,236)	\$ 37,475,443
Weighted average basic shares outstanding	<b>4,886,968</b>	4,611,700	4,581,656
Net income/(loss) per share	<b>\$ (10.09)</b>	\$ (6.81)	\$ 8.18
<b>Diluted Earnings/(Loss) Per Share:</b>			
Net income/(loss)	<b>\$ (49,311,881)</b>	\$ (31,401,236)	\$ 37,475,443
Weighted average basic shares outstanding	<b>4,886,968</b>	4,611,700	4,581,656
Add: Unvested shares, unvested options, vested unexercised options and dilutive potentially issuable common shares	-	-	4,990
Weighted average diluted shares outstanding	<b>4,886,968</b>	4,611,700	4,586,646
Net income/(loss) per share	<b>\$ (10.09)</b>	\$ (6.81)	\$ 8.17

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basic earnings per share is computed by dividing the net income applicable to common shares outstanding by the weighted average number of shares outstanding, excluding unvested shares issued to employees of the Company or its affiliates, unvested options, vested unexercised options and potentially issuable common shares. Diluted earnings per share is computed using the same method as basic earnings per share, but also reflects, in years with net income, the impact of unvested shares issued to employees of the Company or its affiliates and the dilutive effect of unvested options, vested unexercised options issued to employees of the Company or its affiliates

and potentially issuable common shares, using the treasury stock method. For the year ended December 31, 2007, there were a total of 2,121 shares that were not included in the total weighted average diluted shares outstanding due to their anti-dilutive nature.

On December 31, 2008, 2007 and 2006, 5,544,699, 5,102,207 and 4,756,928 shares respectively, were issued and outstanding. The shareholders of record are entitled to full voting rights (see Note 14) and dividends on these shares; 320,781, 477,021 and 181,287 of these shares were unvested and held by the Company's or affiliates' employees on December 31, 2008, 2007 and 2006, respectively.

### *Note 5: Comprehensive Income*

The following table details the components of comprehensive income as described in Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income".

	2008	2007	2006
Net income/(loss)	\$ <b>(49,311,881)</b>	\$ (31,401,236)	\$ 37,475,443
Other comprehensive income/(loss), net of tax:			
Reclassification adjustment for unrealized gains/(losses) on available for sale securities included in interest and other	-	-	76,390
Unrealized gains/(losses) on available for sale securities	<b>14,385</b>	3,250	(28,628)
Foreign currency translation adjustment	<b>(703,820)</b>	49,588	636,389
Comprehensive income/(loss)	<b>\$ (50,001,316)</b>	\$ (31,348,398)	\$ 38,159,594

### *Note 6: Investments in Unconsolidated Affiliates*

Investments in unconsolidated affiliates include the following:

	2008	2007	2006
Investment in Bowen Asia Limited	\$ <b>656,461</b>	\$ 2,231,383	\$ 2,305,501
Investment in Stewart Bowen Japan Ltd.	-	115,791	107,035
Investment in Kirk Management Ltd.	<b>1,687,045</b>	1,597,162	1,491,682
Total	<b>\$ 2,343,506</b>	\$ 3,944,336	\$ 3,904,218

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2008, the Company owned approximately 35% of Bowen Asia Limited (“Bowen”).

The Company owns a 40% interest in Kirk Management Ltd., a real estate joint venture incorporated in Bermuda. Kirk Management Ltd. owns Trinity Hall, a building located in Hamilton, Bermuda, which is leased by the Company from the joint venture and serves as the Company’s headquarters.

The Company owns a 50% interest in Stewart Bowen Japan Ltd. (“SBJL”), a joint venture incorporated in the British Virgin Islands. W. P. Stewart Japan K.K., a wholly-owned subsidiary of SBJL, is located in Tokyo, Japan and provides client servicing and asset gathering activities. Bowen owns the remaining 50% interest in SBJL.

### *Note 7: Related Party Transactions*

Research and administrative expenses include travel expenses of \$156,505, \$560,536 and \$738,731 for the years ended December 31, 2008, 2007 and 2006, respectively, which were paid to Shamrock Aviation, Inc. (“Shamrock”), a company owned by principal shareholders of the Company.

The Company had entered into agreements pursuant to which either Shamrock or an entity affiliated with Shamrock agreed to provide operational and maintenance services at cost for the Challenger aircraft then owned by the Company. These costs, reflected in research and administration expenses, include \$1,643,492 and \$3,087,474 for the years ended December 31, 2007 and 2006, respectively. In July 2007, the Challenger aircraft was sold.

A portion of the office space located in New York is occupied by Stewart family interests. WPSI is reimbursed on a monthly basis for rent and other costs associated with the space, which amounted to \$155,499, \$163,888 and \$181,545 for the years ended December 31, 2008, 2007 and 2006, respectively. These amounts are based upon the actual space utilized in each of those years.

The Company paid solicitation fees in respect of certain accounts and an amount calculated on the basis of a portion of the brokerage commissions paid by certain accounts, as directed by those clients to a beneficial owner of a minority interest in the Company. Such payments amounted to

\$2,007 and \$7,867 for the years ended December 31, 2007 and 2006.

