

LIFE SCIENCES RESEARCH FOUNDATION

FINANCIAL REPORT

MAY 31, 2006 AND 2005

WALPERT & WOLPOFF, LLP
Certified Public Accountants

LIFE SCIENCES RESEARCH FOUNDATION

TABLE OF CONTENTS

MAY 31, 2006 AND 2005

ACCOUNTANTS' REVIEW REPORT	1
FINANCIAL STATEMENTS	
Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis	2
Statements of Support and Revenue, Expenses, and Changes in Net Assets - Modified Cash Basis	3
Statements of Cash Flows - Modified Cash Basis	4
Notes to Financial Statements	5-8
SUPPLEMENTARY INFORMATION	
Schedules of Research Grants Paid	9-11
Schedules of Administrative Expenses	12

WALPERT & WOLPOFF, LLP

Certified Public Accountants



ACCOUNTANTS' REVIEW REPORT

To the Trustees
Life Sciences Research Foundation

We have reviewed the accompanying statements of assets, liabilities, and net assets - modified cash basis of Life Sciences Research Foundation (the Foundation) as of May 31, 2006 and 2005, and the related statements of support and revenue, expenses, and changes in net assets - modified cash basis, and cash flows - modified cash basis for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Life Sciences Research Foundation.

A review consists principally of inquiries of the Foundation personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting with unexpended restricted grants recorded as a liability until they are expended. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the basis of accounting described in Note 1.

The accompanying supplementary information contained on pages 9 through 12 is presented for the purpose of additional analysis. Such information has not been subjected to the same inquiries and analytical procedures applied in the review of the basic financial statements, but has been compiled from information that is the representation of the management of Life Sciences Research Foundation, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on such supplementary information.

Walpert & Wolpoff, LLP

Baltimore, Maryland
October 30, 2006

LIFE SCIENCES RESEARCH FOUNDATION

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

MAY 31, 2006 AND 2005

ASSETS		
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and Certificates of Deposit	\$ 1,120,961	\$ 981,069
Money Market Funds - Note 2	<u>263,220</u>	<u>545,523</u>
 TOTAL ASSETS	 <u>\$ 1,384,181</u>	 <u>\$ 1,526,592</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Escrow Payable - Note 4	\$ 133,571	\$ 124,051
Restricted Grant Advances - Notes 1 and 3	<u>713,875</u>	<u>871,792</u>
 TOTAL LIABILITIES	 847,446	 995,843
 COMMITMENTS - Note 3		
 NET ASSETS, UNRESTRICTED	 <u>536,735</u>	 <u>530,749</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,384,181</u>	 <u>\$ 1,526,592</u>

See Accountants' Review Report.

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

LIFE SCIENCES RESEARCH FOUNDATION

STATEMENTS OF SUPPORT AND REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

YEARS ENDED MAY 31, 2006 AND 2005

UNRESTRICTED NET ASSETS		
	<u>2006</u>	<u>2005</u>
SUPPORT AND REVENUE - Note 1		
Restricted Grants	\$ 1,233,343	\$ 1,644,335
Unrestricted Grants, Baltimore - Note 7	20,000	34,000
Unrestricted Grants, Princeton - Note 7	12,000	11,000
Unrestricted Gifts - Note 7	6,000	7,500
Interest	<u>46,048</u>	<u>37,655</u>
TOTAL SUPPORT AND REVENUE	<u>1,317,391</u>	<u>1,734,490</u>
EXPENSES		
Program Services		
Research Grants Paid	1,251,224	1,410,000
Supporting Services		
Administrative Expenses	<u>60,181</u>	<u>55,942</u>
TOTAL EXPENSES	<u>1,311,405</u>	<u>1,465,942</u>
EXCESS OF SUPPORT AND REVENUE OVER EXPENSES	5,986	268,548
NET ASSETS (UNRESTRICTED), BEGINNING	<u>530,749</u>	<u>262,201</u>
NET ASSETS (UNRESTRICTED), ENDING	<u>\$ 536,735</u>	<u>\$ 530,749</u>

See Accountants' Review Report.

