

DOWNEY FINANCIAL CORP
Form SC 13G
March 11, 2008

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

**SCHEDULE 13G
(Rule 13d-102)**

**Information Statement Pursuant to Rules 13d-1 and 13d-2
Under the Securities Exchange Act of 1934
(Amendment No.)***

Downey Financial Corp.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

261018105

(CUSIP Number)

March 6, 2008

Date of Event Which Requires Filing of the 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 disclosures provided in a prior cover page.

The information required on 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).

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Investment Group, L.L.C.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited liability company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽¹⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON OO; HC	

(1)Based on 27,853,783 outstanding shares of the Common Stock of Issuer, as reported in the Issuer's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission on February 29, 2008.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Investment Group II, L.L.C.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited liability company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽²⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON OO; HC	

(2) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Limited Partnership	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited partnership	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽³⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON PN; HC	

(3) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Kenneth Griffin	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION U.S. Citizen	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽⁴⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON IN; HC	

(4) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Holdings I LP	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited partnership	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽⁵⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON PN; HC	

(5) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Holdings II LP	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited partnership	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽⁶⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON PN; HC	

(6) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Advisors LLC	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited liability company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽⁷⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON OO; HC	

(7) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Equity Fund Ltd.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽⁸⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON CO	

(8) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Derivatives Group LLC	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited liability company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽⁹⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON OO; BD	

(9) See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Derivatives Trading Ltd.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 1,387,817 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 5.0%⁽¹⁰⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON CO	

(10) See footnote 1 above.

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Item 1(a) Name of Issuer: **Downey Financial Corp.**
 1(b) Address of Issuer's Principal Executive Offices:

**3501 Jamboree Road
 Newport Beach, California 92660**

Item 2(a) Name of Person Filing⁽¹¹⁾
 Item 2(b) Address of Principal Business Office
 Item 2(c) Citizenship

Citadel Investment Group, L.L.C.
 131 S. Dearborn Street
 32nd Floor
 Chicago, Illinois 60603
 Delaware limited liability company

Citadel Investment Group II, L.L.C.
 131 S. Dearborn Street
 32nd Floor
 Chicago, Illinois 60603
 Delaware limited liability company

Citadel Limited Partnership
 131 S. Dearborn Street
 32nd Floor
 Chicago, Illinois 60603
 Delaware limited partnership

Kenneth Griffin
 131 S. Dearborn Street
 32nd Floor
 Chicago, Illinois 60603
 U.S. Citizen

Citadel Holdings I LP
 c/o Citadel Investment Group II, L.L.C.
 131 S. Dearborn Street
 32nd Floor
 Chicago, Illinois 60603
 Delaware limited partnership

(11) Citadel Holdings Ltd., a Cayman Islands company ("CH"), is majority owned by Citadel Kensington Global Strategies Fund Ltd., a Bermuda company ("CKGSF"). Citadel Equity Fund Ltd. ("CEF") is a subsidiary of CH. CKGSF and CH do not have control over the voting or disposition of securities held by CEF. Citadel Derivatives Group LLC ("CDG") is majority owned by Citadel Derivatives Group Investors, LLC, a Delaware limited liability company ("CDGI"). CDGI does not have control over the voting or disposition of securities held by CDG. Citadel Derivatives

Trading Ltd. ("CDT") is majority owned by CLP Holdings LLC, a Delaware limited liability company ("CLPH"). CLPH does not have control over the voting or disposition of securities held by CDT.

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Citadel Holdings II LP
c/o Citadel Investment Group II, L.L.C.
131 S. Dearborn Street
32nd Floor
Chicago, Illinois 60603
Delaware limited partnership

Citadel Advisors LLC