The Company pays Bowen, an unconsolidated affiliate of the Company (see Note 6), the other principal owners of which are a beneficial owner of a minority interest in the Company and through December 31, 2008 an executive officer of the Company, fees for solicitation, sub-advisory and research services. Such costs amounted to \$520,906, \$649,029 and \$1,457,152 for the years ended December 31, 2008, 2007 and 2006, respectively. The Company receives solicitation fees from Bowen Capital Management (“BCM”), a subsidiary of Bowen, for client referrals to BCM. Total solicitation fees received from BCM for the years ended December 31, 2008, 2007 and 2006 were \$0, \$1,075 and \$7,114, respectively.

The Company pays Carl Spängler Kapitalanlageges. m.b.H., fees for solicitation services, which is controlled by Bankhaus Carl Spängler & Co. AG, the Chief Executive Officer of which is one of the Company’s directors. These fees amounted to \$20,163, \$137,424 and \$513,106 for the years ended December 31, 2008, 2007 and 2006, respectively.

Certain directors of the Company serve as directors of funds from which the Company receives investment advisory fees, fund management fees, subscription fees and commissions. Such fees and commissions were \$2,989,607, \$6,584,291 and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$18,512,887 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company owns a 40% interest in Kirk Management Ltd. (see Note 6), a real estate joint venture incorporated in Bermuda. The remaining 60% interest is owned by The Bank of Bermuda of which, prior to 2004, one of the Company's directors was the Chief Executive Officer. Such director remains a non-executive director of The Bank of Bermuda and during the period from May 2005 through March 31, 2006 was an executive officer of the Company. Kirk Management Ltd. also owns and leases to the Company its Hamilton, Bermuda headquarters. Included in research and administration expenses is rent expense of \$180,000 for each of the years ended December 31, 2008, 2007 and 2006.

Included in receivables from affiliates, net, at December 31, 2008, 2007 and 2006 is a subordinated loan of \$212,526 and accrued interest on such loan in the amount of \$34,132 due from Kirk Management Ltd. The loan has no fixed repayment date.

Included in other operating expenses for the year ended December 31, 2008, is the write-off of a receivable in the amount of \$238,710 from WPS II, Inc., a former significant shareholder of the Company prior to its liquidation in December 2008.

Included in receivables from affiliates, net, at December 31, 2007 and 2006 are the amounts of \$364,149 and \$352,701, respectively, which represent an outstanding receivable from WPS II, Inc. a former significant shareholder of the Company. This balance is non-interest bearing and has no fixed repayment date.

WPSAM serves as investment adviser to W.P. Stewart Holdings Fund ("WPSH") formerly W.P. Stewart Holdings N.V. ("WPSH NV"), our mutual fund listed on Euronext Amsterdam. This fund has a fixed fee of 25 basis points per annum and a 10% performance fee. Included in receivables from affiliates, net, at December 31, 2008, 2007 and 2006, are performance fees receivable in the amounts of \$0, \$417,494 and \$9,740,086, respectively. In connection with the seat transfer of WPSH NV to Luxembourg on July

1, 2006 and the related resetting of the performance fee to a straight high water mark, although WPSAM did not terminate the investment advisory agreement, the performance fee credit balance at June 30, 2006 in the amount of \$2,625,642 was recognized and paid by WPSAM to WPSH. This amount was recorded as a performance fee charge and is included in the consolidated statement of operations for the year ended December 31, 2006.

Included in research and administration expenses for the years ended December 31, 2008, 2007 and 2006 is rent expense in the amount of \$205,535, \$212,848 and \$190,260 which is paid to a company owned by the former principals of WPSAM Europe N. V., one of whom was an executive officer of the Company through September 30, 2008.

Included in other operating expenses for the years ended December 31, 2008, 2007 and 2006 are contributions in the amounts of \$35,000, \$185,000 and \$325,000 paid to the W.P. Stewart & Co. Foundation, Inc. (the "Foundation"), a private charitable foundation.

On August 1, 2008, pursuant to an Investment Agreement entered into among the Company, Arrow Capital Management LLC ("Arrow") and several funds managed by Arrow (collectively, the "Arrow Funds"), the Company sold an aggregate of 501,000 of its common shares to the Arrow Funds in a private placement. The common shares were purchased at a price per share of \$16.00 for total consideration of \$8,016,000. In addition, the Company was advised by Arrow on the same day that the Arrow Funds also purchased an aggregate of 1,669,093 common shares of the Company in their tender offer for up to 1,990,200 of the Company's common shares, which tender offer expired at 5:00 p.m. on Monday, July 28, 2008. After giving effect to the Arrow Funds' purchase of a total of 2,170,093 common shares in the private placement and the tender offer, the Arrow Funds held in the aggregate approximately 39.2% of the outstanding common shares of the Company. However, the Arrow Funds are limited by the Company's Bye-Laws to a 24% aggregate

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

voting interest in the Company, with each of the Arrow Funds limited to a voting interest

of 9.5% individually (see Note 14).

### *Note 8: Long-Term Debt*

On July 10, 2003, WPS Aviation entered into a 10-year amortizing loan agreement with General Electric Capital Corporation ("GECC") to continue to finance its obligations under the purchase agreement relating to the purchase of a Challenger aircraft. The purpose of this new agreement was solely to consolidate all prior obligations to GECC and to reduce the fixed interest rates under the previous obligations. This new loan was for the principal sum of \$17,278,264 at a floating per annum simple interest rate, as defined in the loan agreement as the contract rate, to be paid in 120 monthly installments and a final installment of \$8,608,913 plus any outstanding interest. The contract rate of interest was equal to the sum of (i) two and

25/100 percent (2.25%) per annum plus (ii) a variable per annum interest rate equal to the rate listed for one-month commercial paper (non-financial). The first monthly periodic installment was due and paid on August 10, 2003 with installments due and payable on the same day of each succeeding month. The loan was collateralized by the Challenger aircraft.