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

LIFE SCIENCES RESEARCH FOUNDATION

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

YEARS ENDED MAY 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Support and Revenue Over Expenses	\$ 5,986	\$ 268,548
Adjustments to Reconcile Excess of Support and Revenue Over Expenses to Net Cash Provided (Used) by Operating Activities		
Changes in Operating Assets and Liabilities		
Restricted Grant Advances	(157,917)	81,053
Escrow Payable	9,520	13,466
Total Adjustments	<u>(148,397)</u>	<u>94,519</u>
Net Cash Provided (Used) by Operating Activities	(142,411)	363,067
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Money Market Funds	<u>282,303</u>	<u>(318,321)</u>
NET INCREASE IN CASH AND CERTIFICATES OF DEPOSIT	139,892	44,746
CASH AND CERTIFICATES OF DEPOSIT, BEGINNING OF YEAR	<u>981,069</u>	<u>936,323</u>
CASH AND CERTIFICATES OF DEPOSIT, END OF YEAR	<u>\$ 1,120,961</u>	<u>\$ 981,069</u>

See Accountants' Review Report.

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

LIFE SCIENCES RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2006 AND 2005

Note 1 - Organization and Summary of Significant Accounting Policies

Organization and Activity

Life Sciences Research Foundation (the Foundation) has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization as defined by §501(c)(3) of the Internal Revenue Code (IRC). The Foundation was incorporated in the District of Columbia on June 25, 1981, for the purpose of funding basic research in the biological sciences at various institutions. Postdoctoral fellowships are awarded to qualifying scientists selected by the Foundation's peer review committee. Funds to support the fellowships come from corporate sponsors and other foundations.

Election to be Treated as a Qualified Fund Under IRC §41(e)(6)(D)

The Foundation elected to be treated as a qualified fund under IRC §41(e)(6)(D). This election allows the Foundation to be treated as a pass-through qualifying organization, thereby enabling corporate contributions to be eligible for the credit for increased research activities. As a qualifying fund, the Foundation is subject to the rules governing private foundations.

Method of Accounting

The financial statements have been prepared on the modified cash basis of accounting, with the deferral of restricted grant revenue, which is recognized as revenue in proportion to the research grants paid. This basis differs from generally accepted accounting principles primarily because the Foundation has not recognized receivables, prepayments, and payables.

Financial Statement Presentation

The Foundation reports financial information according to 3 classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of May 31, 2006 and 2005, the Foundation had only unrestricted net assets.

Contributions and Grants

Contributions received and grants paid by the Foundation are presented at their market value on the date of such contribution or grant. For tax purposes, the Foundation records all contributions received at the donor's basis.

Revenue Recognition and Restricted Grant Advances

Substantially all of the Foundation's revenue is derived from restricted grants, which are recognized as revenue in proportion to the research grants paid. Unexpended research grants received are recorded as restricted grant advances in the statements of assets, liabilities, and net assets - modified cash basis. All other sources of revenue, such as unrestricted gifts and interest, are recognized when received.

Note 2 - Money Market Funds

The money market funds consisted of Smith Barney Money Funds Government Portfolio Class A, as of May 31, 2006 and 2005.

LIFE SCIENCES RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note 3 - Commitments

As of May 31, 2005, the Foundation was committed to make the following grants:

Recipient	Sponsor	Commitment From Program Years					Total
		2006	2005	2004	2003	2002	
Dwight Barnes, Ph.D.	Abbott Laboratories	\$ 150,000					\$ 150,000
Nels Elde, Ph.D.	The Ellison Medical Foundation	150,000					150,000
Alessandra Eustaquio, Ph.D.	Tularik	150,000					150,000
Cathie Garnis, Ph.D.	Merck Research Laboratories	150,000					150,000
Andrew Greytak, Ph.D.	Novartis Pharma AG	150,000					150,000
Hong-Ping Guan, Ph.D.	Pfizer	137,500					137,500
Susan Huang, Ph.D.	Pfizer	150,000					150,000
Steven McCarroll	Eli Lilly and Company	150,000					150,000
Wenteng An, Ph.D.	Affymetrix		\$ 87,500				\$ 87,500
Aaron Gitler, Ph.D.	Lilly Research Laboratories		87,500				87,500
Matthew Hemm, Ph.D.	Amgen		111,276				111,276
Katja Lamia, Ph.D.	Merck Research Laboratories		125,000				125,000
Seung-jae Lee, Ph.D.	The Ellison Medical Foundation		100,000				100,000
Jun-Li Luo, Ph.D.	Biogen Idec		100,000				100,000
Kenneth Murray, Ph.D.	Schering Plough Research Institute		87,500				87,500
Daniel Needleman, Ph.D.	Novartis Pharma AG		87,500				87,500
Jason Rihel, Ph.D.	Bristol Myers Squibb		112,500				112,500
Carrie Rosenberger, Ph.D.	Broad Medical Research Program of the Eli and Edythe L. Board Foundation		87,500				87,500
Bader Al-Anzi, Ph.D.	Gilead Sciences			\$ 37,500			37,500
Anne Carpenter, Ph.D.	Norvartis Pharma AG			62,500			62,500
Anita Changela, Ph.D.	The Ellison Medical Foundation			50,000			50,000
Christopher Ford, Ph.D.	Wyeth			37,500			37,500
Martin Jechlinger, Ph.D.	Lilly Research Laboratories			62,500			62,500
John Christopher Love, Ph.D.	Gilead Sciences			50,000			50,000
Markus Seeliger, Ph.D.	Johnson & Johnson			37,500			37,500
Michael Shapira, Ph.D.	The O'Donnell Foundation			50,000			50,000
Judith Sharp, Ph.D.	Pfizer			37,500			37,500
Naoyuki Uchida, Ph.D.	Department of Energy, Energy Biosciences Research Division			50,000			50,000
Amit Mehta, Ph.D.	Rett Syndrome Research Foundation				\$ 25,000		25,000
		\$ 1,187,500	\$ 986,276	\$ 475,000	\$ 25,000		\$ 2,673,776

LIFE SCIENCES RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2006 AND 2005

Note 3 - (Cont.) These grant commitments resulted from the fellowship awards made by the Foundation's peer review committee. Most fellowships pay an established amount annually for a 3-year period. For fellowships awarded during the years ended May 31, 2002, through May 31, 2006, the annual amount is \$50,000. All committed amounts have been pledged by the sponsoring donors. As of May 31, 2006 and 2005, the Foundation had received \$713,875 and \$871,792, respectively, of the pledged amount from the sponsors. This amount is reflected on the statements of assets, liabilities, and net assets - modified cash basis as restricted grant advances.

Note 4 - Escrow Payable

Unexpended funds of a research grant may be held in escrow, if the recipient so elects, until the end of the 3-year fellowship. (This option is not available to recipients sponsored by the Department of Energy.) Otherwise, all unexpended funds must be returned to the sponsor. The maximum amount which can be set aside in escrow in any year is \$5,000. In order to receive the balance in the escrow fund at the end of the 3-year fellowship, the recipient cannot seek employment with a for-profit organization. All forfeited escrow balances are deemed to be gifts to the Foundation. The escrow balances do not earn interest.

As of May 31, 2006 and 2005, the escrow payable balance was \$133,571 and \$124,051, respectively. There were no escrow forfeitures in 2006 or 2005.

Note 5 - Grant Forfeitures

At the discretion of the donors, any remaining restricted grant advances that are either held for recipients who terminated their research grants or remain unexpended at the end of the grant period may either be:

- a. Returned to the sponsor.
- b. Applied to another research grant recipient.
- c. Reclassified as a gift to the Foundation.

