

HIGHFIELDS CAPITAL MANAGEMENT LP  
Form SC 13G/A  
February 17, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 13G/A**

**Under the Securities Exchange Act of 1934**

**(Amendment No. 2)\***

**DOWNEY FINANCIAL CORP.**

**(Name of Issuer)**

**COMMON STOCK, \$0.01 PAR VALUE**

**(Title of Class of Securities)**

**261018105**

**(CUSIP Number)**

**DECEMBER 31, 2008**

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(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page. The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ( Act ) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, *see the Notes*).

1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**Highfields Capital Management LP**

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

**Delaware**

5. SOLE VOTING POWER

NUMBER OF

SHARES **1,675,074**

6. SHARED VOTING POWER

BENEFICIALLY

OWNED BY

EACH

**0**  
7. SOLE DISPOSITIVE POWER

REPORTING

PERSON

WITH

**1,675,074**  
8. SHARED DISPOSITIVE POWER

**0**

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

**1,675,074**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

**5.8%**

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

**PN**

1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**Highfields GP LLC**

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

**Delaware**

5. SOLE VOTING POWER

NUMBER OF

SHARES **1,675,074**

6. SHARED VOTING POWER

BENEFICIALLY

OWNED BY

EACH **0**

7. SOLE DISPOSITIVE POWER

REPORTING

PERSON **1,675,074**

8. SHARED DISPOSITIVE POWER

WITH

**0**

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

**1,675,074**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

**5.8%**

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

**00**

1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**Highfields Associates LLC**

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

**Delaware**

5. SOLE VOTING POWER

NUMBER OF

SHARES **1,675,074**

6. SHARED VOTING POWER

BENEFICIALLY

OWNED BY

EACH

**0**  
7. SOLE DISPOSITIVE POWER

REPORTING

PERSON

WITH

**1,675,074**  
8. SHARED DISPOSITIVE POWER

**0**

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

**1,675,074**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

**5.8%**

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

**00**



1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**Jonathon S. Jacobson**

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

**United States**

5. SOLE VOTING POWER

NUMBER OF

SHARES **1,675,074**

6. SHARED VOTING POWER

BENEFICIALLY

OWNED BY

EACH **0**

7. SOLE DISPOSITIVE POWER

REPORTING

PERSON **1,675,074**

8. SHARED DISPOSITIVE POWER

WITH

**0**

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

**1,675,074**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

**5.8%**

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

**IN**

1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**Richard L. Grubman**

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

**United States**

5. SOLE VOTING POWER

NUMBER OF

SHARES

**1,675,074**

6. SHARED VOTING POWER

BENEFICIALLY

OWNED BY

EACH

**0**

7. SOLE DISPOSITIVE POWER

REPORTING

PERSON

WITH

**1,675,074**

8. SHARED DISPOSITIVE POWER

**0**

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

**1,675,074**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

**5.8%**

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

**IN**

1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**Highfields Capital III L.P.**

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

**Cayman Islands**

5. SOLE VOTING POWER

NUMBER OF

SHARES **1,675,074**

6. SHARED VOTING POWER

BENEFICIALLY

OWNED BY

EACH **0**

7. SOLE DISPOSITIVE POWER

REPORTING

PERSON **1,675,074**

8. SHARED DISPOSITIVE POWER

WITH

**0**

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

**1,675,074**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

**5.8%**

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

**PN**

**Item 1(a). Name of Issuer:**

Downey Financial Corp. (the Issuer )

**Item 1(b). Address of Issuer's Principal Executive Offices:**

3501 Jamboree Road, Newport Beach, California 92660

**Item 2(a). Name of Person Filing:**

This statement is being filed by the following persons with respect to the shares of common stock ( Common Stock ) of the Issuer directly owned by Highfields Capital III L.P. ( Highfields III ):

- (i) Highfields Capital Management LP, a Delaware limited partnership ( Highfields Capital Management ) and investment manager to Highfields III;
- (ii) Highfields GP LLC, a Delaware limited liability company ( Highfields GP ) and the General Partner of Highfields Capital Management;
- (iii) Highfields Associates LLC, a Delaware limited liability company ( Highfields Associates ) and the General Partner of Highfields III;
- (iv) Jonathon S. Jacobson, a Managing Member of Highfields GP and a Senior Managing Member of Highfields Associates;
- (v) Richard L. Grubman, a Managing Member of Highfields GP and a Senior Managing Member of Highfields Associates;
- (vi) Highfields III, an exempted limited partnership organized under the laws of the Cayman Islands.