In July 2007 the Challenger aircraft was sold and the Company recognized a gain on the sale in the amount of \$18,464,963. The outstanding loan balance due to GECC was paid in full from the proceeds of the sale.

Interest expense on long-term debt totaled \$673,665 and \$1,064,517 for the years ended December 31, 2007 and 2006, respectively.

### *Note 9: Commitments and Contingencies*

At December 31, 2008, the Company was contingently liable on three irrevocable standby letters of credit. One letter of credit is in the amount of \$1,000,000 in favor of Wachovia Corporate Services Inc. ("Wachovia") and collateralizes amounts received from the Company's clients that Wachovia wires daily to the Company's account at The Bank of Bermuda. This amount is collateralized by a fixed deposit cash account that will remain intact as long as the Company continues to utilize the services of Wachovia. The second letter of credit is in the amount of \$200,000, in favor of WPSI's landlord and is collateralized by a fixed deposit cash account that will remain intact over the term of the lease. The third letter of credit is in the amount of \$800,000 (increased from \$699,033 in August 2008) in favor of WPS Europe's landlord. The latter amount is guaranteed by the Company, and is collateralized by a fixed deposit cash account in the same amount, which will remain intact

over the term of the lease. The total amounts of \$2,000,000, \$1,899,033 and \$1,899,033 are reflected in other assets at December 31, 2008, 2007 and 2006.

At December 31, 2008, WPS Europe had total capital of \$1,630,156 that exceeded the fixed overhead requirement of \$1,171,088 by \$459,068.

At December 31, 2008, WPSSL had net capital, as defined, of \$3,698,531 that exceeded the required minimum net capital of \$100,000 by \$3,598,531.

WPSSL conducts business with a clearing broker on behalf of its customers subject to a clearing agreement. WPSSL earns commissions as an introducing broker for the transactions of its customers, which are normally settled on a delivery-against-payment basis. Under the clearing agreement, WPSSL has agreed to indemnify the clearing broker for non-performance by any customers introduced by WPSSL. As the right to charge WPSSL has no maximum amount, and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

applies to all trades executed through the clearing broker, WPSSL believes there is no maximum amount assignable to this right. At December 31, 2008, WPSSL has recorded no liability with respect to this right. WPSSL is subject to credit risk to the extent that the clearing broker may be unable to repay amounts owed.

With effect from January 31, 2007, under the clearing agreement, if WPSSL wishes to terminate such agreement prior to the end of the first three years of the agreement, and WPSSL provides less than the 12 months' notice that the agreement requires, WPSSL would be liable to the clearing broker for the average monthly revenue derived by the clearing broker from WPSSL during the last 12 month period times the shortfall between the termination date and the 12 month required notification period.

Also, in the event of termination prior to the end of the first three years of the clearing agreement, WPSSL would be liable for repayment of a forgivable loan in the amount of \$500,000 plus accrued interest that was made by the clearing broker to WPSSL under the clearing agreement, as well as all costs and expenses of terminating the clearing agreement. The total amount of \$562,535 which includes accrued interest in the amount of \$62,535 is included in vendor payables at December 31, 2008.

WPSAM serves as investment adviser to W.P. Stewart Holdings Fund ("WPSH") formerly W.P. Stewart Holdings N.V. ("WPSH NV"), our mutual fund listed on Euronext Amsterdam. This fund pays WPSAM a fixed fee of 25 basis points per annum and a 10% performance fee.

Through June 30, 2006, the performance fee was calculated as 10% of the change in WPSH NV's net asset value per share from valuation date to valuation date, multiplied by the number of shares outstanding as of the earlier of the two dates. However, if the calculation were to produce a negative figure, that amount would be treated as a credit against future performance fees. If the advisory agreement were to be terminated by the investment adviser, the remaining negative balance, if any, would have to be

paid back to WPSH NV by the investment adviser.

In connection with the seat transfer of WPSH NV to Luxembourg on July 1, 2006 and the related resetting of the performance fee to a straight high water mark, although WPSAM did not terminate the investment advisory agreement, the performance fee credit balance at June 30, 2006 in the amount of \$2,625,642 was recognized and paid by WPSAM to WPSH. This amount was recorded as a performance fee charge and is included in the consolidated statement of operations for the year ended December 31, 2006.

Effective July 1, 2006, as per the terms of the investment advisory agreement, the performance fee is payable annually in arrears and is equal to 10% of the increase, if any, in the net asset value per share as compared to December 31 of the previous year. The performance fee is calculated on each valuation day by first calculating the net asset value per share prior to the performance fee accrual for that day (the "base net asset value per share"), and then allocating 10% of the increase (or decrease) in the base net asset value per share compared to the higher of (i) the net asset value per share (after accrual of performance fee) on the preceding valuation day or (ii) the highest net asset value per share previously attained as at any prior December 31, multiplied by the number of shares outstanding on the current valuation day. If on any valuation day the net asset value per share shall fall below the high water mark, then no performance fee shall be accrued until such time as the net asset value per share exceeds the high water mark.