For the years ended May 31, 2006 and 2005, there were no grant forfeitures.

Note 6 - Minimum Investment Return and Distribution Requirement

A private foundation must currently distribute its minimum investment return in order to avoid the excise tax for failure to distribute income. The minimum investment return is an income equivalent which is essentially determined by multiplying the aggregate fair market value of the Foundation's assets by 5%. For the years ended May 31, 2006 and 2005, the minimum amounted to \$78,987 and \$72,075, respectively.

The Foundation met these distribution requirements by making qualifying distributions in the years ended May 31, 2006 and 2005, of \$1,311,405 and \$1,465,942, respectively. The excesses generated can be applied to offset future distribution requirements.

LIFE SCIENCES RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2006 AND 2005

Note 6 - A summary of the excess distribution carryovers to future years is as follows:
(Cont.)

<u>Year Incurred</u>	<u>Amount</u>	<u>Expiration Date</u>
May 31, 2002	\$ 1,372,708	May 31, 2007
May 31, 2003	1,250,666	May 31, 2008
May 31, 2004	1,289,797	May 31, 2009
May 31, 2005	1,393,867	May 31, 2010
May 31, 2006	<u>1,232,418</u>	May 31, 2011
	<u>\$ 6,539,456</u>	

Note 7 - Unrestricted Grants and Gifts

The Foundation receives unrestricted grants from sponsors for administrative expenses. Administrative fees are assessed annually and are collected along with the sponsors' grant payments for fellowship awards. The total administrative fees collected for the years ended May 31, 2006 and 2005, were \$32,000 (Baltimore - \$20,000; Princeton - \$12,000) and \$45,000 (Baltimore - \$34,000; Princeton - \$11,000), respectively.

In addition, the Foundation received unrestricted gifts from the following:

	<u>Year Ended May 31,</u>	
	<u>2006</u>	<u>2005</u>
The Golden Family Foundation	\$ 2,500	\$ 2,500
Linda W. Brown	3,000	5,000
Dr. Marnie Halpern	<u>500</u>	<u>-0-</u>
	<u>\$ 6,000</u>	<u>\$ 7,500</u>

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2006 AND 2005

SCHEDULES OF RESEARCH GRANTS PAID

		<u>2006</u>	<u>2005</u>
<u>2001 PROGRAM</u>			
Daniel Gitler, Ph.D.	Pfizer	\$ -0-	\$ 10,000
<u>2002 PROGRAM</u>			
Jianhua Cang, Ph.D.	Aventis Pharmaceuticals	-0-	50,000
Justin Crump, Ph.D.	The O'Donnell Foundation	-0-	50,000
Pablo Jenik, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0-	37,500
Daniela Kaufer, Ph.D.	The Bristol-Myers Squibb Pharmaceutical Research Institute	-0-	37,500
Joseph Marcotrigiano, Ph.D.	Merck Research Laboratories	-0-	37,500
Jeffrey Moseley, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0-	50,000
Michael Sohaskey, Ph.D.	Foundation for Advanced Cancer Studies and Merck Research Laboratories	25,000 (1)	25,000
		<u>25,000</u>	<u>287,500</u>
<u>2003 PROGRAM</u>			
Simon Chan, Ph.D.	Department of Energy, Energy Biosciences Research Division	37,500	50,000
Matthew Guenther, Ph.D.	Amgen	50,000	50,000
Bernard Lam, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0- (2)	37,500
Dustin Maly, Ph.D.	Pfizer	37,500	50,000
Amit Mehta, Ph.D.	Rett Syndrome Research Foundation	25,000	50,000
Stephanie Palmer, Ph.D.	Novartis Pharma AG	37,500	50,000
David Raskin, Ph.D.	The Ellison Medical Foundation	50,000	62,500
Alan Sabhatelian, Ph.D.	Merck Research Laboratories	-0- (2)	50,000
Huaiyu Sun, Ph.D.	Abbott Laboratories	50,000	50,000
		<u>287,500</u>	<u>450,000</u>
Carryforward		312,500	747,500

See Accountants' Review Report.