Highfields Capital Management, Highfields GP, Highfields Associates, Mr. Jacobson, Mr. Grubman and Highfields III are sometimes individually referred to herein as a Reporting Person and collectively as the Reporting Persons.

**Item 2(b). Address of Principal Business Office or, if None, Residence:**

Address for Highfields Capital Management, Highfields GP, Highfields Associates,

Mr. Jacobson and Mr. Grubman:

c/o Highfields Capital Management LP

John Hancock Tower

200 Clarendon Street, 59th Floor

Boston, Massachusetts 02116

Address for Highfields III:  
c/o Goldman Sachs (Cayman) Trust Limited  
Suite 3307, Gardenia Court  
45 Market Street, Camana Bay  
P.O. Box 896  
Grand Cayman KY1-1103

Cayman Islands

**Item 2(c).****Citizenship:**

Highfields Capital Management Delaware  
Highfields GP Delaware  
Highfields Associates Delaware  
Jonathon S. Jacobson United States  
Richard L. Grubman United States  
Highfields III Cayman Islands

**Item 2(d).****Title of Class of Securities:**

Common Stock, \$0.01 par value

**Item 2(e).****CUSIP Number:**

261018105

**Item 3.**

Not applicable.

**Item 4.****Ownership.**

For Highfields Capital Management, Highfields GP, Highfields Associates, Mr. Jacobson and Mr. Grubman:

- (a) Amount beneficially owned: 1,675,074 shares of Common Stock
- (b) Percent of class: 5.8%
- (c) Number of shares as to which such person has:
  - (i) Sole power to vote or to direct the vote: 1,675,074
  - (ii) Shared power to vote or to direct the vote: 0
  - (iii) Sole power to dispose or to direct the disposition of: 1,675,074
  - (iv) Shared power to dispose or to direct the disposition of: 0

For Highfields III:

- (a) Amount beneficially owned: 1,675,074
- (b) Percent of class: 5.8%
- (c) Number of shares as to which such person has:
  - (i) Sole power to vote or to direct the vote: 1,675,074
  - (ii) Shared power to vote or to direct the vote: 0
  - (iii) Sole power to dispose or to direct the disposition of: 1,675,074



(iv) Shared power to dispose or to direct the disposition of: 0

**Item 5. Ownership of Five Percent or Less of a Class.**

Not applicable.

**Item 6. Ownership of More than Five Percent on Behalf of Another Person.**

The shares of Common Stock beneficially owned by Highfields Capital Management, Highfields GP, Highfields Associates, Mr. Jacobson and Mr. Grubman are directly owned by Highfields III. Highfields Capital Management serves as the investment manager to Highfields III. Each of Highfields Capital Management, Highfields GP, Highfields Associates, Mr. Jacobson and Mr. Grubman has the power to direct the dividends from or the proceeds of the sale of the shares of Common Stock owned by Highfields III.

**Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.**

Not applicable.

**Item 8. Identification and Classification of Members of the Group.**

See Exhibit 1 attached hereto.

Each Reporting Person disclaims beneficial ownership of the shares of Common Stock beneficially owned by the other Reporting Persons.

**Item 9. Notice of Dissolution of Group.**

Not applicable.

**Item 10. Certification.**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 17, 2009

Date

HIGHFIELDS CAPITAL MANAGEMENT LP

By: Highfields GP LLC, its General Partner

/s/ Joseph F. Mazzella

Signature

Joseph F. Mazzella, Authorized Signatory  
Name/Title

HIGHFIELDS GP LLC

/s/ Joseph F. Mazzella

Signature

Joseph F. Mazzella, Authorized Signatory  
Name/Title

HIGHFIELDS ASSOCIATES LLC

/s/ Joseph F. Mazzella

Signature

Joseph F. Mazzella, Authorized Signatory  
Name/Title

JONATHON S. JACOBSON

/s/ Joseph F. Mazzella

Signature

Joseph F. Mazzella, Authorized Signatory  
Name/Title

RICHARD L. GRUBMAN

/s/ Joseph F. Mazzella  
Signature

Joseph F. Mazzella, Authorized Signatory  
Name/Title

HIGHFIELDS CAPITAL III L.P.

By: Highfields Associates LLC, its General Partner

/s/ Joseph F. Mazzella  
Signature

Joseph F. Mazzella, Authorized Signatory  
Name/Title

EXHIBIT INDEX

Exhibit 1. List of Members of Group

**Exhibit 1**

Members of Group

Highfields Capital Management LP

Highfields GP LLC

Highfields Associates LLC

Jonathon S. Jacobson

Richard L. Grubman

Highfields Capital III L.P.