The Company has committed to make future issuances of 79,500 common shares as non-cash incentive employee compensation. The commitments made by the Company to issue such shares are conditioned upon the satisfaction of certain individual employee performance conditions relating to Company profitability, investment performance or both. Any shares that may be issued by the Company in the future in satisfaction of those commitments will be restricted shares. When issued, these restricted shares will remain

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

subject to vesting requirements over time, with limited exceptions permitting accelerated or immediate vesting. The dilutive effect of these potentially issuable common shares is included in the weighted

average diluted shares outstanding in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128").

### *Note 10: Notes Receivable for Common Shares*

Pursuant to employee or director purchase agreements for common shares, in the event a purchaser is no longer in the employment of, or no longer serves as a director of, the Company or any of its affiliates, the purchaser shall transfer to the Company all rights to the shares that have not vested at the time of such termination. The remaining balance of the outstanding notes receivable related to the unvested shares shall be abated.

Pursuant to the terms of the purchase agreements, during the year ended December 31, 2008, 22 unvested common shares of former employees were repurchased and their installment notes totaling \$1,017 were abated.

Pursuant to the terms of the purchase agreements, during the year ended December 31, 2007, 649 unvested common shares of former employees were repurchased and their installment notes totaling \$87,256 were abated.

Pursuant to the terms of the purchase agreements, during the year ended December 31, 2006, 3,621 unvested common shares of former employees were repurchased and their installment notes totaling \$556,005 were abated.

Future minimum payments expected to be received on notes receivable for common shares as of December 31, 2008 are as follows:

2009.....	\$ 224,646
2010.....	4,617
2011.....	<u>6,787</u>
	<u>\$ 236,050</u>

Interest income on all such notes was \$5,469, \$30,574 and \$79,656 for the years ended December 31, 2008, 2007 and 2006, respectively.

### *Note 11: 2001 Employee Equity Incentive Plan*

The W.P. Stewart & Co., Ltd. 2001 Employee Equity Incentive Plan, as amended (the "Plan") provided for awards of common shares of the Company, to be granted to eligible employees of the Company and its affiliates in the form of restricted common shares and/or options. The exercise price of the options is equal to the market value of the Company's shares on the date of the grant. All awards that vest are exercisable in equal annual amounts on each of the first seven anniversaries of the grant dates. The dilutive effect of unvested options and vested unexercised options is included in the weighted average diluted shares outstanding in accordance with Statement of Financial

Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128").

On May 12, 2003, the Board of Directors approved an amendment to the Plan that (i) increased the total number of common shares available for awards under the Plan from 250,000 to a total of 300,000, inclusive of awards previously granted, and (ii) increased the duration of the period during which vested options may be exercised from one year to two years with respect to any option grants made in the future.

As provided in the Plan, as of July 24, 2004 no further grants may be awarded under the Plan. However, previously issued grants will

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

extend beyond that date as expressly provided in the Plan documents.

In 2008, pursuant to the terms of the Plan, 1,069 and 700 unexercised options granted in 2001 and 2002, respectively, were forfeited by former employees of the Company. Additionally, in 2008, 5,247 and 2,595 vested options granted in 2001 and 2002, respectively, expired.

In 2007, pursuant to the terms of the Plan, 6,097 and 16,209 unexercised options granted in 2001 and 2002, respectively, were forfeited

by former employees of the Company. Additionally, in 2007, 5,907 and 3,019 vested options granted in 2001 and 2002, respectively, expired.

In 2006, pursuant to the terms of the Plan, 12,857 and 929 unexercised options granted in 2001 and 2002, respectively, were forfeited by former employees of the Company. Additionally, in 2006, 7,446 and 6,403 vested options granted in 2001 and 2002, respectively, expired.

### *Note 12: Share Options*

On January 1, 2003, the Company began to account for share-based employee compensation in accordance with the fair value method prescribed by SFAS No. 123, as amended by SFAS No. 148, using the prospective adoption method. Under this method of adoption, compensation expense is recognized based on the fair value of the share options granted in 2003 and future years over the related vesting periods. The amount of share-based compensation recognized under SFAS No. 123 for the years ended December 31, 2008, 2007 and 2006 for share options granted in 2003, was \$291, \$475 and \$530, respectively. During 2008, 214 unexercised options granted in 2003 were

forfeited by former employees of the Company and 86 vested options granted in 2003 expired. During 2007, 804 unexercised options granted in 2003 were forfeited by former employees of the Company and 128 vested options granted in 2003 expired. During 2006, 4,018 unexercised options granted in 2003 were forfeited by former employees of the Company and 932 vested options granted in 2003 expired. There were no share options granted after December 31, 2003.

The options outstanding as of December 31, 2008, 2007 and 2006 for grants awarded during the year ended December 31, 2003, are set forth below:

December 31,	Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
<b>2008</b>	<b>\$202.00</b>	<b><u>342</u></b>	<b>4</b>	<b>\$202.00</b>
2007	\$202.00	<u>643</u>	4	\$202.00
2006	\$202.00	<u>1,575</u>	5	\$202.00

On January 1, 2005, the Company began to account for share-based employee compensation in accordance with the method prescribed by Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment

transactions within the scope of SFAS No. 123R include share options, restricted share awards, certain performance-based awards, share appreciation rights, and employee share purchase plans.