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2006 AND 2005

SCHEDULES OF RESEARCH GRANTS PAID

		<u>2006</u>	<u>2005</u>
Balance Forward		\$ 312,500	\$ 747,500
<u>2004 PROGRAM</u>			
Bader Al-Anzi, Ph.D.	Gilead Sciences	50,000 (3)	50,000
Anne Carpenter, Ph.D.	Novartis Pharma AG	50,000	37,500
Anita Changela, Ph.D.	The Ellison Medical Foundation	50,000	50,000
Brett Chevalier, Ph.D.	Merck Research Laboratories	-0- (2)	50,000
John Christopher Ford, Ph.D.	Wyeth	50,000 (3)	50,000
Derek Goto, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0- (2)	50,000
Martin Jechlinger, Ph.D.	Lilly Research Laboratories	25,000	62,500
John Christopher Love, Ph.D.	Gilead Sciences	50,000	50,000
Markus Seeliger, Ph.D.	Johnson & Johnson	50,000 (3)	50,000
Michael Shapira	The O'Donnell Foundation	50,000	50,000
Judith Sharp, Ph.D.	Pfizer	50,000 (3)	50,000
Naoyuki Uchids, Ph.D.	Department of Energy, Energy Biosciences Research Division	50,000	50,000
		<u>475,000</u>	<u>600,000</u>
<u>2005 PROGRAM</u>			
Wenfeng An, Ph.D.	Affymetrix	50,000 (3)	12,500
Aaron Gitler, Ph.D.	Lilly Research Laboratories	50,000 (4)	12,500
Matthew Hemm	Amgen	38,724	-0-
Katja Lamia	Merck Research Laboratories	25,000	-0-
Seung-Jae Lee	The Ellison Medical Foundation	50,000	-0-
Jun-Li Luo	Biogen Idec	50,000	-0-
Kenneth Murray, Ph.D.	Schering Plough Research Institute	50,000 (3)	12,500
Daniel Needleman, Ph.D.	Novartis Pharma AG	50,000 (3)	12,500
Jason Rihel	Bristol-Myers Squibb	37,500	-0-
Carrie Rosenberger, Ph.D.	Broad Medical Research Program of The Eli and Edythe L. Broad Foundation	50,000 (3)	12,500
		<u>451,224</u>	<u>62,500</u>
Carryforward		<u>1,238,724</u>	<u>1,410,000</u>

See Accountants' Review Report.

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2006 AND 2005

SCHEDULES OF RESEARCH GRANTS PAID

		<u>2006</u>	<u>2005</u>
Balance Forward		\$ 1,238,724	\$ 1,410,000
	<u>2006 PROGRAM</u>		
Hong-Ping Guan	Pfizer	<u>12,500 (3)</u>	<u>-0-</u>
TOTAL RESEARCH GRANTS PAID		<u>\$ 1,251,224</u>	<u>\$ 1,410,000</u>

- (1) \$25,000 of this research grant was paid out of unrestricted funds. The sponsor's matching grant will be received in the year ending May 31, 2007.
- (2) Recipient cancelled the remainder of this research grant in the year ended May 31, 2006.
- (3) \$12,500 of this research grant was paid out of unrestricted funds. The sponsor's matching grant will be received in the year ending May 31, 2007.
- (4) \$9,728 of this research grant was paid out of unrestricted funds. The sponsor's matching grant will be received in the year ending May 31, 2007.

See Accountants' Review Report.

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2006 AND 2005

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>2006</u>	<u>2005</u>
Office Expenses	\$ 22,205	\$ 17,092
Annual Conference	18,472	20,435
Administrative Expenses (Princeton University)	10,929	10,315
Legal and Accounting	<u>8,575</u>	<u>8,100</u>
	<u>\$ 60,181</u>	<u>\$ 55,942</u>

See Accountants' Review Report.