The following range assumptions were applied in determining the effect on compensation expense upon adoption of SFAS No. 123R for the years ended December 31, 2008, 2007 and 2006:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007	2006
Expected Life	<b>1 to 7 years</b>	1 to 7 years	1 to 7 years
Risk free interest rate	<b>4.22% - 4.42%</b>	4.22% - 4.42%	5.09% - 5.33%
Dividend yield	-	-	4.22% - 7.24%
Volatility	<b>25% - 41%</b>	25% - 41%	25% - 41%

The options outstanding as of December 31, 2008, 2007 and 2006 for grants made prior to January 1, 2003 are set forth below:

December 31,	Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
	<b>\$208.00</b>	<b>5,232</b>	<b>1</b>	<b>\$208.00</b>
	<b>\$165.80 - \$284.20</b>	<b><u>4,897</u></b>	<b>2</b>	<b>\$220.10</b>
<b>2008</b>		<b><u>10,129</u></b>		
	\$208.00	11,562	1	\$208.00
	\$165.80 - \$284.20	<u>8,199</u>	2	\$220.10
2007		<u>19,761</u>		
	\$208.00 - \$256.50	23,566	2	\$208.00
	\$165.80 - \$284.20	<u>27,428</u>	3	\$220.10
2006		<u>50,994</u>		

Options exercisable at December 31, 2008, 2007 and 2006 were 7,841, 9,041 and 15,774, respectively.

### *Note 13: Restricted Shares*

During 2008, 56,000 restricted shares were granted as employee non-cash compensation and during 2008 114,374 restricted shares were forfeited by former employees of the Company. Dividends of \$122,632 paid on those forfeited shares prior to January 1, 2008, was charged to compensation expense.

During 2007, 1,000 restricted shares were granted to certain non-employee directors of the Company and 391,900 restricted shares were granted as employee non-cash compensation. In addition, during 2007, 21,279 restricted shares were forfeited by former employees of the Company. Non-cash compensation of \$79,105 relating to the forfeited shares that had been charged to compensation expense prior to January 1,

2007 was reversed, and dividends of \$310,502 paid on those forfeited shares prior to January 1, 2007, was charged to compensation expense.

During 2006, 2,250 restricted shares were granted to certain non-employee directors of the Company and 110,530 restricted shares were granted as employee non-cash compensation. In addition, during 2006, 12,715 restricted shares were forfeited by former employees of the Company. Non-cash compensation of \$616,845 relating to the forfeited shares that had been charged to compensation expense prior to January 1, 2006 was reversed, and dividends of \$77,582 paid on those forfeited shares prior to January

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1, 2006, was charged to compensation expense.

These shares are subject to vesting schedules and resale restrictions set forth in the associated Restricted Share Agreements. Unearned compensation equivalent to the market value of the shares at the date of grant was charged to shareholder's equity as of that date and is being amortized over the one through five year vesting periods as specified in the terms of the individual Restricted Share

Agreements. Unearned compensation charged to additional paid-in capital, a component of shareholder's equity at December 31, 2008, 2007 and 2006 was \$700,000, \$44,901,600 and \$20,480,649, respectively. Compensation expense resulting from the amortization of the unearned compensation for the years ended December 31, 2008, 2007 and 2006 was \$12,736,102, \$17,841,432 and \$7,939,734, respectively.

### *Note 14: Shareholders' Voting Rights*

The Company's Bye-Laws limit the voting power of natural persons to 5%, and the voting power of other entities, "groups" (as defined in the U.S. Securities Exchange Act of 1934) and persons other than natural persons (legal persons) to 9.5%, of the votes attributable to the outstanding shares of the Company, regardless of how many of our shares (including common shares) they own or control. This restriction does not apply to parties who were shareholders immediately before our initial public offering, including certain individuals designated by the Company's Board of Directors who are currently affiliated with the Company. Votes that could have been cast by shareholders but for these voting restrictions are allocated to the other holders of the common shares pro-rata based on the number of shares they hold, except that no shareholder subject to the restrictions may receive an allocation to the extent that it would result in the shareholder holding more than 5% (for natural persons) or 9.5% (for legal persons, entities or groups) of

the total voting power. The Company's Board of Directors may approve the exemption of other persons or groups from this restriction.

In addition, the Bye-Laws provide that no person or group (other than direct or indirect subsidiaries of the Company, certain employee benefit plans designated by the Board of Directors which may be established by the Company or as otherwise exempted by the Board of Directors) deemed to be a beneficial owner of common shares may vote more than 20% of the total number of votes attributable to the common shares outstanding.

In connection with the Investment Agreement dated May 20, 2008, among the Company, Arrow and the Arrow Funds, the Company's Board of Directors granted a waiver allowing the Arrow Funds as a group to vote up to 24% of the Company's voting power in the event their ownership is at or above such level; provided, however, none of the funds may individually exercise in excess of 9.5% of the voting power of the Company.

### *Note 15: Income Taxes*

Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any Bermuda taxes on their income or capital gains. The Company and its Bermuda subsidiaries will be exempt from such forms of taxation in Bermuda until at least March 2016.

Income from the Company's operations in the United States and from U.S. subsidiaries of the Company is subject to income taxes imposed by U.S. authorities. In addition, the Company's non-U.S. subsidiaries are subject to income taxes imposed by the jurisdictions in which those subsidiaries conduct business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred taxes arise as a result of temporary timing differences between book and tax deductions related to compensation expense for restricted share grants and unrealized gains and losses which are not taxable until realized. For the year ended December 31, 2008, a deferred tax valuation allowance has been established in the amount of \$308,000 as it is more likely than not that the deferred tax benefit related to current year temporary timing differences will not be able to be utilized in future periods.

At December 31, 2008 and 2007, the Company had approximately \$2,182,500 and \$2,748,500 of deferred tax assets related to compensation expense for restricted share grants. A valuation allowance of approximately \$2,156,500 and \$1,715,500 has been established related to these deferred

tax assets at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the Company had no pool of windfall tax benefits.

The Company's effective tax rate is driven by the tax jurisdictions in which it conducts business and to the extent the jurisdictions in which it conducts activities change, the effective tax rate will change accordingly.

The provision for income taxes detailed below represents the Company's estimate of taxes on income applicable to all jurisdictions and is calculated at rates equal to the statutory income tax rate in each jurisdiction. For the year ended December 31, 2008, a valuation allowance has been established in the amount of \$1,742,000 related to current year net operating losses that the Company believes will not be able to be utilized.

The income tax provision/(benefit), for the years ended December 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Current taxes:			
U.S.:			
Federal	\$ (1,971,403)	\$ 5,122,280	\$ 3,460,837
State and local	(1,625,523)	3,015,962	2,125,293
	<u>(3,596,926)</u>	8,138,242	5,586,130
Other:	(6,839)	23,311	(193,175)
	<u>(3,603,765)</u>	8,161,553	5,392,955
Valuation allowance:	<u>1,742,000</u>	-	-
	<u>(1,861,765)</u>	8,161,553	5,392,955
Deferred taxes:			
U.S.:			
Federal	2,118,500	249,500	360,000
State and local	1,048,000	100,500	277,500
	<u>3,166,500</u>	350,000	637,500
Other:	(400)	-	-
	<u>3,166,100</u>	350,000	637,500
Valuation allowance:	<u>(2,464,500)</u>	(1,715,500)	-
	<u>701,600</u>	(1,365,500)	637,500
Net tax expense/(benefit)	<u>\$ (1,160,165)</u>	\$ 6,796,053	\$ 6,030,455

At December 31, 2008, WPS Europe had approximately \$21 million of unused tax loss carryforwards in the United Kingdom, which may be used to offset future taxable income in the United Kingdom. A valuation allowance for 100% of the deferred income

tax assets relating to these tax loss carryforwards has been established. Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. The Company believes it is more likely than not

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

that these income tax benefits will not be realized.

The Company adopted FIN No. 48 on January 1, 2007. This interpretation clarifies the criteria that must be met prior to recognition of the financial statement benefit, in accordance with SFAS No. 109, of a position taken in a tax return. As of adoption, the Company had gross unrecognized tax benefits of \$4,900,000 and there was no adjustment required to the January 1, 2007 beginning retained earnings. For the year ended December 31, 2008, the Company had gross unrecognized tax benefits of \$4,900,000 which is included in accrued expenses and other liabilities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in other operating expenses. The total balance of gross unrecognized tax benefits of \$4,900,000, if

recognized, would affect the Company's effective income tax rate in future periods.

The Company and its subsidiaries are predominantly subject to examination by the U.S. Internal Revenue Service ("IRS"), New York State and New York City. Currently, the Company is undergoing a New York City desk audit for the tax years ended December 31, 2003 and 2004 and one of the Company's U.S. subsidiaries is undergoing an examination by the IRS for the tax year ended December 31, 2006. In 2007, the IRS concluded an examination for the tax year ended December 31, 2005 of one of the Company's U.S. subsidiaries. The earliest tax year open for examination by the IRS, New York State and New York City is 2002.

The Company does not presently expect unrecognized tax benefits to change significantly during the twelve months subsequent to December 31, 2008.

### *Note 16: Pension Benefits*

The Company sponsors both a defined contribution profit-sharing plan (including a 401(k) feature) and a defined contribution money-purchase plan in the U.S. The Company also sponsors similar defined contribution retirement plans in both Bermuda and the United Kingdom. These plans cover substantially all employees who

meet the minimum age, service and eligibility requirements.

Total employer contributions amounted to \$1,255,775, \$1,801,333 and \$1,838,138 for the years ended December 31, 2008, 2007 and 2006, respectively. Participants are immediately vested in their account balances.

### *Note 17: Lease Commitments*

The Company has several lease agreements in various locations including Bermuda, New York, London, Curaçao and The Netherlands. The lease agreements are for various periods through December 31, 2021. The leases are subject to escalation charges based on increases in real estate taxes and maintenance costs.

Future minimum rental commitments under non-cancellable operating leases in effect as of December 31, 2008 were as follows:

2009.....	\$ 3,006,194
2010.....	2,502,736
2011.....	2,689,131
2012.....	2,634,654
2013.....	2,800,509
Thereafter (through 2021)....	11,832,036
	<u>\$ 25,465,261</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Total rent expense for all operating leases was \$3,553,597, \$3,083,056 and \$3,155,645 for the years ended December 31, 2008, 2007 and 2006, respectively.

Included in the table above is an annual amount of \$180,000 and an aggregate 13-year

total commitment amount of \$2,250,000 payable to Kirk Management Ltd., a 40% unconsolidated affiliate of the Company, which owns Trinity Hall, the Company's headquarters in Hamilton, Bermuda.

### *Note 18: Geographic Area Data*

The Company's primary business is the provision of investment advisory services to clients located throughout the world, in primarily two geographic areas, as follows:

<b>Fee Revenue</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
U.S.	\$ 21,699,874	\$ 48,196,778	\$ 71,397,432
Non-U.S.	<b>6,302,068</b>	16,125,603	36,405,030
Total	<b>\$ 28,001,942</b>	\$ 64,322,381	\$ 107,802,462

### *Note 19: Fair Value Measurements*

The Company accounts for certain financial instruments at fair value and adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") in the first quarter of 2008. SFAS No. 157 defines fair value, establishes a fair value hierarchy on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The fair value of a financial instrument is the amount 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. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

In accordance with SFAS No. 157, the Company categorized its financial instruments measured at fair value into the following three-level fair value hierarchy based upon the level of judgment associated with the inputs used to measure the fair value. The hierarchy established under SFAS No. 157 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest

priority to unobservable inputs (Level 3). As required by SFAS No. 157, the Company's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy under SFAS No. 157, and its applicability to the Company's portfolio investments, are described below:

Level 1 – Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market. As required by SFAS No. 157, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 – Unobservable inputs that are supported by little or no market activity and

that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the financial instruments carried at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Trading Securities	\$ 2,691,108	-	-	\$ 2,691,108
Available for sale securities	\$ 24,710	\$ 63,857	-	\$ 88,567
% of Total Assets	5.0%	0.1%	-	5.1%

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In accordance with SFAS No. 157, the Company's cash equivalents, short-term investments, and marketable equity securities are classified within Level 1 based on the fact that cash equivalents and marketable securities are valued using quoted market

prices in an active market or alternative pricing sources and models utilizing market observable inputs.

The Company's available for sale investment is classified within Level 2 as the valuation is based on quoted price for identical instruments in a non-active market. The investment is in a fund which comprises marketable securities in international markets.

### *Note 20: Subsequent Events*

During the first quarter of 2009, 25,375 restricted shares were forfeited by former employees of the Company and commitments for future issuances of 12,500 common shares were forfeited upon the employees' separation from the Company.

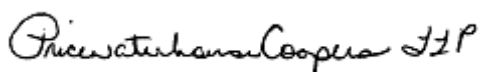
In January 2009, the Board of Directors of the Company authorized a share repurchase program of up to \$1.5 million of repurchase cost to be made at the discretion of Company

management from time to time at prevailing prices in the open market, by block purchases or in private transactions. Any repurchased shares will either be cancelled or held in treasury for general corporate purposes. In January 2009, the Company repurchased 2,500 common shares in an open market transaction for a total purchase price of \$5,325.

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and  
Shareholders of W.P. Stewart & Co., Ltd

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of W.P. Stewart & Co., Ltd. and its subsidiaries (the "Company") at December 31, 2008, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP  
New York, New York  
April 9, 2009

## BOARD OF DIRECTORS

**William P. Stewart** <sup>(1)</sup>

*Executive Chairman  
W.P. Stewart & Co., Ltd.*

**Mark I. Phelps** <sup>(1)</sup>

*President & Chief Executive Officer  
W.P. Stewart & Co., Ltd.*

**Henry Smith** <sup>(1)</sup>

*Former Chief Executive Officer  
W.P. Stewart & Co., Ltd and  
The Bank of Bermuda.*

**John C. Russell** <sup>(1)</sup>

*President & Chief Executive Officer (Retired)  
W.P. Stewart & Co., Ltd.*

**Angus S. King, Jr.** <sup>(2)(3)(4)</sup>

*Of Counsel  
Bernstein, Shur, Sawyer and Nelson  
Former Governor of the State of Maine  
Portland, Maine*

**Alfred J. Mulder** <sup>(3)</sup>

*Chairman, Investment Committee  
Greenfield Capital Partners,  
Nice, France*

**Heinrich Spängler** <sup>(2)(3)(4)</sup>

*Chief Executive Officer  
Bankhaus Carl Spängler & Co. AG  
Chairman  
Carl Spängler Kapitalanlageges. m.b.H.  
Salzburg, Austria*

**Richard D. Spurling** <sup>(2)(4)</sup>

*Senior Partner (Retired)  
Appleby  
Hamilton, Bermuda*

**Alexandre von Furstenberg**

*Co-Managing Member and  
Chief Financial Officer  
Arrow Capital Management LLC  
Los Angeles, CA*

*Legend:*

- (1) Member of the Executive Committee of the Board of Directors*
- (2) Member of the Compensation Committee of the Board of Directors*
- (3) Member of the Audit Committee of the Board of Directors*
- (4) Member of the Nominating and Corporate Governance Committee*

# CORPORATE OFFICERS

## EXECUTIVE OFFICERS

**Mark I. Phelps**

*President & Chief Executive Officer*

### *Managing Directors*

**Susan G. Leber**

*Chief Financial Officer*

**Rocco Macri**

*Chief Operating Officer*

### *Deputy Managing Directors*

**Sylvia A. Cart**

*Broker / Dealer*

**Frederick M. Ryan**

*Investor Relations*

### *Secretary*

**Debra Randall**

## GENERAL COUNSEL

**Seth L. Pearlstein**

## C O R P O R A T E I N F O R M A T I O N

### **Independent Auditors**

PricewaterhouseCoopers LLP  
New York, New York

### **Shareholders' Meeting**

The Annual General Meeting of Shareholders will be held in the Boardroom at Appleby, Canon's Court, 22 Victoria Street, Hamilton, Bermuda on Tuesday, May 19, 2009 at 10am.

### **Common Share Listing and Registration**

The Company's common shares are listed on the Bermuda Stock Exchange under the trading symbol "WPS" and currently traded in the U.S. on the Pink Sheets under the trading symbol "WPSLF".

On January 26, 2009, the Company was granted a primary listing of its common shares on the Bermuda Stock Exchange. Prior to such date, the Company's shares had a principal listing on the New York Stock Exchange under the symbol "WPL" with a secondary listing on the Bermuda Stock Exchange. The Company's common shares ceased to be listed on the New York Stock Exchange as it was considered below the continued listing criteria applicable at the time of a 30-day average market capitalization of at least \$25 million. In addition, at such time the Company filed a Certification and Notice of Termination of Registration on Form 15 with the U.S. Securities and Exchange Commission to effect the termination of registration of its common shares under Section 12(g) of the U.S. Securities Exchange Act of 1934, thereby suspending its obligations to file periodic and current reports under such Act.

### **Registrars & Transfer Agents**

Bank of Bermuda	Computershare Trust
Member of HSBC Group	Company, N.A.
6 Front Street	P.O. Box 43069
Hamilton HM 11	Providence, RI
Bermuda	02940-3069 USA

### **Counsel**

Appleby	Dorsey & Whitney LP
Canon's Court	250 Park Avenue
22 Victoria Street	New York, New York
Hamilton HM 12	10177
Bermuda	USA

### **Directors' and Executive Officers' Share Interests and Directors' Service Contracts**

Pursuant to Regulation 6.8(3) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all Directors and Executive Officers of the Company as of 31 December 2008 were 2,371,301 common shares. This amount excludes any common shares owned by trusts for which any Director or Executive Officer serves as trustee and of which he or she is not a beneficiary, but includes 2,170,092 shares held by four funds managed by Arrow Capital Management LLC and its affiliates. Mr. von Furstenberg, a Director of the Company, is Co-Managing Member and Chief Investment Officer of Arrow Management LLC. In addition, as of 31 December 2008, our Directors and Executive Officers owned options to purchase an aggregate of 4,549 of our common shares. Each option vests in equal portions on the first seven anniversaries of the grant date. 2,465, 1,485, 171 and 428 of these options were granted on October 24, 2001, May 1, 2002, August 20, 2002 and October 3, 2002 at exercise prices of \$208.00, \$284.20, \$221.00 and \$165.80, respectively (in each case, after giving effect to the one-for-ten share consolidation effected in November 2008), for an aggregate of 4,549 options. These options will expire on October 24, 2009, May 1, 2010, August 20, 2010 and October 3, 2010, respectively.

There are no service contracts with Directors of the Company, other than (i) those arrangements described in the Notes to the Consolidated Financial Statements included herein under "Note 7: Related Party Transactions", and (ii) employment agreements or consulting arrangements with current or former Executive Officers of the Company in their capacity as employees or consultants.

Outstanding loans to Directors and Executive Officers as of 31 December 2008 amounted to an aggregate of \$61,875. Each of these loans accrues interest at a rate of 8.5% per annum. Such loans were incurred in connection with purchases of common shares of W.P. Stewart & Co., Ltd. and its predecessors. Most of our employees, including our Directors and Executive Officers prior to July 30, 2002, entered into loan agreements with, and signed promissory notes to, us in respect of some or all of the purchase price of such shares.

## C O R P O R A T E I N F O R M A T I O N

### **Share Repurchases**

In early January 2009, prior to the primary listing of our common shares on the Bermuda Stock Exchange, the Company announced that its Board of Directors had authorized a share repurchase program of up to \$1.5 million of repurchase cost. Any repurchases may be made in the discretion of the Company from time to time at prevailing prices in the open market, by block purchases, in

private transactions or in derivative transactions in compliance with any applicable regulations of the Bermuda Stock Exchange. Any repurchased shares will be cancelled or held in treasury for general corporate purposes. The Company intends to fund any such repurchases with cash on hand.

## C O R P O R A T E I N F O R M A T I O N

### *Principal Offices and Operating Subsidiaries*

**W.P. Stewart & Co., Ltd.** <sup>(1)(2)(3)(4)</sup>  
*Hamilton, Bermuda*

**W.P. Stewart Asset Management (NA), Inc.** <sup>(4)</sup>  
*New York, New York, USA*

**W.P. Stewart Asset Management Ltd.** <sup>(3)</sup>  
*Hamilton, Bermuda*

**W.P. Stewart Asset Management (Europe) N.V.** <sup>(4)</sup>  
*Oegstgeest, The Netherlands*

**W.P. Stewart & Co., Inc.** <sup>(2)(3)</sup>  
*New York, New York, USA*

**W.P. Stewart Fund Management S.A.** <sup>(6)</sup>  
*Luxembourg*

**W.P. Stewart & Co. (Europe), Ltd.** <sup>(2)(3)</sup>  
*London, England, UK*

**Bowen Asia Limited** <sup>(2)(3)\*</sup>  
*Hong Kong, China*

**W.P. Stewart Securities Limited** <sup>(5)</sup>  
*Hamilton, Bermuda*

**Legend:**

- (1) Headquarters*
- (2) Research Center*
- (3) Investment Management*
- (4) Client Service and Asset Gathering*
- (5) Broker-Dealer*
- (6) Fund Management*

**Note:**

*\* The Company currently owns approximately 35% of Bowen Asia Limited.*

W.P. STEWART  
& Co., Ltd.

---

Trinity Hall  
43 Cedar Avenue  
Hamilton HM 12  
Bermuda  
[www.wpstewart.com](http://www.wpstewart.com)

---